Thomas Url

Occupational Pension Schemes in Austria

Compared to most European countries, occupational pension schemes are a rare phenomenon in Austria. This applies to the number of people eligible for a company pension as a percentage of overall labour market participants as well as the share that company pensions contribute to overall incomes of elderly households. Whereas in Europe in general, every second worker is included in an occupational pension scheme, in Austria just one in six dependently employed persons is entitled to claim a company pension. In countries where occupational pension schemes are firmly established, about a third of retirement income derives, on average, from such a scheme; in Austria, the corresponding figure is just 2 percent.

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The comparatively minor importance accorded to company pensions in Austria is the result, primarily, of the comprehensive inclusion of virtually all labour market participants in public pension schemes and the high compensation level offered by public pensions. The net income replacement ratio (the ratio of the first old-age pension to the last income from work net of taxes and social insurance contributions) is 70 percent for women and 80 percent for men in the ASVG scheme (2001) which covers most dependently employed persons in Austria, and is even higher for persons employed in the public services. Consequently, there has so far been little need or demand for schemes to provide for an additional income in old age.

Enhancing employee commitment is the chief motivation to grant a company pension.

The WIFO survey of occupational pension schemes performed in the autumn of 2001 among addressees of WIFO's regular business and investment survey identified the main reasons for companies to run a company pension scheme: strengthening the commitment of their highly qualified employees, offering them an incentive for better performance and meeting the demand by employees for a supplementary pension (Figure 1).

Cost of company pensions viewed as excessive

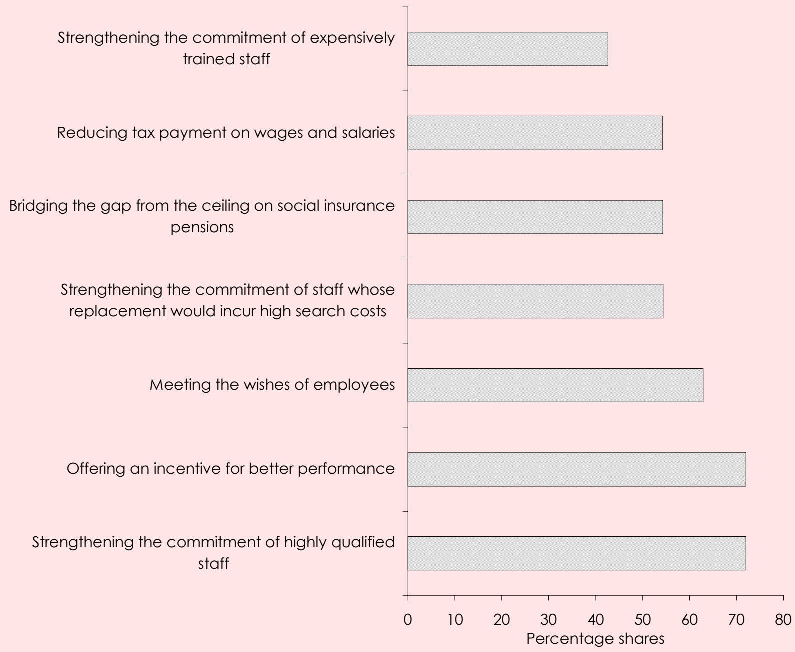
According to this survey, enterprises which do not offer a company pension scheme consider the demand for such a pension among their staff as being low. More than 80 percent of these firms think that their staff would prefer higher wages and salaries to the introduction of a company pension (the latest pension reform concepts of the Austrian federal government were not yet known at the time of the survey). At the same time, firms consider the cost of a company pension scheme to be excessive and difficult to estimate. Apparently, the cost of recruiting and training qualified staff is still too low for companies to gain any boost in efficiency through the additional cost spend on a pension scheme to improve staff commitment.

Approximately one in four companies polled rejects the concept of an occupational pension scheme on the grounds of high staff fluctuation. Companies that can easily handle large staff turnover are not likely to become more interested in payment schemes that strengthen the ties between employer and employee.

