The Financial Politics of Occupational Pensions: A Business Interests Perspective

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1. Introduction

One of the most important contributions of the business interest scholarship to studies of comparative social policy is the insight that employer opposition or support for welfare is not a given, but strongly dependent on the economic and political environment in which employers operate. Common explanations of business support for welfare provisions focus on the moral convictions of enlightened entrepreneurs, the need for skilled workers, or the possibility to avoid taxation by shifting corporate profits into benefit plans (cf. Sass 1997; Nijhof 2009). Business interest scholars have complicated these views by showing how factors such as the degree of exposure to international markets or the reliance on generic or specific skills in the labor force explain variation in business preferences within, but also across political economies (cf. Swenson 1991; Mares 2003). Moreover, these scholars have shown important variation over time, as employers responded to political challenges posed by labor unions and the state (Hacker and Pierson 2002; Paster 2013). Depending on contextual factors, employers can therefore act as protagonists, antagonists or consenters towards social policy (Korpi 2006).

The current chapter will explore how the financialization of the political economy during the last quarter of the 20th century has influenced business preferences for occupational pensions. Financialization refers to "the increasing role of financial motives, financial markets, financial actors and financial institutions" (Epstein 2005: 3). In few areas of the welfare state has financialization been as pronounced as in the area of occupational pensions. Occupational pensions can be financed in various ways: for instance, through book reserves, a pay-as-you-go (PAYG) system, or by capital funding. Because capital funding allows pension savings to grow over time beyond the mere sum of contributions, it has become a preferred policy option to deal with the budgetary challenges associated with demographic ageing (e.g. World Bank 1994). Additionally, states have tried to offset budgetary pressures on the first pillar of the pension system (state pensions) by incentivizing pension provisions within the second pillar (occupational pensions), a process known as pension privatization (Ebbinghaus 2011). The result is a growing importance of the second pillar in pension systems across political economies, coinciding with growing dependence of occupational pensions on investment in financial markets.

Capital-funded pension schemes, however, do not automatically lower the costs of occupational pensions; they also introduce new kinds of risk. In the case of capital funding, risk stems from the performance of pension plan assets in financial markets: while the logic behind capital funding starts from the assumption that investment of plan assets will generate positive returns, there is always the chance that in fact losses will be incurred. Who carries the investment risk associated with capital-funded occupational pensions depends on the nature of the pension plan. Defined Benefit (DB) plans, that promise a particular pension outcome, commonly attribute the risk to employers. Should underfunding occur, employers will need to either increase their contributions to the plan or make repair payments. In the case of Defined Contribution (DC) pension plans, whereby not the benefit but the contribution rates are guaranteed, such investments risks fall to the beneficiary of the plan, the employee.

The central argument proposed in this chapter is that capital funding has important ramifications for business preferences towards occupational pensions. With capital funding, the extent to which these plans can protect against the *social* risks associated with old age has become partially dependent on the *financial* risks stemming from capital funding. Financialization thus turns an influential argument in the business interests scholarship on its head, namely that, depending on size and industry, employers might be willing to incur higher risks to gain more control over social welfare provisions (Mares 2003): as financialization reduces the possibilities for control over occupational pension provisions, employers will be more likely to adopt political preferences aimed at risk reduction. Contrary to the traditional focus point of welfare state scholarship, the *financial* politics of occupational pensions does not necessarily manifest itself as a distributive conflict between business, labor and the state. Equally important are political contestations over funding rules for pension plans or the investment of plan assets, as well as the impact of pension liabilities on corporate finance. The financial politics of occupational pensions thus occupies a different terrain than normally associated with occupational pension provisions.

As plan sponsors, employers have a strong stake in the financial politics of occupational pensions. *Solvency rules* that impose funding levels on pension plans determine whether contributions need to be raised or can be lowered. *Accounting standards* determine how pension liabilities should appear on corporate accounts. The visibility of these pension liabilities shapes the ability of the corporation to attract outside investors. *Investment rules* determine the extent to which pension assets can be invested in particular asset categories. For employers, asset categories with higher rates of return are more attractive, because they may allow them to lower contributions. For these reasons, we would expect employers and their interest organizations to take strong positions on each of these three policy issues: solvency rules that minimize the financial burden on the plan sponsor, less stringent reporting requirements of pension liabilities, and relatively liberal investment rules that give large discretionary power to investment managers. In this chapter, employer preferences vis-à-vis these three policy area will be further explored.

The argument presented here will be advanced through a comparative case study of the United States and the Netherlands. Both the United States and the Netherlands have mature, three-pillar pension. When it comes to the institutional characteristics of each system, however, the United States and the Netherlands constitute most different cases. In the Netherlands, almost all private sector workers participate in occupational pension plans, while plan coverage in the United States is low. Additionally, Dutch occupational pension plans are overwhelmingly defined benefit (DB), whereas in the United States defined contribution (DC) plans dominate. Finally, the Dutch pension system has strong corporatist features: unions bargain collectively with employers over occupational pension plans at the company or industry level; unions and employers jointly define pension policy within corporatist institutions at the national level; and, employees (and retiree) representatives jointly govern pension funds with employers. In the United States, by contrast, joint governance is only required for multi-employers pension funds.

