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The Capital-Funded Pension System: A New Sociological Agenda for the Welfare State

Abstract: A category emerging in welfare state scholarship and comparative political economy is the “capital-funded pension system”: retirement funded by investment returns. It is contrasted against the “PAYGO system” (pay-as-you-go): retirement funded by taxation transfers. I argue that the distinction between *capital-funded versus PAYGO* is a unique, additional conceptual apparatus on social insurance that differs from sociology’s established categories of the welfare state: public vs. private, liberal vs. corporatist vs. social-democratic, and coordinated- vs. liberal-market. I contend further that this analytical development on the welfare state has implications that extend beyond its subfield with wide, exciting, and fresh research directions for the discipline of sociology more generally. The goals of this paper are three-fold: to clarify capital-funded versus PAYGO conceptually against the established categories of the welfare state; to elucidate the capital-funded pension system as a unique social structure of stratification and politics against the PAYGO system; and to plot future research directions on the capital-funded pension system for labor, political, and economic sociologists. With the United States entering a new era of social problems characterized by its unprecedented population of retirees, this analytical work paves a significant step forward for future sociological research.

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Introduction: The Capital-Funded Pension System

The "capital-funded pension system" is an emerging analytical category in discussions across welfare state scholarship and comparative political economy (Braun 2022; McCarthy 2019; Van der Zwan 2017). Broadly, it refers to a welfare regime where retirement is funded by investment returns from financial assets. This system is in contrast to the "PAYGO system" (pay-as-you-go), which, again broadly, refers to a welfare regime where retirement is funded by taxation transfers from workers (Braun 2022). Today, *$48 trillion* is managed by capital-funded pension systems. The United States alone owns 64% of these financial assets, over $31 trillion. Seven countries in the world, including the US, own 92% of all capital invested for retirement.[1]

This newfound attention to pensions comes from the recent developments in welfare scholarship that examine social insurance *as* capital (McCarthy 2017). New research connects social insurance to capitalist accumulation by tracing how welfare states invest large pools of money, for retirement plus more, into corporations for their asset-management (Vanatta 2023; Braun 2022; McCarthy 2014). By examining the integration of social insurance into circuits of capital, this research freshly picks up where Neo-Marxists of the "capitalist welfare state" and scholars of poverty governance left off in the approach to study the welfare state as an agent of capitalism (Manza and McCarthy 2011: 160; Orloff 2005: 205; see also Soss et al. 2011; Piven and Cloward 1971).[2] These developments in welfare scholarship dovetail with discussions surfacing in comparative political economy on "pension fund capitalism" (Van der Zwan and Golka 2023; Skerrett et al. 2017; McCarthy et al. 2016). This scholarship identifies pension funds as sites of political governance that vary by their trustee boards, professionals, beneficiaries, and stakeholders who impact how funds invest, act, and provide. The combined tides of these subfields have created a new wave of conceptual language on the capital-funded pension versus PAYGO system.

How does this analytical development, capital-funded vs. PAYGO, square with sociological frameworks of the welfare state? What are the research implications of this development, more generally, for the discipline of sociology? This paper will argue that capital-funded versus PAYGO is a conceptual addition to sociological frameworks of the welfare state, distinct and irreducible to public vs. private, liberal vs. corporatist vs. social-democratic, and coordinated- vs. liberal-market. Further, I will contend that the capital-funded pension system is a unique structure of stratification in the welfare state that operates on particular political dynamics, differing from the PAYGO system. Lastly, I will suggest from this conceptual work that the capital-funded pension system opens up many new and exciting paths for future research, beyond welfare scholarship, more generally within sociology.

To proceed, this paper first clarifies the capital-funded versus PAYGO distinction. Second, I move into canonical frameworks of the welfare state, showing how capital-funded versus

[1] https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2023/

[2] Indeed welfare scholars, for generations, have long considered the welfare state as supporting capitalism by protecting labor markets (Garland 2016: 9). Yet most welfare scholarship sees the welfare state as a force separate from capital, explicitly and implicitly drawing upon Polanyi's classic framework of the "social" vs. the "market" (Esping-Andersen 1990: 37; see also Block and Somers 2014; Polanyi 1944 [2001]). The scholarship I am outlining here, in contrast, sees the welfare as subsumed by and subservient to the forces of capital.

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PAYGO is conceptually distinct and irreducible to sociology's preexisting categories. Third, I transition into theorizing how the capital-funded pension system is a unique structure of stratification with particular political dynamics and social problems, drawing upon Esping-Andersen (1990). Fourth, I outline a broad research agenda on the capital-funded pension system for sociology that touches on core questions asked by labor, political, and economic sociologists. Fifth, I conclude with how the freshly sketched angles of research on the capital-funded pension system will shed new light on the impending retirement crisis in the United States.

