Pension scheme in Austria

MSc Greta ALIKAJ
Albanian Ministry of Economic Development, Tourism, Trade and Entrepreneurship

Prof. assoc. Dr. PhD (Uni Graz) Mag. Iur (Uni Graz) Endri PAPAJORGJI
Dean of the Faculty of Law of TBU (Tirana Business University)

Abstract

Driven by unfavorable demographic developments and unsustainable, outdated or fragmented systems, pension reform has been at the top of political agendas across the globe for many years now (Prinz, Stanovnik & Stropnik, 2000). Over the last two decades, almost all western European countries have been trimming their public pension systems in an effort to strengthen pension sustainability. One main target of reform was to increase the retirement age. Other measures (e.g. changing the pension calculation, broadening the assessment base, changing the adjustment mechanism) were designed to lower replacement rates. The reform process in the wide range of countries addressed by this survey differs considerably from country to country. This is why Allianz first introduced the Pension Sustainability Index (PSI), which combines the various characteristics of pension systems with the factors that influence them to help track and evaluate policy changes made in different countries around the world. In addressing the sustainability of a country's public pension system, the PSI can give an indication of a country's need for reforms to maintain long-term financial sustainability. This can be difficult to assess given the many country-specific institutional, technical and legal parameters. The PSI is able to evaluate the long-term sustainability of national pension systems and thus the pressure on governments to reform these (International pension Papers, 1.2014).

The speed of reform, however, differs between countries. Those which recently introduced major reforms were able to improve in the PSI ranking because of active steps taken, while others were lost in comparison due to their passive policymaking.

Keywords: *Population Ageing, Pension, Public Finance Sustainability, Social Insurance, Retirement.*

Introduction

Austria pursues comprehensive social policies based on a wide range and dense network of duly coordinated social benefits and services (Oesterreichisches Sozial Ministerium, 2014). Compared with other European countries, these benefits and services are very well developed and greatly help to cushion the still-felt impact of the economic and financial crisis as well as its social and economic consequences for those groups of the population that were and are particularly affected by them. Rising expenditure on labor market and anti-poverty policies in combination with consistently high family, health and pension benefits are major contributors in reducing the risk of poverty and marginalization in Austria: the percentage of the Austrian population at risk of poverty, which is below the EU average, would be more than three times as high were it not for these social benefits (Oesterreichisches Sozial Ministerium, 2014).

Overall, the Austrian system of social security is characterized by a mix of centralized and decentralized elements, most of them (social insurance and universal benefits) coming under the remit of the central government. The regional entities (Laender, local and municipal governments) are responsible for part of health care, housing, most of the social services, childcare facilities and the means-tested minimum income scheme (social assistance until 2010).

Recent policies targeted at social protection have already made a positive impact. In addition, the importance of social services provided to supplement existing cash benefits has grown in the past years. This is particularly true of childcare, nursing care, rehabilitation and labor market integration. Social services thus improve the prospects of participation in society and help stabilize economic and employment development in Austria (Oesterreichisches Sozial Ministerium, April 2014). In conjunction with social benefits and services, a comprehensive legal framework on health and safety at work, on reconciling work and family life as well as on non-discrimination in all aspects of life constitutes another major pillar of the Austrian welfare state.

Description of the current pension system

Austria pension scheme is guided by equality principles. As in many other European countries the Austrian Pension System has three Pillars.

• **The First Pillar**

The most important source for the provision of retirement income in Austria is the so-called "statutory pension system" (Schulze, 2007, 567).

It provides:

- old-age pensions,
- surviving dependants' pensions, as well as
- invalidity pensions (Schulze, 2007).

Today, the statutory pension system includes, in principle, all people in gainful employment (including most categories of self-employed), with the exception of civil servants, who have traditionally been covered by their own systems. However, under the Act on the "Harmonisation of Austrian Pension Systems", which took effect on 1 January 2005, uniform pension laws were created for all gainfully employed people, including federal civil servants.

The Austrian statutory pension system is an earnings-related unfunded scheme, organised on a PAYG (Pay-as-you-go)-basis and at first instance financed by insurance contributions, amounting to 22.8% of gross earnings up to a ceiling.

The Austrian statutory pension system does not provide for an unconditional minimum pension for people beyond a certain age. However, the so-called "means-tested equalization supplement" ("Ausgleichszulage") may - on a partly means-tested basis - apply for people who are, in principle, eligible to a pension entitlement. This means that pensions of low benefit level may be raised to the so-called "equalization supplement reference rate" ("Ausgleichszulagenrichtsatz" e.g.: 2013: EUR 837,63 for Singles) in case of financial indigence. Thereby, apart from the pensioner's income, the income of spouses or partners is taken into account (but not assets). Private schemes have a rather limited role in overall provisions, although coverage and the accumulated funds have increased somewhat in recent years. In 2010 about 696,000 persons (or approx. 22% of the dependent employees) were entitled to receive an additional pension from an occupational scheme in the future, and about 66,000 persons (which equals about 4.5% of the population aged 65 and above) were already beneficiaries.