Yet, while important institutional differences exist between the American and Dutch pension systems, they share a strong likeness when it comes to the influence of financial markets on pension outcomes. In both pension systems, capital funding is the legally mandated method of financing for occupational pensions. Additionally, both pension systems have relatively liberal investment regimes. Instead of substantive investment restrictions, which are common in other political economies, Dutch and American pension assets need to be invested in accordance with an open legal norm, the prudent person rule. Finally, capitalization rates of both pension systems are well above the OECD average of 37.1%, namely 79.4% for the United States and 171.4% for the Netherlands in 2015 (OECD 2017a). With both pension systems deeply entrenched in global financial markets, we should therefore expect a similar financial politics of occupational pensions in both pension system regardless of their institutional differences.

In this chapter, I will compare business groups' positions vis-à-vis occupational pensions in the Netherlands and the United States from the 1980s until today. Dutch employers are represented by the VNO-NCW (*Verbond van Nederlandse Ondernemingen-Nederlands Christelijk Werkgeversbond*), a federation of employer associations representing almost all large Dutch enterprises and 80% of medium-sized firms among its membership. Its American counterparts are the *U.S. Chamber of Commerce*, the *Business Roundtable* and the *National Association of Manufacturers*. The *American Benefits Council* is a lobby organization in the area of occupational benefits, representing large employers. The political preferences held by these organizations will be inferred from the positions communicated in white papers, brochures, issue briefs and other publications. Other sources of evidence include congressional or parliamentary documents related to occupational pension reform and documents produced by consultative bodies in the Netherlands, such as the Socio-Economic Council, and for the American case, documents related to public consultations on occupational pensions.

The outline of this chapter is as follows. Section 1 will further elaborate on the financial politics of workplace pensions by addressing what does this financial politics entail and how it corresponds with scholarly insights on the social politics of workplace pensions. Section 2 will introduce the two case studies of the United States and the Netherlands by giving a brief outline of recent developments in both pension systems. The next three sections will subsequently address one of the main issues associated with the financial politics of workplace pensions: issues of plan funding, the impact of pension liabilities on corporate finance in light of the financialization of the modern firm, and the role of pension funds as financial intermediaries. In all three sections, the positions of business federations will be taken as the point of departure.

2. The Financial Politics of Occupational Pensions

The investment of pension capital in financial markets, argued here to be one manifestation of a broader process known as financialization, has greatly facilitated the expansion of occupational pension provisions. Thanks to fortuitous financial market conditions during the last quarter of the twentieth century, pension assets have grown exponentially: in 2016, private pension assets reached $38 trillion worldwide (OECD 2017b). Capital funding has not only made possible the growth of savings beyond the initial contributions. It has also created a concentration of capital that can be used for investment in the productive economy. For that reason, the expansion of capital-funded pensions has not only been sought by groups directly benefiting from these provisions (e.g. workers and unions), but also by actors seeking indirect returns from pension investment (e.g. state and business actors) (Estevez-Abe 2001; McCarthy 2017). Financialization, however, has increased the exposure of occupational pension plans to volatilities in global financial markets. The extent to which these plans can protect against the *social* risks associated with old age has therefore become partially dependent on the *financial* risks stemming from capital funding.

The financial risks associated with capital-funded occupational pension plans are mitigated by institutional arrangements, in particular plan design and plan governance. Occupational pensions are generally Defined Benefit (DB) plans, Defined Contribution (DC) plans, or a combination thereof. DB pensions guarantee a particular outcome at retirement, for instance 70% of a beneficiary's average salary. DC pensions, on the contrary, are schemes with fixed contribution rates, but variable outcomes at retirement. The height of the pension is based on the investment returns accumulated during the beneficiary's career. Particularly DB plans can be costly for employers, since the plan sponsor is responsible for delivering the promised benefit: should the plan be underfunded, then the sponsor is expected to remedy the situation by increasing contributions or making a capital injection into the fund.

Plan governance also mediates the impact of financial risks. Occupational pension plans are managed either by single-employer funds (in the Netherlands: company pension funds) or by multi-employer (industry) pension funds. In the case of multi-employer funds, important risks associated with DB pension plans, such as longevity risk or investment risk, can be shared within the collective. Multi-employer funds might have an additional advantage over single-employer funds, as these funds often have labor representatives on their boards of trustees. Evidence suggests that labor unions have a moderating impact on financial volatility, as their board presence translates into more conservative investment policies (Wiβ 2015). By extension, pension funds in coordinated market economies seem to experience less financial volatility and losses than in liberal market economies due to the strong entrenchment of labor unions in these systems (Wiβ 2015).

Yet, the risk associated with the investment of pension assets does not just make plan funding unpredictable. It also affects the corporation's position in the financial marketplace. As with occupational pensions, the nature of corporate finance has changed drastically since the 1980s as a result of the modern corporation's growing reliance on stock market financing (Van der Zwan 2014). Stock market financing has reinforced the position of the shareholder in the firm. Corporate activities are increasingly aimed at satisfying shareholders' demands for return on investment. Business practices associated with a shareholder value orientation include the dismantlement of corporate conglomerates for a focus on "core business activities," share value as measure of corporate performance, and a focus on short-term results (Davis 2009). Public corporations may also perceive pressures to abandon DB pension plans, as shareholders tend to respond negatively to large pension liabilities (Dixon and Monk 2009). While these changes have been most pronounced in Anglo-American political economies, scholarship suggests that similar developments have taken place in the continental European political economies as well (Van der Zwan 2014).

