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Master's Thesis

**THE EVOLUTION OF VOLUNTARY OCCUPATIONAL
PENSIONS IN FINLAND AND RUSSIA:**

Going beyond public pension provision

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Within the last two decades, being exposed to major social, economic, and demographic challenges, many national pension systems have undergone various transformations. Following suggestions from the World Bank and the International Monetary Fund, many welfare states revised existing pension policies and started encouraging supplementary pension arrangements, particularly promoting the development of private pension savings, as well as occupational pension schemes. However, the degree to which the latter developed varies significantly between countries.

The purpose of this Master's thesis is to analyze the evolution of voluntary occupational pension arrangements in two countries - Finland and Russia. The research examines how certain economic, political, and social contexts, as well as decisions and reforms in public pension provision influenced the development of voluntary occupational pension provision. The research explores at what point in time, as well as under what circumstances, the role of voluntary occupational pension arrangements changed in Finland and Russia. The evolution of voluntary occupational pension arrangements is analyzed using existing studies in the sphere of pension policies, combining the theoretical frameworks of the mixed economy of welfare and historical institutionalism. The significance of these two approaches lies in their ability to expand our knowledge of how voluntary occupational pension provision evolved in Finland and Russia. The former allows the broadening of our understanding of welfare provision by taking into account the plurality of welfare actors. While the latter focuses on the importance of history helping to examine factors and decisions, which led to involvement of these actors in matters of welfare provision.

The analysis of evolution of voluntary occupational pension provision in Finland and Russia identified three critical junctures. The first critical juncture is related to the early development of pension systems in two countries in the early 19th. The second juncture concerns the decisions to establish basic and earnings-related pension schemes, which were observed throughout the first part of the 20th century in both Finland and Russia. The third critical juncture is related to the economic crises of the 1990s and the necessity to restructure systems of pension provision. The study demonstrated certain similarities in the evolution of voluntary occupational pension provision between the two countries, especially in the timeframes of the first critical juncture. Thus, the initiative of employers to provide pension benefits for their employees in both countries had a significant impact on the development of pension provision, and voluntary occupational pension provision in particular, creating the possibility for employers to use pension arrangements as additional motivational tool for retaining staff and getting employees to increase their performance. However, the later trajectories in the development of pension systems in Finland and Russia differed significantly, influencing the degree to which voluntary occupational pension arrangements developed in two countries, and their role in ensuring wellbeing in retirement.

KEYWORDS: pension provision, pension policy, voluntary occupational pensions, mixed economy of welfare, historical institutionalism, Finland, Russia.

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List of Abbreviations

DB – Defined Benefit pension scheme

DC – Defined Contribution pension scheme

ETK – Eläketurvakeskus (Finnish Center for Pensions)

EU – European Union

GDP – Gross Domestic Product

HI - Historical Institutionalism

IMF – International Monetary Bank

MMK – Magnitogorskii Metallurgicheskii Kombinat (Magnitogorsk Iron&Steel Works)

NPF – Non-state Pension Fund

OECD – the Organisation for Economic Co-operation and Development

PFR – Pension Fund of Russia

UK – the United Kingdom

USSR – the Union of Soviet Socialist Republics

Without knowledge of the past, it is impossible to understand
the true meaning of the present and set goals for the future.

Maxim Gorky 1868-1936

1. INTRODUCTION

Pension systems have come a long way since the very first forms of financial support based on the traditions of philanthropy and paternalism, towards the development of more complex formal mechanisms, both voluntary and mandatory. Initially, family was the most important actor elderly received support from, but soon other actors became involved in the matter of the provision of financial support for the elderly – church, charities, employers, and the state. The rise of the welfare state meant that the latter became the dominant guarantor and provider of welfare in general, which took responsibility for ensuring the wellbeing of its population. Indeed, many of the services used by the population, not only in the sphere of pension provision, but also in the spheres of healthcare, education, and family support are provided by the state. From a social point of view, provision of wellbeing in old age and protection against various social risks related to the old age is the core element of social security and is becoming more and more important in an ageing society. It is also considered important from a political perspective, because decisions made in the field of pension policy affect a large share of citizens, therefore making controversial measures widely debated and at times extremely difficult to pass.

Recently, a few researchers (Hay 2006, Bovaird 2009, Pierson 2006) have expressed their concerns regarding the position of the state in relation to welfare provision in general. They argued, that in recent decades the role of the state has changed significantly, as a result of strong social and economic challenges, which led to an imbalance between rising demand and limited resources. While the amount of service users in some of the spheres of welfare provision may be constantly increasing, the need to improve the level of quality of those services is rising at the same time. As a result, the cost of welfare provision is growing and putting more pressure upon the state. This has led to philosophical discussions over the role of the state in society, as a welfare provider, educator, and a guarantor of security. The concern amongst some is that the state now has so many functions, that it is now extremely difficult for the state to execute all of them successfully and efficiently. Critics of the welfare state consider the large state apparatus as highly bureaucratic, inefficient, cumbersome, and unresponsive to the needs of its citizens, as

well as potentially limiting freedom and choice (Bochel 2011). Unsurprisingly, one of major debates in social policy over the last few decades has been around the issue of the need to increase the involvement of other actors in the process of service administration and provision, and reconsider the division of responsibilities between them accordingly. While the role of the state as a regulator of welfare provision remains unchanged, it became obvious that many of the functions for welfare provision may be performed, and rather successfully, by other actors. Therefore, the plurality of welfare providers was widely recognized, their roles in welfare provision were acknowledged, and the overall phenomenon was defined as the mixed economy of welfare.

Many recent studies (see for example, Evers 1993, Powell 2007, Heitzmann 2010) have focused on the investigation of mechanisms and functions of various welfare providers. Analyzing the origins of their involvement in matters of welfare provision, a special attention has been paid to the main reasons and motives, which influenced their decision to enter the path towards ensuring the wellbeing of the population. Besides, the interaction of welfare actors was examined in the attempts to shed light on the issues related to division of their roles in matters of production, financing and regulation of welfare provision in different spheres.

As much as pension systems along with other areas of welfare provision have been widely exposed to large-scale economic, fiscal, and demographic pressures, the question of synergy between various actors in this particular area of welfare provision attracted attention of researchers. Progressive population ageing, increasing life expectancy leading to changes in ratios of contributors and beneficiaries, changes in unemployment rates, and the global financial crisis have strengthened the concern about ensuring the sustainability of pension systems (Pallares-Miralles 2012). In attempts to improve existing pension systems and offset the experienced economic shocks pension systems around the world have undergone various reforms. These reforms have included cost-containment measures within the public sector, revision of tax policies, changes in retirement age and calculation rules – measures that are believed to increase revenues coming into the pension system and generally improve the financial integrity of the system. As public pension provision always intended to provide only a basic old financial protection in retirement, the interest in pension policy lately swung towards supplementary pension arrangements. Even though supplementary pensions are exposed to a

number of risks, which are lower in the systems of public pension provision (e.g. investment risks, inflation risks, bankruptcy risk), they at times offer more flexibility and transparency in terms of managing of pension savings comparing to public pension schemes. They provide an additional source of income in retirement and, thus, increase the level of wellbeing. In 1998, the International Monetary Fund suggested that welfare states should revise existing pension policies and encourage pension funding from the private sector and supplementary pension savings. Particularly, the development of private pension schemes, as well as voluntary occupational pension arrangements¹ were largely promoted. In many instances, voluntary occupational pension schemes became an essential part of national pension systems, the effective functioning of which was proved over time. In addition to their main function, i.e. provision of pension benefits to employees along with those paid within statutory pension plans, they also serve as an additional management and motivational tool, helping employers to recruit and retain staff, as well as reward staff members for their performance. Besides, pensions provided by employers represent a quite effective financial instrument, which allow companies investing pension accumulations into long-term projects consequently increasing the level of pension benefits.

Whilst in general supplementary pension arrangements have been studied less, existing comparative studies on the topic provide us with an understanding of differences and similarities in organization and governance of these pension arrangements. However, the analysis of their evolution needs more scrutiny, because only by understanding how certain social, economic, and political contexts influence the development of voluntary occupational pension provision, can we judge upon future development of these pension arrangements. Therefore, this study examines the processes of institutional change in the sphere of voluntary occupational pension provision in two countries – Finland² and Russia³.

¹ This research focuses on the evolution of voluntary occupational pension provision, which implies certain financial arrangements designed and implemented (voluntarily) by an employer for providing employees or their beneficiaries with supplementary pension benefits in addition to those paid out within pension schemes set up by the state. It is worth mentioning that the scientific literature uses various definitions, such as ‘occupational pension provision’, ‘company pension provision’, ‘corporate pension provision’, and ‘firm-based pension provision’. In order to avoid confusion in definitions, I will use the term ‘voluntary occupational pension provision’.

² The term ‘Finland’ shall refer to the Grand Duchy of Finland until the Russian Revolution, and the present Republic of Finland.

³ The term ‘Russia’ refers in this research to the Imperial Russian Empire, Russian SFSR during the years of the Soviet Union, and the Russian Federation.

Having shared a significant part of history, two countries, however, followed peculiar historic and institutional paths. Besides, representing two different welfare regimes, with Finland classified as a social-democratic welfare state, and Russia being rather distinctive from all existing paradigms, they offer good opportunities for exploration of how differences in welfare regimes influenced the logic and tradition of pension provision, its funding, management and administration.

In this research, I am interested in exploring how these peculiarities, and certain economic, political and social contexts could possibly influence the development of voluntary occupational pensions. I will explore at what point in time, and due to what circumstances the role of these pension arrangements increased or, on the contrary, declined. From the cross-national comparative perspective, I intend to gain an insight into the ways, in which such a complex social phenomenon as voluntary occupational pension provision comes to expression in different ways in different national and institutional settings.

Conducting retrospective historical studies is generally important for the development of social policy, as it allows enriching our knowledge of social, economic, and political processes that occurred in the past, giving us skills to understand similar processes in the present, and set strategies for further development. This particular study is important, because it presents how voluntary occupational pension provision occurred in two countries, and due to which social, political, and economic conditions. By examining the differences of the impacts of similar circumstances for development of voluntary occupational pensions, it provides a systematic comparative account that explains why voluntary occupational pension provision developed differently in two countries. In this way, the research makes a significant contribution by expanding our knowledge about the determinants and conditions for implementation of voluntary occupational pension arrangements. Furthermore, based on the experience of development of voluntary occupational pension provision in two countries, can we detect mistakes in the past decisions, and identify ways to avoid them in the future in order to build effective and sustainable systems of pension provision.

The evolution of voluntary occupational pension provision in two countries is studied by adopting the mixed economy of welfare analytical framework and the historical institutionalism

theoretical approach. While the former implies acknowledgement of plurality of different welfare providers, as well as forms of welfare produced outside public sector, the latter brings into focus the time and sequencing of events, in order to reveal the factors leading to the emergence and development of a new institution such as voluntary occupational pension provision. Combined they offer a possibility to take a closer look at the process of institutional change of voluntary occupational pension provision.

The research starts with the investigation of the origins of voluntary occupational pension provision, viewing it from two different perspectives – as a part of occupational welfare, and a component of national pension systems (Chapter 2). Then, I provide an overview of the two theoretical approaches applied in this study, as well as present a research question and methods used (Chapter 3). The research proceeds towards the examination of three periods in the history, which had a significant impact on the development of voluntary occupational pension provision in Finland and Russia (Chapters 4-6). Finally, the differences and similarities in the evolution of voluntary occupational pension provision in Finland and Russia are discussed (Chapter 7), in order to identify the limitations in the decisions made in two countries concerning voluntary occupational pension provision, and see future prospects. The research findings are important for revising priorities not only in the sphere of voluntary occupational pension provision, but also in public pension provision. Conclusions of the research also allow rethinking the roles of actors involved in pension provision, and emphasizing the importance of building strong collaboration between them.

2. REDISCOVERING THE ORIGINS OF VOLUNTARY OCCUPATIONAL PENSIONS

For a comprehensive analysis of such a complex phenomenon as voluntary occupational pension provision, a complex approach is required. Since voluntary occupational pension provision was initially created as a component of benefits system provided by employer, and consequently found its niche inside the national pension system, it cannot be studied separately from these two settings. Therefore, this Chapter presents and describes two perspectives on voluntary occupational pension provision, which consider it as, first of all, a part of occupational welfare, and, secondly, as a second pillar of national pension system.

2.1. Employer cares: early development within a system of occupational welfare

A number of studies conducted by Greve (2007), Bonoli (2000), Kangas (1996) show that historically occupational or firm-based welfare was widespread. The origins of occupational welfare go back to antiquity - to the corporate unions of artisans. Becoming a member of such union, artisans took certain responsibilities, and were granted with a number of rights, including the right to receive support and assistance from other members in case of unforeseen life circumstances.

With the industrialization of society and the shift towards wage-based labor, there was a need to develop mechanisms of assistance provided for workers. Therefore, workers of similar professions established mutual aid societies with special security funds that provided financial support for workers in case of sickness, disabilities, or other distress. As the public sector was still quite far from being able to adequately perform the task of the complex provision of welfare for all of the members of society, many employers, mainly in large enterprises, started a paternalistic attitude towards their employees. Their main intention was to improve the performance of employees, as it would mean increase in the level of production, and consequently higher revenues. New technologies brought about by the industrial revolution provided large-scale corporations with vast power and wealth they could use. Corporations and their owners were able to accumulate funds they could use for provision of new forms of welfare. Across Europe large manufacturing enterprises, coal, gas and railway companies built houses and hospitals for their employees, established Sunday schools, libraries, civic universities, organized educational and cultural events, and were the first among others to provide pensions in order to

attract and retain staff. What first began with introduction of simple and irregular services, dictated by philanthropic principles, consequently grew into a wider system of benefits provided to employees in addition their wage, and was used as an additional tool of internal labor compensation, as well as a mechanism of gaining a competitive advantage among other enterprises (Alcock 2011). Undoubtedly, companies could not ensure the comprehensive coverage of all risks, and provide highly generous level of benefits, as their resources were tied to and limited by the economic performance of the enterprise, however they still offered more benefits comparing to public sector.

At present, occupational welfare represents a system, which includes benefits that are provided by employers to salary earners over and above their wage, including those referred to as fringe benefits (such as health insurance, disability income protection, tuition reimbursement, and retirement benefits). The main objective of these benefits has always been to secure the health, safety, and wellbeing of their staff. Historical studies show that they could be provided on a voluntary basis initiated by the employers themselves, or were instigated by the state on a mandatory basis. Notably, entitlement to occupational welfare has always been on employment status rather than citizenship, which applied to selected groups of the working population according to merit, work performance, and productivity (Bryson, 1992).

Possessing a long history, a high level of complexity as well as diversity can characterize occupational welfare. Private forms of social protection provided by the employer have always varied from one company to another, and were highly dependent on the resources available, as well as employees' needs. May and Brunsdon (2011) identified several patterns to the variation in occupational welfare provision:

- Sectorial: public sector organizations have been more munificent than commercial in the level and range of benefits provision;
- Organizational size: non-mandatory benefits have been more widespread and more generous in large commercial entities;
- Industry: commercial organizations in finance, professional, and other 'knowledge' industries, capital-intensive manufacturing, and high-end retailing tend to invest more heavily in welfare programs than other enterprises in the sector; and

- Employment status: some benefits are provided for all employees, while others were targeted at senior staff.

Despite these variations, occupational welfare has been usually targeted at addressing work-life balance issues and included: health care programs, sick pay, company daycare programs, subsidized meals and food vouchers, training programs, insurance plans, and the area which represents the concern of this study - pension schemes (Lee 2000).

Studies in occupational welfare offer a number of examples from the history of the development of pension schemes offered by employers. For instance, at the end of nineteenth century in Anglo-Saxon countries development of voluntary occupational pension schemes was strongly encouraged, despite strong opposition from trade union representatives, who believed that pensions and health insurance programs provided by employers represented a threat to wage levels and the schemes offered by unions and friendly societies. State intervention was not ambitious and therefore provided enough room for occupational and individual schemes to have higher levels of protection. In the United Kingdom, gas and railway companies were among the first to provide pension plans for their employees (Brunsdon and May 2011).

Another example is observed in France, where the first and oldest instrument of collective savings and a supplement to workers remuneration was represented by an 'adjacent' element that was a part of so-called social partnership institution. It was based on voluntary and renewable agreements between the employers and trade unions' representatives for a period of three years, and represented a short-term form of savings. Another type of savings plans for French employees was legislated in 1967 and represented profit sharing. This plan allowed the medium-term involvement of workers in the activities and profits of their company. It was mandatory for companies with 50 employees or more and based on collective agreements, whilst the resources were locked in funds for a period of at least five years. The assets collected through these forms of savings plans were invested in two types of schemes: the company savings plans; and the collective plans established at small and medium enterprises. These schemes were originally an instrument for managing remuneration that were used to achieve a number of objectives: development of employee shareholding and provision of a cheap source of financing for companies (Natali 2008).

In Germany, company pension schemes originated in the 1920s and were encouraged by state fiscal incentives. Large companies adopted the book-reserve model that allowed pension savings to be internally invested, while smaller companies preferred to provide group insurance or establish their own pension funds. The main function of the state was in guaranteeing the adequacy of company balances.

Studying voluntary occupational pensions, scholars often focus their attention onto the main stakeholders and their roles in contributing to their historical and contemporary development. Employers are clearly a key actor in the history of occupational welfare, and voluntary occupational pension provision as a part of it, however the role of trade unions and the state should not be underestimated.

As the history of occupational welfare shows, states have made an essential contribution to the development of voluntary occupational pensions using one or a combination of different mechanisms including mandatory interventions, fiscal incentives and subsidies, and promotional measures. They have widely used both legislation and taxation to change the course and cost of pension schemes offered by employers. Furthermore, certain decisions and reforms undertaken in the sphere of public pension provision also had implications on the development of voluntary occupational pension schemes. Evidently, the role of the state in pension provision significantly changed during certain periods. For instance, the end of World War II was one of those switch points. European governments wanted to drastically improve social rights as a reaction to the socio-economic difficulties caused by the war, as well as to boost economic growth and recovery. Therefore, postwar policies were aimed at restoring, extending and raising pension rights through reviving and modifying existing arrangements (Whiteside 2006). As a result of wartime monetary disruption and postwar inflation, the faith in security based on collective private savings was damaged. In many instances, the state seemed to be the only guarantor of social sustainability, therefore the equilibrium between public and private responsibility for pension provision swung towards the need for greater state-based provision in the immediate post war decades. What originated as purely autonomous company-based initiatives occupational pensions thus became strongly integrated into national pension systems.

