National report - Austria

Etuc SociAll Project

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Participating National Trade unions: ÖGB

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SECTION 1 – NATIONAL CONTEXT

1. GOVERNMENT / SOCIAL PARTNERS

In January 2020, after the dissolution of a conservative-right-winged government and the subsequent early parliamentary elections, a conservative-green coalition government was formed for the first time in Austrian history. The government is clearly dominated by the conservative People’s Party (ÖVP) which got 37.5% of the vote versus the Green Party which only got 13.9%.

Regarding pensions, the new government’s programme addresses closing gender gaps, increasing fairness, raising effective retirement age and ensuring sustainability as key objectives. Improving labour market integration, mainly for women, is emphasised as being of major importance for achieving these goals. Only very few concrete reform measures are laid down in the document, such as the splitting of pension credits between partners. Need for an overall reorientation of the pension system has been explicitly rejected.

Both the change of the composition of the government and the huge labour market challenges as a result of the Covid 19 crisis have led to a significant resurgence of cooperation between the government and the social partners, primarily with regards to labour market issues. Thus, in order to protect jobs during the period of massively reduced economic activity the social partners developed a new model of subsidised short-time work, guaranteeing between 80 and 90% of previous earnings. At its peak, during the lock-down in spring 2020, about 1.35 million employees, more than 1/3 of the total, were covered by short-time arrangements. In the meantime, the number has decreased to 300,000 (Sept 2020).

2. ECONOMY

In 2019, according to Eurostat data, Austria’s GDP per capita (in PPS) was 27% above the EU-27 average, close behind Denmark (+ 29%) and The Netherlands (+ 28%) and somewhat higher than in Germany (+ 21%), Sweden (+ 20%) and Belgium (+ 17%).

General government gross debt, in 2019 stood at 70.4% of GDP. In 2007, before the 2008/2009 crisis, the rate was 65%. In the following years, as a consequence of the crisis and the subsequent low growth rates caused by austerity policies, the rate significantly increased to reach its peak of 84.9% in 2015. Then, in the context of relatively high growth rates between 2016 and 2019, the debt rate fell rapidly.

The economic collapse caused by Covid 19 with its massive impact on public finances put a brutal stop to the positive development. According to current forecasting by the Austrian Institute for Economic Research/WIFO (Oct 2020), in 2020 GDP is expected to decrease by 6.8% and the number of people in employment to decline by 1.9%.

Falling state revenue and fast increasing unemployment together with high spending on special support measures, such as massively subsidising short-term work, will result in massive government deficits both in 2020 and most probably in 2021. Up to now, there has been a consensus among political
parties and both employers’ organisations and trade unions that expansive budgetary policy is indis-

pensable as a key instrument for tackling the crisis.

3. LABOUR MARKET

People in employment

Over the past two decades, despite the 2008/2009 crisis, the Austrian labour market performed rather well. From 2000 to 2019, the total number of people in employment increased by 22%, female employment by a remarkable 30% and male employment by 16%.

Significant increases occurred both among employees and the self-employed. Expressed as a percentage, the sharpest rise occurred among self-employed women.

Table 1: People in employment* (2000-2019)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>1.76</td>
<td>1.79</td>
<td>2.03</td>
<td>+ 15%</td>
</tr>
<tr>
<td>Females</td>
<td>1.38</td>
<td>1.58</td>
<td>1.76</td>
<td>+ 28%</td>
</tr>
<tr>
<td>self-employed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.24</td>
<td>0.27</td>
<td>0.29</td>
<td>+ 21%</td>
</tr>
<tr>
<td>Females</td>
<td>0.14</td>
<td>0.17</td>
<td>0.21</td>
<td>+ 50%</td>
</tr>
<tr>
<td>total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>2.00</td>
<td>2.06</td>
<td>2.32</td>
<td>+ 16%</td>
</tr>
<tr>
<td>Females</td>
<td>1.52</td>
<td>1.75</td>
<td>1.97</td>
<td>+ 30%</td>
</tr>
<tr>
<td>males + females</td>
<td>3.52</td>
<td>3.81</td>
<td>4.29</td>
<td>+ 22%</td>
</tr>
</tbody>
</table>

*Marginal employment not included
Source: WIFO; own calculations

Note: In contrast to Eurostat labour market figures, the WIFO figures presented in tables 1 and 2 do not include ‘mini-jobbers’, i.e. people with monthly earnings that do not exceed the marginal earnings threshold which is about 20% of average earnings. Especially in the context of pension policy, it seems appropriate to not include this very specific type of employment, because it neither offers the opportunity to significantly contribute to a pension system - be it public, occupational or private – nor does it provide any significant pension entitlements. In 2019, 130,000 women and 50,000 men had overall earnings¹ from employment not exceeding the marginal earnings threshold.

¹ If someone performs more than 1 job, the earnings are added together. If the overall earnings exceed the marginal earnings threshold all the earnings are automatically enrolled in the Statutory Pension Insurance. Therefore, mini-jobs performed alongside another job are not among the 130,000 women and 50,000 men.

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Employment rate
The fast-increasing number of those in employment is reflected in the development of the employment rate. Especially among women, between 2000 and 2019 an enormous 10.8 percentage point increase occurred. Among men, the employment rate increased by 4.6 percentage points.

Table 2: Employment rate 15-64* (2000-2019)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>males</td>
<td>73.4%</td>
<td>72.4%</td>
<td>77.0%</td>
<td>+ 4.6 p.p.</td>
</tr>
<tr>
<td>females</td>
<td>55.9%</td>
<td>61.6%</td>
<td>66.7%</td>
<td>+ 10.8 p.p.</td>
</tr>
<tr>
<td>total</td>
<td>64.7%</td>
<td>67.0%</td>
<td>71.9%</td>
<td>+ 7.2 p.p.</td>
</tr>
</tbody>
</table>

*Marginal employment not included
Source: WIFO; own calculations

Notes:
- The WIFO data presented in table 2 show lower employment rates compared to the Eurostat figures due mostly to the exclusion of the ‘mini-jobbers’. In 2019, the WIFO rate is 1.5 percentage points lower than Eurostat’s for females and 1.0 percentage points lower for males.
- Full-time equivalent employment rates are addressed in chapter 3.1.

Over the past two decades, the highest employment rate increase occurred in the higher working ages. Among women aged 55-64, the employment rate increased by 33 percentage points to reach 45.8% in 2019. Even if the extremely low starting level of only 12.8% in 2000 is taken into account, this is an enormous increase, especially against the background of a constant legal retirement age of 60.2 Among men, there was also a huge increase - from 34.5% in 2000 up to 61.5% in 2019.

Table 3: Employment rate 55-64* (2000-2019)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>males</td>
<td>34.5%</td>
<td>43.9%</td>
<td>61.5%</td>
<td>+ 27.0 p.p.</td>
</tr>
<tr>
<td>women</td>
<td>12.8%</td>
<td>26.0%</td>
<td>45.8%</td>
<td>+ 33.0 p.p.</td>
</tr>
<tr>
<td>total</td>
<td>23.3%</td>
<td>34.7%</td>
<td>53.5%</td>
<td>+ 30.2 p.p.</td>
</tr>
</tbody>
</table>

*Marginal employment not included
Source: WIFO; own calculations

Non-standard types of employment
In the context of pension policy, particular attention should be paid to non-standard types of employment. In Table 4, the quantitative development of some key types is shown. Since a coherent time series only exists from 2005 onwards, that year has been taken as the starting point of consideration.

2 See below, FN 5
### Table 4: Non-standard types of employment

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2019</th>
<th>change 2019/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in mio</td>
<td>in mio</td>
<td></td>
</tr>
<tr>
<td><strong>Part-time</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.05</td>
<td>0.12</td>
<td>+ 0.07</td>
</tr>
<tr>
<td>Females</td>
<td>0.47</td>
<td>0.71</td>
<td>+ 0.24</td>
</tr>
<tr>
<td><strong>Marginal part-time</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.03</td>
<td>0.05</td>
<td>+ 0.02</td>
</tr>
<tr>
<td>Females</td>
<td>0.10</td>
<td>0.13</td>
<td>+ 0.03</td>
</tr>
<tr>
<td><strong>Fixed-term work</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.08</td>
<td>0.10</td>
<td>+ 0.02</td>
</tr>
<tr>
<td>Females</td>
<td>0.09</td>
<td>0.12</td>
<td>+ 0.03</td>
</tr>
<tr>
<td><strong>Temporary work</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.04</td>
<td>0.05</td>
<td>+ 0.01</td>
</tr>
<tr>
<td>Females</td>
<td>0.02</td>
<td>0.03</td>
<td>+ 0.01</td>
</tr>
<tr>
<td><strong>Freelance contracts</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Males</td>
<td>0.02</td>
<td>0.01</td>
<td>- 0.01</td>
</tr>
<tr>
<td>Females</td>
<td>0.03</td>
<td>0.01</td>
<td>- 0.02</td>
</tr>
</tbody>
</table>

*people working between 12 and 35 hours per week  **people working less than 12 hours per week; ***freelance contract workers in employment similar to employees

Source: Statistik Austria

Among non-standard types of employment, part-time work has seen the strongest increase, in particular among women. Since 2005, the number of female part-time jobs increased by 50%. In 2019 about 40% of all women in more than marginal employment worked part-time. Among men, part-time work was still at a moderate level but there was also an increase. The increase of part-time work is driven by several factors, including more women entering employment, shorter periods of parental leave, changing life-style preferences and, last but not least, increasing interest of companies in flexible part-time employment.