While the financialization of occupational pensions poses additional risks, employers have had few opportunities to control such risks. Pension funds commonly outsource asset management of their plans to external investment firms. The further removed the investment of plan assets from the plan sponsor, the more difficult it becomes for the plan sponsor to exert influence over the investments (Ebbinghaus and Wiβ 2011). Employers will therefore have to resort to other means to reduce the financial risks associated with occupational pensions, most importantly changes to plan design. Hacker (2004), for instance, considers the growing popularity of DC pension plans in the United States part of a broader "risk shift," whereby both state and business actors offload the risks associated with the provision of retirement security onto individual workers. Short of a complete transition to DC pensions, employers may also change the conditions of their DB plans, such introducing a contributions cap or removing the responsibility to make repair payments (Bridgen and Meyer 2009). Financialization thus alters the balancing act of risk and control that shape employers' preferences towards social policy: absent control over global financial markets, employers will seek out alternative means of risk reduction.

Paradoxically, then, financialization may increase calls on the state for additional regulation. Where employers deem a switch from DB to DC pension plans undesirable or politically unfeasible, state regulation offers an alternative means to reduce risk. Scholars of business interests have commonly seen state regulation as a factor inhibiting the expansion of private welfare provisions. According to Hacker, for instance, the "essential dilemma raised by subsidized private benefits" is that "any regulation that drives up costs or interferes with corporate goals will undoubtedly reduce the incentive of employers to sponsor benefits in the first place" (2002: 157; see also, Meyer and Bridgen 2012). In the case of capital-funded pensions, however, state regulation can smoothen financial market shocks and thus make capital-funded pension plans more stable and secure. For that reason, both business groups and labor unions have sought regulation in this area.

In what follows, this argument will be underscored by comparing the financial politics of occupational pensions in the United States and the Netherlands around three issues: *solvency rules*, *financial disclosure rules,* and *corporate governance regulation*. In particular, the analysis will show that in both political economies, business groups have sought financial rules that reduce requirements for employers to raise contributions or make repair payments in situations of underfunding, disclosure rules that downplay the role of pension liabilities on the corporate account, and corporate governance rules that limit shareholder activism.

3. Risk and Control in Two Pension Systems

Both the United States and the Netherlands have mature, three-pillar pension systems. Occupational pensions have been in place in both political economies since the late 19th century, for instance at American Express in the United States (1875) and the *Delftse Gist- en Spiritusfabriek*, a chemical company (1886), in the Netherlands. Many of these early schemes had strict eligibility rules and payout of benefits was uncertain. In both systems, occupational pensions were traditionally seen as gifts, which the employer bestowed upon his employees. For that reason, they were left relatively unregulated by the state. In both political economies, moreover, the number of occupational pension plans increased rapidly in the postwar period: the difficulty to attract skilled workers during wartime, post-war labor union mobilization, and the introduction of universal state pension schemes, each of these factors contributed to the expansion of private pension provisions (Van der Zwan 2017).

In a similar vein, the failure of two workplace pension plans as a result of employer bankruptcy – the Koninklijke Hollandsche Lloyd in the Netherlands (1935) and the Studebaker car manufacturer in the United States (1963) – provided the impetus for new pension legislation in both countries. Both the Pension and Savings Fund Act (*Pensioen- en Spaarfondsenwet*, 1952) and the Employee Retirement Income Security Act (1974) imposed several restrictions on occupational plans in order to safeguard employees' pensions: the pension plan had to be managed by a legal entity separate from the sponsoring corporation; the pension plan had to be financed by capital funding; and investment of plan assets in the sponsoring corporation were restricted. The effect of these legal rules has been the creation of pension funds as large financial intermediaries, legally detached from the sponsoring firm, in search of investment opportunities within global financial markets.

Despite these commonalities, the institutional differences between the American and Dutch pension systems remain vast. First, most Dutch employers are required to offer an occupational pension scheme to their employees, while the American second pillar remains voluntarist. Consequently, participation rates in the Netherlands are high (96%), but relatively low in the United States (50% of private sector workers) (DNB 2017a; Bureau of Labor Statistics 2017). Second, pension fund governance differs in both systems. Dutch employer associations and labor unions bargain collectively over occupational pension schemes. They are also jointly responsible for pension fund governance. In the United States, bipartite governance is only required for multi-employer plans, which cover a minority of private sector workers (18% of workers with DB plans) (BLS 2016). Third, corporatism characterizes pension policy-making in the Netherlands, but not in the United States. The Socio-Economic Council, in which employer and labor unions are represented alongside academic expert, serves as an important advisory body to the Dutch government.