Clarity on Capital-Funded vs. PAYGO Pension Systems

The capital-funded pension system can be defined as a retirement structure that invests earnings from workers into financial markets for asset returns that supply old-age insurance. Capital-funded retirement is found in state pensions run by governments, occupational pensions run by businesses or public-sector employers, and personal pensions run by individuals (Van der Zwan 2017: 556). Pensions differ by the how the distribute risk: defined benefit or defined contribution plans. Defined benefit plans collective risk, meaning that retirees are promised income by a responsible larger "sponsor," which is a government or business. If investments by the pension fail, retirees can still count on the sponsor to pay their promised income. Defined contribution plans individualize risk, meaning that retirees are not promised income by a sponsor and will only receive as much as they put in or contribute. If the investments by the pension fail, retirees can only count on the current value of their assets to pay their income. This paper focuses more directly on the former given the current ascent of defined benefit in US political economy as companies reinstate these plans for new employees and as labor unions put them back on the negotiating table.[3] At core, animating the capital-funded pension system is the need for sponsors and retirees to generate sufficient investment returns from financial markets for retirement.

The PAYGO system differs. This is a retirement structure that uses taxation to transfer earnings directly from workers to retirees for old-age insurance. Most often PAYGO systems are state pensions run by governments with the power to tax, but occupational pensions can also operate on the basis of transfers from workers to retirees (Campbell 1992). Defined benefits are the modus operandi of a PAYGO system where the sponsor promises retirees an income that they extract through taxes from workers (Braun 2023). Personal pensions run by individuals do not exist in the PAYGO system because it is based on transferring *between* generations. There is no transfer of income to financial markets in the PAYGO system like there is in capital-funded pensions. Whereas the capital-funded system requires workers to seek investment returns to fund *their own future lives* as retirees, the PAYGO system requires workers to transfer their wages to fund *others' present lives* as retirees. Elderly dependence on the young is a relationship these two retirement systems organize differently at a societal level, which this paper will more fully explicate in its section on stratification. For now, suffice it to say that animating the PAYGO system is the need for sponsors and retirees to tax sufficiently waged workers for retirement.

[3] See *Financial Times* "Could a US pensions revolution be on the rise?" February 24th, 2024 (https://www-ft-com.turing.library.northwestern.edu/content/51908fe3-e3f2-44ce-9434-e1664e1f14ef). See also *New York Times* "The UAW Beats the Big Three Automakers" October 31st, 2023 (https://www.nytimes.com/2023/10/31/briefing/uaw-strike.html)

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Countries usually have both systems, but they operate under different sponsors.[4] In the United States, the state pension, Social Security, is a PAYGO system, while its occupational pensions in the private sector and personal pensions in Roth IRAs are capital-funded. Capital-funded and PAYGO pensions are two distinct logics and structures of retirement, while in practice they normally coincide. A country rarely is fully "one or the other." Yet over the last twenty years, countries have shifted their state pensions from PAYGO to capital-funded systems due to the sweeping demographic change of declining birth rates (Van der Zwan 2017: 558). PAYGO systems, depending solely on a current workforce for tax transfers to retirees, require high employment rates in a large youthful workforce without having to increase the employed population's tax burden (Wilke 2009). The social problems created by the capital-funded pension system will expand and its analytical place in the discipline will only become more urgent to solve.

Capital-Funded vs. PAYGO in Welfare Scholarship

How are pensions conceptualized in the main analytical frameworks of welfare scholarship? Capital versus PAYGO is a framework on how pensions are *funded.* This apparatus is distinct and irreducible to the established frameworks of the welfare state: private vs. public, liberal vs. corporatist, vs. social-democratic, and coordinated- vs. liberal-market. While a rich scholarship addresses the matter of funding by examining taxation structures, tax is never analytically compared to capital as variation that changes how the welfare state behaves or provides (O'Brien 2017; Martin and Prasad 2014; Prasad 2012). This paper seeks to correct. In this section, I highlight how capital vs. PAYGO is a distinct way to think about pensions in the welfare state.

Public versus private regard pension *coverage,* and it is perhaps the most foundational categorical apparatus found in welfare state scholarship (Prasad 2006; Hacker 2002; Orloff 1993; Baldwin 1990; Quadagno 1988; Korpi 1983). Public is the provision of pensions by a state, while private is the provision of pensions by an employer. Because welfare regimes that rely on private pensions leave much of their populations without adequate old age insurance, the spirit of investigation for scholarship on coverage has been: who gets a pension?

The capital-funded pension system can articulate itself in either public or private coverage. A famously generous public state pension system can be found in the Netherlands with its Alegemen Ouderdumswet (AOW), which provides retirement to all citizens on the basis of investment capital. Taxation is indeed collected by the Dutch state, but it is invested into financial assets for returns, dividends, and proceeds that are the source of ongoing retirement income for citizens (Van der Zwan 2017: 570). In private coverage, perhaps no example is clearer than the United States, where pensions are provided primarily through employers in 401(k)s or defined benefit plans which are invested largely in the stock market (McCarthy 2017: 126). Capital-funded pension systems are not reducible to public versus private welfare regimes.