The number of people working marginal part-time jobs with less than 12 hours per week, people with fixed-term contracts and people performing temporary work saw some increase too. On the other hand, the number of freelance contract workers in employee-like status fell, likely because of social security reforms which stipulated similar treatment to employees regarding both public pensions and health insurance; namely the payment of social insurance contributions, by the employer at the same rate as for employees.

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3 See FN 1
1. PENSION SYSTEM

1.4.1. Architecture

- Clear priority of public pensions

Austria’s pension system is characterised by its clear priority of public pay-as-you-go financed pensions. About 90% of all pensions paid come from the Statutory Pension Insurance or from specific statutory civil servants’ schemes. Statutory Pension Insurance carriers are governed by social partner representatives. Both occupational and private pensions play only a minor role. Only about 20% of workers are covered by supplementary occupational schemes.

Besides old-age pensions (statutory retirement age 65⁴), the range of benefits offered by the Statutory Pension Insurance comprises “corridor pensions” (between age 62 and 68⁵), “heavy labour” pensions (age 60⁶), disability and survivors’ pensions as well as rehabilitation measures. Financing is primarily based on earnings related contributions, supplemented by state subsidies. Automatic correction mechanisms, such as automatically taking into account increasing life expectancy, in calculating or indexing pensions, or in fixing statutory retirement age, do not exist. Thus, unlike in several other EU Member States, any change to the Austrian Statutory Pension Insurance provisions necessitates adoption in Parliament.

The ÖGB firmly supports a clear priority of public pensions, arguing that only statutory schemes allow full coverage of all people in employment and, in contrast to most occupational pension schemes, do not foresee any vesting period which is very important for the effective coverage of mobile workers. They also emphasise that shifting responsibility for old-age protection from public to private does not entail cost savings but, at best, cost shifting and very likely an increase of overall pension costs. Furthermore, there is concern about the linkage of pre-funded systems to highly volatile financial markets and, more generally, about risk shifting to individuals (see chapter 2.6.) and the increase in inequality among future retirees. ÖGB’s firm rejection of automatic correction mechanisms is outlined in chapter 3.4.2.

- Employment based scheme

The Statutory Pension Insurance covers almost all types of employment, compulsory membership also includes self-employed people. Entitlements primarily stem from labour income subject to social security contributions. Several periods without paid work are covered too, such as unemployment (incl. long-term), sick leave, maternity leave, care of close relatives and military or civil service. For ‘child rearing’, 4 insurance years per child⁷ are granted to the parent who provides the primary care. The

⁴ At present, statutory retirement age 65 only applies to men. For women born before Dec 1963 statutory retirement age is still 60. For birth cohorts between Dec 1963 and June 1968, based on legislation dating back to 1992, there will be gradual increase to reach 65.

⁵ Deduction in case of retirement before 65, bonus in case of retiring later

⁶ To be entitled to a “heavy labour” pension 45 years of insurance are needed of which at least 10 years of arduous work within the 20 years prior to retirement.

⁷ Except if children are born in an interval of less than 4 years. In such cases, overlapping 4-year-periods are not counted twice.
'equalisation supplement' ensures an income-tested minimum pension level for those with very low pensions.

- “Defined-benefit” pension accounts

Unlike most pension account systems established in the past 20 years in several EU Member States, the Austrian Statutory Pension Insurance provides “defined benefit” accounts. In each year of insurance, a pre-defined pension amount (1.78% of insured earnings) is credited to the individual’s public pension account. Acquired pension entitlements are indexed in line with wage growth up until retirement. The system of individual “defined benefit” pension accounts ensures both a high level of transparency and predictability of pensions. Furthermore, with its annual pension credit of 1.78% it offers a rather high rate of income replacement in comparison to international standards.

1.4.2. Pension reform

Pensions play a key role in public social policy debate and welfare state reform. For many years, mainly business-oriented pension experts and industry representatives, referring to the World Bank’s 3-Pillar-Concept, strongly argued in favour of re-organising Austria’s overall pension architecture.

Trade unions, together with the Social Democratic Party and the Green Party, had always strongly objected the idea to abandon the clear priority of public pensions and to shift old-age protection responsibility from public to occupational and private pensions (see chapter 1.4.1. and 2.6.).

In 2003, the conflict between these highly differing opinions reached its peak when a conservative-right-winged government, in power at that time, presented a reform concept nearly exclusively focusing on drastic cuts of the ‘first pillar’, accompanied by the establishment of a state-subsidised private pension option.8

Strong resistance from both the trade unions and the opposition parties in Parliament (Social Democrats, Green Party) together with scepticism among affiliates of the governing parties led to far-reaching modifications of the initial reform concept. The final version of the reform, adopted in Parliament in two steps in 2003 and 2004, brought some substantial changes to former pension provision but did not question the clear priority of the public PAYG system.

Key elements of the 2003/2004 reforms of public pensions:

- maintenance of ‘defined benefits’ (instead of transition to ‘defined contributions’ as initially proposed by the government)

- annual pension credit of 1.78% of pensionable earnings (instead of the former 2.0% combined with an overall limit of 80%)

- gradual change from the ‘best 15 years’ to ‘life-time earnings’ as assessment base for pension credit calculation (against the initial concept of the government the negative impact on benefits was mitigated by substantially improving the indexation of past earnings)

- higher evaluation of child-rearing periods.

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8 Later on, this private pension product very much disappointed the expectations of most buyers. In 2012, state premiums were halved from 9.5% down to 4.25%.

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- reduction of early retirement options - instead the establishment of a so-called ‘pension corridor’ between the ages of 62 and 68 with deductions in cases of retirement before the age 65 (statutory retirement age) and bonuses in cases of later retirement.

- establishment of a special “heavy labour” pension accessible at age 60, provided there is at least 10 years of arduous work (within 20 years prior to retirement) and 45 years of insurance.

- establishment of individual ‘pension accounts’ in the public pension insurance as an instrument to make the system more transparent (in 2014 all ‘old’ pension entitlements were re-calculated and transferred into these accounts).

- gradual alignment of civil servants’ pension schemes with the Statutory Pension Insurance, both in regard to contributions and benefits; full harmonisation for those entering civil servant status from 2005 onwards.

Reforms adopted in recent years mainly focussed on
- restricting access to early retirement pensions
- new ways of coping with reduced work capacity (rehabilitation programmes instead of former temporary disability pensions)
- minimum income (increasing the target rate for the ‘equalisation supplement’ for those with long working careers)
- pension deductions in case of early retirement (by parliamentary vote in 2019, deduction-free early retirement was made possible for those with an employment career of 45 years).

Through legislation adopted in Parliament in November 2020, despite trade union protest, the 2019 pension deduction reform was annulled. As partial compensation for those with very long employment careers, pension bonuses of up to €60 per month has been set up for all those who started working early in life.

1. Coverage

Statutory Pension Insurance: Statutory Pension Insurance covers nearly all forms of employment, including non-standard types of work and self-employment. Since 1997, new types of employment that border between traditional self-employment and dependent employment have also been covered. Except civil servants 9 and some liberal professions 10, nowadays only people in marginal part-time employment, with an income from work not exceeding the marginal earnings threshold of €460.66 per month (2020) 11, are not automatically enrolled but have the opportunity to opt-in.

Nonetheless, there is a remarkable number of Austrian residents, mostly women, who never get a public pension because of its linkage to gainful employment combined with rather strict qualifying conditions.

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9 Civil servants have special public pension schemes outside the Statutory Pension Insurance. However, as a major part of pension reforms in the late 1990’s and early 2000’s, civil servants’ pension systems are being brought into line with the Statutory Pension Insurance, with regards to both the contribution rates and the pension formula.