2.2. Towards integration into national pension systems

At the end of nineteenth century, European countries introduced the first public pension systems, which can be referred to two distinct models. They differed in their main objectives, as well as in their mechanisms of financing and management. The early pension system (Denmark, New Zealand, the United Kingdom, and Norway) was means-tested and targeted at the poor. It mainly involved the modernization of the existing system of Poor Laws, and its general objective was to reduce poverty across the whole population. Such schemes were financed through tax revenues, and guaranteed flat-rate benefits to recipients (Yeroshenkov 2002).

Another model of pension provision was adopted first in Germany, and later followed in countries of Continental Europe. The model was targeted at industrial workers, and in many ways inherited principles of a previous practice of voluntary mutual aid funds organized by workers' associations that were functioning according to insurance logic. The newly established scheme was mandatory for all workers and based on contributions shared equally by both employers and employees. The objective pursued by the introduction of new pension policy was to guarantee retirees a level of income comparable to their earnings during years in work, which could maintain their status. Along with the adoption of other social programs, it was a part of a political project aimed at gaining the loyalty of the rapidly emerging and expanding working class (Bonoli 2000).

By the beginning of the World War II, almost all industrialized countries developed quite complex systems of pension provision, although they still had a number of limitations. For instance, some of them were limited in terms of the share of the population covered by the scheme, as well as the amount of pension benefits.

When the war was over, the main concern that occupied all social partners was a post-war recovery. States took responsibility for strengthening public pension systems, focusing on the introduction of new schemes and the extension of existing ones and the development of pension provision slightly changed its trajectory. For instance, in the Netherlands, in the postwar years, universal welfare replaced the state-subsidized voluntary schemes, which had dominated social security before 1939. The 1947 *Emergency Act* gave a temporary, universal tax-funded pension on a means-tested basis for all aged citizens, awaiting the creation of social insurance. The basic

state pension, introduced in 1956, offered a flat rate, pay-as-you-go minimum. Funded by contributions, pension covered all citizens and was deliberately designed to encourage the expansion of funded pension schemes, which were expanding very rapidly at that time (Van Riel et al. 2003). In 1947, the Dutch government introduced measures to extend agreements reached in specific industries to all firms in the sector concerned, to prevent unfair competition, and allow small and medium enterprises to create pension and insurance funds together. As a result, cross-subsidy between firms covered by a specific sectoral agreement offered pension security while removing disincentives to labor mobility provoked by single-firm schemes. Newly established company pension funds were not permitted to invest in their own firms: this was one of the mechanisms through which pension security was safeguarded (Clark and Bennett 2001). While major companies ran their own schemes, the consolidation of occupational pensions into sectoral funds encompassed all firms operating in predefined spheres of economic activity. Thanks to legislation extending initial agreements, employers were motivated to offer an earnings-related pension; those insufficiently large to offer total security against risk were not permitted to contract out the sectoral collective pension fund. While employees were not obliged to contribute to their occupational scheme, coverage of the population grew steadily, and by 1960s around two out of three Dutch workers were already contributing to a jointly negotiated, earnings-related, quasi-private supplementary pension; supported by the state, these pension schemes became the key of old-age income security for Dutch workers (Van Riel et al. 2003).

The postwar years saw an unprecedented expansion of the overall coverage by pension schemes; countries that followed either of the two pension models introduced pension schemes for several occupationally defined groups (Bonoli 2000). Later, since state pensions remained minimal and wage restraint was strictly enforced, the negotiation of funded occupational pension schemes became attractive for both state and employers. Nordic and Anglo-Saxon countries saw a rise in occupational pension provision. For instance, Sweden and the UK in this period introduced supplementary earnings-related pension schemes, which eventually became compulsory for employees.

From 1951, the tone of pension discussion in Sweden turned in favor of comprehensive, income-related social insurance. The earlier people's pension had never aimed to offer more than subsistence and, with the public sector and white-collar workers in receipt of earnings-related

pension supplements; social justice required the extension of similar benefits to the disadvantaged. There were strong debates in the late 1950s about the coverage of new earnings-related pensions, which would determine whether administration should be under joint management in the private sector, or be run by the state. Besides, what also represented a matter of concern was whether such supplements should be funded or operate on a pay-as-you-go basis. As a result, in 1960 the legislature passed the law on state earnings-related pension supplements, which operate to a specified income ceiling (Kangas and Palme 1996). While farmers and the self-employed participated on a voluntary basis, the rest of the employed population were obliged to take out insurance under the new state scheme. Measures were introduced to facilitate the redistribution from rich to poor, and to those whose contributory record was incomplete. Although ostensibly run on a pay-as-you-go basis, contributory income, which was funded nearly totally by employers, was designed to outstrip benefit expenditure. The scheme accumulated substantial buffer funds; returns on these were sufficient to meet pension payments until the late 1980s. As the combination of supplementary scheme and basic state pension was generous, little space was left initially for the development of extra ‘private’ voluntary occupational pensions. Even so, occupational pension supplements did develop during this era under national agreements offering comprehensive cover to all workers in specified sectors (Whiteside 2006).

In the 1980s and especially in the 1990s many European states experienced a phenomenon often defined as welfare state retrenchment. Demographic and economic challenges faced by nations across the world brought about the need to revise and transform terms on which existing pension systems were functioning in order to ensure efficient provision of retirement pension benefits. These challenges determined the political choices available to policy makers in different nations. It was at that time when the World Bank and the International Monetary Fund began encouraging countries to restructure their pension systems, and suggested a model comprising of three pillars:

1. The State-run public pension, representing the part of the social security system, aimed at the provision of a minimum income, based upon solidarity and normally financed on a pay-as-you-go basis, without constitution of large reserves;
2. The supplementary pensions provided collectively by firms or socio-professional groups, aimed at the provision of a deferred income in addition to the first, which offers a sufficient rate of replacement of earned income;

3. The personal savings put aside by an individual for his retirement (Gollier 2000).

As a part of the plan for softening the implications of demographic and economic challenges faced by welfare states, it was considered important to make individuals save for their own retirement, with funds invested in financial markets, rather than have worker contributions cover the benefits of current pensioners. Pensions provided by employers gained more importance as a supplementary source of income after retirement, and in some countries formed a significant share of the total income of pension recipients.

The key characteristic of voluntary occupational pension provision has always been its detachment from the realm of public pension plans. These financial arrangements are not meant to replace pensions paid through statutory schemes; they intend to complement the benefits of the latter. However, the fact that these pension arrangements are outside the statutory systems does not mean that they escape monitoring or regulation by the authorities (Gollier 2000). Throughout history we saw that various legal, social, tax and accounting ways of controlling and monitoring have been applied to them, which to a great degree influenced their development in general.

For an analysis of the current state of voluntary occupational pension provision, Kaar's (2004) study is pertinent. He has analyzed the industrial relations aspects of recent pension developments in 18 countries, focusing mainly on occupational pensions. He discovered that the relative importance of the voluntary occupational pension schemes varies enormously among countries, from almost negligible to highly developed. Yet in most countries, there is now a clear tendency to foster the development of voluntary occupational pensions.

In his study, Kaar (2004) presented the typology of occupational pension schemes according to the involvement of social partners. He identified the direct pension guarantee implying that the employer is obliged to pay pension benefits when the employee reaches retirement age or in the event of invalidity, according to their individual employment contract, workers agreement or a collective agreement. Such schemes are common for Austria, Belgium, and Finland. In case of the latter, they represent the dominant form within the second pillar pension systems (which is in itself of relatively minor importance). Another type of voluntary occupational pension arrangement means that the employer is obliged to pay contributions on behalf of their

employees into a pension fund. Individual employers may set up such pension funds, or they can join multi-employer schemes.

In countries where occupational pension provision has a long history, Kaar (2004) refers to the group with mature occupational schemes. In these countries, the coverage of employees usually reaches 90 %. In most of these countries, arrangements at sector level predominate, though with variations. Occupational pension can also be provided through insurance firms. This type is common in Austria (where the policyholder is the employer and the insured is the employee) and the Netherlands, and is relatively important in Finland.

Besides the organizational principles, occupational schemes vary depending on the way the benefits are determined. The 'traditional' form of occupational pension is the 'defined-benefit' (DB) scheme, described as one in which the pension and other benefits which will be paid to the members and/or their dependents in clearly defined scheme rules. The other main form is the defined-contribution (DC) scheme, which implies that future benefit is determined solely by reference to the contributions paid into the scheme by the employer and sometimes by the employee, and the investment returns earned on those contributions.

The way in which voluntary occupational pension schemes are managed and run represents a very important issue, especially in terms of their place in industrial relations. Kaar (2004) analyzed the varying role played by the social partners (here and later – the state, trade unionists, employers, pension provision institutions) in the governance of occupational pension schemes and found that trade unions and employers' organizations play a particularly important role in countries, where occupational pension systems are essentially based on sector-level collective agreements (For example, the Netherlands, Denmark and Sweden). Joint management is generally the rule in those countries where similar systems based on sectoral collective agreements are currently developing or being promoted - notably Belgium, Germany and Italy. Where occupational schemes are largely company-based, the involvement of the social partners in their governance tends to be much weaker: for instance, in the UK, despite the relatively long history of occupational pensions, and in Spain where occupational schemes are a more recent phenomenon.

Summary

Voluntary occupational pension provision has evolved into a complex and important system, characterized as bringing positive national effects due to a higher degree of flexibility and lower dependency on general demographic trends. It is widely recognized that voluntary occupational pensions provide a cost effective supplement to existing state pension systems, contributing to wellbeing in retirement. Although, this statement is quite arguable, as the role of voluntary occupational pension provision varies across countries. As voluntary occupational pension provision developed along with the system of public pension provision, and, as history shows, sometimes even preceded it, as I have shown, it becomes apparent that both systems largely influenced the design and development of one another. By all means, one cannot deny that these two systems are strongly interrelated; however, their interplay has changed over time. This is why my intention is to provide a thorough analysis of development of the system of voluntary occupational pension provision, its interaction with public pension system, as well as social, political, economic circumstances, which could influence its development.

3. ANALYZING THE EVOLUTION OF VOLUNTARY OCCUPATIONAL PENSIONS

This chapter provides the theoretical framework for this study, by presenting two theoretical approaches - the mixed economy of welfare analytical framework and the historical institutionalism theoretical approach. While the former allows the broadening of our understanding of welfare provision by analyzing of the roles of different welfare actors, the latter focuses on the importance of history helping to examine factors and decisions leading to changes in roles of welfare actors. The chapter also outlines the main research question, which guides this research, discusses two cases that were chosen for analysis, as well as the reasons behind their selection. The data that as used for this study, the main research method, as well as ethical considerations are also discussed.

3.1. When welfare actors matter

Historically, non-state actors played a major role in welfare provision - initially it was family, church, charities, employers, market-based, and non-profit organizations, which often played an overlapping role, shared later functions. For instance, mutual support networks, which existed in working class communities and faith-based organizations, provided financial and material support for its members. Self-help organizations, such as savings banks and commercial insurance organizations provided support for those with regular income to save against the eventuality of hazards and risks. The trade union movement and mutual help associations, controlled by the working class themselves, provided a range of benefits for their members and their dependents at times of unemployment, sickness, or death, which were based on the payment of weekly subscriptions.

The balance between public and private welfare providers changed over time, leading to the changes in the degree of state intervention into welfare provision. Thus, the post-Second World War rise of advanced welfare states was characterized by development of an active and in some cases, major roles of governments in service delivery at different levels, the introduction of a variety of social legislation, first public pensions as well as national insurance schemes. However, later this rise was followed by what was defined as the welfare state crisis. This crisis was accompanied by substantial political criticism of the welfare state, which was directed in particular against the welfare state's extensive public sector. The critical voices ranged from

preference for a wider role of actors from private sector, to arguments about the virtues of the 'community sector' (Breijning 2012).

One such critique was expressed by Titmuss (1976) who stated that initially to equate the 'welfare state' with visible state provision was very misleading, therefore he identified three systems of welfare: social/public, fiscal, and occupational. This was a fair reminder that welfare can be supplied from various sources, and that the welfare mix can change over time and vary between countries. The change in the level of state intervention and the changing role of the state (from direct service provider to financier and regulator of other agencies) and the moving frontier between providers that characterized both the past and the present of welfare was widely recognized. Consequently, the idea of a 'mixed economy of welfare' attracted more attention within academia and largely replaced a 'welfare state' view of history. The history of the modern welfare state was no longer viewed as a simple movement from individualism to collectivism and increasing level of state intervention, modern countries were considered as having had mixed economies of welfare in which the state, the voluntary sector, employers, the family and the market have played different roles at different points in time (Lewis 1999).

A wide variety of concepts were suggested to define this phenomenon, such as 'welfare pluralism' (Evers 1998), 'welfare democracy' (Leibfreid 2001; Nullmeier 2003), the 'welfare market' (Nullmeier 2003), or the 'welfare mix' (Evers and Wintersberger 1988). Despite such diversity in conceptualization of this phenomenon, two main approaches were observed in the interpretation of it.

The first cluster of interpretations focused on the actual mix of welfare providers from different social sectors, which are involved in the provision of cash, goods, and services separately or jointly. Katz and Sachsse (1996) suggested that 'all welfare regimes share one attribute: a complex mix of public/private provision throughout their histories'. Whilst Evers (1993) argued that the 'welfare mix' does not primarily relate to the concrete combination of welfare-providing agents, but to the implications of their interaction. According to Johnson (1999), the main idea of a mixed economy of welfare is not only the presence of various actors from different societal sectors in the welfare market, but the balance between them, which varies between countries, periods in time, and service areas. This perception of a mixed economy of welfare is the inspiration for this research project, as it views the mixed economy of welfare not as static, but as

a constantly changing system, where the inner balance modifies within given contexts and in given conditions, leading to increasing role of certain welfare actors.

Acknowledging the existence of different welfare providers, Gibron et al. (1992) introduced a model, where public and private sectors work in cooperation and provide welfare services jointly. For instance, public and non-profit actors may agree that the former funds a social service that the latter delivers. Budaus and Gruning (1997) term this form of joint provision 'public-private partnerships', and point out that it may involve different types of collaboration.

The second group of interpretations of the mixed economy of welfare focuses on the values, norms and rationales, which influence and explain the actions of groups and organizations engaged in welfare provision, rather than on their presence on the welfare market (Svetlik 1993).

Evers and Laville (2004) introduced a model representing the division of different actors according to their values. It is a welfare triangle consisting of the cornerstones 'market', 'state' and 'community', which are positioned within this triangle by their dominant values, and as a result, characteristic of their activities. For instance, the dominant value of the market is profit; the main rationale for the state is 'redistribution', while the community (informal actors) is driven by the idea of 'personal responsibility' or 'reciprocity'. However, according to Pomper (2007) such a division is not completely accurate, as some of the market actors engaged in corporate social responsibility do not always aim to make profit from their activities, likewise some of the public actors apply management principles in their functioning which are common for market actors.

The values, norms and rationales allow the understanding of why actors engage in the provision of welfare. Heitzmann (2010) argues, that the differences of welfare providers in terms of their norms also determine how actors engaged in the welfare market perform their tasks and how they cooperate with other actors in case of joint provision of welfare services. This implies that welfare providers have different options in complying with provision and contracting with their partners - 'the very options chosen not only reflect, but also shape the norms, values and rationales by which actors are governed, thus, norms, values and rationales determine the ways or modes of the welfare provision, chosen by different actors' (Heitzmann 2010). That is what makes the relationships between actors and their mutual influence even stronger.

As much of the literature in the field of social policy over the last few decades has been concerned with the perceived crisis of the welfare state and increasing roles of other actors (in the spheres of health care, daycare services, and family policies), both policy makers and scholars have been concerned with elaborating and debating over the possibilities to overcome this crisis. One of the widely discussed approaches has been the decrease of statutory actors in the provision of welfare, while expanding the role of other actors, often from private sector. It is mainly determined by the belief that private provision is more efficient because it encourages competition and gives the consumer greater choice, while public provision encourages dependency of the recipients, stifles personal initiative and responsibility (Bacon and Eltis, 1976).

In order to stabilize or reduce state social expenditure and to share the responsibility for welfare provision with other actors, many governments have taken major steps towards this end, which were labelled as 'the privatization of welfare'. This marks a radical shift away from the public sphere and towards private welfare provision. Johnson (1987) identified the following mechanisms used to shift the responsibility for welfare provision towards private sector:

- The expansion of commercial provision and the closure of government facilities;
- The sale of national assets;
- Contracting out either entire services, or parts of a service;
- Reduction in public funding through cost-sharing charges or reduced subsidies;
- Fiscal and other measures designed to promote private provision;
- The use of more stringent eligibility criteria for receiving statutory benefits or services;
- Deregulation: freeing markets from government intervention and supervision.

In terms of the transition towards privately provided welfare services, two types of transformations can be observed. The first type concerns changes in the mix of welfare providers and includes movements towards more public and less private provision, or, what is more common in a number of countries, towards more private and less public provision. The second type of the transitions is related to the modes of provision applied by both public and private welfare actors, and in case of joint provision in contractual arrangements between public and private actors (Breijning 2012).

Lately large transformations have occurred in the system of pension provision. It is not a surprise that the distribution of responsibilities between different sectors, when it comes to restructuring of pension arrangements attracted so much attention. Given that collective retirement benefits are becoming exceedingly expensive and putting increasing pressure on existing pension schemes. In the light of this issue, the question of who should be responsible for the provision of pensions, as well as what is the most efficient way to manage pensions are becoming extremely important. Here, the state, private insurance companies, employers and employees remain at the center of attention.

One of the solutions to serious problems in pension provision is often found in the full or partial replacement of existing pay-as-you-go pension mechanisms by those where worker's contributions are accumulated in investment accounts managed by private actors, such as insurance companies, private pension funds, or company pension funds. Let us assume that the involvement of private actors could potentially solve certain economic problems related to ensuring the financial sustainability of retirement income security, poverty prevention, and increasing efficiency in administering of pension systems. Can we based on the knowledge of how the systems of voluntary occupational pension provision have been developing and how they are functioning, judge about their efficiency and the role in ensuring of wellbeing in old age in the future?