Liberal versus corporatist versus social democratic regard pension *quality,* and the "three worlds of welfare" is perhaps the most shared conceptual apparatus in welfare scholarship of the past 30

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[4] See the OECD 2023 Report (https://www.oecd-ilibrary.org/sites/pens_outlook-2018-4-en/index.html?itemId=/content/component/pens_outlook-2018-4-en)

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years (Esping-Andersen 1990; see also McCarthy 2017; Prasad and Deng 2009; Korpi and Palme 1998; Orloff 1993b). "Decommodifcation" is at the center of this tripartite framework, defined as the "degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation" (1990: 37). Liberal, corporatist, and social democratic welfare regimes vary by the extent to which their pension systems, mixtures of public and private coverage, "decommodify" or allow beneficiaries to live free from the market (1990: 76). Liberal regimes with their support for private over meager public coverage are the least decommodified, while social democratic regimes with their support for generous public coverage over private coverage are the most decommodified. Because welfare regimes can have pensions that vary so significantly by their provisions, even if they are public, the spirit of investigation for scholarship on quality has been: what is a good pension?

The capital-funded pension system is found in state pensions across liberal, corporatist, and social-democratic regimes. The three worlds of welfare do not predict whether a country will have a capital-funded or PAYGO system for its state pension, as these two systems are scattered throughout the worlds of welfare. In fact, several countries that had a PAYGO system are transitioning to a capital-funded system, such as Japan in 2006 or Germany in 2021 — both of which labelled in this framework as "corporatist."[5] The previously mentioned AOW state pension in the Netherlands is capital-funded yet labelled as "social-democratic." This is especially interesting in the light of fact that capital-funded pensions *commodify* retirement provision by embedding its funding into circuits of finance capital. Funding source is a dimension of pension provision that is not captured in Esping-Andersen's canonical decommodification index to measure, construct, and sort the three worlds of welfare (1990: 54). Capital-funded pension systems are not reducible to liberal, corporatist, or social democratic welfare regimes.

Coordinated- versus liberal-market economies regard pension *incentives,* and "varieties of capitalism" (VoC) is perhaps the most interdisciplinary framework in welfare state scholarship (Hall and Soskice 2001; see also Behringer and Van Treeck 2022; Van Der Zwan 2017; McCarthy et al. 2016; Hall and Thelen 2008; Hicks and Kenworty 2003). Businesses and their social policy preferences are at the center of this framework. The welfare regime of coordinated market-economies incentivizes generous occupational pensions as way for workers to develop specialized skills and high-commitment to their employer, while the welfare regime of liberal-market economies incentivizes generous state pensions as a way for workers to develop transferable skills and low-commitment to their employer (Hall and Soskice 2001: 50-51).[6] Because welfare regimes functionally need businesses to support or cooperate with its policies for pensions, the spirit of scholarship on incentives has been: what leads to pensions?

The capital-funded pension system operates in both coordinated- and liberal-market welfare regimes at the state and occupational levels. Varieties of capitalism does not predict whether businesses are incentivized to prefer a capital-funded or PAYGO system. The capital-funded

[5] See *Bloomberg* November 3rd, 2021 (https://www.bloomberg.com/news/articles/2021-11-03/germany-s-400-billion-pension-fund-eyes-capital-markets-boost)

[6] Prasad (2012: 30-35) elevates the case of the United State to argue that the logic of VoC would actually exclude the United States as a liberal-market economy because the US incentivizes transferable skills but has none of state welfare provisions that the framework argues it should have — the opposite, in fact.

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system — by virtue of its funding source — incentivizes businesses or governments, who are sponsors, to maximize investment returns for the pension so they do not have to additionally contribute. Meanwhile this incentive, to maximize investment returns, is missing in PAYGO systems due to their funding source being wage transfers in labor markets. Capital-funded pension systems are not reducible to coordinated- or liberal-market welfare regimes.

This section has sought to demonstrate that the capital-funded versus PAYGO categorical apparatus on welfare *funding* — capital returns vs. taxation transfers — is distinct and irreducible to the established frameworks in welfare state scholarship. My intention was to showcase the novelty of this new conceptual language that is emerging from analytical developments in welfare scholarship and comparative political economy. This is not a break from past scholarship. Established frameworks such as, public vs. private, liberal vs. corporatist, vs. social democratic, coordinated vs. liberal-market, can certainly be used to understand variation *within* capital-funded pension systems, which some scholars have already begun to do (McCarthy et al. 2016). My point is that capital-funded versus PAYGO is a *distinct analytical apparatus*, whereby one system, or the other, cannot be subsumed as phenomenon that occur in a liberal or social democratic welfare regime, for example.