10 Some liberal professions such as doctors, lawyers and architects are not enrolled automatically in Statutory Pension Insurance but have the possibility to collectively opt in. Only lawyers did not make use of this opportunity.

11 If someone performs several paid jobs in parallel automatic enrolment in Public Pension Insurance takes place for each job as soon as overall income exceeds the marginal earnings threshold.

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conditions: Statutory Pension Insurance only grants old-age pensions provided the claimant has acquired at least 180 months of insurance which have to include a minimum of 84 months in employment. In the past, qualifying rules were even stricter resulting in a significant number of women never achieving the entitlement to a pension of their own. As a result of the softening of qualifying rules and, more importantly, because of improving labour market integration, over the past few decades the situation has improved significantly. Nevertheless, at present, among women aged over 65 there is still a huge 18.4% share with no pension of their own while the same rate among men is only 1%. Even if other benefits, such as survivors’ pensions, are also taken into account a 11.4% share of women aged over 65 are without a pension.12

Very likely13 a substantial part of those with no pension entitlement are immigrant women, living in very traditional family structures with the man performing paid work and the woman caring for the household and children.

**Occupational pensions:** Traditionally, occupational pensions play a minor role in the Austrian overall pension landscape. Nevertheless, coverage increased from about 10% in 1990 to the present level of about 20%14, however, in many cases, with very low levels of contributions. Most schemes are negotiated at a company level between the employer and the work’s council. Sector-wide collective pension agreements, negotiated by employers’ organisations and the trade unions, only exist in a very small number of sectors. Almost all existing occupational pension schemes are “defined contribution” administered by private pension funds. Workers’ participatory rights in the funds are limited to seats on the supervisory boards of the funds.

In small companies and in low pay sectors with a high share of female employment there are very few workers covered by an occupational pension scheme. The same is true for atypical forms of employment such as seasonal work, platform workers, independent contractors and other forms of self-employment. Moreover, for those working in a company with an occupational pension scheme effective coverage is restricted by vesting periods. In many schemes there are no vested rights for workers who do not stay with a company, be it voluntarily or involuntarily, for at least 3 years. As a result, the majority of employees who have access to supplementary occupational pensions are permanent staff members of midsized or big companies.

1.4.4. Adequacy

In the aftermath of the harsh controversy on content and orientation of the great pension reform of 2003/2004 (see chapter 1.4.2.) the government and the trade unions, in principle, agreed on key cornerstones regarding the pension formula to be used in the Statutory Pension Insurance:

- annual pension credit of 1.78% of pensionable pay, disclosed on the individual’s ‘pension account’
- all years of insurance are taken into account
- deduction in cases of retirement before statutory retirement age (65) and a bonus in cases of delayed retirement

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12 Mairhuber/Mayrhuber (2020)
13 No precise data available.
14 No precise data available.

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Based on an annual pension credit of 1.78% for each year of insurance, the following adequacy goal for people with very long insurance records was agreed upon:

- 80% earnings replacement (gross; relative to the person’s average life-time earnings)
- provided 45 years of insurance (45 x 1.78% = 80.1%)
- provided retirement at statutory retirement age (65)

Pensionable pay taken into account for 1.78% pension credit is limited with a contribution ceiling of €5,370 per month (2020). As employees receive 14 monthly payments per year and both the 13th and 14th months pay are also pensionable, the annual contribution ceiling currently amounts to €75,180. The same ceiling applies for pensionable earnings of self-employed persons. Parts of earnings exceeding the ceiling are neither liable to contribution nor do they generate pension credits.

Depending on the length of an individual’s insurance record the following gross income replacement levels are achieved (... x 1.78%).

<table>
<thead>
<tr>
<th>Years of insurance</th>
<th>(Gross) Income replacement rate (provided retirement at statutory retirement age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 years</td>
<td>26.7%</td>
</tr>
<tr>
<td>25 years</td>
<td>44.5%</td>
</tr>
<tr>
<td>35 years</td>
<td>62.3%</td>
</tr>
<tr>
<td>45 years</td>
<td>80.1%</td>
</tr>
<tr>
<td>50 years</td>
<td>89.0%</td>
</tr>
</tbody>
</table>

Net replacement rates are higher because neither pension contribution (10.25%) nor unemployment contribution (3.00%) are deducted from the pension income. Thus, with 35 employment years net replacement rates of more than 70% relative to life-time average earnings can be achieved.

On the other hand, it must be kept in mind that in most careers people earn significantly less in the first years of employment compared to the level of earnings at the end of a career. Therefore, replacement rates relative to final pay in many cases are significantly lower compared to replacement rates relative to average life-time earnings.

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15 In most recent years, concrete valorisation of pensions in payment was fixed in specific acts (see chapter 3.3.)
16 Full application for people entering the labour market from 2005 onwards.
Minimum old-age income – ‘Equalisation supplement’

For those in need, low pensions are topped-up via the so-called ‘equalisation supplement’ (“Ausgleichszulage”). It supplements the difference between a low pension and the target rate for minimum old age income. Recent legislation (2016, 2019) established graduated target rates with rates above the basic rate for those with 30 and 40 years in employment.\(^{17}\)

‘Equalisation supplement’ gross target rates for the topping-up of low pensions for singles (14 payments per year / 2020):

- Basic target rate ................................................................. € 967 p.m.
- Target rate for people with 30 years in employment .......... € 1,080 p.m.
- Target rate for people with 40 years in employment .......... € 1,315 p.m.

For couples, the gross target rates amount to €1,525 (basic rate) respectively €1,782 (with 40 years of employment).

The entitlement for an ‘equalisation supplement’ is needs-tested, based on both partners’ income, however assets are not included.

In 2018, 8.8% of all pensioners received an ‘equalisation supplement’ to their pension, this is 2.5 percentage points less compared to 2008. 142,000 of the recipients were women and 67,000 men.

Although not being part of its immediate range of benefits, both the awarding and the disbursement of ‘equalisation supplements’ are administered by the Statutory Pension Insurance. Financing of ‘equalisation supplements’ is fully covered by the state.

It should be noted that only those entitled to a pension from the Statutory Pension Insurance have access to an ‘equalisation supplement’. Others, if there is a need, only have the option to claim social assistance benefits. For these benefits the same basic target rate applies, however, only 12 payments per year are granted. Furthermore, needs-testing for social assistance is stricter. Aside from income, assets are also taken into account.

**Level of pensions**

Table 6 offers an overview on concrete amounts of public old-age pensions broken down into deciles, ‘equalisation supplements’ included. The average is shown on the last line of the table.

The data shows a high gender gap (see 3.3.1.) and, in particular among women, a remarkable distance between the lowest and the highest decile, reflecting highly differing career paths.

The data refers to employees. The level of pension amounts among the self-employed does not differ significantly.

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\(^{17}\) In addition to periods of employment, periods of military and alternative civil service and a maximum of 60 months for child-rearing are taken into account.
Table 6: Public Pension Insurance / Amount of old-age pensions* / Deciles / 2019
Employees / 14 payments p.a. / gross

<table>
<thead>
<tr>
<th>% receive a pension below</th>
<th>Newly awarded pensions</th>
<th>All pensions in payment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>men</td>
<td>women</td>
</tr>
<tr>
<td>10%</td>
<td>€ 1,294</td>
<td>€ 524</td>
</tr>
<tr>
<td>20%</td>
<td>€ 1,683</td>
<td>€ 735</td>
</tr>
<tr>
<td>30%</td>
<td>€ 1,927</td>
<td>€ 914</td>
</tr>
<tr>
<td>40%</td>
<td>€ 2,116</td>
<td>€ 1,077</td>
</tr>
<tr>
<td>50%</td>
<td>€ 2,322</td>
<td>€ 1,250</td>
</tr>
<tr>
<td>60%</td>
<td>€ 2,563</td>
<td>€ 1,443</td>
</tr>
<tr>
<td>70%</td>
<td>€ 2,844</td>
<td>€ 1,678</td>
</tr>
<tr>
<td>80%</td>
<td>€ 3,118</td>
<td>€ 2,004</td>
</tr>
<tr>
<td>90%</td>
<td>€ 3,385</td>
<td>€ 2,531</td>
</tr>
<tr>
<td>average</td>
<td>€ 2,341</td>
<td>€ 1,399</td>
</tr>
</tbody>
</table>

*‘Equalisation supplements’ included; partial pensions supplemented by payments from other countries based on intergovernmental agreements not included.
Source: Dachverband der österreichischen Sozialversicherung (2020)

Pensions are fully taxable, i.e. pension benefits exceeding €1,100 per month are subject to income tax. Furthermore, 5.1% health insurance contributions are deducted.