3.2. When history matters

Examining why welfare policies differ so much between nations and over time, institutional structures ought to be at the center of analysis. Historical Institutionalism (HI) offers perspectives on the relationship between these institutional structures, and, on the understanding of what factors, events, and processes foster social change (Steinmo 2008). Studies using this approach generally address two basic questions: why did certain institutions occurred and develop, and why did they develop similarly or differently in different countries? At the core of Historical Institutionalism is the understanding that history is important, as it provides a base for an explicit analysis of contexts, events and processes in which different institutions emerged and which influenced their development (Steinmo 2014).

Within the framework of HI institutions are divided into ‘formal’ and ‘informal’ (Thelen 1999) or ‘material’ and ‘ideational’ (Skocpol 1992). Therefore, some researchers focus their attention on formal institutions and can refer to a bureaucratic institution, an association such as trade union (Streeck and Thelen 2005), while others study informal rules and norms, ideologies or even laws (Marcussen 2000; Hall 1989). Whether the issue of development of formal institutions or informal rules and norms occupies researchers, it is important for the social sciences, because they determine who participates in a given decision, as well as the strategic outcome of this decision. Immergut (1992) states that an ‘analysis of formal institutions is important in the sense that it helps to explain why similar policy ideas or programs have been adopted and developed differently - or not adopted at all - in different countries’. For this reason, the theoretical framework of HI is used in this research, which seeks explanations for differences in development of voluntary occupational pension provision in Finland and Russia.

As all events happen within a historical context, this context has a strong influence on the decisions made. Thus, behavior, attitudes, choices, and events take place inside particular social, political, economic, and cultural contexts. Historical institutionalists have the possibility to enrich their ‘understanding of the historical moment and the actors within it, they are able to offer more accurate explanations for the specific events’ by analyzing them in relation to the time, place and conditions (Steinmo 2008). Understanding the reasons why certain events happened in a certain sequence provides a valuable knowledge and experience, from which actors and agents can learn. As argued by Pierson (1994), our expectations also depend on the past. Viewing history as a chain of interdependent events, one can judge the consequences that might occur as a result of similar decision made in similar context.

The institutionalists’ studies have identified three key hypotheses in relation to determinants of welfare state development in general. First, countries that developed a strong state apparatus relatively early are associated with high levels of social protection. In this respect, Hecló (1974), Skocpol and Amenta (1986) emphasize the importance of state capabilities. Indeed, limited state capabilities implying underdevelopment, or the weakness of state welfare institutions might lead to a rapid development of other actors and their active participation in welfare provision.

Second, it has been widely discussed that existing social policies have a substantial impact on their future developments. Welfare institutions inherited from the past largely shape present

decisions and the political strategies required to introduce them. That is why in order to fully understand policy choices and decisions made in particular country, one must examine the interaction between history, political institutions, and public policies and so on (Steinmo 2008).

Third, a lot of attention has been focused on the impact that political structures produce on the level of state welfare of a country. Immergut (1992) argued that in countries in which political institutions allow social partners substantial access to the policy-making process, and in which the latter have an opportunity to prevent the adoption of important measures due to the existence of veto points, welfare reforms are more difficult to implement, and thus these countries are less likely to develop large welfare states. On the contrary, the involvement of social partners into the process of decision-making allows the development of rather peculiar welfare mixes (Immergut 1992).

Historical institutionalism offers a number of concepts, which are essential for the analysis of the development of institutions in general, and are, therefore, applicable in this thesis. One of these key concepts is path dependence, which was initially developed by economists to account for the persistence of inefficient technologies despite the availability of better alternatives. HI views the process of policy-making as path-dependent. All decisions made in the past lead to the creation of certain organizations and introduction of certain policies, which, in turns, influences decisions made at a later point in time (Berman 1998). A focus on path dependency has been made on a more theoretically grounded explanation of the nature of this type of development. In particular, researchers (Mahoney 2000, Pierson 2000, Pierson 2000) seek to better identify the consequential mechanisms by which initial policies or historical events set into motion processes of institutional change that are at times very difficult or costly to reverse (Levi, 1997). According to Mahoney (2000), research on path dependency needs to examine the self-reinforcing sequences that form a vital component of a path dependent process. Similarly, drawing upon economic literature, Pierson (2000) advocates using the conceptual framework of increasing returns in order to study the manner by which at each stage during the path dependent process, the costs of adopting an alternative plausible policy rise, thereby increasing the probability that transition will continue in the direction dictated by the initial decision.

Instances of path dependence are also identified in the area of pension policy. Pierson (1994) discusses the so-called 'lock-in' effects, or mechanisms 'that greatly increase the cost of adopting

once-possible alternatives and inhibit an exit from the current policy path. In his view, a major example of a lock-in effect is the initial choice of a pay-as-you-go financing method for public pensions. Therefore, the reforming of the pension system, as well as increasing of the role and share of supplementary pension arrangements require additional costs related to the development of new mechanisms in management.

Myles and Quadagno (1997) found a relationship between the design of pension schemes and forms of retrenchment, which constitutes an example of path-dependent policy change. In their study they have pointed out that recent pension reforms in industrial countries seeking to transform existing pension arrangements have tended to follow two different patterns, and these patterns are related to the type of pension scheme (either means-tested and providing basic old age security, or earnings-related based on insurance principles) being reformed. The initial design of pension schemes is a powerful determinant for the possibility of reform, in the sense that it limits the number and the range of options available, and it points policy makers looking for political feasibility in some pre-determined directions. This study will also analyze a way in which past decisions in the sphere of public pension provision could possibly influence development of voluntary occupational pension provision.

When it comes to the analysis of a certain phenomenon, HI scholars focus their attention on the conditions that led to the choice of a particular trajectory, but also take into account alternative trajectories that might have been followed at the time when the decision was made. Consequently, the importance of paths that were followed should not be overvalued in comparison to the paths not chosen. In this sense, HI is effective as it provides explanations of not only what happens, but also of what could have happened.

Many institutionalists (such as, Steinmo, 1989; Thelen and Steinmo, 1992; Christensen, 1997; Mahoney, 2000; Pierson, 2000) argue that any institutional change might be and often is caused by a certain crisis, which serve as the starting point in a sequence of minor events bringing about major changes. Here historical institutionalists introduce the concept of *critical junctures* or catalysts initiating historical paths, and causing institutional and/or policy choices at a certain periods of time. The concept makes it possible to divide the past in the development of any institution into several periods during which institutions experienced major changes. Critical junctures are defined as relatively short periods of time during which there is a substantially

heightened probability that agents' choices will affect the outcome. The critical juncture constitutes a situation that is qualitatively different from the "normal" historical development of the institutional setting. Most historical institutionalists treat critical junctures not as instantaneous events but rather as short phases that may actually last for a number of years (Hogan, 2011)..

Choices made at a certain point in time within a given context will close off alternative options and lead to the establishment of institutions that generate self-reinforcing path-dependent processes. These junctures are 'critical' because they place institutional arrangements on paths or trajectories, which are then very difficult to alter. Path dependence is a crucial causal mechanism, and critical junctures constitute the starting point for many path dependent processes.

Overall, historical institutionalism puts historical investigation at the core of trying to understand contemporary cross-national differences and similarities, and provides important tools for independent examination and subsequent comparison of the roles of occupational pension provision in Finland and Russia. Hence, situating voluntary occupational pension provision within the unique historical contexts of countries under focus, and paying attention to the events or conditions that could facilitate or hinder development of occupational pension provision can help shed light on how and why this particular phenomenon has developed into different or similar interpretations and applications in these two countries.

3.3. What is there to be found?

As demonstrated in the previous Chapter, in many countries voluntary occupational pension provision evolved into a rather comprehensive system and became an equitable element along with public pensions inside national pension systems. Voluntary occupational pensions are provided in addition to public pensions with the intention to complement the benefit of the latter, thus increasing the level of wellbeing in the retirement. The role of such pension arrangements have changed over time and the extent to which they complement public pensions varies significantly across countries. It largely depends on the contexts in which these systems have emerged and developed, and the overall models applied by the states when it comes to welfare provision. Interest in finding out how different social, economic, political contexts influenced development of voluntary occupational pension provision, as well as what kind of events,

processes, or decisions made in regard with public pension provision facilitated or hindered its development motivated this research.

This study provides a cross-national comparison of the evolution of voluntary occupational pension provision in Finland and Russia and will answer the following research question:

How did the systems of voluntary occupational pension provision evolve in Finland and Russia, and how does this process differ in both countries?

The research, therefore, examines how voluntary occupational pension schemes originated and became integrated into the national pension systems in Finland and Russia. How their roles and functions changed over time, and what were the factors, which facilitated, or on the contrary, hindered their development. Furthermore, a close examination is given to the context (social, political, and economic) in which voluntary occupational pensions emerged and developed. Moreover, the interaction of voluntary occupational pension provision and public pension systems are examined in terms of their influence on one another. Finally, the research will analyze how systems of voluntary occupational pension provision respond to current political, social, and economic challenges, as well as the problems and opportunities these systems currently experience.

3.4. ‘Making familiar strange and strange familiar’: comparative design

As this research examines the evolution of voluntary occupational pension systems in two countries, Finland and Russia, it is therefore comparative in its nature. Cross-national comparative studies are extremely important for the development of science, as they allow the shedding of light on the concepts and processes that have been overlooked, and identify and question beliefs and assumptions that have been taken for granted. By doing comparative studies researchers and policy-makers examine the consequences of different practices and policies for various social groups, in various contexts and circumstances. Comparativists explore the reasons behind the differences found in policy practices, therefore offering new insights and discovering new opportunities for changes. Besides, it makes a valuable contribution to the content and direction of debates concerning important social policy issues, by providing knowledge of available alternatives, as well as increasing awareness of possible risks and consequences of any political decisions (Holmes 1985; Postlethwaite 1999).

Ragin (1989) defines comparative research as a research that uses comparable data from at least two societies. In this way ‘the cross-national comparativists are forced to attempt to adopt a different cultural perspective, to learn to understand the thought processes of another culture and to see it from the native’s point of view, while also reconsider their own country from the perspective of a skilled observer from outside’ (Hantrais, 1996). This research focuses on comparison of evolution of voluntary occupational pension provision in two countries - Russia and Finland.

With a large population of 143.5 million of people in 2013 (Goskomstat 2013), and strong industrial sector Russia is one of the most powerful nations in Eurasia. However, compared to Russia, Finland has a significantly smaller population with approximately 5.5 million people (Statistics Finland 2013). Sharing a significantly sized border and a large part of history with the Russian Empire, Finland, followed a peculiar historical and institutional path after gaining independence from Russia in 1917. Furthermore, with regard to the level of economic development and especially welfare provision, Finland holds leading positions amongst other European countries.

Finland and Russia represent two quite different welfare regimes, which is of significant importance for this comparative study. Finland is classified as a social-democratic welfare regime, according to Esping-Andersen’s typology (1990), which places universalism at the core, where access to benefits and welfare services is granted to all citizens regardless of age and status. Social services are funded collectively through taxation and individuals’ rights to receive social services are not tied to their history of tax payments. Additionally, the Finnish system of social protection is characterized by flexibility, as well as accessibility, and aims to equalize the social rights, statuses, and opportunities of all its members of society (Anttonen 2012).

Russia also proclaims the principle of universal coverage in matters of social protection. The Constitution of Russian Federation states that the right to receive social support and protection is guaranteed to all people according to their needs and regardless of gender, nationality, age, language, status, and religion. The Russian welfare regime is distinct from any paradigms, including Esping-Andersen’s typology. Historically, unlike in other countries, welfare provision was mainly based on two pillars (Kainu 2012). On the one hand, the state provided non-monetary social benefits for certain social groups. On the other hand, most social services and benefits

were provided on the enterprise level. Subsequently, the balance of responsibilities between the state and enterprises has changed over time, although not significantly. The Russian welfare regime moved towards greater centralization, with the strict division of powers between national, regional and local levels (Kainu 2012). However, many enterprises (especially large ones) still make a significant contribution to the wellbeing of employees, and also the wider local community, providing various welfare services including pension benefits.

Additionally, Finland has a long history of private-public partnership in terms of welfare provision, which resulted in the development of a rather peculiar pension system – statutory in nature, but largely privately run.

In terms of pension provision, whilst differing greatly from one another, pension arrangements in Finland and Russia still share certain similarities. In general terms, there are primarily two distinct pension models, often referred to as the ‘Beveridge’ and ‘Bismarck’ models. While Beveridge pension systems are typically aimed at poverty prevention and provide either universal flat-rate or means-tested benefits, the Bismarck pension systems are based on the social insurance principle and provide earnings-related benefits aimed at status maintenance in retirement. Initially Finland started with a Beveridgean pension policy tradition; however in the 1960s Finland moved towards the Bismarckian model by topping up basic pension schemes with earnings-related pension plans. Consequently, with the development of the supplementary pillar and the broadening of its coverage, the significance of the basic pension has declined. Likewise, in Russia, driven by the need to deal with the increasing poverty of Russian pensioners, as well as needing to ease the state’s pension burden, the Russian system shifted from a single, publicly managed distributive system to one supplemented by a mandatory, earnings-related, funded component. Therefore, the setup of pension provision in Finland and Russia have followed a similar trajectory. The transition from the initial universal character of social insurance pensions, towards the integration of the earnings-related component into the public pillar with the strong reliance on wage-based contributions is observed in the history of pension provision in both countries.

In Finland, employers arrange voluntary occupational pension provision for their employees through either a group or individual pension insurance. They may establish their own company pension fund independently or jointly with other employers. According to the Finnish Center for

pensions, company pension funds are divided into three groups of funds, depending on whether they arrange only the statutory pension provision or also offer voluntary supplementary pension provision for their insured members. Furthermore, employers may take out pension insurance services from a pension insurance company. There are several examples when Finnish corporations provide pensions to their employees in addition to those provided by statutory schemes. For example, the large Finnish producer of stainless steel Outokumpu Oy, which has branches not only in Europe, but also in Asia, Africa, and America, offers defined contribution pension plans for its employees in addition to local retirement schemes available for workers in the country where the branch office is situated (Outokumpu 2014).

In the Russian Federation, pension funds established by companies were initially meant to manage only the voluntary occupational pension provision. However, as the entire pension system has undergone many reforms, their roles have changed. Since 2007, they can also participate in certain programs within statutory pension insurance, such as the co-financing of statutory pensions, and the management of maternity benefits.

Magnitogorsk, the city where I was born and raised, is renowned for a large iron and steel works, *Magnitogorskii Metallurgicheskii Kombinat – MMK*, which is known for its socially responsible behavior towards its employees and the local community. It is classed as socially responsible due to its implementation of a wide range of social programs in healthcare, culture, education, sports, and career development. It aims to improve the level of wellbeing of its employees and local residents. One of the aspects covered by social programs developed at the MMK is a pension provision for their employees. For this purpose, in 1996 it established a non-state pension fund *Socialnaja Zashita Starosti – Social Protection of Elderly*, which offers voluntary occupational pension schemes to MMK employees, and additionally for subsidiary companies employees, other regional metallurgy companies, as well as private savings plans for the population of the city (MMK 2014).

Statistics show that in the 2000s, Finland experienced a significant change in a number of company pension funds, which declined from 37 pension funds to 14. Whilst in Russia by 2007 there were 252 pension funds established by large corporations. Undoubtedly, when it comes to the scope of the population, it is obvious that there is no need for numerous organizations to

manage pension savings in Finland; however, the functions and roles of occupational pension schemes in national pension systems differ in these two countries.

According to Przeworski and Teune (1970), comparative work entails juxtaposing research cases at two different levels - at the level of systems (macro social level) and at the within-system level (micro level). They argue that any analysis 'that is based only on macro social similarities and differences is not truly comparative, even if this analysis includes an examination of aggregations of within-system characteristics'. Therefore, comparativists use macro social level factors to explain differences among countries in within-system relationships. Keeping this in mind, I will show how different social, political, institutional, cultural conditions, contexts fit together in Russia causing a particular phenomenon, and contrast it with how they fit together in Finland leading to different outcome.

3.5. Re-reading of existing studies: secondary analysis

The primary research material for this study comes from scientific publications, journals and books in the field of pension policies in general, and more precisely on voluntary occupational pension schemes in Finland and Russia. The research method of this study is secondary analysis, which is a special method for conducting research using pre-existing data. Secondary analysis has been widely used in quantitative research projects; however, there has been growing interest in reusing data from qualitative studies in recent years. Researchers, who have completed secondary analyses of qualitative data, emphasize that secondary analysis is generally used for a number of important purposes:

First, secondary analysis can verify, refute or refine the findings of primary studies through the re-analysis of existing data. Glass (1976) explains that the secondary analysis of qualitative data involves re-analysis of data for the purpose of answering the original research question with better statistical techniques' or 'applying different methods of analysis' Woods (1988). Another major aim of secondary analyses is the investigation of new or additional research questions, which includes the 'extraction of knowledge on topics other than those which were the focus of original surveys' (Hyman 1972). This application of secondary analysis as a research method is specific for this research project, as the existing studies did not to investigate the change in the

roles of occupational pension provision in various countries, therefore I will use them address different aspects and answer my research question.

I began the research process by collecting the information about the development of pension provision in Finland and Russia. As previously mentioned, I used scientific publications, journals, books, policy reports, and policy reviews which focused on the analysis of the history of pension provision in general, and particularly on the development of supplementary pension arrangements including voluntary occupational pensions. It is worth mentioning that when collecting data pertaining to Finland, I was constrained by only being able to use studies translated into English. Whereas for sources relating to Russia, I found a wide variety of studies on the matter in both Russian and English.

Having collected the information, I then began the process of analysis, utilizing the key concepts offered by the mixed economy of welfare analytical framework and the historical institutionalism theoretical approach. I focused my attention on the actors involved into pension provision, their interaction, as well as on those factors that could influence the level of their involvement into the provision of pension benefits. Of a particular importance, here were the periods when the state experienced unusual growth or decline in its capabilities. Therefore, I explored how the capabilities of the state in providing efficient and complex pension provision changed over time. Thus influencing the involvement of private actors in this field, and particularly, the willingness (and ability) of social partners to discuss and provide pension provision.