Why make all this fuss about the analytical distinctiveness of the capital-funded pension versus PAYGO system? In this next section, I transition to social stratification, and conceptualize how the capital-funded system is a specific structure of inequality and political-economic interests for retirement compared to the PAYGO system. In later sections, this conceptualization will help shed new light on the social problems created by the United States' retirement crisis.

Politics and Stratification of the Capital-Funded Pension System

Welfare states have long been theorized as generating their own political dynamics from the social stratifications and constituencies their programs engender (Esping-Andersen 1990; see also Prasad 2012; Hacker 2002; Orloff 1993b). Liberal welfare states, for example, classically create:

"one group at the bottom primarily reliant on stigmatizing relief; one group in the middle predominantly the clients of social insurance; and, finally, one privileged group capable of deriving its main welfare from the market" (1990: 65).

This "class-political dualism" in liberal regimes between the impoverished minority recipients of "state-welfare" and the middle-to-upper-class majority recipients of "market-differentiated welfare" creates a particular political dynamic whereby the minority group demands greater taxation upon the majority for "state welfare," while the majority group demands less taxation because they either do not or minimally receive state welfare (1990: 27). This political dynamic is absent in other welfare regimes such as corporatist welfare state, which stratifies populations based occupational prestige by giving certain professions graduated public benefits (1990: 27; see also Prasad 2006; Baldwin 1990).

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Likewise, the capital-funded pension system generates its own specific social stratification that differs from the PAYGO system. The source of this stratification is the integration of retirement provision into financial markets by a welfare regime that runs on investment returns.[7] Social stratification in the capital-funded pension sorts along three groups: retirees, taxpayers, and elites. Retirees being the beneficiaries of pensions; taxpayers being the contributors to pensions; elites being the advisors to pensions.[8] Capital-funded pension systems socially stratify by creating a) *retirees who are investors* at the levels of state, occupational, and personal pensions, b) *taxpayers for financialization* at the levels of state and occupational pensions, and c) *elites who manage and consult investments* at the levels of state, occupational, and personal pensions. Along these same three groups — retirees, taxpayers, and elites — PAYGO systems socially stratify quite differently by creating: retirees who are claimants, taxpayers for fiscal policy, and elites who estimate costs. The source of this stratification is the integration of retirement provision into labor markets by a welfare regime that runs on wage transfers.

The capital-funded pension system, by embedding retirement provision into financial markets instead of labor markets, gives retirees property, hands financiers savings, and orients taxpayers toward financialization — all of which contain social divisions and alignments that never enter a PAYGO system. A deeper dive into this stratification, by using examples and by making comparisons, will help highlight the sociological particularities of the capital-funded pension system. It will introduce the three areas of future research I will also later outline for the discipline in the next section.

Retirees in the capital-funded system can politically oppose workers, depending upon the investments of their pension. If a retiree's pension owns a worker's workplace as an asset — such as owning stock in Walmart — the retiree's interests for higher investment returns conflict with worker's interests for higher wages. Every dollar spent on wages, in a firm, is a dollar less of profit margin to award investors (Falato et al. 2022). Structurally, this puts retirees vis-a-vis workers in an extractive relationship of labor-squeezing for welfare, regardless of personal political preferences, because retirees are incentivized to maximize investment returns to grow and protect their pension.[9] Retirees take on the role of capitalist. This can deeply complicate political coalitions with workers.

Take the example of public-school teachers and their pension, the California State Teachers' Retirement System (CalSTRS). In 2012, CalSTRS demanded that Timken Steel, a family-owned steel company, break itself up into two separate firms dedicated to different products in the overall business. For shareholding investors like the teachers of CalSTRS, breaking up Timken would generate higher investment returns by raising the stock price. For the manufacturing employees of Timken, breaking the company into two would mean layoffs and austerity. Timken

[7] Prasad (2012) also shows conditions whereby the welfare state supports financial markets by leaving provisions, like healthcare, *uncovered* by the welfare state. People borrow credit to cover healthcare costs if insurance is not public. Finance is aided by a welfare vacuum.
[8] Even in private occupational pensions that are capital-funded, taxpayers can be subject to bailing these out if they become too underfunded. See *New York Times,* December 22nd, 2022 (https://www.nytimes.com/2022/12/08/us/politics/biden-union-pensions.html).
[9] I am not saying Environment, Social, Governance (ESG) investing, or "responsible" investing is impossible for retirees (see Liu and Goldstein 2021), but rather that incentives of capital-funded pensions reward profit-maximizing behavior so that workers can retire more comfortably.

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Steel was the largest employer in Canton, Ohio, a town of 70,000 residents. CalSTRS and the teachers of California got what they wanted: the company split, and its stock price soared. Meanwhile, Ohio laborers were laid off and promised scarcer earnings in the smaller companies.[10]

By design, such oppositions between workers cannot happen in a PAYGO system. Instead of investment returns, PAYGO retirees live on direct wage transfers from current, younger workers (Wilke 2009). Retirees, because they do not own workplaces as investment assets for their pension, are not incentivized to oppose workers and any demands workers may have for wages, benefits, and control over their workplace. PAYGO retirees are actually incentivized to *prefer* higher wages for workers (Braun 2023). Higher wages in labor markets allow greater transfers to be taxed from workers to retirees, creating generous pensions. Retirees in the PAYGO system can certainly invest for retirement in personal pensions, but within the macro-structural relationships of a PAYGO system at the state and occupational levels they are not investors for retirement.