Table 6 shows that newly awarded pensions are somewhat higher compared to pensions in payment. This is mainly due to the improvement of employment integration over the past few decades and indexing rules which foresee that pensions in payment are only adjusted in line with the consumer price index (CPI).\(^{18}\)

In comparison to international standards, the Austrian Statutory Pension Insurance offers rather high income replacement levels, as shown in theoretical replacement rate calculations.\(^{19}\) Aggregate replacement ratio calculations, comparing gross pension income of people aged 65-74 to gross earnings of people aged 50-59, also show values above the EU average, both for men and women.\(^{20}\)

Recent research on Austria’s and Germany’s Statutory Pension Insurances confirms the relatively high old-age protection capacity of the Austrian system: In order to achieve a pension at the level of the

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\(^{18}\) As shown in chapter 3.3., in recent years special acts have stipulated graduated valorisation of pensions in payment with remarkable differences between low and higher pensions.

\(^{19}\) EU Commission (2018 b), p 49

\(^{20}\) EU Commission (2018 b), p 47

With the financial support of the European Union
risk-of-poverty rate, people who entered retirement in 2016 needed 26 years of employment in Austria compared to 40.6 years in Germany.21

1.4.5. Financing

The financing of the Statutory Pension Insurance is primarily based on contributions paid by those covered and their employers, in case of employees. Since 1988, dependent workers contribution rates have been constant at 22.8% (employer 12.55%, employee 10.25%). For the self-employed there has been some increase. At present, legislation stipulates a 18.5% contribution to be paid by self-employed people, supplemented by 4.3% contributions covered by the state. Thus, the overall contribution rate is generally 22.8%.

State subsidy is another key financing component, shaped as state obligation to cover the difference between contribution revenue and total expenditure. In 2018, this state subsidy covered 18% of the overall pension expenditure, varying between 12.3% in the section of employees and 52.0% in the section of the self-employed and farmers.22 Over the past two decades, as a share of GDP, state subsidies for the Public Pension Insurance varied between 1.6% and 2.5%, in 2018 it amounted to 1.8%.23

1.4.6. Expenditure projections

Despite massive ageing, the EU Commissions 2018 Ageing Report long-term expenditure projections only show a moderate increase in public pension expenditure over the next decades.

The current (2016) 13.8% GDP share is expected to rise to 14.9% in 2040 and then to slightly fall to 14.3% in 2070,24 which is only 0.5 percentage points above the current level.

More detailed analysis25 discloses a substantial expenditure shift from civil servants’ pensions to Statutory Pension Insurance, as a result of several factors such as; aligning civil servants’ pensions to other pensions and the ongoing replacement of employees with civil servant status by employees with private sector status. As a consequence, public spending for civil servants’ pensions is expected to substantially decrease from 3.3% in 2016 to only 0.6% in 2070.

In total26, between 2016 and 2070, expenditure on old-age pensions is expected to increase from 10.5% to 12.4% of the GDP, while expenditure on disability pensions and survivors’ pensions is expected to decrease from 1.9% to 0.8% to 1.1% to 0.7% respectively.

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21 Türk/Blank (2017)
22 If contribution subsidies for the self-employed is also taken into account, the share of state subsidies for self-employed and farmers is even higher.
24 EU Commission (2018 a)
26 Statutory Pension Insurance plus civil servants’ pension schemes
SECTION 2 – MAIN CHALLENGES

2.1. LABOUR MARKET SHORTCOMINGS

As pensions are closely related to preceding career paths, addressing existing labour market shortcomings is of crucial importance both for today’s and for future pensions.

Over the past 2 decades, Austria has experienced a substantial overall employment increase (see tables 1 and 2). However, there was also an increase in unemployment and substantial gender inequalities persist, e.g. many mothers still have considerable problems reconciling employment and family life. Aside from women, young people, immigrants, people with reduced work capacity and the long-term unemployed are the most affected by poor labour market integration.

While, compared to many other countries, some new precarious types of work like on-call work or platform work have been less prevalent in Austria up until now, others forms like traineeships and marginal part-time work have been gaining ground.

With the emergence of new forms of work, new challenges arise, such as the demarcation between dependent work and self-employment. The boundary between these types of work is frequently less clear-cut than it used to be in the past. As traditional characteristics of employee status are becoming less important there is a danger that new types of dependent work do not qualify as such, resulting in the loss of protection by labour laws and collective agreements. With respect to pensions, even in systems where all types of employment are automatically included, whether to be qualified or not as a dependent worker matters a lot, at least with regards to the sharing of contributions with an employer.

Thus, addressing pension coverage and pension adequacy deficits necessitates addressing shortcomings regarding labour market integration and ensuring adequate allocation for new types of dependent employment.

Unfortunately, key labour market indicators such as the overall employment rate frequently give a false impression of existing potential for better labour market integration, mainly because no difference is made between highly varying working hours. Therefore, indicators such as the full-time equivalent employment rate (see 3.1.) should receive more attention and some new indicators should be established; such as specified employment rates allowing the separation of marginal part-time employment.

1. MISINTERPRETATION OF DEMOGRAPHIC FIGURES

According to Eurostat demographic projections used in the EU Commission’s Ageing Report 2018, the total population in Austria is expected to grow from 8.7 M/million in 2016 to 10.2 M/million in 2070. Almost all the expected population growth comes from the fast increasing numbers of those in the age of 65 and over.

As a consequence of population ageing
the share of the age group 65+ in the total population is expected to rise from 18.5% in 2016 to 30.4% in 2070

the ‘old-age dependency ratio 15-64’, i.e. the number of those aged 65+ relative to the number of those aged 15 to 64, is expected to increase from 29.9% in 2016 to 59.6% in 2070.27

Obviously, such an enormous demographic shift will result in major challenges both for society as a whole and, in particular, for pension systems (and long-term care).

In the light of massive population ageing it is all the more regrettable that key policy recommendations on how to cope with the ageing problem are based on misleading re-interpretation of demographic figures, both on an EU and national level. The number of those of working age is repeatedly falsely equated with the number of people in employment (contributors) and the number of those of retirement age, with the number of retirees (beneficiaries).

To give two brief examples: In 2010, at the launching of a European-wide consultation on the long-term perspectives of pension systems EU Commissioner Andor, “with the full backing of Commissioners Olli Rehn and Michel Barnier”, made an attention-grabbing statement: "The number of retired people in Europe compared to those financing their pensions is forecast to double by 2060 - the current situation is simply not sustainable."28 In a widely disseminated graph published on the EU Commission’s website as accompanying information to the 2015 Ageing Report the alleged future doubling of the ratio between workers and pensioners is illustrated with figures: shift from 4:1 in 2013 to 2:1 in 2060.29

Yet, the very same 2015 Ageing Report discloses fundamentally different realities. For 2013, the ratio of workers to pensioners was 1.6:1, a huge difference to the 4:1 ratio claimed both in the Commission’s graph and in the alarming ‘not sustainable’ statement of the Commissioner.

Why does the alleged 4:1 ratio differ so much from the real 1.6:1 ratio of workers to pensions? The answer is quite simple: Because 4:1 is not the ratio of workers to pensioners but the age group 15-64 relative to the age group 65+ and currently in the European Union only 2/3 of those aged 15-64 are in employment.30 On the other hand, among those not in employment there are many million unemployed desperately looking for a job and many more millions in early retirement, a huge share because of health related reasons. In 2016, 28% of all pensioners in EU-27 were younger than 65!31

Not considering or fully neglecting these realities will have tremendous consequences on strategies for tackling the ageing challenge: Provided population ageing forecasts are correct, the tremendous shift from the 4:1 ratio to 2:1 between age groups above and below the limit 65 can only be countered by raising this limit to a higher age, frequently translated into the inevitable need to substantially raise the statutory retirement age. In sharp contrast, the focus on today’s challenging social reality of the 1.6:1 ratio between workers and pensioners directs the attention to existing shortcomings within the

27 EU Commission (2018 a)
28 https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839
30 ‘Mini-jobbers’ included.
31 EU Commission (2018 a) p 240
working age, reflected both in low employment rates and high rates of unemployment, disability and early retirement. Thus, there is clear evidence, that in order to mitigate future deterioration of the ratio of contributors to benefit recipients, an improvement in labour market integration of those of working age is desperately needed. “Raising employment levels [with quality jobs] is arguably the most effective strategy with which countries can prepare for population ageing.”

In order to shed light on the economic status of people a clear distinction has to be made between purely demographic and economic dependency ratios. Moreover, there is a need for a significant definition of economic dependency, such as ‘people in employment relative to pensioners and unemployed’ as suggested in the Commission’s White Paper on Pensions. Long-term projections of this ratio clearly demonstrate the enormous potential of better labour market integration to contain the future increase in economic dependency and therefore improving financial sustainability.