Examining the history, I noticed that systems of voluntary occupational pension provision in both countries experienced major changes in similar periods. Thus, I was able to identify three critical junctures, which represent periods when certain social, economic, and political circumstances had the most influence on development of this type of pension arrangements. The first critical juncture was related to the early development of pension systems in both countries in the beginning of 19th century. More precisely, the decisions made in the sphere of pension provision and the possible influence on the systems of voluntary occupational pension provision was examined. The second critical juncture concerned the decision to establish basic and earnings-related pension schemes, which was path-dependent, especially in case of Finland. The third critical juncture was related to the economic crisis of 1990s, demographic changes, and their

impact on public pension systems, which resulted in the changing role of voluntary occupational pension provision.

3.6. Ethical considerations

In conducting almost any research project, one must take into account potential ethical issues. Generally speaking, those issues are largely determined by the nature of data that the researcher is using and various methods that will be applied. As this research project utilizes a secondary analysis as the main research method, it is important to discuss ethical considerations related to the use of this method.

Secondary analysis raises a number of ethical problems. As Grinyer (2009) states, when 'ethical judgments have to be exercised in secondary analysis, it is of fundamental importance to be ethically aware and make decisions that are located in the context of the research'. Heaton (2004) identifies several issues, which are related to the reuse of data in qualitative research: informed consent, confidentiality, copyright, and data protection.

One of the primary ethical concerns related to secondary analysis is focused on the potential harm to the individuals who participated in the research, when data is reused due to the lack of informed consent (Alasuutari 2008). However, this study does not involve material gained from interviews, participant observations or ethnographic work, nor does this study deal with sensitive situations, in which risks could emerge relating to privacy and the confidentiality of participants. Therefore, there is no need to inform them regarding the study, nor to obtain informed consent and ensure the data protection.

Besides considering the responsibility towards the previous study participants, the researcher should always think what is his/her responsibilities towards the original researchers who collected the data and whose studies are used as a research material in the secondary analysis (Ethics Guidebook). Whilst the researchers whose studies I use in this work essentially hold the data copyright, I, as a secondary researcher do not abuse the ability to access this data. I have made requests to access their studies through networks of scientists and researchers (when possible) and asked for a permission to reuse the data they collected, as well as citing their work when appropriate.

Another important concern is raised by Law (2005), she states that ethical practice also requires keeping a balance of benefits and harm when conducting research. While this may be assumed to refer to the benefits and harm that may be experienced by the subjects of the research, it could also be interpreted as requiring a consideration of the potential harm to the original researcher. The ‘design and execution of data collection effort is a creative activity that sometimes involves innovative techniques’ (Law 2005). It is important to consider why a secondary analyst should benefit from someone else’s work, particularly if the second research is a potential scholarly competitor (Clubb et al. 1985). However, as Proctor (1988) emphasizes, this balance is maintained in a way, that secondary analysis brings a potential benefit for the community at large, as well as a greater benefit for science, if research with already collected data provides more opportunities for studying the important phenomenon. It also creates an opportunity to examine phenomenon, its aspects and interrelationships that were overlooked or entirely unpredictable at the time of original data collection.

Summary

Applying methods of secondary analysis, this study analyzes the evolution of voluntary occupational pension provision in two countries – Finland and Russia. Going through the main concepts of Historical institutionalism and Mixed Economy of Welfare analytical approach, I came to understanding that only by utilizing them together could I provide a thorough perspective in order to address the research question, and there are several reasons for this.

First of all, the mixed economy of welfare approach provides a better perspective on the concept of welfare, allows taking into account services that are produced outside the realm of the state. Therefore, it becomes possible to view occupational pension provision not only as an instrument used by employers for increasing the motivation of their employees, but also as a form of welfare, which is meant to supplement, or in some cases even replace, services provided by the state.

Secondly, the examination of the changes in the state capabilities in the provision of retirement benefits over the course of history allows the tracing of at which point in time the role of other pension providers (companies) changed as well, and in which direction. Special attention here is

paid to the motives of alternative actors, which drove them to enter the path of welfare provision in the first place.

Thirdly, combining mixed economy of welfare analytical approach with historical institutionalism framework enables the investigation of the extent to which the historical, economical, and political contexts of welfare states influenced the way in which voluntary occupational pension provision is interpreted.

Fourthly, an analysis of voluntary occupational pension schemes in terms of its funding, provision, and regulation, as well as the cooperation of companies and the state will contribute to understanding how occupational pension provision is organized in the context of mixed economy.

Finally, the combination of these theoretical approaches is useful for exploring the extent to which voluntary occupational pension provision might serve as a force for reforming pension provision in general, and changing the balance between the public and private sectors.

Hence, the application of the theoretical ideas of Historical institutionalism and Mixed economy of welfare framework provides an opportunity to expand the knowledge of how voluntary occupational pension provision have developed and why it developed differently in Finland and Russia.

4. THE FIRST CRITICAL JUNCTURE: The early development of pension systems in Russia and Finland

The analysis of evolution of voluntary occupational pension systems in Russia and Finland shows a strong connection with changes occurring in the sphere of public pension provision. As previously mentioned, while the development of pension schemes offered by employers sometimes preceded establishment of public pension provision, the transformation of the latter generally had an important impact on changes in voluntary occupational pension arrangements, its organization and roles. This chapter examines the first critical juncture, which is related to the early development of pension provision in two studying countries, and the first legal decisions concerning establishment of pension systems.

4.1. From the first practice of pension provision by employers to adoption of the first pension legislation in Russia

The system of pension provision in Russia has a long and rather extraordinary history. Long before the establishment of the system of social transfers, family and communities provided support for elderly people. The first forms of help and assistance for the elderly date back to the 8th century. They were based on the principles of the reverence of old age, a respectful attitude towards elderly and included the appointment of a guardian, the provision of domestic help, and so on (Kastarnaya 2010). The impetus to further develop philanthropy activities came with the adoption of Christianity. The church represented the primary institution that provided support and assistance for various categories of people - orphans, sick, poor, and elderly. The main objective was to maintain adequate life conditions of those in need. Support was rather *ad hoc*, and did not have fixed financial or organizational mechanisms.

Dukes (in old Slavic *kniaz*) and warlords (*voevoda*) provided their subordinates with uniforms, armament, and food, but also gave them a shelter once they retired from service. Consequently, the care for injured and old became more systematic and was provided within the legal framework (Shishova 2000). From the 1660s, special 'sick' benefits were provided to old and seriously injured soldiers, the amount of which depended upon the severity of their injury and ability of a person to provide for themselves. These benefits are often considered as the very first forms of organized pension provision.

The period from late 17th century to early 18th century was marked by reformation activities of Peter the Great, who ruled the Tsardom of Russia and later the Russian Empire from 1682 until 1725. The European model of development inspired him and as a result all reforms in economic and social spheres largely followed this particular model, although they were adapted to Russian reality. At that time, the state was actively involved in matters relating to the development of industrial relations. For instance, serfdom relations spread over the industries and with the legislation of 1736 all workers and their families were assigned to a particular factory for life. The rationale was that it would increase the competitiveness of Russian manufactures, and ensures their economic development (Shishova 2000). This initiative had a further impact on labor relations, especially in matters of protection of workers' rights and interests.

In the beginning of the 1720s, the first legal basis for pension provision was established, when clauses related to pension provision were included in the Act On Marine Forces, and in the Act On Ground Forces. Later, with the introduction of special legislation, several categories were covered by pension provision besides soldiers, including civil servants and priests, making pension provision in Russia develop within certain occupational lines. Pensions were financed from the state budget depending on the kind of services delivered to the state and the rank granted to a person in accordance with the special Table of Ranks (Chesnokova 2012).

The early 18th century was characterized by attempts to modernize and restructure the state apparatus in response to the changing reality and goals pursued in the social and economic spheres. Whilst seeking to improve the system of pension provision, it was decided to create special pension accounts. As a result of this initiative pension rights were extended to certain categories of workers. The transformation of the system of public pensions led to a significant increase in expenses for pension provision, which the state budget simply could not afford. At the same time, there was an urgent need to eliminate a wide diversity of acts related to the matters of pension provision operating at that time, as it created confusion in terms of pension accumulation, and develop a universal pension legislation for all categories of the population.

In 1820, a special Committee was created in order to develop specialized pension legislation. It gathered representatives from several other committees - Committee of Finances, Committee of Justice, and Committee of Internal affairs. In December 1827, the Committee passed the first Pension Act, which consisted of three essential parts:

- Rules for the provision of pensions and benefits,
- Clause on pensions and benefits for widows and children of officials according to their rank,
- Clause on the management of pension and benefit system.

The law stated that all separate pension accounts had to be transferred to the state fund, which consequently became responsible for the administration of the pension system. By 1873, the Act was extended and included several new chapters. The size of pension benefit was defined in accordance with duration of service, and strongly depended on the rank and the class a person belonged to. The Pension Act also defined certain rules concerning the provision of pension benefits for widows, and children of military and civil servants. The administration and management of pension system was assigned to the state apparatus, because separate institutions for pension provision were not created yet (Kulchitskii 2010).

Hindsight has revealed several significant limitations in the adopted Pension Act and in the overall functioning of the system of pension provision. Firstly, the size of pensions assigned to recipients was relatively small, and did not allow them to maintain decent life conditions after retirement. Secondly, state expenses for the provision of pensions were growing so rapidly, it became a considerable financial burden for the state budget. Thirdly, the right to receive pension benefits was not connected to prior contributions, as all pensions were financed from the state budget. In this sense, the system did not succeed in building a connection between personal responsibility and the right to receive pensions and other benefits. It soon became apparent that the state was not able to fulfil its obligations for the pension provision and ensure that the majority of population could effectively adapt to the rapid changes in the economic and social spheres caused by ongoing reforms, and by the 1850s, national pension system faced its first crisis (Gusakov 2010).

In the second half of the 19th century, the interests of Russian government were focused on economic development and industrial modernization. According to Vitte, the then Minister of Finance, Russia possessed enormous and unique natural resources that were used rather inefficiently. The state saw development of industry and the transport sector as its main priorities. As a result, the pace and the scope of the industrial revolution increased significantly; manufactories previously utilizing manual labor grew into large factories with mechanized

production. The improvements in the technical equipment of production first occurred in the textile industry, but later spread to the mining and metallurgy industries. By 1850, machine production was present in almost two thirds of the industrial sector, and the level of productivity tripled. Furthermore, the state actively supported private enterprises (Shishova 2000).

Following significant changes in the political and economic spheres, the social sphere received a portion of attention as well, especially the labor sphere. As capitalism was developing rapidly, labor movements were gaining power and tried to improve working conditions for their members. The first independent labor organizations and trade unions wanted to ensure the protection of workers' interests and rights. In 1880-1890, influenced by a number of revolts organized by workers, the government had to adapt a series of legislative acts aimed at the regulation of the sphere of labor, control over employers' activities, and to take measures to improve working conditions. It significantly increased the level of awareness of workers had surrounding their rights, and allowed them to actively defend them (Shishova 2000).

The development of Russian pension system at that time took a slightly different course towards the adoption of insurance principles. In 1888, a special law was introduced which extended the responsibility of pension provision to employers. The owners of private industrial, mining, and railway companies were allowed to create insurance funds in order to provide benefits for employees in case of injuries or professional illnesses, which they considered as an additional beneficial mechanism of labor management and administration. Many large enterprises started establishing their own funds independently or in cooperation with other enterprises in similar industries. The mining enterprises in the Ural Region were considered as pioneers in voluntary occupational pension provision for industrial workers in Russia. The innovative character was the fact that the development of the system of trade partnerships was for the first time permitted in the sector, which had never been fully owned by the state. During the first years of its development, the overall performance of the system proved its efficiency and showed high results, as well as the ability to predict possible challenges, adapt to changes, and respond to important needs.

Trade partnerships, which were initiated by the Department of Mining, were organized as self-governed public associations. The decision to establish trade partnerships in the mining enterprise was made by all workers employed at the enterprise who were willing to pay

contributions to the solidary fund. To some extent, it prevented the centralized establishment of such partnerships in the mining industry. The main goal of the partnership was to provide a financial support to employees and their families in case of sickness, in retirement, and in case of accidents at work. The benefits provided by partnerships were targeted at three different categories: employees, widows, and children. The enterprise administration participated in the partnership by default, and was obliged to pay contributions to the partnership annually of an equal sum to the contributions paid by the partnership participants.

In relation to pension provision for participants of the partnership, the total amount of pension was calculated in accordance with the amount of contributions paid by participant for years of membership. The participant could claim the minimum pension if contributions to the partnership were paid for at least 10 years without interruption.

Admitting that owners of enterprises were important figures that could encourage workers to save for their pension, the state cooperated with them for the creation and development of the system of voluntary occupational pension provision. The state avoided forcing decision-making on all administrative levels concerning the process of the institutionalization of voluntary pension provision in industrial sectors. By the end of the 19th century, trade partnerships in mining and other industrial enterprises had already occupied its niche in the sphere of occupational welfare provision and voluntary occupational pension provision (Orlov 2007).

By the beginning of 20th century, there were more than 200 non-state insurance and pension funds created by enterprises, offering their services to the majority of the population all over the country. The functioning of such funds were more efficient compared to the state pension system. Contributions were paid as a share of employee salary, accompanied by transfers from the company budget, and were accumulated in private accounts. All calculations of future pensions were based on statistical data specific for a certain industry or territory, which helped to track important indicators, such as labor age, life expectancy, disability statistics, etc. (Zargaryan, 2010). Expenses of the funds were dependent on the size of accumulations, as well as on a range of other factors: number of participants with a proper length of service that made them eligible for pension rights, distribution of pensioners by their ranks, size of salaries, etc. Non-state pension funds provided pensions and benefits of the following types:

- Pension for years of service;
- Pension in case of disability;
- Pension for widows and orphans;
- Benefits in case of dismissal and/or downsizing.

In 1912, several legislative acts (On provision of benefits for workers in case of sickness, On provision of social insurance of workers against accidents, On the establishment of the Council for workers' insurance matters) were adopted, which resulted in the significant improvement of the pension system (Chesnokova 2012).

4.2. From life annuity to relief funds - the origins of Finnish pension system

In Finland's early subsistence economy the family consisting of grandparents, parents, children, and other siblings was the basic union that provided support for its members. The roles and duties of all family members were divided: those able to work were engaged in various kinds of labor in order to ensure that the family had the means of subsistence; while elderly and those lacking capacity to work were engaged in provision of assistance to family members in their daily life tasks.

Hannikainen and Vauhkonen (2012) identified a number of forms of provision of support for the elderly in different parts of rural Finland. One of the traditional ways in Southern and Western Finland was life annuity that represented a special kind of agreement by which old farm-owners surrendered his farm to another person. In exchange, the new generation paid for the house by caring for the former occupants in their old age, supplying food and accommodation on the farm to them for the rest of their lives. Legally valid life annuity contracts are still drawn up and many of them are still in force. However, in Eastern and Northern Finland, extended family households consisting of several married couples were quite common. Taking into account living standards of those days, these households offered a reasonable support for elderly people that varied from one household to another and depended on how prosperous the farm was and the richness of the harvest (Hannikainen 2012).

During Swedish rule, it was common practice that the monarch provided support and assistance to officials who lost their work capacity. The administration of Finland paid special attention to taxation matters. Despite the fact that the majority of population was poor, and the state was only

able to accumulate only small amounts of funds, these funds were democratically distributed across the whole society. The state attempted to develop certain policy plans that sought to promote the collective or national good, instead of promoting group-specific benefits, which was an important precondition for the rapid development of the poor rural society (Kangas 2006).

During Russian rule, officials with a permanent post in Finland were granted a pension in 1826. The initial retirement age was established at 65 years after 35 years of service; however, it was reduced to 63 years in 1866. The first proposals for a more or less comprehensive arrangement of pension provision were made in the 1870s and were targeted specifically at civil servants. Pension provision was tightly connected to a life-long office and yields from a residence. Civil servants' pensions could not be considered extensive, as the individual need for assistance and social reasons did not play a significant role when calculating the pension (Hietaniemi 2007).

In the end of 19th century, a profound structural change was experienced by Finnish society, characterized by population growth, changes in land ownership, and an accelerated pace of industrialization. It gave a rise to a society of paid work that slowly disbanded the agrarian unequal society of estates. Additionally, the changes also influenced upon the country's economy, working life, the livelihood of all types of people and their attitudes towards what is a desirable life (Hannikainen 2012).

In 1890s, the State committees began the discussions of social insurance provision. The intention of the Committee members was to avoid the mistakes made in other European countries in terms of social insurance, and adopt more efficient and successful practices. In the early 1900s, social democrats appealed to other political groups to revise their attitude towards the provision of social security. However, the disagreement of the political groups with the need for reform and the general restrictive nature of the Parliament's legislative power by the Russian authorities allowed only few of the political decisions to be fully implemented. As early as the 1880s and 1890s two acts of principal importance were adopted: the *Act on the Protection of Industrial workers*, founding an institution of factory inspection (1889), and the *Workers' Compensation Act* (1895) (Kettunen 2010).

In the beginning of 1900s, municipalities started introducing various pension regulations. The bourgeoisie and the artisans established mutual aid funds that initially offered a certain degree of

financial support for families who lost their breadwinner. Artisans' funds as well as the liability to provide for old farm owners' within agrarian society has led to the expansion of pension arrangements. Around that time, pension provision for workers in Finland started developing. Spurred on by the process of industrialization, factories started establishing special sickness and pension funds, which were usually financed through employer and employee contributions. Although these relief funds lacked actuarial know-how, were left without supervision, did not cover all employees working for the factory, and benefits provided by them were rather modest, the employer's obligation to provide pensions for long-term employees found its development in later legislation, as did the earlier practice of provision of help to their elderly parents by children.