Taxpayers in the capital-funded pension system can prefer financialization for social policy. Governments, in state and occupational pensions, invest tax revenue into financial markets for capital returns that can meet citizen and employee claims on the pension.[11] On a government's balance sheet, citizen and employee beneficiaries are considered "liabilities" that are met with investment returns considered "assets." The risk, however, of assets to underperform and be unable to meet liabilities is the risk of pension underfunding and of governments rescinding pension promises. This introduces the politics of "fully-funded," which are at the center of the retirement crisis in the occupational pensions of public-sector government workers in the United States.[12] Taxpayers have three political options to "fully-fund" capitalized pensions: cutback benefits to retirees to reduce liability, contribute greater tax revenue, or invest in riskier, higher return assets. Taxpayers are incentivized to avoid taxation demands by redirecting pension claims towards financial markets.

Take the example of Illinois' ongoing political fracas over its capital-funded public pension system. Illinois' pensions for government employees teeter at 50% underfunded: its assets are worth only half the sum its retirees can claim. Taxpayers rejected a graduated income tax to cover the unfunded pension liabilities. Taxpayers and unions have roadblocked reductions that were proposed to reduce liability.[13] The path taxpayers have left Illinois to make up for underfunding has been to invest for greater return. Illinois' pensions over the last ten years have dramatically increased their allocation to speculative "alternative assets," such as private equity and hedge funds, that promise greater, "countercyclical" investment returns.[14] Yet the subpar

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[10] See *New York Times* on December 7th, 2014 (https://www.nytimes.com/2014/12/07/business/timken-bows-to-investors-and-splits-in-two.html).

[11] This is especially true of defined-benefit plans whereby governments have promised a guaranteed income to retirees, and thus has fixed liabilities on their balance-sheet they needs their investments to meet.

[12] See the *Pew* Report, July 7th, 2022 (https://www.pewtrusts.org/en/research-and-analysis/articles/2022/07/07/states-unfunded-pension-liabilities-persist-as-major-long-term-challenge)

[13] See Illinois' 2015 Policy Report (https://www.illinoispolicy.org/reports/cps-pensions-from-retirement-security-to-political-slush-fund/)

[14] See Illinois' 2023 Policy Report (https://www.illinoispolicy.org/report-illinois-chicago-public-pension-crises-worst-in-u-s/)

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returns and high fees from these investments have only accelerated the pension's downward spiral. Standard & Poor's, the credit rating agency, is approaching a downgrade to Illinois creditworthiness for its government bonds, fearing that the state's unfunded pension liabilities will upset the government's ability to pay back it's creditors. Taxpayers in other states, like Rhode Island, have engaged in these budgetary politics only to have the state government, instead, terminate 55% of retirees' pension claims.[15]

In a PAYGO system, taxpayers do not have the political option to redirect pension claims on governments toward speculative investing in financial markets. Because investment capital does not fund pension revenue, taxpayers have to meet pension claims directly through fiscal policy. Taxpayers are younger, employed generations who transfer wages directly to older, dependent, retired generations (Wilke 2009). Underfunding pension problems that arise in the PAYGO system do come from financial markets but rather in labor markets.[16] The PAYGO system requires a large workforce with low unemployment to pay contributions to retirees, who in turn expect generations beneath them to eventually do the same. Taxpayers and their budgetary politics with the state are fiscal and demographic: that is, whether enough employed young people can be sufficiently taxed for the elderly. This is compared to taxpayers and their budgetary politics in the capital-funded system that are financialized, whether investments can generate sufficient returns for the elderly.

Elites in the capital-funded pension system are investment consultants and asset managers who are sought by governments, employers, labor unions, and retirees for their advice and connections to maximize retirement savings (Youngdahl 2013). Asset managers occupy the largest share of professionals within top income brackets in the United States (Kaplan and Rauh 2010: 1004; see also Lin 2015). An overwhelming source their income comes from managing and advising pension funds. Asset managers in private equity alone receive *one-third* of their $7.3 trillion just from public-sector and union-sponsored defined-benefit pensions (Appelbaum and Batt 2014: 12). These elites shift retiree wealth into personal income by charging the financial sector's "2-and-20": a 2% fee on the size of assets managed and a 20% fee on how these assets perform.