2. COVERAGE AND ADEQUACY GAPS AMONG WOMEN

Existing coverage and adequacy gaps almost exclusively affect women. Both the labour market and pension income are characterised by sharp gender inequalities.

Despite a massive increase in female employment rates over the past 2 decades (see tables 1, 2 and 3) key gender inequalities regarding labour market integration persist. Women still receive significantly lower hourly wages, spend significantly less time per week in paid employment and have many more career interruptions because of child-care etc., while performing most of the unpaid work. As a result, the life-time earnings of women are on average 60% lower than that of men. Significantly lower pension income mirrors all these labour market related inequalities.

Table 6 shows that women’s pensions granted by the Statutory Pension Insurance on average amount to only 60% (newly awarded pensions) respectively 62% (pensions in payment) of men’s pensions. With 40.47%, the Commission’s indicator ‘gender gap in pension income (65-79)’, discloses a similar gap.

Despite the existence of an ‘equalisation supplement’ aimed at preventing very low old age income, more than 30% of women’s old age pensions are below the basic target level of €967 per month, due to the fact that the partner’s income is taken into account for needs-testing.

Regarding non-coverage of pensions there is also a remarkable gender gap. While almost all men aged 65+ receive a pension, about 11% of women do not. In 2016, the ‘gender gap in non-coverage (65-79)’, though 6.2 percentage points lower than 2008, was still 10.2 percentage points.

32 EU Commission (2008), p 144
34 Mayrhuber/Mairhuber (2020)
35 EU Commission (2018 b), p 196
36 14 payments per year
37 See also chapter 1.4.3.
38 EU Commission (2018 b), p 196

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3. **RISK OF OLD AGE POVERTY**

According to Eurostat, 16.4% of women and 10.2% of men in the age group 65+ are at risk of poverty or social exclusion. Material and social deprivation among this age group is 5.1% (women) and 2.7% (men) - severe material deprivation is respectively 1.6% and 0.6%.\(^{39}\) As a result of the high gender pension gap, women are disproportionately affected by old age poverty.

Although, fortunately, all of Eurostat's poverty and material deprivation indicators for older people disclosed in the Commission’s 2018 Pension Adequacy Report show significant improvement over the period 2008-2018, the disturbing phenomenon of poverty in old age persists.

4. **HUGE DISPARITIES IN LONGEVITY ALONG SOCIO-ECONOMIC FACTORS**

Public debate on increasing life expectancy is almost always limited to average values, only divided by gender. However, longevity both among men and women differs widely along criteria such as social status, income or educational lines. High income earners, people with tertiary education etc. tend to live significantly longer compared to people with a low income and/or limited education.

“In all countries, mortality, health and the age that people die at are strongly influenced by socio-economic factors such as educational attainment, employment status and income level.”\(^{40}\)

Research in Austria found that the life expectancy of men aged 35 with a tertiary education is 7 years higher compared to men with only primary education. Among women, the corresponding gap is 2.8 years. Another figure that demonstrates that to only look at the average longevity falls short of key societal realities: Among all deaths that occurred in Austria in 2017, 23.5% among men and 12.3% among women, took place between the age of 50 and 70.\(^{41}\) Thus, especially among men, a considerable share either did not even reach the statutory retirement age of 65 or died within a few years of reaching it.

Against this background, indicators taking up disparities in (further) life-expectancy along socio-economic factors such as educational attainment should be brought to the fore both in analysing longevity growth and in derived policy action.

Incomprehensibly, data on the Eurostat’s important indicator ‘Life expectancy by age, sex and educational attainment level’ is currently only available for a limited number of EU Member States. Among others, Austria is not included.

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\(^{39}\) EU Commission (2018 b), p 196

\(^{40}\) Eurostat (2010) Statistics in focus 24/2010, Highly educated men and women likely to live longer

\(^{41}\) Statistik Austria; own calculations
5. **RISK SHIFTING TOWARDS INDIVIDUALS IN SUPPLEMENTARY PENSION SCHEMES**

Old age protection systems traditionally contain a wide range of risk sharing with regards to demography, longevity, inflation, etc. In the past three decades, in occupational and private pension systems substantial risk shifting towards individuals have taken place; in occupational schemes by shifting from ‘defined benefit’ to ‘defined contribution’, in the area of private pensions by shifting from traditional life insurance contracts to products with very limited or no guarantee. Moreover, in addition to the shifting of investment risks, in many countries the longevity risk is also being shifted, by replacing life-long annuity payments with financial products foreseeing decrement over a pre-defined period of time.\(^{42}\)

With regard to investment risk in occupational pension fund schemes it has to be noted, that the initial Austrian pension fund legislation, adopted in Parliament in 1990, stipulated that providers of ‘defined contribution’ schemes have to guarantee a minimum rate of return. In 2003/2005, after the dot.com bubble burst, the guarantee legislation was abolished. Nowadays, the investment risk in most occupational pension schemes lies entirely on the shoulders of the scheme members.

6. **MISLEADING COMPREHENSION OF SUSTAINABILITY**

Ensuring long-term financing of adequate pensions in the context of massive population ageing is one of the major challenges of our times. In Austria, since the mid 1980’s a wide range of pension reforms have been adopted in Parliament in order to tackle this challenge. Most of the reforms will only come into full effect gradually, over the next few decades.\(^{43}\) However, further action will be needed particularly with regard to labour market shortcomings (see 3.1.).

As a result of the pension reforms, the 2018 Ageing Report long-term pension expenditure projections showed only a moderate increase, from 13.8% in 2016 to 14.3% of GDP in 2070, while, over the same period, an enormous increase in the share of the age group 65+ among the total population is expected.

Nevertheless, some analysts qualify even a moderate increase in the needed GDP share for pension financing as evidence of ‘unsustainability’, regardless of population ageing - a position which raises fundamental questions of inter-generational (un)fairness at the expense of today’s youth.

Most prominently, such assessment has been put forward several times by the EU Commission as one of the key elements of its Country Specific Recommendations to Austria: The repeated call to link the statutory retirement age to increasing life expectancy (see 3.4.2.) is constantly argued with presumed

\(^{42}\) Austrian legislation stipulates life-long pension payments both for occupational and state subsidised private pensions.

\(^{43}\) Even legislation which is immediately put into force for all newly awarded pensions probably takes more than 2 decades to have a full impact on pension expenditure.

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missing financial sustainability of the system. Thus, there is an indication that capping public pension expenditure at today’s level, whatever the future age composition of the population might be, is the comprehension of sustainability! Neoliberal national analysts share this highly problematic line of reasoning.

Another highly questionable approach to (un)sustainability of PAYG financed pension systems is addressed in chapter 3.2.

In this context, it is also worth noting that neoliberal analysts who constantly question the long-term financial sustainability of public pay-as-you-go financed pension systems never call into question the long-term sustainability of financial markets on which the functioning of private pre-funded pensions is based.

A rethinking of the concept of sustainability is desperately needed.

7. COVID-19 IMPACT

Over the next years, the need for state subsidising of public pensions is very likely to substantially increase, mainly because contribution revenue is expected to considerably decline in comparison to forecasts established before the outbreak of the Covid-19 crisis.

Furthermore, pension expenditure will increase because baby boomers, born between the mid 1950’s and end of the 1960’s, are now gradually entering retirement.

Yet, despite the considerable increase in the need for federal resources in the Statutory Pension Insurance over the next years, as a percentage of the GDP, it will likely not markedly exceed the rates already experienced in several years in the past, e.g. in the mid 1980’s and after the 2008/2009 crisis.

It should be noted in this context, that from the point of view of the overall economy, increasing use of public funds in times of economic recession has a crucial function as an ‘automatic stabilisor’.
SECTION 3 - POSSIBLE REFORMS

In this section a variety of reform options will be presented. The selection is based on the Pillar of Social Rights’ objectives against the background of the Austrian pension system.

3.1. LABOUR MARKET

Existing shortcomings both in coverage and adequacy of pensions reflect preceding poor labour market integration of those concerned. The most affected groups are women, immigrants, the long-term unemployed, people with educational deficits and people with reduced work capacity.

Despite significant progress achieved over the past 2 decades, current employment rates still indicate substantial room for improvement. In 2019, according to Eurostat, in the age group 15 to 64 the male employment rate was 78.0% and the female rate 69.2%, indicating an employment gender gap of 8.8 percentage points. Both for men and women the rates are significantly below the best performing EU countries such as Sweden.