The institutional contexts of the Dutch and American pension systems present employers with very different possibilities for discretionary action, when it comes to occupational pensions. The position of Dutch employers is constrained by institutional features such as the mandatory extension of collectively bargained pension plans, tripartite governance of pension funds boards, and regulations stemming from the national and supranational levels. These features do not only make it more difficult for Dutch employers to opt out of the pension system, but also restrict their ability to change the second pillar from within. American employers, meanwhile, benefit from a high degree of voluntarism within the second pillar. There is no (quasi-)mandate to offer an occupational pension plan to employees and labor unions tend to be weak when it comes to pension fund governance (McCarthy 2017). For these reasons, it is expected that Dutch employers will be less likely than American employers to translate their policy preferences into actual policy change.

The discretionary power of American employers over occupational pensions has manifested itself in the widespread adoption of defined contribution (DC) pension plans, since the passage of ERISA in 1974. The number of private sector workers with a DB pension plan has since dropped from more than 80% in the early 1980s to 15% in 2017 (Ghilarducci 2008; Bureau of Labor Statistics 2017). More than half of private industry workers and around 20% of public sector workers do not participate in occupational pension plans to begin with. Scholars have attributed the switch from DB to DC plans to several factors. Some have pointed at the preferential regulatory treatment of DC plans, particularly 401(k) plans, over DB plans in terms of tax advantages and reporting requirements (Zelinsky 2007). Others have attributed these changes in private welfare to

American class politics. To them, the widespread dismissal of DB plans is representative of the political weakening of organized labor vis-à-vis business (McCarthy 2017). Finally, scholars argue that the decline in DB plans reflects broader shifts in the American economy, such as de-unionization, deindustrialization and the flexibilization of employment. They find that DB plans are more common among unionized firms, among manufacturing firms and among workers with longer careers (Hacker 2002).

The DB pension plans that remain are facing several challenges. First, many DB plans are severely underfunded. According to the Pension Benefit Guaranty Corporation (2015), the total deficit of its insured single-employer and multi-employer plans ran almost $900 billion in 2014. State and local government employee pension plans face similar problems. Mitchell (2014) estimates that fifteen states will exhaust their state pension fund assets before the year 2025. Second, where large deficits exist, some employers have opted to suspend DB pension benefits or freeze their DB pension plans entirely. Since the turn of the century, pension freezes have occurred at several large manufacturing corporations, including Bethlehem Steel (2002), Polaroid (2002), and IBM (2006). Third, some employers have undertaken so-called "de-risking" activities, whereby regular pension benefits are replaced by lump sum payments or transferred to an insurance company. According to Maher (2016), pension "de-risking" has involved over $100 billion in recent years at well-known corporations, such as General Motors, Ford and Motorola. The effect of these developments has been a further risk transfer from employers to employees and retirees participating in DB pension plans.

The financial risk for American DB plans is partially offset by a public insurance system, run by the Pension Benefit Guaranty Corporation (PBGC). The PBGC is a federal agency that takes over pension liabilities in case a DB pension plan is terminated due to financial distress of the sponsoring firm. The agency is financed by insurance premiums for each plan participant in the system, which are charged to sponsoring employers. Over the years, these rates have steadily increased: from a $1 rate per participant at the agency's inception in 1974, to $69 per participant in 2017. The PBGC also charges employers a variable rate premium for unfunded pension liabilities. In 2017, the variable rate was $34 per participant for each $1000 in unfunded pension liabilities (PBGC 2015). Nonetheless, the PBGC is facing large deficits: $20.5 billion for the single-employer program and $58.8 billion for the multi-employer program in 2016 (PBGC 2015). The deficit is caused predominantly by large terminations in the past, particularly in the airline and metal industries (PBGC 2015). In 2005, for instance, United Airlines defaulted on its DB pension plans, moving a historic $10 billion in unfunded pension liabilities to the PBGC.

At first sight, the Netherlands remains a bulwark of DB pensions: only 9.15% of pension schemes are DC (DNB 2017). Yet, since the mid-1990s, changes to DB pension plans have gradually shifted risks from employers to employees. In 1997, for instance, the social partners and the state signed a Covenant on Occupational Pensions, in which the social partners committed to reduce pension costs by replacing more expensive final salary pension plans with average salary plans. By 2001, around a third of all fund members participated in an average salary plan, against 15% in 1989 (Werkgroep Evaluatieonderzoek Convenant Arbeidspensioenen 2001). During the same period, moreover, almost all pension funds made indexation of pension rights conditional on investment performance, covering around 90,4% of active participants (Werkgroep Evaluatieonderzoek Convenant Arbeidspensioenen 2001). Finally, a growing number of large employers have shifted from DB pension plans to Collective Defined Contribution (CDC) plans over the last two decades. By adopting a new plan design, these employers have severed the ties between the occupational pension fund and the sponsoring firm.

While not as profound as in the United States, the risk shift that has taken place in the Netherlands has had direct impact on pension outcomes. Average funding rates dropped after the financial crises of 2001 and 2008: from 199% in 199 to 124% in 2001 and further down to 95% by the end of 2008 (DNB 2017). While the 2001 crisis provided the impetus for a broad shift towards average salary DB plans and conditional indexation, the 2008 crisis saw the effects of these measures: with contribution increases political unfeasible, several pension funds had to take the unprecedented action of reducing the pension entitlements of active and retired workers. According the Dutch Central Bank, these cutbacks affected around 5.6 million people in 2013 and about 2.5 million people in 2014 (DNB 2013, 2014). To place these numbers in perspective: in both years, the Dutch pension funds counted around 5.5 million among their active members and around 3.1 million retirees (DNB 2013, 2014).