Interaction between company pension and severance pay provision

Employee retirement provision and the new contribution-based severance payment (Mitarbeitervorsorge) directly interact at company level. If the capital accrued through the new severance pay scheme is voluntarily converted into an annuity, the pension gap (the difference between the last income from work and the first income from an old-age pension) will be reduced, with the effect that the workers' need for other age-related income sources will be less acute. For the company this implies that part of indirect labour costs is already dedicated to a sort of occupational pension which in turn reduces the incentive to offer voluntary genuine company pensions. On the other hand, the abolition of the old severance payment eliminates the most important means to tie employees to a company: entitlement to severance pay which depends on the duration of employment with the company. In view of the shortage of workers to be expected from demographic trends, alternative ways to commit workers to their company by monetary means (such as company pensions) need to be applied more extensively in the future.

Figure 1: Reasons for introducing a company pension scheme



Source: WIFO survey; responses by firms that run an occupational pension scheme (multiple answers allowed); sample: 148 firms.

Four types of financing company pensions

In Austria, company pensions are financed by four different methods: direct pension commitment, group life insurance, pension funds (since 1991) and voluntary supplementary insurance within the ASVG system. The latter is used by just a handful of companies, usually in combination with another financing method. Compared to the last WIFO survey of 1993, a substantially larger share of companies (more than 50 percent) used a pension fund to handle their internal old-age provision. Direct pension commitments are often combined with a pension fund. Direct pension commitments and life insurance have approximately the same incidence (Figure 2).

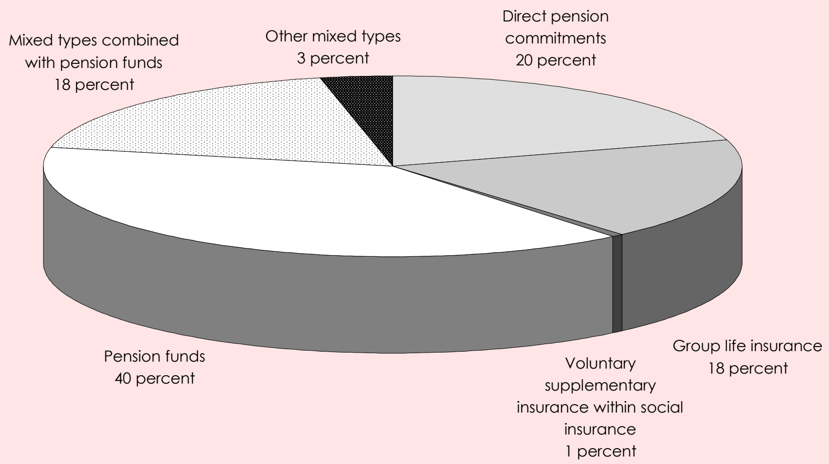
Surprising number of new occupational pension schemes established

A large part of the firms responding to the survey introduced their company pension scheme after 1995. Those with more recent schemes had a slightly lower share of direct pension commitments (28.1 percent) than companies with a longer-established scheme (36.4 percent). This shift benefited mainly the share taken up by group life insurance. Among companies with an established occupational pension system, 16.4 percent use life insurance, compared to 36 percent for companies with a more recent system. Pension funds further increased their market share to 60.7 percent, from an already high level of 54.5 percent.

Pension funds already manage the highest contribution volume.

The companies in the survey spent a total of € 93 million on company pensions. Most of this money is handled through contributions to pension funds. Significantly lower amounts are spent on direct pension commitments. The focus of direct commitments is definitely on provision for future obligations rather than on current payments. Contributions to life insurance schemes are of minor importance compared to overall expenditures: the sample identified only some 6 percent of expenditure for pension provision made through this method. Supplementary payments to social insurance is negligible (Table 1).

Figure 2: Companies broken down by type of financing occupational pensions



Source: WIFO survey, 148 firms.