In this context, it has to be noted that overall employment rates being used, do not disclose the fact that the classification of ‘employed’ comprises very different types of employment, from full to marginal part-time work, from high quality to precarious jobs, etc. Thus, there is a desperate need to shed more light on additional indicators such as ‘full-time equivalent employment rate’. A recent special evaluation of Labour Force Survey data showed full time equivalent employment rates of 73.7% among men and only 54.2% among women (age group 15-64). Thus, in full-time equivalent rates the gender employment gap in Austria is not 8.8 but 19.5 percentage points!

Unfortunately, in the context of pensions, labour market integration often almost exclusively addresses older workers and retirement age. In reality, good/bad employment integration has a significant impact throughout the working age, both with regard to the level of individual pension benefits (adequacy) and the overall financing of pensions (financial sustainability).

Key pension parameters, such as the share of those with very low pensions or the share of older people who do not meet the qualifying conditions to be entitled to an old-age pension highlight a substantial gender divide. This clearly indicates that there is a specific need for improving women’s positions in the labour market.

3.2. ACCESS TO PENSIONS

As almost all forms of employment are automatically enrolled in the Austrian Statutory Pension Insurance, only people with no or only very little access to the labour market are affected by non-inclusion. Thus, closing coverage gaps mainly necessitates addressing obstacles regarding access to paid work. However, in this chapter, the focus is on public pension legislation.

3.2.1. Softening of qualifying conditions

The number of those who never receive an old-age pension could be reduced by softening the qualifying condition of 180 months of insurance of which 84 months of employment.
There is reason to believe that significantly easing access would have mixed consequences. On the one hand, it would enable women\textsuperscript{44} with very low access to the labour market to receive an old-age pension, although at an extremely low level. The main advantage would be the entitlement to an ‘equalisation supplement’ in those cases where there is a low household income, instead of relying on social assistance benefits in old age.\textsuperscript{45} On the other hand, reducing the number of months of insurance and/or months of employment required for being entitled to an old-age pension, could mean reducing incentives to perform paid work, at least over a certain period of time before entering retirement age.

3.2.2. Automatic enrolment of marginal part-time work

Current pension provision on people performing marginal part-time work dates back to the 1990’s. At that time the social security status of the so-called ‘mini-jobbers’ was one of the main issues of social policy debate.

A reform, adopted in Parliament in 1996, brought new legislation:

- earnings from marginal part-time work are automatically subjected to Public Pension Insurance if overall income from work\textsuperscript{46} exceeds the marginal earnings threshold of €460.66 per month (2020).
- if the overall income from work does not exceed the marginal earnings threshold there is no automatic enrolment, but the ‘mini-jobber’ has the possibility to opt-in.
- all employers of ‘mini-jobbers’ are obliged to pay a compensation for social security contributions independent from the decision of the ‘mini-jobber’ to opt in or not to opt in, except if overall marginal earnings paid by a company do not exceed 150% of the marginal earnings threshold.

1996 legislation is still in force and widely accepted both by trade unions and employers’ organisations. As people with overall earnings not exceeding the marginal earnings threshold, in most cases are students, unemployed people\textsuperscript{47} or retirees, calls for further reform, e.g. towards compulsory integration of ‘mini-jobbers’ into the Public Pension Insurance, are rare.

Moreover, there are concerns that compulsory insurance of marginal part-time work could lead to critically questioning the existing possibility to supplement unemployment benefits by ‘mini-job’ earnings.

3.3. PENSION ADEQUACY

With its annual pension credit of 1.78% of pensionable earnings, the Austrian Statutory Pension Insurance offers decent income replacement and poverty prevention for those with decent working

\textsuperscript{44} Almost all people concerned are females.
\textsuperscript{45} An ‘equalisation supplement’ is only granted provided the person receives a pension from Statutory Pension Insurance (see 1.4.4.)
\textsuperscript{46} Earnings from two or more jobs are added.
\textsuperscript{47} Earnings from work not exceeding the marginal earnings threshold are accepted without negatively influencing unemployment benefits.
careers. Both inter-generational fairness and the Pillar of Social Rights’ objectives have the requirement to maintain this key parameter for future old age protection of today’s youth.

However, pension benefits are low if preceding earnings were low or if there were long career interruptions; these issues mainly affect women. As a consequence of both a high gender employment gap and a high gender pay gap and the fact that pension benefit calculation is closely connected to preceding labour earnings, the gender gap in pension income is among the highest in the EU.

Aside from the inadequate old age protection for many women, a further issue for discussion is the indexation of pensions in payment.

3.3.1. Inadequate old age protection of women / gender pension gap

Recent research\(^{48}\) clearly shows that the vast majority of the existing gap is caused by women’s lower labour income and shorter duration of years in employment, indicating that establishing equality on the labour market has to be at the centre of the counteraction, including some change in framework conditions e.g. child care facilities. Although, in this chapter, the focus is on reform options regarding pension provision.

The Statutory Pension Insurance comprises several social balancing mechanisms, above all granting pension credits for periods such as unemployment, sickness or child-rearing. For such periods, contributions are paid by public budgets.

As the very high gender pension gap indicates a great need for more social balancing in favour of women’s pensions, most reform proposals regarding pension credits focus on women related issues such as better validating child-rearing and care for relatives. Other key reform options aiming at reducing the gender pension gap are; higher evaluation of low incomes; a rise in the equalisation supplements’ basic target rate, or facilitating access to the ‘equalisation supplement’.

3.3.1.1. Better validation of periods of child-raising and care for relatives

Pension reforms adopted in the 1990s and early 2000s have brought some considerable improvement with regard to the validation of child-rearing and care for relatives. However, as new legislation mainly applies for periods following the date when these reforms have come into force most women who have already retired or are currently entering retirement do not fully benefit. Furthermore, evidence indicates that the enlarged assessment base for ‘child-rearing’ pension credits still only partially compensates mothers’ mid- and long-term income losses.

3.3.1.2. Introducing a specific gender gap factor

Some experts call for the introduction of a ‘gender gap factor’ in the form of the higher evaluation of low incomes.\(^{49}\) Thereby, women’s disadvantages in the labour market would be addressed in a more general way compared to a better evaluation of periods of child rearing and care for relatives.

Most of those benefiting from a higher evaluation of low incomes would be part-time workers. However, generally rewarding part-time work, even in cases where there is no specific reason such as child or elderly care or no availability of a full-time job, raises questions of fairness.

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\(^{48}\) Mayrhuber/Mairhuber (2020)

\(^{49}\) See Reiter (2015) and Mayrhuber/Mairhuber (2020)
3.3.1.3. Individualisation of income-testing for minimum pension supplement

As a consequence of the partner’s income being taken into account in income-testing, at present, more than 30% of female pensioners receive old-age benefits below the ‘equalisation supplement’ basic target level. Individualisation of income-testing would drastically reduce this rate and, by de facto, lead to the introduction of a universal minimum pension at a level many pensions achieved by paying contributions over many years of low paid employment do not exceed. Thus, apart from substantial cost increases, questions of fairness and acceptance among those in employment and paying contributions could arise.

3.3.1.4. Splitting of pension rights between couples

The programme of the current conservative-green government includes new provisions on the splitting of pension credits, depicted as an instrument to reduce the gender pension gap.

The possibility to voluntarily split pension rights between partners has already existed for a number of years, although with very few parents having taken it up. In order to promote splitting, the government intends to change framework provisions. The key idea is to shift from opt-in to opt-out possibilities, thus making splitting rules compulsory as long as there is no explicit opt-out.

There are widely differing opinions on whether pension credit splitting will help improve women’s pensions. Those in favour see it as an instrument for raising equality within families. Sceptics point to the fact that a huge number of women with no or only very low earnings are with partners who also have low earnings and also, among other things, there is the problem of how to implement pension credit splitting in informal partnerships.

In a resolution from 10 Sept 2020 the ÖGB women’s committee strongly rejected the government’s plan of establishing obligatory splitting with an opt-out option, additionally arguing that the implementation of the government plan would support conservative gender role models and deflect attention from core necessities such as fighting the gender employment and gender pay gaps.

3.3.2. Raising of the ‘equalisation supplement’ basic target level

For many years, raising the ‘equalisation supplement’ basic target level has been one of the key instruments used in order to fight old age poverty. In several years, special acts on the adjustment of pensions in payment stipulated an extra increase of the level. However, it still lags significantly behind the at-risk-of-poverty level.

Up until now, further increases were not implemented mainly because of the resulting cost increases. Furthermore, sceptics feel that significantly increasing the ‘equalisation supplement’ basic target level would unlikely be accepted by low wage earners who would pay contributions over many years without achieving significantly higher pension amounts.