Both American and Dutch occupational pension provisions have undergone profound changes, associated with the risk shift as described by Hacker (2002). Remarkably, these changes occurred despite relative institutional stability within both pension systems. Furthermore, while profound shifts taking place in the United States can undoubtedly be at least partially explained by the declining power of organized labor, such explanations do not hold for the Netherlands, where labor unions continue to occupy strong institutionalized positions within the pension system. Instead, I argue that the policy changes taking place in both pension systems should be considered against the background of increased financial risks, stemming from financialization. In what follows, I will focus on three policy areas in which employers have lobbied for new rules and regulations in attempts to offset these new financial risks: solvency rules, disclosure requirements and investment rules.

4. Keeping Pension Funds Solvent

Occupational pension plans can either impose large burdens on employers or become lucrative windfalls, depending on market conditions largely outside of their control. Favorable stock markets in the 1980s and 1990s provided a boost to funding levels in both the United States and the Netherlands. Employers profited from pension funds' good financial performance in several ways. Between 1980 and 1989, for instance, American employers transferred some $20 billion in excess assets back to the sponsoring corporation, in many cases terminating their DB plans and replacing them with DC plans (Kosterlitz 1989). In the Netherlands, employers likewise awarded themselves a number of financial perks, such as contribution refunds and premium holidays (Tamerus 2011). Such practices came to a screeching halt, however, when financial market conditions changed dramatically at the turn of the century: the burst of the tech bubble in 2001 heralded a new period of stock market volatility and low long-term interest rates, which both negatively affected funding levels in pension funds. Employers thus faced a new challenge: how to keep pension plans solvent amidst fluctuating investment performance, when the performance of these plans depended on markets outside of their control?

In both the United States and the Netherlands, the events of 2001 provided the impetus for legislative reform of the solvency rules for pension funds. The Bush

Administration initiated the first major overhaul of American pension legislation since ERISA in 1974. The President's reform plan was not just motivated by the financial crisis, but also by corporate scandals such as at Enron, that had brought to light the misappropriation of employee pension savings by employers. The resultant 2006 Pension Protection Act introduced new funding rules for pension funds: DB plan liabilities had to be fully funded or otherwise amortized over a 7-year period. Plans facing underfunding would be considered endangered or, in more severe cases, "at risk." Depending on the degree of underfunding, employers would need to make repair payments, avoid benefits increases or even freeze benefits entirely. Similar rules were established for multi-employer plans (Ghilarducci 2008; Zelinsky 2007).

While business groups generally expressed agreement with the intent behind the legislation, they were critical of several elements of the Pension Protection Act. Together with other business groups, the four organizations studied here formed a coalition to lobby Congress for changes to the legislation. According to the American Benefits Council (2005: 1), it was imperative that "funding obligations are neither artificially inflated nor volatile, thus preventing employers from abandoning the system because of adverse effects on business planning." Opposition not only focused on the more stringent funding rules for DB rules. Business groups also strongly resisted reform of the PBGC's premium structure. To remedy its funding problems, the PBGC proposed to switch to a risk-based premium structure: premiums for well-funded plans would be cut, while those for at-risk plans would be increased. In a joint letter to Congress, the coalition stated it would be "inappropriate" for a government agency to make "formal pronouncements about the financial status of American businesses" (American Benefits Council et al. 2011). Finally, the coalition criticized the restrictions on self-investment in 401(k) plans and advocated permanent funding relief for multi-employer plans (American Benefits Council et al. 2011).

The 2008 financial crisis exacerbated business opposition to the Pension Protection Act. Estimates suggest that DB plan funding levels had dropped 13 percentage points to an average of 85% by October 2008 (Munnell et al. 2008). Declining performance, mostly due to depressed stock market performance, threatened plan funding levels with the legal requirement to make substantial repair payments: an estimated $90 billion for the year 2009 alone (Munnell et al. 2008). Again, a broad coalition of business groups called on Congress to postpone the PPA's funding requirements, citing poor financial market performance and the Fed's low interest rate regimes (American Benefits Council 2012). Their opposition proved successful: in various rounds of legislation, the PPA's funding standards for single-employer and multi-employer pension funds were slowly reduced. Labor unions supported funding relief for DB plans as well, albeit reluctantly. The AFL-CIO hoped to make funding relief conditional on employers' promise not to freeze benefit for the foreseeable future (Halonen 2010). The labor federation's opposition proved unsuccessful. Per new 2014 rules, it has become possible to suspend pension benefits for multi-employer pension plans were made possible.

In the Netherlands, solvency requirements for pension funds also underwent important changes from the late 1990s onwards. Previously, pension plans had to be either reinsured with commercial insurance companies or managed in accordance with actuarial principles under the supervision of the Dutch Central Bank. Consultations with the social partners resulted in new solvency requirements in 2005 (Stichting van de Arbeid 2004). Starting points of these requirements was the maintenance of nominal pension entitlements and the creation of capital buffers. To this end, a minimum funding level of 105% was introduced. Pension funds would have to organize their asset management to ensure a 97.5% certainty that funding levels would not drop below 100%. Meanwhile, contribution rates would have to cover not just nominal entitlements, but also buffer requirements, indexation measures and the costs of fund management (Tamerus 2011).