Take this example. If the average investment allocation a pension fund makes to private equity is $276 million, and these assets earn an average 6% return, the asset managers walk away with $8,332,000 from just one pension for just one year.[17] This calculation can be repeated for asset managers in hedge funds, real estate investment trusts, and venture funds, along with managers in the "Big Three" of Black Rock, Vanguard, and State Street, who run a similar business model for assets under management (Christophers 2023). Investment consultants also charge fees, 1-to-2%, according to the size of assets under management that a pension is looking to invest. Consultants connect pension staff and individuals to asset managers within their private network and advise pensions on the amounts they should invest (Youngdahl 2013).

[15] See the investigative journalism of *The Rolling Stone* (https://www.rollingstone.com/politics/politics-news/looting-the-pension-funds-172774/)

[16] This also means PAYGO deals with less volatility. Depressions and recessions are far less common than crashes in financial markets.

[17] Author's calculation. See Standard and Poor's for investment data and averages: (https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/pension-fund-allocation-to-private-equity-under-target-in-2023-75004412)

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In PAYGO systems there is no investment capital for elites to manage and charge fees for professional enrichment. Pension sponsors, in this system, are not seeking investment managers or consultants to maximize returns on investment, simply because retiree savings do not exist. There is no stockpiled wealth for the financial sector to intermediate between retirees and investments. Again, this is not to say that retirees cannot do this in personal pension plans, but in PAYGO systems at the state and occupational level, the relationships of stratification are different.

Actuaries are the elites who orbit governments and other sponsors in the decision making of a PAYGO system. Actuaries calculate risks, such as life expectancy, and project costs, which are the liabilities the pension fund will need to afford with revenue. These professionals operate on a fixed salary provided by a private employer or government, as opposed to a percentage-fee on billions of dollars like investments consultants or managers. Actuaries are estimators, not investors. In a PAYGO system, actuaries inform politicians of the costs they will need to meet through fiscal policy that can transfer income from workers to retirees. In a capital-funded system, actuaries also perform the work of estimating costs, but investment consultants are sought by sponsors to meet the liabilities actuaries predict.

This section has sought to specify how the capital-funded pension system is a unique agent of stratification with its own political dynamics that differ from the PAYGO system. Retirees are shareholders vis-à-vis workers; the state is a speculator vis-à-vis taxpayers; asset managers and consultants are elites vis-à-vis the public. This social stratification and its political dynamics are created by a welfare state that needs to generate investment returns to provide for retirement. The capital-funded system can appear in either a public or private welfare regime (Hacker 2002), in any of the three "worlds" of welfare (Esping-Andersen 1990), and in either a liberal or coordinated market economy (Hall and Soskice 2001). It therefore is not reducible to preexisting categories of the welfare state. It warrants recognition as its own stratification in need of a sociological research agenda. In the next section, I outline this agenda by expanding the capital funded pension system to a wide sociological audience, with special connections for labor, political, and economic sociologists.

Sociological Research Agenda for the Capital-Funded Pension System

Retirees and beneficiaries, in a capital-funded pension system, occupy a "contradictory class location" as asset-owning workers, which unions and labor movements have to navigate when collectivizing (Wright 2015). Organizing workers by shared class interests and mobilizing external stakeholders into workers' class struggles, have been abiding research foci among sociologists of labor (Cornfield 2023; Eidlin 2015; Dixon and Martin 2012; Isaac and Christiansen 2002). The central question for labor scholarship to ask is: under what conditions do retirees oppose or align with workers in their very own union or with other unions? Are retirees, who have an interest in profit maximization along with ownership claims on workplaces from their pension, a natural or efficacious ally to labor movements?

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Yet despite this hand and position retirees have in the labor movement, empirical and theoretical attention to their interests, activism, and attitudes have been mostly unexamined. Rare exceptions exist on senior citizen activism (Fine 2023), but they do not incorporate how the pension interests of retirees intersects with their politics. Furthermore, while a recent literature has emerged on "worker's capital" that examines how unions politically deploy pension capital (Jacoby 2021; Liu and Goldstein 2021), this work has focused on union staff instead of members, leaving aside retirees and beneficiaries as political subjects to be mobilized or antagonized with their pension interests.

Retirees with their labor politics is not only a significant theoretical opportunity to investigate, but it is also a pressing societal question about the future of political coalitions for organized labor. The population of the United States is older than it has ever been before, and the percentage of adults beyond 65 is predicted to continue increasing to *one-fourth* of the total population by 2050.[18] As life expectancies also rise, not only will there be more retirees for labor movements to reconcile within their politics, but retirees will also be an enduring political base to engage. A "pension revolution" for younger generations may also be on the horizon.[19] After the 45-day strike by the United Auto Workers at Ford, General Motors and Stellantis, capital-funded defined-benefit pensions in the private sector are back on the negotiating table.[20] Other companies, such as IBM, are also reinstating their defined-benefit pension funds. As retirees and pension beneficiaries grow as political publics, the contradictory class location of asset-owning workers for retirement will be an expanding political force to navigate for the American labor movement and for sociologists to investigate.