3.3.3. Better pension indexation

Pension legislation foresees different indexing rules for acquired pension rights on the one hand and pensions in payment on the other. While until retirement, acquired pension rights are indexed in line

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50 Mayrhuber/Mairhuber (2020)
51 Mostly combined with above average indexation of low pensions.

With the financial support of the European Union
with wage growth, the adjustment of pensions in payment is linked to the consumer price index (CPI) resulting in a risk for pensioners to not participate in productivity growth.

In recent years special acts negotiated between the government and pensioners’ representatives significantly modified the general indexation rule for pensions in payment, stipulating graduated indexation with values above CPI for low pensions and below CPI for high pensions.

Thus, in 2020 the indexation of pensions in payment was specified as follows:

Pensions not exceeding €1,111 pm ................. indexation by 3.6%
Pensions between €1,111 and €2,500 pm ........ indexation gradually reduced from 3.6% to 1.8%
Pensions between €2,500 and €5,220 pm........ indexation by 1.8%
Pension exceeding €5,220 pm\(^{52}\) ...................... indexation by a fixed amount of €94

For 2021, the government, in accordance with the pensioners’ representatives, has announced another special act for indexation: Pensions of up to €1,100 will be adjusted by 3.5%. For pensions ranging from €1,000 to €1,400 the indexation rate will be gradually reduced from 3.5% to 1.5%. Pensions ranging from €1,400 to €2,333 will be adjusted by 1.5% and pensions exceeding this by €35.

With regard to the poverty prevention objective of old-age pensions and limited overall resources there are some good reasons for gradual indexation, with higher rates for low pensions. However, critics feel that repeated indexation of higher pensions even below CPI is in conflict with the insurance principle and at least, if exercised repeatedly, significantly threatens to undermine trust.

3.4. Retirement age

In the context of population ageing the retirement age is one of the key issues of the pension debate. So far, Austria has focussed on restricting access to disability and early retirement pensions and improving labour market integration of age groups below statutory retirement age. Increasing exit age of employment and effective entry age into retirement are key objectives.

3.4.1. Increasing effective retirement age

For many years now, there has been a wide-ranging consensus on increasing the average effective retirement age which during the 1980’s and the 1990’s was at a very low level. In 2000, on average, old-age pensions\(^{53}\) were drawn at the age 60.5 (men) and 58.3 (women).

Meanwhile, the situation has significantly changed: In 2019, the effective retirement age of people drawing an old-age pension was 63.3 for men and 60.5 for women. Thus, between 2000 and 2019, there was an increase by 2.8 years among men and 2.2 years among women.

There are several reasons for this remarkable change: With the ageing of the workforce, demand for older workers has significantly increased over the past two decades, alleviated by better educational

\(^{52}\) Public pensions at such levels are only possible in old civil servant schemes.

\(^{53}\) Including early retirement.
and health status among younger age cohorts. Furthermore, from 2000 onwards access to early retirement pensions has been significantly restricted. However, there has been no change of statutory retirement age within this period.

Employment rates among older workers even saw more pronounced increases than the effective retirement age. As shown in table 3, from 2000 to 2019 there was a 27 percentage points (p.p.) employment rate increase among men and a 33 p.p. increase among women in the age group 55 to 64. Yet, compared to many other countries, employment rates among older workers are still low, particularly among women, with 45.8% in 2019.

In all likelihood an increase of the average effective retirement age will continue over the coming years and decades. Among women, the gradual alignment of women’s current statutory retirement age of 60 to men’s retirement age of 65 over the period 2024 to 2033 will automatically result in the substantial postponement of the age at which women can draw a pension. In addition, both for women and men, other factors such as further increases in the number of people with university degrees (and late entry into the labour market) will, most likely, result in further increases in the effective retirement age.

3.4.2. Linking statutory retirement age to increasing longevity

Over several years, the EU Commission’s country specific recommendations for Austria, in accordance with claims from the Austrian employer organisations and related experts, called for the linking of the statutory retirement age to increasing life expectancy, mainly based on alleged missing financial sustainability (see chapter 2.7). The respective Austrian governments never followed this advice. Even the business-oriented conservative/right government in the period 2018/2019 refused and instead focussed on its objective to bring the effective retirement age closer to the statutory retirement age.54

Based on firm arguments the trade unions strongly reject the linking claim:

- Austria has already adapted its pension system to population ageing with comprehensive reforms targeted, amongst other issues, at substantially increasing the effective retirement age. The long-term orientation of key parts of the reforms adopted is confirmed by gradual phasing in over the next few decades.

- Defining financial sustainability as a constant share of GDP despite massive population ageing, as indirectly assumed by the Commission’s assessment of missing financial sustainability because of an expected moderate GDP share increase (see 2.6.), is in sharp contradiction to the principle of inter-generational fairness.

- Recommendations to reduce public pension expenditure frequently go hand in hand with the recommendation to expand supplementary funded pensions. However, such a strategy, at best, would lead to cost shifting or more likely to an overall cost increase. It is misleading to depict the expenditure shift as being an expenditure reduction.

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54 Federal Chancellerie (2018)
Both from a social and an economic point of view, it is preferable to focus on better employment integration and reducing retirement rates of those below 65\textsuperscript{55}, instead of not allowing older people to enter retirement. It should be noted in this context, that Austrian pension legislation foresees significant incentives for those who voluntarily extend their working life beyond age 65, primarily through pension bonuses of 4.2% per year.

Key societal decisions on employment and social issues, such as fixing the statutory retirement age, have to be discussed in advance with the social partners and, before adoption, intensively discussed in Parliament and should not be left to pre-defined mathematical formulas.

3.5. ROLE OF SUPPLEMENTARY PENSIONS

In the 1990’s and in the beginning of the 2000’s, abandoning the clear priority of PAYG financed public pensions by significantly reducing benefits and, as a substitute, expanding funded supplementary pensions was widely promoted (see chapter 1.4.2). Meanwhile, particularly since the financial market crisis of 2008/2009 which demonstrated the vulnerability of funded pensions and persisting low interest rates, this concept has lost much of its support.

Enthusiasm for expanding occupational pensions among Austrian workers is low, due, among other factors, to negative experiences such as repeated reductions of ‘contribution defined’ pension benefits as a result of over-optimistic imputed rate of return assumptions.

From the ÖGB’s point of view, occupational pensions based on social partner agreements can be useful top-ups but not substitutes for adequate public pensions.

With regard to the Pillar of Social Rights’ objectives, expanding funded supplementary pensions would barely address existing shortcomings, neither in coverage nor in adequacy. Almost all individuals not effectively covered by the Statutory Pension Insurance or not receiving adequate pensions are out of the scope of both occupational and private pensions because of missing links to quality employment and missing financial capacity for private pension savings.

Overall, as a result of both risk shifting (see chapter 2.6.), persisting low interest rates and the increasing volatility of financial markets uncertainty regarding the future levels of pre-funded occupational and private pensions has substantially increased challenging claims for an increasing role of these forms of old age protection.\textsuperscript{56}

\textsuperscript{55} The Ageing Report 2018 discloses a 28% share of all public pensioners aged below 65 (EU 27, 2016). Incomprehensibly, the Report does not disclose related data for Austria.

\textsuperscript{56} e.g. EU Commission (2012), chapter 3.2 “Complementary retirement savings have to play a greater role in securing the future adequacy of pensions”
SECTION 4 – GUIDELINES AND RECOMMENDATIONS

Austria’s pension system is mainly based on the Statutory Pension Insurance with its automatic enrolment of almost all forms of employment and its high income replacement capacity, supplemented by the income-tested ‘equalisation supplement’ for retirees with pension benefits below a minimum level.

The guidelines and recommendations in this section are based both on this valuable old age protection architecture and the elaboration of main challenges and possible reforms in this paper.

4.1. Integrated strategy of employment and pension policy

In one form or another, every old age protection scheme is connected to the labour market. Almost all financing of pensions is based on earnings through employment, be it directly via the paying of contributions, or, as far as systems are (co)financed by taxes, more indirectly via contributing to state revenue by paying income tax. In parallel, in most pension systems, pension benefits are closely linked to preceding employment careers, via duration of employment, level of earnings, amount of contributions paid, etc.

Thus, the quantity and quality of jobs are key parameters needed for pension systems to function, both for today’s and tomorrow’s adequacy and fiscal sustainability.

Against the background of a shrinking number of people of working age and a fast increasing number of older people, there is reason to believe that the quantity and quality of jobs for those of working age will be even more important in the coming years and decades. Fair distribution of paid (and unpaid) work, decent earnings, good working conditions and a ban of discrimination tend to become even more important objectives in a rapidly changing world of green and digital transition and a shrinking number of people of working age due to population ageing.