The new financial framework (*financieel toetsingskader*, FTK) came into operation right at the onset of the 2008 financial crisis. As funding levels plummeted and many pension funds had to submit repair plans to the Central Bank, social partners began to experience the constraints of the FTK. According to the Dutch Labour Foundation, the FTK institutionalized two conflicting goals for occupational pension plans. On the one hand, nominal pension entitlements presumed stable funding levels and sufficient financial buffers. On the other hand, pension funds had to realize indexation of pension entitlements, which presumed investment risk (STAR 2013). When the Minister of Social Affairs announced a new broad-scale reform of the pension system in 2009, the social partners therefore advocated new funding rules that would make contributions and outcomes "independent of daily fluctuations in financial markets" (STAR 2013: 2). In 2010, social partners agreed on a new Pension Accord, that included the following policy changes: a ten-year period to amortize financial shocks; an automatic adjustment mechanism to tie retirement age to increases in life expectancy; and the calculation of funding ratios over a twelve-month period (STAR 2013). The new legislation also made an end to some of the control employers had over the financial management of the pension plans, by banning the possibility of contribution holidays or refunds to the corporation (STAR 2013).

In short, from the turn of the century onwards, employers in both countries began to feel the constraints of the financial marketplace. Financial market volatility not only impacted the costs of occupational pension plans. As firms themselves became more reliant on market financing, other pressures associated with financialization became apparent as well. These will be explored in the next section.

5. Occupational Pensions and the Financialized Corporation

The financialization of the modern corporation forms another source of risk, associated with pension plans' methods of funding, particularly in the case of DB pensions. DB pension plans combine a strong pension promise, such as 70% of the average enjoyed salary, with the uncertainties stemming from financial market investment. Since employers ultimately carry the risks in these plans, their costs of sponsoring the pension plan may fluctuate from one year to the next, depending on the investment performance of the fund. For this reason, investors tend to consider large DB pension liabilities as perilous to the realization of shareholder value. Credit rating agencies are likewise known to penalize public firms for the existence of DB pension plans, particularly when underfunded (Dixon and Monk 2009). For this reason, firms with a strong reliance on financial markets might want to reduce or altogether eliminate the financial risks associated with DB pension plans.

Due to financial markets' penalization of firms with large DB pension liabilities, business groups have not welcomed legislative proposals to increase corporate disclosure of such liabilities. In the United States, for instance, policymakers involved in the Pension Protection Act suggested tying reporting standards for at-risk plans to a corporation's credit ratings. If credit-rating agencies considered particular firms to be risky investments and assign below-investment grade evaluations, so the logic was, wouldn't this also mean these firms' pension plans were at risk? Business groups disagreed. According to the American Benefits Council (2004: 22), "such misleading disclosures could unnecessarily and falsely alarm employees, financial markets, and shareholders." When the PBGC similarly proposed more stringent reporting requirements for the same category of firms, both the American Benefits Council (2010) and the U.S. Chamber of Commerce (2013) opposed the proposal. In both cases, business opposition was successful.

Reporting requirements stemming from international accounting standards have furthermore exacerbated the penalization of DB pension liabilities in global financial markets. Accounting standards set rules for how companies need to report their pension liabilities on their annual corporate statements. In the European Union, corporations need to follow International Accounting Standard 19, part of the International Accounting Standard Board's (IASB) International Financial Reporting Standards (IFRS). Central to IAS 19 is the notion of "fair value" accounting, requiring firms to report the market value of their pension assets and liabilities on their corporate accounts (Perry and Nölke 2006). According to Dixon and Monk (2009: 625), fair value accounting is contradictory to the very nature of pension liabilities: "In effect, fair value redirects short-term fluctuations in the pension funds (which are by their very nature long-term institutions), directly into short-term corporate financial statements." In the United States, the Financial Accounting Board (FASB) has required plan sponsor to use similar accounting methods. The FASB and the IASB aim to harmonize their standards, with the goal of establishing one method of valuating firms across the globe.

Unsurprisingly, neither American nor Dutch employer associations have shown strong support for the harmonization of international accounting standards. In the United States, the U.S. Chamber of Commerce (2012: 13) condemned the reporting standards, stating that these standards "have discouraged the continuation of defined benefit pension and retiree health care plans." According to the Chamber, "FASB's requirements create a picture of immediacy on the balance sheet for a defined benefit plan even though it is to be funded and perpetuated over the course of decades" (U.S. Chamber of Commerce (2012: 13). Likewise, the Dutch VNO-NWC has lobbied extensively against the IAS 19 provisions. A broad coalition of organized business, labor unions, and pension funds called on the Dutch government to negotiate an exemption for DB plans in Brussels. In 2013, the business federation announced a compromise had been reached: if the pension plan contained a contribution ceiling for the employer, then the firm would be able to treat a DB plan as a DC plan in its corporate account and only report paid contributions (VNO-NCW 2012).