• **The Second Pillar**

The second pillar was somewhat strengthened by the introduction of the new severance pay scheme in 2003. Employers are obliged to pay 1.53% of the monthly gross salary to a staff provision fund set up especially for this purpose[1]. Employees have the option to withdraw their savings in case of termination of a work contract (if specific preconditions are fulfilled) or keep them until retirement age. The latter option, however, does not seem to be widely used at the moment.

• **The Third Pillar**

Regarding the third pillar - i.e. private savings - since 2003, public subsidies are available within a scheme called “premium-aided pension savings scheme” (Prämienbegünstigte Zukunftsvorsorge). The impact of the “premium-aided pension savings scheme” on the level of future pensions is likely to be rather limited. About 1,541,000 of such contracts on savings plans existed at the end of 2010, covering only about a quarter of the population at the age below 60. Furthermore, the level of premiums paid to such schemes typically appears to be rather low. In 2010, the average premium amounted to about EUR 640 to 780 per year (depending on the type of provider of the scheme) (Oesterreichisches Sozial Ministerium).

The statutory retirement age

The current statutory retirement age is 65 years for men and 60 years for women. According to the current legal framework, between 2024 and 2033 the pensionable age for women will gradually be increased by 0.5 year-steps per year to equal the pensionable age for men. Early retirement is possible on the grounds:

• of disability
• of long-term insurance periods (currently an insurance period of 37.5 insurance years or more is required);
• of long-term insurance contributions (currently a contribution period of 40 (women) / 45 (men) contributory years or more is required);
• of physically hard work combined with long-term insurance periods (45 insurance years or more);
• and the so called corridor-pension at the age of 62 for both sexes, when having 37.5 insurance years or more; in addition to the overall deduction of 4.2% per pre-retirement year, there is an additional deduction of 2.1 % per year of pre-retirement before 65.

[1]http://www.sozialministerium.at//siteEN/_Social_Affairs/Pensions_and_Retirement/ (01.06.2015)

For all pre-retirement schemes there is a deduction of 4.2 % per pre-retirement year (exception: for the physically hard work - scheme the deduction is 1.8 % per year), there also exists a bonus of 4.2 % per year for a retirement after 60/65. Both - deduction and bonus - are subject to limitations.

Recent Reform

In March 2012 a further major pension-reform was passed by the Austrian parliament: this reform undertook on the one hand further incremental steps that are in line with the reforms of the last decade and the main point is that:
All pensions - rights accrued until 31.12.2013 are calculated per 1.1.2014 and this (fictitious) pension is transferred as a “starting - entry” to the individual account. This reform will end the difficult and therefore inexplicable calculation of the past[2].
The aim of this reform is to give the clear and transparent signal and regular information to the insured person, that working longer gives a substantial rise of the accrued pension entitlement.

Administration

The Administration of the Austrian Pension System is made up of self-governing pension institutions with elected representatives of insured persons and employers[3]. The providers of pension, health and accident insurance are unified by law in the Association of Austrian Social Security Providers. This association represents the interests of all social insurance schemes (Schulze, 2007, 567-568).

Conclusions

The last 20 years of Austrian pension politics have been characterized by intense debate and controversy, but until recently there have only been limited reforms. Although governments have constantly strived for a consolidation of the general budget through a reduction of social security expenditure, government contributions to the pension system increased from ATS 16 billion (i.e. 1.57% of GDP) in 1980 to ATS 56.5 billion (i.e. 1.95% of GDP) in 200114 and to e5.8 billion in 2003. In 2014, 28% to 31% of GDP was used for social protection (Federal Ministry of Social Affairs).
Austria has the second lowest unemployment rate (Germany has the lowest), at an average of 5,6 %, comparing to the other members of European Union[4]. This fact has been a decisive factor for Austrian sustainable pension scheme. Furthermore, the latest reform on pension system, which consisted on changing the calculation form of pensions, give the signal that benefits increase in proportion with the period of work.

[2] http://www.sozialministerium.at//siteEN/_Social_Affairs/Pensions_and_Retirement/ (20.05.2015).
[3] http://www.sozialministerium.at//siteEN/_Social_Affairs/Pensions_and_Retirement/ (20.01.2015).
[4] Eurostat (Retrieved on 19.03.2015).

Austria is based on principles of welfare and is very important emphasizing the enormous importance of it for the communal way of life:

• The welfare state benefits everyone by affording protection in a number of special situations against illness, unemployment and other eventualities.

• It creates chances of participation for all, thus strengthening the peaceful cohesion of society.

• It is a positive factor in our surroundings by promoting prosperity and productivity. Unemployment and family or pension benefits are key factors in ensuring stable consumer spending of private households and the future sustainability of government spending.

28 % of 31 % of GDP are used for social protection because social policy is seen as a key instrument in efforts to improve chances in life, alleviate risks and manage crises. With a low unemployment rate and welfare state characteristics, Austria pension system is one of the most sustainable systems in Western Europe, providing adequate revenues for retired individuals and sustainability of pension schemes.

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