The expenditure on pensions per capita depends on the type of financing. Expenditure on direct pension commitments affects both persons eligible for a future pension and current retirees. For this reason, the balance from ongoing expenditure on pensions, allocation to pension reserves and liquidation of reserves refers to the number of both eligible and retired persons. The other financing methods generally involve only contributions for eligible persons since pensions are paid by the financial intermediary or the social insurance institution. For this reason, it is impossible to calculate average per capita expenditure across all types of financing.

Table 1: Expenditure on company pension in the WIFO survey, broken down by method and firm size categories, 2000

	Up to 49 employees	50 to 99 employees	100 to 499 employees	500 to 999 employees	More than 999 employees	Total
	€ million					
Expenditure						
Payments for direct pension						
Pension payments from current revenue	0.02	0.73	4.46	1.67	2.55	9.42
Allocation to pension reserves	0.44	0.14	5.35	1.04	10.34	17.30
Liquidation of pension reserves	–	0.18	1.10	0.34	1.25	2.87
Contributions to life insurance schemes	1.35	0.02	0.59	0.84	3.02	5.82
Contributions to pension funds	10.33	0.31	6.72	5.94	33.70	56.99
Contributions to voluntary supplementary social insurance	–	0.01	0.02	–	0.52	0.56
Total	12.14	1.02	16.03	9.15	48.89	87.22
	Average pension expenditure per eligible person or pensioner in €[1]					
Direct pension commitments[2]	8,636	6,673	17,195	16,683	157	13,007
Life insurance[3]	3,181	267	1,844	5,842	–	3,170
Pension funds[3] [4]	1,387	3,977	1,315	–	956	980

Source: WIFO survey. – [1] Excluding companies with mixed types of financing. – [2] Expenditures per eligible person and pensioner per year. – [3] Expenditure per eligible person per year. – [4] Corrected by obvious lump-sum transfers under Section 48 of the Pension Fund Act (PKG).

The highest per-capita expenditure is found in the direct pension commitments system. Companies that have chosen this method spent an average of € 13,000 per person eligible/retired in 2000; among medium-sized companies this average is substantially exceeded. In spite of the low overall spending, the average contribution per person on life insurance (€ 3,170) is much higher than expenditure on pension funds (€ 980). The difference is due to the fact that pension fund solutions usually comprise all employees in a company whereas benefits are usually restricted to the management level in the direct pension commitment and life insurance systems. In addition, group life insurance includes reinsurance for direct commitments of an unknown amount.

Highest average pension expenditure within direct pension commitments

The WIFO survey found that reserves for direct commitments allocated under commercial law for future pension obligations make up altogether € 200 million. Slightly more than a third of this stock has been accumulated by large enterprises. Average reserves per company are about € 2.9 million, with marked differences between small and large companies. Even within categories, allocations to reserves vary considerably, so that a significant spread is found across companies.

Pension reserves under commercial law make up an average of € 2.9 million.

The characteristic features of the financing vehicle chosen for the company pension are typically seen in a positive light by the enterprises surveyed. Generally, the bond created by the scheme between employees and the employer is viewed as positive. This effect is seen to be greatest in the system of direct pension commitments. Both this and life insurance group are lauded for their clear range of attuning options available, whereas pension funds are clear losers in this respect. With respect to contract customising, direct pension commitments are seen as advantageous, whereas life insurance is considered attractive primarily with regard to the taxation aspect. For pension funds, the feature seen to be most positive is the option they offer to make staff contribute to payments.

Extrapolation for the overall economy

The findings of the WIFO survey on company pensions in Austria can be supplemented by other published data, such as the balance sheets of corporations obliged to publish annual reports, the BACH database operated by the OeNB, the Income Report published by the Court of Audit, the publications made by the OeNB and the Austrian Financial Market Supervisory Board monitoring financial intermediaries, and combined to produce an extrapolation for the overall Austrian economy. Another major source for the extrapolation is the WIFO survey of pension funds.