Summary

The ensuring of wellbeing in retirement has been a matter of concern for society in all historical periods. Long before the creation of systems of social transfers, in both Finland and Russia, family was first and foremost the unit elderly people could rely on in terms of receiving support and assistance. A historical analysis shows that during the early period there was a wide range of mechanisms to provide support for the elderly - from the appointment of a guardian, to life annuities. Approximately modern practices of pension provision in both countries date back to the end of the 18th century, when the first pension legislation was introduced. The right to receive a public pension were first granted to civil servants, priests, and soldiers, therefore making pension provision develop within a certain occupational framework. Despite the fact that these practices of pension provision were quite advanced for their time, they nevertheless had a number of limitations, which hindered their further development. First, the small size of pension benefits did not allow their recipients to maintain decent life conditions. Second, the failure to build a strong connection between contributions and payments led to a rapid growth of state expenses for pension provision. However, only certain, privileged, categories of citizens were entitled to pension coverage. Therefore, the people that were not covered by the state pension, such as artisans, workers and peasants, had to search for other mechanisms to ensure their wellbeing in their retirement. Trade partnerships, as well as insurance and pension funds established by employers were among such mechanisms. Pension benefits provided through these institutions had a twofold purpose: they first of all, represented an additional management and motivational

tool for employers, and secondly, acted as a mechanism of financial support for employees after retirement. Pension provision was based on insurance principles, and financed through employers' and employees' contributions, which was quite progressive comparing to the redistributive mechanisms applied by the state. The employers' initiative to provide pensions for their employees along with other benefits had a significant impact on the development of occupational pension arrangements, and found further development in later legislation.

5. THE SECOND CRITICAL JUNCTURE: The establishment of basic and earnings-related pension schemes

The second critical juncture in the evolution of voluntary occupational pension provision relates to the decision of the states to establish basic pension provision or supplement it by an earnings-related component, which largely influenced the system of voluntary occupational pension provision, significantly reducing its importance. Therefore, this chapter discusses the changes in the transformation of voluntary occupational pension provision in two countries in the period from 1917 until late 1980s.

5.1. Post-war shift towards universal pension provision in Russia

The 1917 revolution marked the start of a new chapter in Russian history, shifting the development of the pension system in a slightly different direction. The country experienced significant social, economic, and political changes, challenges, and contradictions. The only political party, the Bolshevik party, succeeded in acquiring power and sustaining it, it was a creative actor, which took responsibility for resolving those social, economic, and political contradictions. They not only offered the options for a change, but also took immediate steps to implement them. The Bolsheviks were driven by only one goal and one basic value - the orientation towards building a communist society – a society of social justice, which could eliminate oppression and exploitation of man by man.

In line with the communist manifesto, enterprises, banks, transport, communication, and housing companies were nationalized, starting the process of the creation of a large state sector in the Russian economy. It was apparent after the World War I, because of the lack of efficiency in the use of materials, lack of labor, and food, that certain emergency measures had to be implemented in order to reorganize the national economy and stimulate its recovery. In this period, the management system was based on the monopolization of product manufacturing, the centralization of distribution, mandated control method, and forced labor. Reductions in currency circulation, equalization in payments and redistribution of benefits and goods were believed to create the communist society in the way it appeared to the ruling party.

In November 1917, a special authority was created - People's Commissariat - its main function was to provide social support and assistance to both the young and elderly, and the disabled and

their family members. In March 1918, the Commissariat was assigned a new responsibility of the provision of pensions and other benefits. At the same time a special Committee for social security was created, the People's Bank. The Soviet government made the first attempts to provide almost universal coverage with these social programs and benefits (Andreev 1980).

The Bolsheviks' ideology was directed towards the development of communism and consequently led to a practice of the naturalization of social benefits. During the period of war communism, food and other goods were rationed. Food and goods surpluses were withdrawn to the state Fund. At the same time accommodation, transportation, healthcare, education, and other cultural and public services were owned by the state and provided to the population free of charge. The financial support provided by the state was relatively small because of inflation, however, it did not matter so much because those in need received social benefits in kind - free lunches, food packages, clothes, firewood, etc.

In 1919, all private insurance funds were obliged to transfer their finances to the National Social Security Fund, and the institutions that owned those funds were later liquidated. Gradually the inability to cover expenses for social insurance led to a general fiasco. Deficit was mainly covered by emission of currency, which only worsened the inflation. The government made a decision to replace the principles of social insurance by the direct financing of the social benefits system from the state budget; however, it did not improve the situation (Dobrohotova 1992). Public social welfare system was in large decline, and by the beginning of 1920s, the situation became even worse. The legislature in the sphere of social policy was significantly further ahead of the economic potential of the Soviet state and was not linked to the country's economic reality. Furthermore, a significant part of the population appeared to be lacking in coverage by social policy programs, including apprentices, domestic servants, farmers, independent producers, peasants, non-working wives of workers, who were supposed to get social assistance along with their husbands. The period was characterized by an enormous amount of violations. Even receiving benefits provided by the state, people felt more insecure than ever before, and the risk of the loss of income due to sickness or the onset of old age was a major risk. The main reason for the bankruptcy of the communist welfare model was due to its utopian theoretical foundations and the amateurism of its implementation, as well as the extreme conditions of war

and devastation. Much of the population survived through this period mainly due to solidarity with their peers, and mutual aid and assistance.

The Development of New Economic Policy in the beginning of 1920s further developed the welfare provision for workers, and the creation of the institution of the social protection of peasants. It also marked the beginning of the provision of social services in specialized state organizations. The transition from the social welfare to social insurance was explained by the fact that the presence of private enterprises in major sectors of industry required certain changes in the principles of welfare provision. If in the past social welfare was provided by the state from the state budget, the changing situation meant that the social security programs provided by enterprises they are working at should replace social welfare provided by the state. With a Decree from 1921 regarding the social insurance of workers engaged in wage labor, the system of social insurance covered the risks of temporary or permanent loss of working ability, unemployment, and death, from the budgets of companies, organizations and enterprises (Gumenyuk 2013).

Certain legislative acts were adopted in relation to the social assistance of disabled workers, and the family members who lost their breadwinner. Between 1917 and 1922 more than 100 Decrees and other legislative acts were passed, making a significant contribution to the development of a more complex pension system. According to the legislation of that period, the onset of old age was not considered as enough of a reason to claim pension rights. Old age was only considered as a possible reason for disability. Due to economic reasons, the provision of pensions for the elderly did not become widespread. However, persons older than 50 years who lost their ability to work and who had worked for at least 8 years were eligible for receiving a pension (Andreev 1970).

In the 1920s to 1930s, Russia was occupied with the tasks of industrialization, agricultural collectivization, and the Cultural Revolution. In accordance with these priorities, the welfare system developed in the direction of centralization and unification. Pension provision was extended to all industrial workers (1918), researchers and university professors (1924), and teachers working in city and countryside schools (1925). In the 1930s, pension provision was extended to medical workers, veterinarians, writers, and artists. However, one category of population was still exempted from the right to receive pensions - peasants who received some

financial assistance from so-called mutual aid funds. It was only in 1964 they were finally granted the right to receive official state pensions.

In 1933 trade unions were nationalized which meant that all welfare provision and expenses were transferred to the state budget. Trade unions lost their status of public associations, and were generally subordinate to the state and ruling party. The USSR's 1936 Constitution legally acknowledged the right for financial support in the elderly, which was followed by further changes in legislation concerning pensions. Thus, official restrictions in pension provision were totally eliminated. The provision of pension benefits was extended to all civil servants equally with various categories of workers. From the moment of adoption of the Constitution of USSR Russia has developed a system of social welfare that covered all workers, was provided by the state and financed from the state budget (Zaikina 1982).

The period from 1937 to 1989 was characterized by the further centralization and nationalization of social welfare. Pension legislation introduced the concept of the 'continuity of employment', which included periods of employment without long interruptions and was supposed to encourage workers to stay at the same enterprise for longer periods and prevent them from leaving their jobs. Driven by the intention to ensure the economic practicability of the system, the state authorities made the decision that led to the development of strong differentiation in welfare provision, instead of equality. All workers were subdivided into certain categories, and the amount of pensions and benefits strongly depended on the importance of the sector of industry where the worker was employed. However, in July 1956 the *Law About State pensions* was adopted which significantly improved the norms of pension provision and increased their amount. It included the rejection of existing at that time and highly unjustified differentiation in pension provision based on occupation in a certain sector of economy, and established a universal formula for the calculation of pension for all workers and civil servants (Zakharov 2004).

In the 1980s, the nationalization of all spheres of social welfare became the foundation of the unified system of state social welfare. It was based on the socialist ideology, was regulated and funded by the state without any deduction from the workers' wages. In general, a number of advantages characterized the Soviet system of social welfare. First of all, nearly all of the population was covered by benefits; secondly, it ensured almost universal coverage of risks, and

thirdly, it provided a relatively high replacement rate⁴ (although in the situation of generally low level of salaries).

However, it also had certain major limitations, which only increased by the end of the 1980s. Firstly, as the system provided an equal level of benefits for all citizens, it did not take into account the duration of work, working conditions, and other factors that sometimes could increase the level of payments. Secondly, the level of benefits was quite low and in this situation, it was impossible to increase them, in part due to the absence of voluntary insurance programs. The economic inefficiency did not allow the system to adapt to a market economy and by the beginning of the 1990s; existing welfare system has exhausted its possibilities. The national pension system entered a new phase in its development, characterized by the attempt to shift from distributional principles of pension provision and ensure the financial sustainability of the system that could provide pensioners with a decent source of income.

5.2. Competition between basic and earnings-related pension schemes in Finland

When Finland gained independence in 1917, conditions for reforms were rather favorable with the notable progress in the economy. However, the outbreak of The Civil War in 1918 worsened both the political situation and the economic environment, which made it difficult to undergo a comprehensive transformation of the social sphere for many years. Only in the second half of the 1930s, after nearly a century of planning, a national pension system was introduced as a result of cooperation between center (agrarian) and left-wing political groups. However, the system only covered 4 % of the population, whereas coverage by social security programs in neighboring Sweden and Denmark was 53 % and 73 % respectively. At the beginning of the 1930s, a global deep recession caused social problems that largely hindered the development of Finnish pension system. After the recession, when the political situation improved slightly by the end of the decade, important social reforms could be put into effect at faster pace.

The National Pension Act adopted in 1937 legislated the first obligatory elderly and disability insurance arrangements. The Act came into force in 1939 and with it established the national pension system based on insurance principles, and additionally defined the mechanisms of

⁴ Means the level of pension in retirement in relation to earnings when working. See OECD glossary of Statistical Terms <http://stats.oecd.org/glossary/detail.asp?ID=7328>

financing through individual contributions collected in savings accounts and its administration. National retirement and disability pensions became mandatory for persons aged 18-65 and covered the entirety of the population, not just wage earners. The administration of the system was delegated to the Social Insurance Institution, an independent institution functioning under Parliamentary supervision. Arguably, despite the long period of implementation, the National Pension Act of 1937 never achieved its aims. Due to the modest 2 % contribution, the level of pensions remained relatively low. Moreover, it did not cover the whole population, since the oldest age groups were left outside the system, and in case of disability, pension provision the system required a minimum contribution period.

World War II marked the beginning of a new era for Finnish system of pension provision. Due to population wartime mobility and as a result of heavy post-war inflation that ate half of the pension accounts the pension system was no longer able to provide minimum standard of social security. Unfunded, but indexed supplementary benefits became dominant and increased the burden on the system. Parliament completely revised principles of national pension scheme. Funds were universally distributed on a flat-rate basis to every citizen over 65. The pension was divided in two separate parts: a universal basic amount paid on the basis of five years of residency; and an income-tested supplementary amount. Should a pensioner not have any other income, pension was supplemented by additional benefits.

By the mid-1950s, Finnish pension provision had become a mosaic-like net, which despite its diversity had large gaps and faults. The State had national pensions; many municipalities had their own pension regulations for their officials, in conjunction with private pension schemes that were operating at that time. Eventually, it became apparent that these existing fragmented pension schemes were not sufficient to guarantee retirement security for citizens. Despite the general consensus on the need to reform the national pension system, there were serious disputes over the nature of reform and which direction it should take.

With the same goal of economically stable development in mind, the government and the labor market organizations joined forces and started active cooperation in order to create more sustainable pension system that would correspond to citizen's needs. The role of the labor market organizations increased, and they became responsible for social planning and analysis of social development with a clear consideration of short-term and long-term economic limitations and

prospects. With support of the social-democratic party, trade unions began to insist on the creation of a separate compulsory earnings-related scheme. The new National Pensions Act that took effect in 1957 abolished all earnings-relatedness in national pension provision, creating room for a separate earnings-related pension scheme.

In 1960, a small committee consisting of representatives from labor market organizations, politicians, and pension policy experts reconsidered the goals of social partners in matters of pension provision. The condition imposed by the employers as a means of guaranteeing their acceptance of a legislated scheme was that the scheme should be decentralized. Meaning that the private pension insurance companies carrying the insurance functions, and the responsibility for administering of the scheme would be granted to the labor market actors (Salminen 1993). While trade unions were rather skeptical regarding how the public sector administers the pension scheme predominately for political reasons. The main issue that concerned employees was the adequacy of the pension provision, so they considered the organizational issues as insignificant. The employers' support for pension reforms was also ensured by the suggestion that they could borrow the accumulated pension funds to invest in the development of industry. The Committee discussions resulted in a proposal for an earnings-related pension act. Private sector employees received their pension scheme, whilst a separate scheme was established for people in short-term employment.

The reform required the implementation of earnings-related pension provision in a decentralized fashion, which meant that taking out the earnings-related pension insurance was obligatory for all employers, but the employer was granted freedom to choose the earnings-related pension provider. Since then pension provision could be arranged through a pension insurance company, industry-wide pension fund or a company pension fund. Labor market parties were given crucial position in matters of administration and management of earnings-related pension schemes (Hannikainen 2012). Besides the obligatory national pension scheme, voluntary pension plans covering some of the private-sector employees were established. Nevertheless, the majority of wage earners were still lacking sufficient retirement security. In 1974, the coverage of pension provision was extended when farmers and other self-employed persons had their own programs. In addition, a number of schemes for smaller groups (e.g. artists, seamen, church employees, etc.) were designed, therefore distinguishing the Finnish pension design by a certain degree of

corporatism, implying that pension scheme coverage is defined according to sectoral and occupational lines (Kangas and Luna, 2011).

The design of the legislated schemes predetermined the absence of the need for separate occupational arrangements, which were quite developed in other countries. There were no earnings-related ceilings in Finnish pensions. The pension carrying income was based on two median years for the four years in employment, which was beneficial for those employees whose earnings increased with years and did not make them demand supplementary pension provision to cover losses in income. Besides, the system ensured a high target level of pension provision, which initially was 40 % of the final wage after 40 years in employment, and increased to 60 % in 1974. An already insignificant share of voluntary occupational pension schemes gradually declined from 6 % in 1965 to 2 % in 2010 (Kangas and Saloniemi 2013).

In the late 1960s, the determination of pension policy agenda shifted to the critics of the new pension scheme, and the private-sector earnings-related pension scheme had to take a defensive stance. Critique was mainly directed towards the decentralized character of the administration of earnings-related schemes. In order to improve the cooperation between pension providers, the Federation of the Finnish Pension Institutions was established in January 1964. Along with the Finnish Center for Pensions (Eläketurvakeskus), which was created in October 1961, the Federation was responsible for mobilization of labor market organizations in defending and expansion of the earnings-related pension scheme. In addition to the previously mentioned, the Pension Information Office was established in November 1966 in order to manage communications directed at the employees.

Apart from the negative attitude towards the decentralized administration of the pension scheme, pension policy disputes during that period were also related to the tension between rural and urban Finland. The country was experiencing a rapid structural change in all spheres of social life, mainly characterized by the shift from an agrarian society towards a service-oriented and industrial society. The changes involved the rapid growth of the public sector and service industry, the expansion of the share of female employees and a shift towards a clerical labor force.

The rapid structural changes involved the sphere of pension provision as well, leading to growing competition between national and earnings-related pension schemes. The core of the issue was the duel between the schemes for dominance in the provision of wellbeing for the elderly and disabled members of society. The pension system became more complex, which made it not only difficult to administer, but also difficult for citizens to understand. Nevertheless, the schemes still functioned, maintained by constant improvements. As explained by Hannikainen (2012), the disagreements of political parties upon organization of pension provision, on the one hand, caused certain difficulties in the implementation of complex and deliberated pension reforms, and on the other hand, could facilitate changes and lead to significant improvements over a quite short period (Hannikainen, 2012).

The reformation course taken in early 1960s continued later. The real growth rate of the Finnish economy was fairly high, the working age population, productivity and the wage sum were growing rapidly. The conditions for an increase in living standard of the elderly were rather favorable (Feldstein 2002). The transformation covered both public and private sectors' pension schemes. Thus, the lowest private-sector earnings-related pensions were raised. New legislation in the sphere of public-sector pension schemes was introduced (the 1964 Local Government Employees Pensions Act, the 1967 New State Employees Pensions Act, and the Evangelical-Lutheran Church Pensions Act from the same year, the 1970 Farmers' Pension Act). A state-supported earnings-related pension was provided for the rural population, while at the same time it was extended to the self-employed, therefore strengthening the position of earnings-related pension schemes, which by that time covered almost the entire population.

At the same time, a number of changes covered the aspects of early retirement. Rapid economic growth and changes in the country's economic structure led to a certain depreciation of the skills of aging workers in some industries. The educational level of older generations was rather poor when compared to the younger generations, and pension system based on support provided by social partners was considered as a crucial factor of internalizing the costs of human capital depreciation. As a result, early retirement legislation was passed in the 1970s and 1980s (Feldstein 2002).

Generally, in the 1980s Nordic countries were among the most prosperous industrialized countries in the world. Characterized by high level of economic development, Finland was not an

exception. Achievements in economic performance were effectively combined with the development of the social sphere and reflected in policies aimed at achieving high levels of equality and low levels of poverty (Hautto 1999).

The competition between national and earnings-related pension schemes ceased mainly as a result of coordination. While the latter was taking a primary position in pension provision for most of the population, the national pension scheme was still undergoing a number of reforms. In the 1980s, the government increased the level of the national pension, abolished means testing, and simplified the scheme. Furthermore, the national pension reform revealed disagreements concerning direction of socio-political development, as employers no longer wanted to participate in the financing of new pension benefits.

Summary

Throughout the 20th century, and especially in the first half of it, both Finland and Russia faced major social and economic difficulties caused by revolutions and wars. Both states were occupied by the task of improving the social rights of their citizens and safeguarding their living standards through the revision, reformation, and extension of existing social programs. In particular, the pension systems experienced a number of significant transformations, which led to the formation of path-dependent pension models.