States and governments, for a capital-funded pension system, engage in financialization by investing tax-dollars into financial markets, which unleashes unique political dynamics on their budgets that they have to navigate with taxpayers. Tax regimes and fiscal systems have an "interlocking, coevolving" relationship with financial markets that is central to the research of political sociologists (Quinn 2017: 48; Pacewicz 2013; Prasad 2012; Carruthers 1996). Credit — and finance more broadly — has been theorized as a "politically easier" route for governments to fund social policy compared to the difficult battle of raising taxes (Prasad 2012). Financial policy substitutes fiscal policy. Choosing the "easier politics" of credit over the difficult politics of taxation for welfare, however, has tremendous distributional consequences because debt funnels income away from the poor and middle classes toward the financial sector (Prasad 2019). The capital-funded pension system gives the state the choice to substitute contributions from taxation for returns from financial markets as a way to meet its budgetary liabilities, which are retiree benefits. This understudied empirical reality is a new space for political sociologists to continue theorizing the state's relationship to finance: under what conditions do states chase speculative high-risk investments as "easier politics" to fund the pensions they manage instead of levying greater taxation?

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[18] According to the Population Reference Bureau (https://www.prb.org/resources/fact-sheet-aging-in-the-united-states/#:~:text=The%20number%20of%20Americans%20ages,from%2017%25%20to%2023%25.&text=The%20U.S%20population%20is%20older%20today%20than%20it%20has%20ever%20been).
[19] See *Financial Times* (https://www-ft-com.turing.library.northwestern.edu/content/51908fe3-e3f2-44ce-9434-e1664e1f14ef).
[20] See *New York Times* (https://www.nytimes.com/2023/10/31/briefing/uaw-strike.html).

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Despite the long attention pensions have indeed attracted in political sociology, scholars have traditionally studied their coverage politics, usually from a comparative perspective, rather than what I am pointing to in their budget politics (Prasad 2006; Hacker 2002; Orloff 1993a; Esping-Andersen 1990).[21] The focus of this established work mostly examines the fiscal conditions that *lead to* universal versus private pension provision. In contrast, I am posing questions on the budgetary politics that *flow from* a capital-funded pension system which is already in place. When the state manages a capital-funded pension, which owns fluctuating assets but has fixed liabilities, a pillar of its budgetary politics is about *from whom* can it fiscally extract for contributions that maintain the system's solvency if its financial investments underperform. The state intervenes, transferring income from one group to another, allowing political sociologists to ask: what macro-inequalities does the state create by redistributing income between social groups through contributions to balance the budget of its shifting, capitalized pensions?

Capital-funded pensions can strike peculiar and macabre contradictions in the tax inequalities of the welfare state, which sociologists have recently turned to examine on race (O'Brien 2017; see also Pacewicz and Robinson 2021). Regressive taxation for social policy, for example, O'Brien demonstrates as disproportionately located in municipalities with higher Latinx populations (2017). Racial minorities are more fiscally burdened than whites for the welfare state at the local level. Occupational pensions for civil servants, which are provided by the state, offer a novel space to explore this thesis. Police officers have their own pensions that are often managed by municipal governments who extract taxation from the public for contributions and investment (Aubry and Wendrei 2020). Police unions, for their pensions, can collectively bargain for contributions to come separately from the state instead of their salary, and since contributions are tax-dollars, police officers are effectively demanding a greater fiscal burden upon certain publics.[22] In municipalities more highly populated by racial minorities, this may mean that African Americans and Latinos are disproportionately responsible for financing the retirement of the very profession that disproportionately cuts their lives short.

Investment consultants and asset managers, in a capital funded pension system, are the economic professionals who steward retirement savings, which in the US alone places $14 trillion under the power and "jurisdiction" of their expertise in the financial sector (Abbott 1988). Economic experts and their influence in governments and organizations has been a foundational, animating research agenda for economic sociology (Berman 2022; Hirschman and Berman 2014; Pacewicz 2013; Fourcade 2009). Much of this research examines economists and the state, demonstrating how these experts have shifted policy goals from "equality" to "efficiency" (Berman 2022; see also Babb 2001). However, for the capital funded pension system in the United States, economists are not the experts who advise financial decisions. Instead, investment consultants, such as Segal Marco Advisors, and asset managers, such as Blackstone, are hired by governments, employers, and organizations to guide the financial decisions for pensions. Investment consultants and asset managers steward trillions of retirement dollars as experts, but

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[21] McCarthy (2014; 2017) indeed theorizes the role of capital in pensions, but his focus is in the private sector not on the state with its tax-based budgets which I am pointing to here.

[22] As an example, Chicago may raise property taxes to cover the pension contributions the city government conceded to police officers in their new consolidated pension with firefighters (https://www.chicagotribune.com/2023/12/26/effect-of-police-and-fire-pension-consolidations-on-property-taxes-remains-uncertain/).