Against this background, indicators focussing on the close linkage of pensions to employment should be brought to the fore in analysis and, subsequently, in policy making. Differentiations along the economic status of people are a pre-condition for the relevancy of dependency indicators.

Unfortunately, up until now, fundamental differentiations are frequently missing in key indicators used in the context of pensions:

- **Dependency Ratios:** Key policy recommendations on how to cope with the ageing problem are based on misleading re-interpretation of demographic figures. The number of those of working age is repeatedly falsely equated with the number of people in employment (contributors), and the number of those of retirement age with the number of retirees (beneficiaries). There is a need for a significant definition of economic dependency, such as ‘people in employment relative to pensioners and unemployed’ as suggested in the Commission’s White Paper on Pensions (see chapter 2.2.).

- ‘Average effective exit age’ is defined as exit from the labour force. However, there is no exit from the labour force if older workers are classified as being unemployed or if he/she is in...
marginal part-time work, even if he/she already draws a pension. Thus, there can be a significant gap between exit from the last, more than marginal, employment and exit from the labour force as displayed with this indicator.

- ‘Average duration of working life’. Here too, no difference is made between times in employment and times in unemployment. Moreover, times in marginal part-time work are equated with other times in employment. Yet, not to make differentiations between such very different economic statuses tends to be misleading, e.g. it diminishes the significant potential of increasing times in actual employment by reducing times in unemployment and evident under-employment.

Using precise and economically relevant indicators is of key importance, with regard to strategies for balancing the future development of both the economic dependency ratio and years in employment relative to years in retirement. Besides increasing the effective retirement age, reducing times of unemployment and evident under-employment have to be taken into account as key instruments for retaining an adequate balance.

4.2. Focus on labour market integration in good quality jobs throughout working lives

The labour market is a key determinant for achieving old age protection objectives, ranging from coverage to pension adequacy and financial sustainability.57

In contrast to what some futurologists predict, there is good reason to believe that gainful employment will remain at the core of our societies. Simultaneously to digitalisation driven disappearance of jobs, there will be a need for new jobs, a process which has accompanied technological development for more than a century. Though, as ever, nothing can be taken for granted. Trade unions and others will have to fight for ‘more and better jobs’ and for a fair distribution of income and wealth in the future just as much as they had to in the past.

A glance at the current labour market situation, even before the corona crisis, shows huge potential for better labour market integration across all ages.58

At least in the mid-term and long-term perspectives, existing pension gaps can be best addressed by employment related measures adapted to both the changing preferences of individuals and the changing world of labour:

- better distribution of paid and unpaid work59
- reduction of educational deficits, especially with regard to the requirements of digitalisation
- better reconciliation of work and family life, mainly by creating more and better care facilities
- ban of gender-based wage discrimination
- improvement of working conditions, in particular more awareness of psychological stress

57 Wöss/Türk (2019)
58 See tables 2, 3 and chapter 3.1.
59 Recent research in Austria shows that about 20% of employees would prefer to work less hours per week, showing a remarkable potential for redistribution of paid employment.
- active labour market policy, such as training, retraining and reintegration measures
- adequate jobs for people with reduced work capacity
- adequate jobs for older workers

Furthermore, action is needed to avoid the expansion of precarious types of work and to ensure that new forms of dependent work remain assigned as being dependent.60

(Additional) Indicators, divided by gender and age groups, required to make existing employment potential more visible and, as a consequence, allowing to set valuable labour market goals:

- employment rate in full-time equivalents61
- employment rate excluding marginal employment (e.g. not including people working less than 12 hours per week)
- enlarged unemployment rate, including both persons seeking a job but not immediately available for work and discouraged job seekers available for work but not actively seeking.

4.3. Addressing coverage gaps

Almost all forms of employment are automatically enrolled in the Statutory Pension Insurance. Therefore, only persons with no or very little connection with the labour market are a concern when it comes to non coverage. Nevertheless, a substantial share of older persons is not entitled to draw a pension, almost exclusively women.

Apart from possible reforms of qualifying conditions to a pension which could have mixed effects (see 3.2.1.), countermeasures should be primarily focussed on removing barriers for employment, especially with regard to women. Furthermore, access to social assistance for older people in need should be facilitated, e.g. by softening means-testing provisions.

4.4. Addressing adequacy gaps

As shown above, significant shortcomings in old age pension adequacy nearly exclusively affect women.62 More than 30% of women’s old age pensions are below the ‘equalisation supplement’ basic target level. The gender pension gap amounts to about 40%.

Existing gaps reflect sharp inequalities in employment careers. Therefore, counteraction should mainly focus on women related issues, such as better distribution of paid and unpaid work, removing wage discrimination and improving structural framework conditions, in particular care facilities.

Aside from improving employment integration, modifications of pension provisions are required, mainly with regard to the valuation of child-rearing periods.

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60 Some types of alleged new forms of self-employment by de facto are new forms of dependent work.
61 See ETUC Action Programme 2019-2023: “Push for a European prioritisation of full-time equivalence in European employment targets” (no. 393 f)
62 More specific shortcomings such as too restrictive access rules to heavy labour pensions also affect men but cannot be addressed within the limits of this report.

With the financial support of the European Union
Furthermore, there is a need for improvement of provisions both with the ‘equalisation supplement’ and social assistance (for those with no pension entitlement), so that these instruments can better fulfil their poverty avoidance function. Recent legislation on ‘equalisation supplement’ provisions brought relief for those with long working records.

Another important issue is better information on future pension rights and how they are determined. Recent research⁶³ focussed on women showed remarkable information deficits, in particular to do with:

- the impact of long periods of part-time work
- deduction and bonus rules for early or late retirement
- applicable provisions on child-rearing and care for relatives
- opt-in possibilities for ‘mini-jobbers’
- the possibility of supplementary insurance offered by the Statutory Pension Insurance

Substantial information deficits were also identified regarding the qualifying conditions to an ‘equalisation supplement’ - many women are not aware that they do not have an individual entitlement because their partner’s income is taken into account.

Recommendations regarding adequacy indicators:

Theoretical Replacement Rates: In order to provide more valuable information for future retirees different components of expected future retirement income should be disclosed separately (share of public, occupational or private pension). Furthermore, regarding funded components alternative variants of rate of return assumptions should be calculated and made public. Thereby, future retirees would receive valuable information on investment risks and opportunities regarding their future pension income. In this context it should be noted that a long-term average 3% interest rate (real, after costs), as assumed in the Commission’s 2018 Ageing Report long-term TRR calculations, appears to be over-optimistic. By assuming unrealistic high long-term investment return assumptions, future adequacy gaps in pension income from funded schemes appear to be pre-programmed.

Aggregate Replacement Ratio: As with theoretical replacement rates, here too, different components of retirement income should be separated. Furthermore, in order to increase transparency, for each Member State both the level of pensions and the level of earnings on which the aggregate replacement calculation is based, should be made public.

4.5. Rethinking the understanding of sustainability

As described above (2.2. and 2.7.) the understanding of sustainability in the context of massive population ageing is highly questionable:

- the deterioration of purely demographic ratios is misinterpreted as the ratio between workers and pensioners and based on this misinterpretation therefore qualified as being ‘unsustainable’

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⁶³ Mayrhuber/Mairhuber (2020)
• despite a massive increase of older people’s share among the total population even a moderate increase of the required GDP share for the financing of future pensions is interpreted as evidence for the system being unsustainable.

• cost shifts from public PAYG to funded pensions is misinterpreted as cost reductions.

Thus, there is a desperate need to rethink the concept of sustainability and the use of related indicators.

**Economic dependency ratio:** A clear distinction needs to be made between purely demographic and economic ratios. Economic dependency ratios should refer to the economic status of people as suggested in the Commission’s White Paper on pensions: “people in employment relative to pensioners and unemployed”. Long-term projections of this ratio clearly demonstrate the enormous potential of better labour market integration to contain the future increase of economic dependency and therefore on financial sustainability.64 “Raising employment levels [with quality jobs] is arguably the most effective strategy with which countries can prepare for population ageing.”65 Incomprehensibly, until now, the White Paper’s definition has not been used for calculations in the Commission’s flagship reports, the Ageing and the Pension Adequacy Report.

**GDP share on pensions:** Against the background of massive population ageing, inter-generational fairness requires the acceptance of some future increase of the GDP share for pensions. Furthermore, to measure pension costs and assess long-term affordability, all types of pensions need to be taken into account, including occupational and private pensions.

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64 EU Commission (2012), chapter 2.3. See also Türk et al (2018) and Wöss/Türk (2019)
65 EU Commission (2008), p 144
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