The Russian authorities wanted to create an economy that was dominated by a strong public sector. Similar intentions have spread over the sphere of welfare provision. As a result of the nationalization of companies, banks, and enterprises, all insurance and pension funds created by the employers were liquidated and all reserves transferred to state funds. The state took responsibility for the welfare provision for its citizens and gradually increased pension coverage by changing the rules of pension provision. After several failed attempts to create a national system of pension *insurance*, the Russian state adopted a unified state pension system, based upon the principles of redistribution, regulated and administered solely by the state, financed from the state budget without any reductions from the employees' wages. It provided almost universal coverage, and despite the low level of benefits left no room for supplementary pension arrangements.

Meanwhile, Finland introduced a national pension system in the end of 1930s operating with insurance principles, and it was financed through individual contributions collected in savings accounts. Despite the low level of pension benefits, the pension system operated for quite a long time supplemented by municipal pension regulations, as well as private pension arrangements. By the mid-1950s, in order to eliminate the existing fragmented character of pension provision and build a transparent and economically stable pension system, the government and labor market organizations followed the path of cooperation and laid the basis for creation of mandatory earnings-related pension scheme administered in a decentralized way and run by private actors. Having established an efficient system of coordination, the state, trade unionists and employers focused their attention on the improvement of statutory pension schemes, as a result the significance of supplementary pension arrangements, including voluntary occupational pensions, gradually declined.

6. THE THIRD CRITICAL JUNCTURE: The economic crisis of 1990s and restructuring of pension systems

The global financial crisis of the 1990s and the wide-reaching demographic transformations affected pension schemes in both countries. This produced new challenges in needing to ensure the fiscal sustainability of pension systems and making the welfare states review and restructure them. As a result, a number of measures have been introduced in order to enable the pension systems to adapt to these challenges. Therefore, this chapter examines the third critical juncture, namely the effect that the economic crisis of the 1990s had on the transformation of public pension systems and voluntary occupational pension provision in Finland and Russia.

6.1. Russian pension system and its growing deficit

It is widely discussed that the path to economic and social reforms in Russia has been more difficult and painful than in many other countries (see for example Gaidar 2011, Korotkevich 2004). The economic shocks of the 1990s worsened existing serious problems. With economic growth stalling, the scale of economic and social problems faced by the Russian Federation was rather extreme. In the beginning of 1990s, Russian reformists did not really have a clear conception of a social welfare system. The creation and development of a new system of social welfare proceeding with a number of difficulties, and was lacking in efficiency. The reforming of the state's social welfare program occurred in three principle areas:

- Restructuring of the systems of obligatory and voluntary social insurance;
- Restructuring of the system of state support for poor;
- Reorganization of the system of social welfare for certain categories of the population.

The state returned to the idea of constructing the state system of welfare provision based upon insurance principles. The beginning of 1990s was marked by the creation of independent funds in the system of social insurance: Pension Fund of Russia (1990); Social Insurance Fund (1992); Medical Insurance Fund (1993); The State Employment Fund (1991, eliminated in 2001) (Roik 2007).

The *Federal Law about State Pensions*, adopted in 1990, laid the legal groundwork for the further development of the national pension system, and facilitated the implementation of

insurance principles (Zakharov 2004). However, due to the high inflation, budget deficit, as well as the Pension Fund's budget deficit, the 'freezing' of the level of pensions led to so-called 'equalizing poverty', when all elderly people were receiving equally low pensions.

With the collapse of the Soviet Union, the privatization of state property was accompanied by a deep socio-economic crisis - increase in the scope of inflation, state budget deficit, significant decrease in the quality of life of the population, etc. According to official data (Goskomstat), GDP declined by approximately 45 % in the years 1990-1998. The downward slide of the economy resulted in drastic changes in the standard of living of Russian population. Thus, real per capita income declined by more than 28 % between 1994 and 1998. The fall in real wages was even larger: by January 1999, the average wage was worth about 40 % less than in January 1998 and continued to fall until the final months of the year (OECD 2001). Income inequality increased, and the proportion of the Russian population in poverty grew radically. Official statistics reported a poverty rate of about 38 % by the beginning of 1999. It affected all household types, including pensioners and working persons with or without children (OECD, 2001).

In order to alleviate emerging social and economic problems certain social policy reforms were required, which had to be followed by economic reforms ensuring an increase in labor productivity. The authorities attempted to find a balance between the pressing current needs and state priorities in ensuring economic and social sustainability in the country. However, the social programs introduced throughout the 1990s appeared to be particularly inadequate to the scope of the problems faced in reality (Khmelev 2014).

The real spending on social programs fell in line with the real GDP decline. It remained at approximately 16 % of GDP from 1995 until 1998. The real value of all benefits fell significantly. Many promises were not funded and payment arrears became common. The system of social protection was generally unable to soften the impact of increasing hardship effectively, in part due to the very modest funding available which was insufficient to provide help to the large numbers of Russian people in distress. Resource limitations, however, were not the only factor that prevented the system from working effectively. Some difficulties were embedded within the structure of the system, while others were related to the disarray in intergovernmental relations, particularly with respect to policy roles, revenue and expenditure assignments. Besides,

the enormous size and diversity of the Russian Federation and its political economy limited the ability to manage the system effectively.

The pension system was especially affected by the crisis. By the beginning of 1992, the pension system dependency ratio⁵ was 46 %. The pension system was characterized by a very high-targeted general replacement rate of 55 % and the maximum replacement rate for workers with longer contribution periods of 75 %. However, in reality the average replacement rate, i.e. the average pension as a percentage of the average salary, was much lower standing at around 34 %, which was largely caused by early retirement and dependent pensions, as well as the failure of the system to peg pensions to inflation. Another reason for the major exacerbation of the financial burden of the public pension systems was its largely mono-pillar structure and near universal coverage (Vittas, Michelitsch 1995).

By early 1997, pension arrears exceeded 10 % of the annual expenditures of the Pension Fund, but were eliminated in mid-1997 by a massive transfer from the federal budget. A second wave of arrears was triggered by the introduction of a new and more costly pension formula in February 1998, reinforced by a sharp decline in pension fund revenues. According to International Monetary Fund estimates, pension arrears exceeded 17 % of pension expenditures by the end of 1998. A large transfer from the federal budget again was needed to reduce pension arrears in September 1999. By the end of 1999, pension arrears were nearly eliminated. With quite a high proportion of pensioners, the expenditure level was relatively modest. Nevertheless, the cost of pensions was still a heavy burden for Russia, which was aggravated by difficulties in collection of pension contributions. There has been a persistent imbalance between revenues from contributions and benefit expenditures of the Pensions Fund that led to the accumulation of pension arrears and periodic, unplanned transfers from the federal budget. By the end of the 20th century, the Russian pension system became increasingly complicated and, because of the frequent legislative changes was not sufficiently transparent to enable people to fully comprehend what they could expect from it (OECD 2001).

The financial crisis disclosed all of the problems in the Russian social protection system and made the implementation of a radically new approach necessary. From the perspective of Russian

⁵ Refers to the ratio of those receiving pensions to those accruing pension rights. OECD Glossary of Statistical Terms, <http://stats.oecd.org/glossary/detail.asp?ID=5303>

pension experts, what was needed was a model that could strengthen the connection of contributions and benefits and sharply reduce the pension burden on the state budget. Therefore, a multi-pillar pension model proposed by the World Bank began to look attractive to Russia. In order to address the growing pension crisis in Russia, President Putin created the “National Committee for Pension Reform” a special committee responsible for resolving the nation's pension problem. As a result of the work of the National Committee, a new three-pillar pension system consisting of obligatory pension insurance, state pension support and non-state pension insurance was introduced. The standard retirement age in Russia was set at 55 for women, and 60 for men; and the retirement age for claiming pension was 60 years for women and 65 for men.

According to *Federal Law 166-FZ About the state pension provision in the Russian Federation*, state pension support (social pensions) were provided to those citizens, who were not entitled to receive labor pension through the pension insurance system, including disabled, men at the age of 65, and women at the age of 60, whose length of insurance history is not sufficient. Pensions paid through the system of state pension support were meant to compensate citizens' income lost due to various reasons. These reasons included, for instance, cessation of their state federal civil service when they reach long service term, the harm to their health caused during military service, or due to radiation or technogenic disasters, disability or loss of a breadwinner and other cases (*166-FZ About the State pension provision in the Russian Federation*). Social pensions were funded by the federal budget of the Russian Federation (PFR 2014).

The system of obligatory pension insurance implied provision of pensions aimed to compensate for lost wages and other income by the insured person due to the onset of old age or disability. Pensions paid through this system were funded by employer's contributions for their employees. Three types of pensions are paid within the obligatory pension insurance system (*FZ About Labor Pensions in the Russian Federation*):

- Elderly labor pension;
- Disability labor pension;
- Survivor's labor pension.

Up to 2010, labor pensions consisted of three main components: a basic part of the pension, insurance benefit based on a notional defined contribution account, and a funded defined

contribution part of the pension (available only to individuals born after 1967). After 2010, the basic pillar was transformed into the pay-as-you-go portion of pensions (Eich 2012).

According to Zakharov and Tuchkova (2002) in general terms, the reforming of the pension system and the introduction of a three-pillar system was carried out in a rather short period of time, without proper analysis. Some pension policy experts (Roik, Stepanov 2007) state that transformation of pension system did not fulfil its initial goals. Currently, the Russian pension system can hardly be defined as a system of pension insurance, as the connection of contributions and benefits is still rather weak.

When it comes to non-state pension provision, it can be observed that the development of the system significantly accelerated with the beginning of discussions concerning the establishment of the three-pillar pension system. After a 70 year break⁶ the development of non-state pension provision was caused by certain negative reasons mainly related to the underdevelopment of the legislature, lack of qualified specialists, certain level of distrust towards private savings systems, and the overall inefficiency in the organization of non-state pension provision. These problems still take place in the practice of non-state pension provision.

In the beginning of 1990s, large Russian enterprises started establishing special pension funds for the purposes of a supplementary pension provision for their employees. They received the status of non-state pension funds and were thus regulated by legislative acts targeted at this category of financial institutions. Later on, they extended their services to the rest of the population and became accessible to others. The creation of pension funds at the enterprise level was mainly driven by the intention to further personnel management objectives, such as attracting skilled workers, rewarding loyalty, and facilitating the retirement of older, less productive workers. Their role as pension institutions providing retirement income insurance evolved over time in response to the rise of large corporations and the spread of collective bargaining.

Many hopes were pinned on the establishment of the institution of non-state pension provision in general. It was believed that it would relieve the tension in society, create a new structure in the system of financial institutions aimed at the accumulation of additional reserves for provision of retirement wellbeing, and as a result, decrease the burden put on the state budget for welfare

⁶ Since early 20th century when the establishment of first company insurance and pension funds became widespread.

provision. The first document which directly regulated activity of non-state pension funds (including company pension funds) was the *President's Decree from 1992 #1077 About non-state pension funds* (with the changes from April 12 1999). Interestingly enough, the Decree established a special status for non-state pension funds as non-profit institutions, however, at the time when the Decree was adopted, there were no legislative norms regulating the activity of non-profit organizations. *The Federal Law About the Non-profit organizations* regulating the process of their establishment and activity was first introduced in 1996 (*Federal Law About Non-profit organizations*). Nevertheless, the legislative vacuum in regulation of the activity of non-profit organizations was eliminated on the level of municipalities, as they were introducing legislative acts concerning their activities. The years of 1990-1994 were characterized by high activity in establishment of non-state pension funds. The first non-state pension fund was established in Russia in 1990 and provided pensions to scientists.

In 1994, the administration of the largest Russian oil company Lukoil signed an agreement with the company trade union and created a non-state pension fund for the purpose of pension provision for the employees of the company. During the period 1994-1996, 27 Russian enterprises signed agreements for corporate pension provision for their employees. Today, Lukoil-Garant works with more than 300 companies in the sphere of corporate pension provision (Lukoil, 2013). Shortly after this, the largest gas company Gazprom, the railway company RZhD, the largest bank Sberbank established their own pension funds, which are still operating and offering their corporate pension programs to employers in a similar or other sectors.

As Klevtsova (2006) explains, up until 1995, non-state pension funds operated without proper state control and regulation. The system of non-state pension provision developed in the total absence of adequate regulatory framework, as well as the absence of authorities specialized on the control and regulation of non-state pension funds' activity. The situation changed slightly after the establishment of the Inspection of the non- state pension funds within the Ministry of Social Protection of the Russian Federation (*Resolution of the Government of the Russian Federation dated 19.06.1994 #730*). The Inspection was responsible for the control and regulation of the activity of non-state pension funds and asset management companies, and was supposed to contribute to the development of the sphere of non-state pension provision. The Inspection was granted the authority to issue legislative acts, conduct audit evaluation of funds,

demand the elimination of violations in their activity, and to suspend licenses in case of their failure to follow instructions. In 1994, the Inspection adopted the Provisional Regulations on the procedure of registration of charters of non-state pension funds. From this moment, non-state pension funds were operating within the legal framework, implying that they were obliged to obtain a license (or permission), comply with standards developed by the Inspection, to submit reports on their activity, and other information requested by the Inspection.

By 2000, a complex infrastructure specializing on the operation of the sphere of non-state pension provision formed, which included: asset management companies, accounting companies, specialized depository, independent actuaries, banks, and companies providing software for the system of non-state pension funds. The non-state pension funds were highly efficient which led to the acknowledgment of their roles at a new level and thus their direct involvement in the 2002 national pension system reform. According to *Federal Law #167-Fz On the obligatory pension insurance in the Russian Federation*, non-state pension funds were granted the right to participate in the accumulation of contributions for the funded part of the pensions, as well as pay out the mentioned part of the pension in case individuals initially have chosen non-state pension fund as a pension provider and signed a contract.

By the end of the first decade of 2000s, the Russian pension system faced another critical moment in its development. In 2005 when the Social Security tax (the tax meant to accumulate funds for provision of state pension, social, and health insurance) rate was decreased, Russian pension system encountered major problems. The system of the accumulation of contributions for funded part of future pensions was not hit by this initiative; therefore, the Pension Fund of Russia (PFR) was faced with a budget shortage for the financing of the basic and insurance parts of pensions paid to current pensioners. As a result, the state budget had to compensate the deficit of the PFR by transferring hundreds of billions of rubles.

The problem of the deficit worsened also because of the growing responsibilities of the state for increasing the level of pensions. For instance, in the period from 2006 to 2014 the average labor pension was increased by at least 11 % every year. The constant increase of pensions is understandable and justified, as pensioners remain one of the most disadvantaged categories of

Russian society. However, the replacement rate⁷ is still low at only 35 %. Unfortunately, this is the highest level of wellbeing that the Russian pension system is able to provide to pensioners in current economic and demographic circumstances.

By the end of 2012, the deficit of the Pension Fund of Russia rose to 3 % of GDP and the calculations for 2013 have shown that the amount of contributions collected corresponded to around 56 % of the total amount of pensions paid from the pay-as-you-go pillar. This meant that 44 % of pensions had to be covered from other sources, i.e. from the federal budget. In a few years budget deficit of PFR will be even more acute. The long-term projections indicate that in the absence of reforms, by 2050 the deficit of PFR may amount to 16 % of GDP (Hedlund 2014). Obviously, the wellbeing of Russian pensioners was put in a strong dependency to the sustainability of the main donor of the Pension Fund of Russia - the state budget.

To plug a rapidly widening hole in the state pension fund the Russian government tried to be creative and introduced various reforms, which covered the sphere of non-state pension provision. One of these reforms is the recent move to ‘seize’ private pension contributions and transfer them to government coffers (Hedlund 2014). Faced with a growing deficit in the federal budget, it announced that anticipated private pension contributions for 2014 would be sequestered and channeled into the state pension fund. More of the same will follow in 2015, making large accumulations withheld from the private pension accounts. The government stated that the reform, announced in September 2013, seeks to improve the system and will keep the deposits safe. Over a two-year transition period, non-state pension funds will be required to transform their legal status from non-commercial organizations to joint stock companies, and be vetted by the central bank. Employers’ contributions previously earmarked for individual retirement accounts will be channeled into the state pension system. The move has raised concerns among market participants about the nationalization of private pension savings - a tempting measure for cash-strapped governments looking for ways to plug holes in the deficit of state pension systems. Whilst the government has stated that once the consolidation process is completed the money will be paid back, it is unclear when that will happen and if it will happen at all.

⁷ The ratio of the average pension to the average wage.

The problem for the Russian government today is that the deficit in the State Pension Fund is spinning out of control. Under pay-as-you-go logic, it is the government that holds responsibility for paying pensions. If the employers' contributions fall short, other means must be found within the federal budget to pay it, which is already faced with major deficit problems (Hedlund 2014).

In the current debates over the ways of overcoming the current pension crisis, a decision should be made quickly. Either policy makers introduce measures that are considered as effective (but rather undesirable for Russia), or they let pensioners receive low pension benefits. To stop the growing pension crisis and increase the level of wellbeing of Russian pensioners, it is possible to do so by increasing the level of pension contributions from each worker, or by increasing the amount of payers of pension contributions. Alternatives are often seen in increasing the tax rate, increasing the pension age, and in demanding debts from tax evaders. The last way could potentially be the most efficient, and could help PFR to cover budget deficit, as according to statistics, the shadow economy accounts for approximately 40% of the overall wages paid. However, it can be quite complicated and costly, which will take a considerable amount of time. Increasing the tax rate is considered as the easiest solution; however, it can lead to further difficulties in collecting taxes, and have negative consequences for the Russian economy.

The analysts from the World Bank and IMF consider that an increase of the retirement age to 62 years for women and 63 for men is the most effective option and rather realistic. However, President Putin has repeatedly promised that pensions will increase and the retirement age will remain unchanged, and he does not want to antagonize the country's retirees, which represent a large share of the electorate (Hedlund, 2014). To some extent, it is justified that Russia is not ready to change the pension age yet as life expectancy remains relatively low, especially for men.