According to these figures, some 31,000 firms, or about 13 percent of all firms operating in Austria, offered a company pension to their staff. Occupational pension schemes are most prevalent in the banking and insurance sector and in public administration. The financial industry has several collective bargaining contracts and sector-wide agreements that provide for company pensions; in the public sector, a reform of the employment law for government employees of non-civil-servant status was passed on the promise of payment of an occupational pension. The lowest incidence is among companies rendering social or personal services, restaurants and hotels and in the construction industry.

Some 13 percent of companies offered company pension systems in 2000.

In 2000, some 430,000 employees were eligible to receive a company pension, a figure that comprises 16 percent of those dependently employed or 12 percent of all gainfully employed persons. Major corporations are disproportionately more likely to grant such entitlements. The number of eligible persons is above average among electricity and water utilities, closely followed by the banking and insurance sector, mining, real estate brokers and business services. In the restaurant and hotel sector, education, health, veterinary and social services, and the construction industry, eligible persons are comparatively rare.

16 percent of the dependently employed are eligible for a company pension.

Company pensions are paid either directly by the enterprise, by a financial intermediary or by the social insurance system, depending on the type of financing used. In 2000, benefits from a company pension scheme were paid to 103,000 persons, or 11.5 percent of the recipients of an old-age pension from social insurance system of employees.

Already 103,000 pensioners

0.9 percent of the total wage bill is spent on future company pensions.

Expenditures on pension contributions and the net allocation to pension reserves made up some € 745 million or 0.9 percent of total gross wages and salaries in 2000. Benefits to retirees, i.e., payments under the titles of direct pension commitments, pension funds, group life insurance schemes and voluntary supplementary insurance within the public social security system, made up € 1,216 million, or 11 percent of the expenditure for old-age pensions paid by the social insurance system for employees. Direct pension commitments were covered by € 7.65 billion of pension reserves (excluding the pension reserves built up by the OeNB).

Incidence growing since the 1996 WIFO extrapolation

Occupational pension schemes have been rapidly spreading since the last WIFO survey made for 1996[1]. One driving factor was a change in the employment law for government employees of non-civil-servant status, which is increasingly extended to provincial and local government levels. The various government levels are using pension funds to finance their schemes, with the result that such funds are becoming the dominant means to finance occupational pension schemes, both in terms of eligible persons and contribution volume, not, however, in terms of the number of enterprises operating a company pension scheme: smaller businesses tend to enter group life insurance schemes, whereas medium-scale operations prefer direct pension commitments. Pension funds offer a simple and advantageous administrative structure to medium- to large-sized corporations.

The distribution of types of financing is characterised by a sedate pace of change: many existing pensions continue to be managed in the old system rather than transferred completely to a new method. As a result, there is a large number of companies that operate a mixed bag of schemes.

Companies intent on reform prefer pension funds.

A majority (almost 60 percent) of those companies that plan to introduce an employee pension scheme or to extend an existing pension plan will opt for a pension fund. Companies that operate mixed types of financing name three reasons for their choice: first, changing to a new type is aggravated by existing entitlements some of which are continued in the old system; second, by using mixed types, company pensions can by stratified (entitled persons, amount of pension); and third, company ties can be strengthened by the judicious use of systems.

Conclusions for economic policy

In the medium run, the development of company pension schemes will depend mainly on four driving forces:

- The rate of staff renewal in public administration determines the speed at which additional employees are granted an entitlement. An important aspect here is the rate at which coverage of the new employment law for non-civil-servant employees increases.
- The new severance pay (Mitarbeitervorsorge) and genuine occupational pensions are highly interactive, and it is impossible to project the net effect.
- Around 2010 the working age population will start to decline, so that in the medium run a shortage of qualified labour is to be expected. Company pensions may well be used as a financial incentive to tie staff to their company.
- The pension reform discussed in parliament will clearly impact negatively on benefits for all insurees with irregular life time income profiles across their working lives or long periods of training or parental leave.