While VNO-NCW celebrated the 2013 modification of IAS19 as a victory, however, Dutch employers have nonetheless abandoned their company pension funds in large numbers. Since the introduction of IAS 19 in 2005, more than 70% company pension funds have disappeared, either through liquidation or merger with other pension funds. At least some of this decline can be attributed to the new pension accounting standards, particularly among the Netherlands' largest corporations. Swinkels (2011) shows how immediately after the implementation of IAS 19 in 2006 already 12 of the 44 largest Dutch company pension plans announced plan to place their company pension funds "at a distance" from the firm. Other large employers have followed suit since then, including Philips, ING and ABN AMRO. Consider how ABN AMRO (2014) announced its new Collective Defined Contribution (CDC) plan: "With the [new pension plan], ABN AMRO removes the volatility in its balance sheet and capital position introduced by the revised pension accounting standard IAS 19 and reduces volatility in its pension expenses."

Severing the ties between a company pension fund and the sponsoring firm, however, comes at a cost. Some of these costs are purely financial. When Dutch employers wish to place a company pension fund "at a distance" from the firm - for instance, by ending repair payment requirements or introducing contribution ceilings - they need to win the support from labor unions. In return for union support, employers often commit to hefty compensation packages. Mining company DSM, for instance, promised to pay extra pension contributions of 21% of the wage sum (amounting to €99 million) when it negotiated a collective defined contribution scheme in 2006, while SNS Bank contributed a one-time payment of €105 million to its pension fund to accomplish the same goal (Van Bergen 2005). Once company pension funds become independent from the sponsoring employer, the latter also loses control over the fund's management, including its investment policy. Loss of control also occurs when a company pension fund merges with an industry pension fund. Such mergers have also grown more common in recent years (DNB 2017b).

6. Pension Funds as Financial Intermediaries

Pension funds in both political economies have always been relatively free to invest. In the United States, pension fund assets should be invested in accordance with the prudent person rule: using care, due diligence and a sufficient degree of diversification. Likewise, Dutch pension funds were guided by the open norm that pension assets be invested "in a solid manner," until the prudent person rule was introduced in 2008. In both political economies, the most important restriction on pension fund investments are legal limits on investments by single-employer pension funds in corporate stock of the sponsoring firm: 10% in the United States and 5% in the Netherlands. These legal rules severely limit the ability of employers to mobilize pension capital for investment in the corporation. In response to the Enron scandal in 2001, the Pension Protection Act initially suggested similar restrictions for self-directed DC pension plans, whereby the employee makes the investment decisions. American business groups successfully opposed the PPA's limits on self-investment and no such legal provisions ended up in the final legislation (Ghilarducci 2008).

Ironically, as pension funds have gained more autonomy from the sponsoring firm, they have increasingly been able to exert influence over the corporation. As large financial intermediaries, pension funds have vast ownership stakes in public corporations. As large owners of corporate shares of stock, pension funds are no longer able to sell shares without affecting market values. Instead, they will wield their powers as shareholders to influence corporate decision-making, a phenomenon known as active ownership (Hebb 2008). Shareholder engagement is often aimed at increasing shareholder value or introducing other measures to strengthen the position of the shareholder within the corporation. Such activities can be at odds with the preferences of the employer. In the United States, for instance, the role of pension funds in the takeover movement of the 1980s was widely questioned (Van der Zwan 2017). As pension funds have gained an important degree of autonomy from the plan sponsor, therefore, their interests and those of employers are no longer automatically aligned.

Dutch pension funds have similarly embraced active ownership. Corporate engagement by pension funds entered the Netherlands in the context of the European takeover movement of the 1990s. While large industry pension funds, such as public sector fund ABP, announced they would protect Dutch firms against hostile takeovers, several company pension funds desired an end to protective measures against takeovers (Butijn and Schoutendorp 1995; Tamminga 1995). A Committee on Corporate Governance, chaired by Unilever CEO Peters, was subsequently tasked with updating corporate governance guidelines for Dutch firms. The committee explicitly stated that pension fund beneficiaries would benefit from good corporate governance and therefore proposed a stronger influence of capital providers, "in particular institutional investors" (Commissie voor Corporate Governance 1997). Both business and labor groups alike adopted the committee's view that proxy voting is an essential element of pension investing. Still, VNO-NCW (2017) repeated earlier appeals to Dutch pension funds to act as so-called anchor owners, when it recently called on Dutch pension funds to block foreign hostile takeovers of Dutch corporations.

The absence of direct control over pension fund assets notwithstanding, different actors in the political economy have tried to harness the investment power of pension funds. In both the Netherlands and the United States, government administrations during the 1980s used the threat of taxation to force pension funds to increase their investments in the domestic productive economy (Van der Zwan 2017). More recently, the Rutte Administration has called on Dutch pension funds to reduce foreign investments and instead help stimulate the post-financial crisis Dutch economy. Labor unions, particularly in the United States, have similarly tried to gain a piece of the pension pot. With labor federation AFL-CIO in a coordinating role, American unions have adopted a "capital stewardship" approach, in which they use shareholder engagement to effectuate changes in corporate policies. American, organizing proxy campaigns amongst its member-affiliated pension funds (Van der Zwan 2011). Often, these campaigns have a social or political orientation. In the wake of the Supreme Court decision on *Citizens United* (2010), for instance, the AFL-CIO and other labor-shareholders have submitted shareholder proposals on disclosure of corporate expenditures on political activities.