Another cluster of experts claim that one of the solutions could be found in the strengthening of the private component in pension system and creating favorable conditions for employees to save money for their future pension in cooperation with employers, namely to develop voluntary occupational pension programs. Therefore, in 2013 the Ministry of Labor of the Russian Federation prepared a *Draft Law on Additional Payments to the state pension*. Here with the term 'additional payments' the Ministry means voluntary occupational pensions, or corporate pensions. The document identifies the procedure of the registration of voluntary occupational pension schemes, and the legal relationship, as well as rights and the responsibilities of employer

and employee. The purpose of the Law is quite unclear. First of all, according to Goskomstat (2011) approximately 13% - 18% Russian enterprises that are willing to invest in the wellbeing of their employees after retirement, and have enough resources to do so, have already developed voluntary occupational pension schemes for their employees, and 8 million of employees participate in such schemes. If adopted, the Law would not imply the mandatory character of establishment of voluntary occupational pension schemes; therefore, it is questionable what new incentive the state could offer to employers in order to facilitate the development of the sphere. At least the draft law does not define any.

Despite the long history of voluntary occupational pension provision in Russia, it remains clear that in order to ensure the full and complex development of the sphere, many measures have to be undertaken that would involve different actors - the state, employers, employees, and non-state pension funds. The fact that in countries with developed industries almost 70% of the total population contributes to a voluntary occupational pension shows potentially room for development of the sphere in Russia. Experts claim that the coverage of the population by these schemes depends upon the generosity of pensions provided by the state - the higher level of state pension, the lower number of people participating in voluntary pension schemes. However, this is not the case for Russia, while level of pensions provided by the state is relatively low, the number of employers and employees participating in corporate pension schemes remains low as well (Nikiforova 2012).

It is predicted that the popularity of voluntary occupational pension programs will increase in the next few years; however, there are still a number of serious problems, which must be overcome in order to improve the system in its entirety.

6.2. Development of private-public partnership in Finnish pension provision

In Finland, until the beginning of 1990s the general trend in pension reform was to guarantee the increase in the level of benefits and to loosen the rules for receiving pensions early (Feldstein 2002). However, Finland soon experienced the deepest peacetime economic recession in all of its history. Gross national product dropped by more than 10 %, public finances were faced with a sizable debt, unemployment rates reached record-high figures increasing from a little over 3 % in 1990 to over 18 % in 1994 (OECD 1997).

The overall unfavorable economic situation weakened the financial credibility of the welfare state, and the general distress of labor market actors necessitated reforms that would ensure the future viability of the welfare state. As soon as welfare spending and public debt became unsustainable, the center-right government adopted urgent social policy initiatives: the rising public debt had to be halted and welfare spending reduced. As the latter was seen as a quite undesirable decision, the government preferred to make smaller cutbacks while increasing taxes (Taylor-Gooby 2002).

Besides the substantial economic downturn, Finland faced a number of challenges related to its ageing population and falling birth rates. Population ageing has always been one of key concerns of policy analysts and pension experts, making them search for ways to ensure the sustainability of pension system. However, with the onset of the crisis in 1990s, the vulnerability of the system significantly increased and concern over the future of pension provision became more serious.

As a result, pension system underwent reform during the recession, which led to the significant development of the system, and strengthened the mandatory earnings-related pension scheme. The income policy agreements of 1991 and 1992 determined the employee contribution share of the earnings-related pension contribution. From now on, trade union movements were able to actively participate in the preparation and decision-making process concerning earnings-related pension scheme. As in other European countries, the issue of raising the retirement age was brought into focus, it could help transfer the part of extended life expectancy to years in employment. As for earnings-related pensions, it was considered necessary to slow down future pension expenditure growth and decimate a number of benefits. The rules of the scheme were further simplified and standardized for different categories of population, which also helped to extend the coverage. Among the most significant pension reforms in the first half of the 1990s was the abolition of universalism from the national pension system, which meant a shift from citizenship-based to more employment-based social rights; weakening of the pension indexation; cutting disability and unemployment pensions.

In addition to demographic transformations the early 1990s were characterized by the deepening of European integration, which opened new perspectives and posed new questions for development of welfare in Finland. The country revised its priorities in the social, economic and political spheres in early 1990s, and after the negotiation process and referendums joined the

European Union in 1995. The politicians justified many, if not all of the social policy cutbacks as necessary measures for the economy to make it fit into the 'EU shape' (Taylor-Gooby 2002).

The situation in political arena also deserves attention. In Finland, coalition governments have always necessitated compromises, and therefore consensus building has become the norm. In 1991, a center-right government led by Esko Aho took over, comprising the Centre (former agrarian) party, the Coalition (conservative) party, the Swedish People's party and the Christian party. The government actively protected universal benefits, while attempting to restructure earnings-related benefits, although unsuccessfully.

In 1995, the government was replaced by a 'Rainbow' coalition headed by Lipponen and consisted of the Social Democrats, the Left-wing alliance (former communist party), the Coalition party, the Greens, and the Swedish people's party. It continued the reformist course taken by the previous government, however, in a slightly different manner. In contrast to the preceding government, the 'rainbow' coalition was less concerned with universal benefits, and keener to meet the demands of the trade unions by avoiding cuts in earnings-related systems. Thus, many universal benefits were cut or restructured. The coalition extended the calculation period of pension-giving income to the last 10 years in employment. The reform was undertaken as a result of active negotiations between Parliament and the central trade unions. Again, the Parliament acknowledged the significant role of the social partners in administration of employment-related pensions, and admitted that their reforming was more of a labor market issue, rather than a political one.

Generally, while changes in Finnish welfare state in 1990s were rather limited in scope, they were mainly driven by the intention to retain the key features of the institutional welfare systems during the deep economic crisis. In order to survive the challenges posed by economic crisis and increased internationalization, the Finnish welfare state had to embrace a measure of change; however, this did not alter its overall character. One of the most significant features of the reformist activities in Finland was consensus building. When problems such as difficulties in financing future pensions are identified, appropriate policies to tackle these difficulties are developed through active negotiations and cooperation between the state, trade unionists, and employers (Taylor-Gooby 2002).

The process of reform largely replicated the procedure that was applied in early 1960s, when earnings-related pensions were legislated. In this case, the way decisions were made in the past constrained the legislation of future solutions. Scholars (such as Kangas and Saloniemi) highlight the way the administration of earnings-related pensions has developed historically as a peculiarity of the Finnish system. While pension schemes are fully legislated and compulsory, they are run by private insurance companies, which have collective responsibility. In case one of the institutions fails to fulfill the obligations, the remaining ones are there to cover the costs.

Finland is a country with one of the most powerful and influential trade union movements in the world. Having had a strong impact on the restructuring of the welfare state in 1990s, they continued playing major roles in the country's policy-making process. Here, the degree of unionization, the structure of unions and union confederations, as well as the degree of cooperation between unions and the left-wing parties are the main sources of the trade unions' power. When it comes to the actual decision-making, pursuing certain changes in the sphere of social policy, social partners first negotiate potential changes between themselves, and then turn to the government with a proposal. Generally, many of the implemented pension policy reforms were the result of agreements between labor market partners, which made final outcome of those rather successful and efficient. Activity of the so-called Puro group (named after the pension policy expert Kari Puro who headed the group) represents an example of effective negotiations between labor market partners and political actors on matters of reforming of pension system. The group was formed in early 1990s to discuss sharing the contributions between employers and employees (which came in effect in 1993). The primary members of the group comprised of all central labor market organization representatives and the CEOs of pension insurance companies as expert advisors. The Puro group was a powerful actor in setting future agendas for earnings-related pension scheme with its consensual outcomes that even the parliament refused to denounce. It was even argued in the media that 'the politicians gave the power' to the group that was sometimes called 'pensions mafia' (Seies 2006). The group was originally based on purely an informal normative mandate but then was given a formal regulative role.

Since trade unions are strong in Finland, employers are aware of the fact that the strength and organization of employees brings with it a lot of benefits. It would be wrong to argue that Finnish employers are opposed to social protection, on the contrary, they are mostly satisfied with the

existing social protection system and do not experience employer contributions to the system as something damaging.

Finland, like her Nordic ‘sisters’, has a rather comprehensive pension system. As observed from history, there has been considerable rivalry between the two main parts of it, which today are counterbalanced. Finnish citizens are covered by a residence-based national pension, and earnings-related pensions that cover almost all paid work. Applying the World Bank’s framework of pension system architecture, which offers three pillars, the Finnish pension system and its governance is as follows:

1. First pillar pension schemes include national and earnings-related pensions.
2. Second pillar include collective industry or employer-specific pensions; and
3. Third pillar pensions include voluntary individual pension insurance administered by selected private entities.

Finnish earnings-related system aims to provide retirement income sufficient for consumption comparable to that of working years and to current workers’ consumption. It covers risks related to old age, disability, long-term unemployment of aging workers, and the death of family earners. Within the system, every employment contract and the period of self-employment add to the pension. Contributions are collected from both employers and employees. The system has some rather unique features: being statutory by law, it is largely privately run and delivered by three types of authorized pension providers: pension insurance companies, company pension funds that execute state earnings-related pensions, pensions for the self-employed, and voluntary second-pillar pensions, or industry-wide pension funds. These institutions collect contributions, pay pensions, and invest retained funds. Besides pension providers, the Finnish pension system is also represented by a number of other important actors. The Central Pension Security Institute maintains the central register, compiles statistics, and redistributes among the other institutions the pooled component of contributions collected in the private pension scheme. Labor market organizations are present in the administrative bodies of pension institutes; they negotiate with representatives of the government the current state, and future developments of pension system. Employers have absolute freedom to choose the pension provider for their employees.

As Feldstein and Siebert (2002) explain as the Finnish pension system combines public and private administration it possesses certain advantages, which allow it to enjoy a high degree of sustainability and efficiency. First, the key to success lies within the mixed decision-making. Whilst social partners design the reforms, policy-makers accept them. The important precondition for this is that the state and labor market actors are highly interested in taking part in the process. The Finnish system is sometimes interpreted as the division of labor between political parties and labor market actors, in which decisions regarding the pension system are separated from other political decisions. However, some kind of political consensus between social partners is necessary in this case. At the beginning of the reforms labor market actors did not want to rely on the state and tried to keep the state out of the pension system. This may also explain why the decisions were made so quickly, because they feared state intervention if they did not come to an agreement (Feldstein 2002).

Secondly, it is noted that there would not have been an opportunity to accumulate large funds to cover the liabilities of the aging population if they were administered and run centrally by public institutions. In cases where the earnings-related pension is absent or insufficient, the national pension guarantees a minimum income. Benefits include survivors' pensions for widows, widowers, and children, housing allowances, care allowances, and veterans' supplements, which are indexed to consumer prices. The Social Insurance Institution (Kela) administers the system under the supervision of Parliament.

The voluntary occupational pension represents a supplementary pension that is linked to employment relationship. It is funded either by the employer alone or jointly by the employer and employee; it is not connected to voluntary personal pension schemes or to the statutory pension system. Currently voluntary occupational plans cover approximately 15% of the workforce, mainly executives (Pension Funds Online). Despite the fact that the role of the voluntary occupational pension in relation to the statutory pension has always been minor in Finland, there is a strong basis, both administrative and legislative, for provision of this type of pension. Currently, employers in Finland arrange a voluntary occupational pension provision for their employees through the mechanisms of a group or individual pension insurance. Group pension insurance means that persons covered by the scheme are selected objectively based on their job tasks or occupational status. In the early years of the development of the statutory earnings-

related pension scheme, a private employment contract often came with a registered occupational pension, which increased the pension provision level. Registered occupational pension insurance was arranged on a voluntary basis, but the content and activities were subject to certain restrictions stipulated by law. Besides the retirement pension, a registered occupational pension could include a disability and an unemployment pension, supplementary survivors' pension, and a burial grant. The employee retained the right to the accrued occupational pension automatically, including after the end of the employment contract. It was also possible for the self-employed to take out a registered occupational pension insurance. In 2001, registered occupational pension schemes were closed and new occupational pension insurance policies could not be registered after that time.

Currently employers arrange the group pension provision as a free-form collective occupational pension insurance, which includes a retirement pension, but there is a room for disability and survivors' pensions in the pension provision. Free-form group pension insurance includes vested rights, i.e. the right to the accrued occupational pension even after the employment contract has ended. However, the right to a vested pension may not exist, which implies that the employee loses his occupational pension should his contract with the employer end. The entitlement to an occupational pension may depend on the length of the employment contract, and can cover all employees or apply only to executives. Voluntary group pension provision may be based on the company's own pension regulation, in that case, it is organized not in the form of insurance policy, but rather as a book reserve, where the employer is committed to paying pensions to a group of persons defined by the agreement.

If the employer intends to target occupational pension insurance at a specific person, an individual pension scheme for the employee in question is arranged. An individual pension is paid out to the employee at an agreed-upon age. The insurance can be agreed to be either a fixed-term or a lifelong insurance. The individual insurance contract may also include life insurance provision in case of the death of the insured person. In that case, the insurance savings are paid in predetermined parts to their beneficiaries. According to ETK (2013), individual pension insurance policies have lost popularity in recent years and this can be seen in the fact that the number of new policies has declined when compared to previous years.

Traditionally large companies had their own company pension funds, while smaller companies have insured their employees through Pension Insurance Companies (PICs). At present, there are three funding methods for voluntary occupational pension plans, which are as follows (Pension Funds Online):

- Pension funds;
- Pension foundations;
- Insurance companies.

In order to award voluntary occupational pensions to the employees, one or several employers can establish a company pension fund. Generally, they are divided into three different categories: A, B, and AB funds, depending on whether they arrange only statutory pension provision, or also offer voluntary supplementary pension provision for their insured members. Thus, B company pension funds handle only statutory pension provision under the Employees' Pension Act. AB company pension funds offer voluntary supplementary pensions besides the statutory pension provision, and an A company pension funds offer only voluntary supplementary pensions. According to ETK (2013), in the 2000s, the number of company pension funds has declined from 37 to 14. The activity of company pension funds is regulated by the special Act on Company Pension Funds (1774/1995), which defines their status and responsibilities, and is controlled by the Insurance Supervisory Authority, which confirms the rules of the funds and changes to them. At the end of 2013, company pension funds handled approximately 20,100 persons, which were insured under the Employees Pensions Act and 20,500 retirees. About 1% of all persons with earnings-related pension insurance were insured through a company pension fund (ETK 2014).

Pension foundations may also manage voluntary occupational pension schemes. While pension funds may cover employees of several companies with voluntary occupational pension insurance, pension foundations manage the contributions from employees of one single employer. The majority of compulsory and voluntary occupational pension schemes in Finland are financed through group insurance schemes. Similar to other Scandinavian countries, the pension market in Finland is highly insurance-oriented, with insurance companies holding approximately 85% of all occupational pension assets, which are tightly controlled by mostly local insurance companies.

Generally, since the statutory earnings-related pension scheme was introduced in Finland, efforts from both the state and labor market actors have been focused on the expansion and improvement of this scheme. The effective cooperation of the state and labor market actors resulted in the strong position and significant generosity of statutory pension provision. The emphasis of development has moved away from voluntary supplementary pension arrangements, that is why it did not gain high popularity, and its importance remains of a minor significance in Finland at the moment.

Summary

The economic crises experienced by Finland and Russia in the 1990s had a significant impact on the opportunities of the states to ensure income maintenance in retirement, and further decisions in the sphere of pension provision.

Expressed in earlier chapters thesis regarding the influence of state capabilities on the involvement of other actors in welfare provision is clearly observed in case of Russia. As the public system of pension provision had limited resources and survived from one crisis to another due to transfers from the state budget, and generally failed to provide decent retirement income to pensioners, thus the state opened up room for supplementary pension arrangements. In the 1990s, the non-state pension provision comes back to its development rails after a long break, when the state ordered the revision of the legal and organizational framework, and gradually involved non-state actors in matters of mandatory pension provision.

On the contrary, whilst facing deep economic recession and having limited resources for welfare provision, the Finnish state adopted a number of urgent social policy initiatives, and made small cutbacks in spending accompanied by tax increases. The pension system underwent a number of transformations, which mainly concerned the statutory pension schemes, and included the revision of pension calculation rules, and administrative improvements. The decision was made in favor of strengthening the mandatory earnings-related pension schemes, which further minimized the interest in supplementary pension arrangements.

7. TWO PATHS OF VOLUNTARY OCCUPATIONAL PENSION PROVISION EVOLUTION: Discussion

The development of pension provision in both Finland and Russia has generally had a cyclical character, which reflects the major trends in economic, demographic and political conditions. Additionally it represents a change of alternating periods of various forms of financing (from redistribution to insurance principles) and administration of pension system (from centralized to decentralized forms). In both countries, pension provision organized by employers has deep historical roots, which go back to mutual aid societies established by craftsmen long before the state took responsibility for provision of wellbeing for its citizens in their old age.

The retrospective analysis of the evolution of voluntary occupational pension provision in Finland and Russia was grounded in the theoretical framework of historical institutionalism, which brings the timing and sequence of events into focus and emphasizes the irreversible effect of certain political decisions on the further development of institutions. It allowed the identification of three critical junctures, i.e. moments or periods in the history, which served as turning points in the process of transformation of public pension provision, thus affecting supplementary pension arrangements. These periods that were critical for the development of pension systems were examined in order to discover what kind of social, economic, and political circumstances, as well as policy decisions, had an effect on the subsequent outcomes of the development of voluntary occupational pension provision.

The **first critical juncture** concerns the early development of systems of pension provision, which dates back to the early 19th century. Preceded by a mix of unsystematic measures of financial support for the elderly ('sick' benefits in Russia, life annuity in Finland), the first legal basis for the provision of pensions was established. In both countries, civil servants were among the first to be provided with pensions. Later, the right to receive a pension was extended to soldiers, priests, and other categories of public employees, therefore, defining the coverage by pension schemes according to a profession. The first pension benefits were financed from the state budget and strongly depended on the individuals' years in service and the class they belonged to. The general goal of pension provision was to ensure that employees could maintain a certain level of living standards, which was rather difficult to achieve, as the level of benefits was relatively small, and there was no connection between contributions and payments.