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unlike professional economists in the US they are not required to have a formal doctoral degree in economics as a precondition for their economic expertise (Fourcade 2009).[23] Consultants and managers rose to their influence over retirement systems — it was not by default — as historical work on public pensions demonstrates how this expert milieu was a professional development beginning in the late 1960s (Vanatta 2023). Despite the tremendous responsibility these professions have in stewarding tens of trillions of dollars from retirement systems, very little research examines the origins and consequences of these experts.[24] For economic sociologists, their research agenda on the capital-funded pension system can ask: how have investment consultants and asset establish their jurisdiction over retirement systems? How, as experts, do they influence the investment decisions of large pension funds in government and in the private sector? What are the broader macro socio-economic consequences of their jurisdictional claim over capital-funded pension systems?

The rise of the super-rich has striking connections to the capital-funded pension system for the line of research on income inequality in economic sociology (Lin 2015; Godechot 2012; Tomaskovic-Devey and Lin 2011). The financial sector, this research shows, are the central professions responsible for the rise of modern income inequality, which holds true in countries beyond the United States as well (Roberts and Kwon 2017; Godechot 2012; Kaplan and Rauh 2010: 1004). The exact mechanisms enabling this income takeoff for the financial sector remain underspecified, despite the qualitative research that has pinpointed how asset managers and investment consultants make their salaries using fees — "the 2-and-20" — to transfer client savings into personal income (Appelbaum and Batt 2014; Youngdahl 2013). This is what Tomaskovic-Devy and Lin (2011) refer to as "rent" mechanisms: institutions that artificially inflate income (see also Sørensen 2000). Pensions have disproportionately been fuel to the financial sector, as over *one-third* of all capital in private equity alone has come from union-sponsored or public-sector defined benefit pension funds (Appelbaum and Batt 2014: 12; see also Braun 2022). The timeline shared between *when* US pensions could invest in asset managers and consultants and when financial sector became responsible for the takeoff of income inequality is deeply suggestive: the 1970s. The Employee Retirement Income Security Act of 1974 (ERISA) allowed US pensions to invest in assets beyond Treasuries, opening the terrain for asset managers and consultants to direct where pensions should invest while charging enormous fees to do so. This empirical relationship between the trust laws of a capital-funded pension system and macro socio-economic inequality could be fleshed out by asking: how is the income inequality and growth of the financial sector connected to the laws that dictate the investment possibilities of a capital-funded pension system?

Conclusion: From Coverage to Capital in Graying Societies

In this paper, I sought to bring the capital-funded pension system to a general sociological audience from its emerging yet siloed discussion within scholarship on the welfare state and comparative political economy. To demonstrate how the capital-funded pension system is a

[23] Fourcade emphasizes that the United States is actually unique in its emphasis on formal degrees to constitute economic expertise, whereas other countries do not tightly link the latter to require the former (2009: 5).
[24] While asset managers are receiving greater attention in political economy (Christophers 2023; Braun 2022), the rise of their expertise over the investments of capital-funded pension systems is significantly understudied.

unique sociological subject, I defined and contrasted it with the PAYGO system, I defined and highlighted its particular stratifications and political dynamics to attract a broad sociological curiosity, and I outlined a research agenda across subfields in the discipline to pave paths for its sociological future. As I intended to show, the analytical tools and perspectives of sociologists position the discipline to be especially equipped to understand the inequalities this system will generate as the United States transitions into a graying society dependent upon maximizing capital returns for retirement.

The alarm bells sociologists have already rung on retirement regard *coverage* (Hardy and Hazelrigg 2010; Quadagno 2005; Hacker 2002). Approximately one-half of the working adult population has nothing either saved or invested for retirement beyond Social Security, which differs only slightly between generations.[25] As Social Security provides retirees a mere $943 per month, elders are walking into a trap of poverty. This impending debacle is symptomatic of private coverage and the great “risk shift” of the American welfare state to individual retirees (Hacker 2002). The societal consequences from this coverage, we know, will be severe.

The new alarm bells I am ringing on retirement regard *capital.* I am pointing to the accelerating inequalities the United States will face in a system where retirees, labor unions, employers, and governments place $31 trillion dollars into the hands of the financial sector in the pursuit of maximizing capital-returns for welfare. For their own life after labor, retirees see others’ working lives in labor as their return-bearing assets. Maximizing pension growth on capital puts retirement into the hands of asset managers and investment consultants whose fees transfer retiree wealth into elite income. Budgetary pressures posed by volatile and underperforming financial markets push state and occupational pensions down funding spirals that have uneven fiscal burdens for taxpayers. These crisis-prone inequalities, of which we know little but sociologists are equipped to examine, have little to do with the welfare state’s pensions being public or private, liberal, corporatist, or social-democratic, coordinated or liberal, and everything to do, instead, with how retirement is funded: capital.

[25] According to data from the Federal Reserve’s Survey of Consumer Finance (https://usafacts.org/data-projects/retirement-savings).

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