American business groups have actively lobbied to legally prohibit unions and other political organizations to use the proxy process for their activism. To employers, shareholder campaigns are a big nuisance: not only do they impose costs on the firm, but the negative publicity associated with these campaigns may also cause reputational damage to the firm. The various political actions undertaken by the U.S. Chamber of Commerce are exemplary in this regard. Not only has the Chamber pressed for a legislative ban on social or political investment of pension assets, it has also pursued legal actions against activist pension funds as well as the Securities and Exchange Commission, that is responsible for regulating the proxy process (Hebb 2008). In 2007, for instance, the Chamber urged the Department of Labor to ban any pension investment that would "further public policy debates and political activities through proxy resolutions that have no connection to enhancing the cause of the plan's investment in a company" (U.S. Department of Labor 2007).

7. Conclusion

From an institutionalist perspective, the pension systems in the Netherlands and the United States could not be more different: (quasi-)mandatory versus voluntary participation, bipartite governance versus employer unilateralism, and corporatist policy-making versus adversarial politics, respectively. Yet, the strong emphasis on institutions in welfare state scholarship, and scholarship on comparative political economy in general, hides one important similarity between the two systems: the predominance of capital funding in the occupational pension system. While business interest scholars have emphasized the importance of exposure to competition in international production markets to explain employer support for social policy (cf. Swenson 1991; Mares 2003), this chapter has extended these viewpoints to incorporate financial market exposure. When occupational pensions are capital funded, the financial market performance of the plan's assets has a direct impact on the overall costs of the pension plan, while opportunities to exert control over global financial markets are severely limited. Financialization, or the growing influence of financial markets over the productive economy and society, thus changes the trade-off between risk and control over occupational pensions in a profound way.

That the influence of financial markets over pension politics should not be underestimated is indicated by the fact that the financial crisis of 2001 provided the impetus for major pension reform in both political economies studied here: the Pension Protection Act in the United States and the Pension Act in the Netherlands. Among other things, the Pension Protection Act legally required full funding of DB pension plans and increased PBGC premiums. With the Act, the Bush Administration hoped to strengthen DB pension plans, which American employers were abandoning at full speed. In the Netherlands, meanwhile, the 2006 Pension Act similarly introduced new financial rules for pension funds. The Act institutionalized the hybridization of DB pension plans, a development originating from the late 1990s. Contrary to the United States, Dutch employers used consultative bodies such as the Socio-Economic Council to shape the new pension legislation in light with their preferences, for instance in the area of solvency requirements. Absent such institutions in the United States, American business groups joined forces in a political lobby to avoid additional financial obligations for employers, with limited success.

It is important to note that neither in the United States, nor in the Netherlands business groups were driving forces behind the pension reforms. Instead, the state took the initiative. Once reform plans were announced, business tried to shape them in their interests. For instance, American business groups joined forces in an extensive lobby against the funding provisions of the Pension Protection Act, while in the Netherlands business and labor jointly worked on new financial rules. American and Dutch business groups were outright antagonistic, when it came to the harmonization of international accounting standards, that would result in more stringent reporting requirements for DB pension liabilities. As shareholder value has become the driving force behind corporate activities, DB pension liabilities are increasingly at odds with the expectations from investors, credit agencies and other financial market insiders. These findings confirm that employers' preferences vis-à-vis occupational pensions are not just motivated by cost considerations, but also by the position of the firm in the financialized political economy.

When it comes to the financial politics of occupational pensions, business and labor in both political economies did not always find themselves at opposing sides of the political debate. This makes sense, since investment of pension assets holds similar promises, but also threats for both parties: high rates of return might reduce contributions or increase benefits, while low rates of return threaten funding levels and could result in higher contributions or lower benefits. For this reason, both business and labor groups in the United States supported funding relief for DB plans after the financial crisis of 2008, while the Dutch social partners jointly drafted new solvency requirements for pension funds in the wake of the 2001 crisis. Opposition between business and labor has been more pronounced, however, when it comes the use of pension investments for secondary purposes, such as politically-oriented shareholder campaigns. On this issue, American business and labor have been diametrically opposed, as the latter has embraced shareholder activism as a new political strategy. Here the difference with the Dutch case is most apparent: Dutch unions have been reluctant to adopt an activist investment platform, because they fear jeopardizing their institutionalized position within Dutch corporatism.

In short, both American and Dutch employers are withdrawing their support from DB occupational pension plans. In the United States, employers have terminated DB plans in favor of DC pensions or have adopted other "de-risking" strategies to avoid the large liabilities associated with DB pensions. In the Netherlands, employers have so far avoided a widespread adoption of DC plans. Instead, they have placed DB pension liabilities "at a distance" from the sponsoring corporation in order to limit their exposure to financial risks. These developments cannot be explained by distributive factors alone. As business opposition to international accounting standards in both political economies shows, employers also experience strains of an increasingly financialized political economy in the areas of corporate finance and corporate governance. Whereas corporatist governance in the Netherlands has been able to smoothen the effects of financialization to a larger extent than in the United States, the threats and opportunities facing employers in both political economies are remarkably similar. The position of employers within the financialized political economy should therefore be incorporated into scholarship on business interests.

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