Table 1. The first critical juncture: Early development of pension provision in Russia and Finland (the end of the 19th century – beginning of the 20th century)

Russia		Finland	
<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>	<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>
<p>1820 – Creation of a Special Committee for Pension reforms 1827 – Adoption of a Pension Act 1912 – Adoption of acts regulating provision of benefits for workers.</p>	<p>1888 – Delegation of responsibility for pension provision to employers 1890s – Companies establish insurance and pension funds 1912 - Rapid growth in a number of private insurance and pension funds</p>	<p>1826 - Pension rights were granted to officials; Decrease in retirement age 1852 – Poor Law 1879 – Pension Institution for Seafarers 1895 – Workers’ Compensation Act 1897 – Act on Pension and other Assistance Funds 1900 – Pension regulation of municipalities</p>	<p>1850s - Establishment of special sickness and pension funds on factories</p>

In the second half of the 19th century rapid industrialization and the growth in labor movements led to the extension of responsibility for pension provision to employers, which started establishing insurance and pension funds for their employees. The state was rather supportive, although this is not to say it actively encouraged this initiative. Consequently, the number of pension and insurance funds created by employers increased, and their activity was regarded as more efficient than the state system of pension provision. By the end of the 19th century, a rather complex legal framework regulating public pension provision developed in both countries. To this end, a number of legislative acts were introduced which regulated the activity of insurance and pension funds established by employers, as well as pension provision for certain groups of workers.

The early practice of financial assistance to the elderly provided by employers in both Russia and Finland had specific features largely determined by national, cultural, and economic contexts.

These had a certain significant impact, although not always direct, on the further development of pension provision in general.

The second juncture, especially for Finland, was crucial for the further development of voluntary occupational pensions, relating to the establishment of basic and earnings-related pension schemes.

The first earnings-related pension acts introduced in Finland were the result of interest group lobbying. The structure of Finnish society was agrarian for quite a long time and this influenced the development of its pension system. Thus, farmers opposed the implementation of the insurance scheme demanded by industrial workers, and instead supported a basic universal scheme. As a result of heated debates, a universal funded system with tax-financed supplements was introduced in 1937. Eventually, the low level of benefits and the exclusion of the majority of the elderly from coverage led to the revision of legislation and the adoption of a universal contributory pay-as-you-go basic pension complemented by income-tested supplements for employees in 1956. The fundamental decision to introduce a system of pension insurance was a crucial step in the long development of pension systems and clearly remained path-dependent. Since the 1960s, when occupational pensions were legislated, Finland became a hybrid multi-pillar pension system. All debates and reforms mainly concerned the expansion of mandatory earnings-related pillar and reforming of basic pensions, leaving less attention to the development of voluntary occupational pensions. Finland developed generous mandatory earnings-related pension schemes, and thus occupational pensions assumed a less important role.

In the beginning of the 1920s, the Russian government was occupied with post-war economic recovery and development of strong state sector in Russian economy. As a result, all enterprises, transport, communication, housing companies, banks were nationalized. All private insurance and pension funds, including those established by the factories were obliged to transfer their accumulations into the State Insurance Fund, which took responsibility for pension provision. This marked the beginning of state pension provision, leaving no room for development of supplementary pension arrangements. The centralized state system of pension provision based on distributional principles existed until the 1990s, when it was forced to change due to major economic, political, and demographic challenges.

Table 2. The second critical juncture: The establishment of basic and earnings-related pension schemes in the early 20th century.

Russia		Finland	
<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>	<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>
<p>1919 - National Social Security Fund, General decline in the level of welfare provision 1920s - Welfare provision for workers; End of 1920s - Replacement of social insurance system by the state support 1929-1936 - Centralization and unification of national welfare system 1956 - Law About State Pensions – norms were improved, level of pensions was increased</p>	<p>1921 - Decree On Social insurance of workers engaged in wage labor – services and benefits are provided from the companies budgets</p>	<p>1922 – New Act of Poor Relief 1924 – The Civil Servants’ Pension Act 1937 – National Pension Act 1950s – Cooperation of the state and labor market actors to deliver pension reforms 1956 – The Seamen’s Pension Act 1957 – New National Pension Act – decentralized administration of pension schemes 1961 – The Employee’s Pension Act 1962 – Temporary Employee’s Pension Act 1966 - Evangelical-Lutheran Church Pensions Act; The State Employees’ Pension Act 1970 - The Self-Employed persons’ Pension Act; Farmers’ Pension Act 1970s – 1980s – early retirement regulation 1986 - Pension Act for Performing Artists</p>	

The **third critical juncture** happened with the economic crises of the 1990s, which resulted in the need to revise the logic of welfare provision, and transform existing pension systems in order to adjust them to the changing circumstances.

In Finland, the priority in the sphere of pension provision was directed towards strengthening mandatory earnings-related pensions, rather than encouraging the development of supplementary pension schemes. The earlier decision to adopt mechanisms of decentralized administration of the pension system was crucial for the development of voluntary occupational pension provision. The government was highly concerned with meeting the labor market actors' demands, which is why participation of the latter was highly encouraged in discussions regarding pension reforms, and they were given the power to influence major decisions in the sphere of pension provision. With the emergence of major economic and demographic challenges, the improvement of the system was mainly achieved through active negotiations of social partners and their cooperation. The state, employers and trade unionists were unanimous in their view that the reforming the pension system was more of a labor market issue than a political one, and thus improving the system should be of interest to all parties involved. Faced with a deep economic recession, the Finnish government preferred to balance the system of welfare provision by making smaller cutbacks in expenses, while increasing the rate of taxation. Cutbacks and adjustments were adopted in the mandatory occupational pensions. As a result, employee contributions were introduced, public and private pension schemes were harmonized, and rules for pension indexation were changed. As statutory employment-related pensions were rather all encompassing and generous (no income ceiling), there has not been an increase in demand for voluntary occupational pensions. However, some employers have used them as a mechanism improving employees' performance, and increasing attractiveness among other employers.

Facing fairly similar social, economic, and demographic challenges, the Russian state also started reforming its pension system. However, its pension system was especially affected by the economic crisis, and it urgently needed to provide a model based on the connection between contributions and payments, which could reduce the burden on the state budget. Therefore, Russia returned to insurance principles and adopted a three-pillar pension model, comprising obligatory pension insurance, state pension support, and non-state pension insurance. Due to a low level of state pensions, the period saw the acceleration in the development of supplementary pension schemes, which were meant to fill in the gap left by less generous statutory pension schemes. A peculiarity in the formation of the system of non-state pension provision lies in a disconnection of the development of the actual system of pension provision from the establishment of a regulatory framework. Thus, the first company pension funds were established

in the beginning of the 1990s, while the first legal acts regulating their activity were adopted only by the end of the decade. At present, there are still many uncertainties in the current legislation related to the non-state pension provision in general.

By the beginning of the 2000s, the Russian pension system came to face another critical moment that referred to increased expenses for pension provision leading to a substantial budget deficit. As a result, debates over the role of non-state pension arrangements entered a new phase. In the beginning of the 2000s, the Russian government introduced a reform that resulted in the decentralization of the pension systems administration, and involvement of non-state pension funds in the management of funded part of state pensions.

In 2013, whilst trying to plug a growing hole in the budget of the Pension Fund the Russian government made a decision to transfer private accumulations from non-state pension funds into Pension Fund of Russia. The situation is rather ironic, because in the past, the state was not willing to create favorable conditions for the development of the system of supplementary pension provision, and in the past slowed down the adoption of important legislative acts, and now it is reaching towards their funds.

At the same time, the Ministry of Labor suggested a *Draft Law About Additional pension payments*, which included pension benefits provided by the employer, i.e. voluntary occupational pensions. Recently, the Russian state started actively promoting the idea of private pension savings as a solution to some of the troubles experienced by the Russian pension system. However, whether these pension arrangements can actually improve the situation remains to be seen, when all attempts by the state to encourage private pension savings remain chaotic and lacking cohesion. Moreover, Russian citizens tend to think of the state as a paternal figure rather than focus on their own fiscal responsibility to their future.

The analysis of the evolution of voluntary occupational pension provision in Russia and Finland demonstrates that these pension arrangements developed in Russia in response to negative economic and social processes, when the ability of the state to ensure decent level of wellbeing for its citizens was rather limited, thus, the responsibilities for pension provision were delegated to employers. While in Finland, it was mainly a result of a certain economic growth, when

employers accumulated funds they could invest in provision of additional benefits for their employees.

Table 3. The third juncture: Economic crisis of the 1990s and restructuring of pension systems.

Russia		Finland	
<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>	<i>Public pension provision</i>	<i>Voluntary occupational pension provision</i>
<p>1990 - Return to the principles of social insurance; Creation of the Pension Fund of Russia; Federal Law About State Pensions</p> <p>1995 - a project of three-pillar pension system; enhancing insurance principles; introducing personalized accounting</p> <p>1998 - Pension Reform program in the Russian Federation: introducing funded mechanism; transition to calculations on the basis of contributions and expected period of payment</p> <p>2001 - Pension Reform Program introducing new retirement pension formula</p> <p>2002 - 3-pillars pension system;</p> <p>2008 - The program of state co-financing of pensions</p>	<p>Early 1990s -Creation of Company Pension Funds</p> <p>1992 - President’s Decree on Non-state Pension Funds</p> <p>1998 - Federal Law On Non-state Pension Funds</p> <p>2001 - Participation of private pension funds in the mandatory pension insurance system</p>	<p>Early 1990s - Strengthening of the earnings-related pension schemes; Cutting disability and unemployment pensions; Weakening of the pension indexation</p> <p>1993 - Contributions were divided into employers’ and employees’ shares</p> <p>Employment contracts of shorter duration or with low wages covered by pension provision</p> <p>2005 – The pension reform</p>	<p>1995 - The Act On Company Pension Funds</p>

It appears that pension reform in Russia has so far been a piecemeal process, with reforms introduced to respond to immediate crises, without much long-term planning. Thus, the 2002 pension reform was meant to assure the slow transition from the Soviet-era pay-as-you-go system to a more modern and sustainable system, more recent reforms were introduced seeking to reduce the Pension Fund of Russia's budget deficit. Generally, all pension reform had to be continually adjusted to attempt to resolve the deep flaws and frailties of the pension system, which consequently resulted in the deepening of the crisis of pension system.

In Finland, all decisions concerning the reforms of pension system were made as a result of active cooperation of the state, employers, and trade unionist, who were equally interested in improving the system. In Russia, the initiative for reforms comes from the political actors, and labor market actors do not seem to be interested nor motivated in initiating reforms. The Russian state tried to facilitate the shift from publicly administered pensions to private decentralized administration, by encouraging employers and employees to actively participate in the administration of pension savings and take out pension insurance from private pension funds (reform of 2007 when non-state pension funds received the right to manage the funded part of the retirement pension).

It starts to be clear that beliefs of Russian policy-makers in one-size-fits-all reforms, back in time when multi-pillar pension system was adopted, had been largely unfounded. Following the World Bank conceptual pension model, the Russian reformers failed to take into account path dependence, as well as the national characteristics and the special features of the Russian reform process. By focusing narrowly on the need for changes, they disregarded possible outcomes and responses from other actors involved. One of the most striking features of the evolution of the Russian pension system is in the repeated failures of pension policy reformists. Indeed, having established a system of pension insurance based on employers' contributions in the beginning of the 20th century. Then, as a part of massive ideological project, pension system was transformed into a universal one, which was state financed and provided pension benefits without any deductions from employees' salaries. Later, caused by growing deficit in the pension system due to enormous pension expenses, insurance principles were recovered. Besides, Russia was experiencing a large transition from the Soviet ideology towards establishment of democratic

principles. A number of attempts have been made to involve employers into the direct pension provision for their employees, which were then replaced by centralized public pension provision.

Perhaps, the lesson that Russian reformists can learn from the experience of pension reform in Finland, is that significant improvement may be achieved only if all parties involved are interested in reforming the system. Perhaps, by using mechanisms of active cooperation of the state, employers, employees, and trade unions, the state system of pension insurance might improve so that there will be no need for supplementary pension arrangements? Therefore, the development of such mechanisms and the formation of a strong partnership between public and private actors in the sphere of pension provision requires additional research.

8. CONCLUSION

The widespread assumption that only the public sector can ensure a high level of wellbeing was recently replaced by the idea of a mixed economy of welfare, where several actors from various spheres can take responsibility for the provision of welfare services. This transformation has been observed especially in the sphere of pension provision. The past assumption that publicly organized retirement provision represents the best way to tackle poverty in old age was recently replaced by the idea that supplementary pension arrangements might make a significant contribution to ensuring pensioners' wellbeing. Studies also suggest that systems of supplementary pension provision significantly diverge between countries depending on the overall logic of welfare provision, and across time depending on the economic and demographic challenges faced by the country at a certain period of time.

This research aimed to provide a cross-national comparison of the development process of voluntary occupational pension provision in two countries – Finland and Russia – and intended to explore the differences and similarities in the evolution of this type of pension arrangements. Additionally, the research wanted to find how voluntary occupational pension schemes originated in two countries, and what the factors were that contributed or limited their development.

The evolution of voluntary occupational pension provision in Finland and Russia were analyzed using existing studies in the sphere of pension provision, including scientific publications, journals, books, national reviews, and reports.

The development of voluntary occupational pension arrangements were studied from the moment the first mechanisms of pension provision for employees were established by employers in the beginning of the 19th century until the present day. Utilizing the concepts developed within the mixed economy of welfare analytical framework and theoretical approach of historical institutionalism, the history of voluntary occupational pension provision was examined in terms of the influence of various social, political and economic contexts and processes on the way voluntary occupational pension arrangements were organized and developed over time. Throughout the analysis, it was discovered that systems of voluntary occupational pension provision experienced changes in quite similar periods, thus, allowing the identification of three critical junctures: the first critical juncture related to the early practices of provision of pension

benefits in both countries in the early 19th; the second critical juncture concerned the introduction of basic and mandatory earnings-related pension schemes in the beginning of the 20th century; and the third critical juncture related to the social and economic crisis of the 1990s, which resulted in the urgent need to revise and reform existing pension systems. The thorough analysis of these critical junctures allowed the drawing of several conclusions.

Firstly, in both countries, voluntary occupational pension arrangements emerged because of the states limited abilities to provide pension provision for all of the population. Being excluded from the pension schemes offered by the state, which could only provide financial assistance to certain privileged categories of society, workers had to find their own source of provision of wellbeing after retirement. This source was found in the establishment of mutual aid funds, and later, in pension and insurance funds created by employers.

Secondly, it was observed that the early initiative of employers to provide pension benefits for their employees in both countries had a significant impact on the development of the system of pension provision in general, directly involving employers in the provision of income after retirement. Moreover, it had significant implications on the development of voluntary occupational pension provision, as it allowed employers to use these arrangements as additional tool for motivating and rewarding personnel.

Thirdly, throughout the 20th century the significance of voluntary occupational pension arrangements declined in both countries, although due to different reasons. Thus, as a result of the initiatives aimed at strengthening the state sector in the economic and social sphere, a centralized system of pension provision based on the principles of redistribution of wealth was adopted in Russia. Furthermore, according to Soviet ideology, all citizens had to be provided with an equal level of wellbeing (even if it meant equal level of poverty), thus there were no supplementary pension arrangements. While in Finland the popularity of voluntary occupational pensions decreased mainly due to the establishment of a quite generous mandatory earnings-related pension scheme.

The later trajectories taken in the organization of pension provision in two countries differed significantly, predetermining the degree of development of voluntary occupational pension arrangements and their role in ensuring wellbeing in old age. The further maturation of

mandatory earnings-related pension schemes in Finland during the 1990s left less need for development of supplementary pension arrangements. On the contrary, in Russia, voluntary occupational pension arrangements resumed their development in response to limited abilities of the state to provide a decent level of wellbeing for its citizens after retirement, accelerating even more in 2000s when the Pension Fund of Russia faced a deep budget deficit.

The retrospective analysis illuminated a certain differentiation in the mechanisms of responding to negative processes in the social and economic spheres. Facing similar social and economic challenges in the 1990s, the Finnish and Russian states applied different ways of dealing with crises, including those in the pension systems, which were mainly determined by national peculiarities. Thus, in the face of difficulties, in the Finnish case social partners are actively involved in the discussions and reforming process, while the Russian state forces policy decisions in many areas.

This research, therefore, allowed a closer examination of the evolution of occupational pension provision in Finland and Russia. It showed how the voluntary occupational pension provision originated in two countries, as well as explained why the paths of its development differed in two countries. Furthermore, the research analyzed the ways in which past decisions led to a path-dependent process in the development of voluntary occupational pension provision, or caused a path departure. It also provided the possibility to understand the determinants of the development of voluntary occupational pension provision, demonstrating that the role and significance of supplementary pension arrangements decreases with the maturation of mandatory pension schemes.

However, the research has certain limitations. The study did not provide a close scrutiny of the interaction of social partners in the process of institutional change. As it was mentioned in Chapter 2, while studying voluntary occupational pension provision, it is worth focusing on the main stakeholders, their interests, motivation, ability and mechanisms of producing an influence on important policy decisions. While this research acknowledged the presence of various actors inside and outside the process of institutional change in the sphere of voluntary occupational pension provision, such as the state, employers, and trade unions, it did not conduct a deeper analysis of the power clashes between them. To broaden our understanding of how certain policy decisions have been made in the sphere of pension provision, and what was the distribution of

powers and abilities to bring about change between agents, the research would have to adopt a theoretical framework of rational choice institutionalism. This theoretical framework provides a more precise view on the relationship of actors in the process of institutional change, and their influence on the decision-making process.

Furthermore, the ability of the study to produce findings was limited by the possibility to use studies focusing on the Finnish system of pension provision only translated into English. It significantly constrained the scope of aspects that could be covered.

Even though this study is unlikely to make an immediate practical impact, it opens the possibility for further research. The study reconstructed the process of institutional change in the sphere of voluntary occupational pension provision and allowed presenting several findings, which are important for revising and modifying the future strategies of pension provision. Thus, this study demonstrated that introduction of voluntary occupational pension provision made a significant impact on the logic and mechanisms of pension provision in general. It also highlighted the importance of building a dialogue between political actors and labor market actors in order to bring about a substantial change on the organization of pension provision in the long term. Therefore, it raises questions for further research, such as how building strong private-public partnership in the sphere of pension provision can contribute to the overall improvement of the system. Why and how certain countries succeeded in laying a basis for effective cooperation leading to general improvement in the system, while others struggle with it? Comparative analysis of the experience of different countries in the attracting and involving of social partners in matters of pension provision can be the next step in our searches for ways to increase the efficiency and sustainability of the system of pension provision.

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