The actual government programme provides for strengthening occupational and individual pension schemes to maintain living standards in retirement, but does not state any specific steps. For occupational pension schemes, the legal and practical prerequisites are in place for a cost-efficient and attractive (in terms of tax treatment) fully-funded old-age pension system. The administrative costs of pension funds are relatively low. Contributions by the employer are subject to deferred taxation, i.e., only upon payment of benefits. Nevertheless, this option is open only to eligible employees. Accordingly, measures to promote occupational pension schemes must

[1] Url, Th., "Occupational Pension Systems in Austria 1996", Austrian Economic Quarterly, 1998, 3(1), pp. 43-50.

be either designed to boost their spread or formulated in such general terms that individual old-age provision may be included as well.

An expansion of occupational pension schemes requires reforming the new severance pay scheme or facilitating the payment of individual contributions to the company pension scheme.

In order to spread occupational pension systems in Austria, the Federal Act governing new severance payments (betriebliche Mitarbeitervorsorge) would have to be reformed to make it mandatory to change the accumulated capital stock into an annuity upon retirement. In this way, the scheme could be turned into a genuine company pension. Alternatively, individual contributions to group life insurance and pension funds could be increased by subsidising payments made by eligible individuals. At present, employee contributions are made from the income after tax or within the frame of a subsidised scheme for individual old-age provision (special expenses under Section 18 of the Income Tax Act, supplementary pension insurance, etc.). The premium-subsidised provision scheme introduced in January 2003 (Zukunftsvorsorge) is difficult to incorporate into existing company pension schemes. Direct pension commitments do not foresee any contribution by eligible persons at all, and the restrictive investment rules governing the premium-subsidised provision scheme do not permit integrating existing investments made by pension funds and group life insurance schemes.

In general, state subsidies for old-age provision should be provided regardless of the financial scheme chosen, and the burden on public households from such subsidies should not fall due at some future time but, whenever possible, at the time the provision is made. Subsidies should be applicable to existing as well as new systems. Such a claim will cause a reduction in transaction costs accruing to persons willing to make private old-age provision.

Rigid conditions of premium-subsidised old-age provision cause higher administrative costs.

In this respect, the premium-subsidised old-age provision scheme (Zukunftsvorsorge) is a step backwards, compared to its predecessors, because it is incompatible with any previous model, due to its separate rules governing asset management. As a minimum, the scheme requires the development of new investment accounts to be handled in parallel, and the transfer of accumulated capital to such accounts. As a result, additional costs will accrue to prospective participants. Abolishing separate investment rules for the scheme would be an important step towards improving the incentives for own contributions to be made by persons eligible for a company pension.

Occupational Pension Schemes in Austria — Summary

Compared to Europe in general, occupational pension schemes are a relatively rare phenomenon in Austria. Whereas on a European average, every second worker is included in a form of occupational pension scheme, in Austria only one in six dependently employed workers can lay claims on a company pension. The WIFO study of schemes offered by participants of the regular WIFO business and investment surveys found that those companies that offer a pension scheme emphasise chiefly three motifs: improving the commitment of highly qualified employees, offering an incentive for better performance and meeting the desire of employees for a supplementary pension.

Altogether, some 31,000 companies (or 13 percent of Austrian enterprises) offered their staff an employee pension scheme in 2000. In the same year, about 430,000 employees (or 16 percent of all employees) had acquired a claim for a company pension, and 103,000 persons (or 11.5 percent of all old-age pensioners) received benefits from an employee pension scheme. In 2000, expenditure for contributions and net allocations to provisions was about € 745 million or 0.9 percent of the total wage bill. Benefits to retirees, i.e., payments from direct pension commitments, pension funds, group life insurance schemes and voluntary supplementary insurance within the public social security system, made up € 1,216 million, or 11 percent of the expenditure for old-age pensions paid by the social insurance system for employees. Provisions to cover direct pension commitments made up € 7.65 billion.

The incidence of employee pension schemes has surged since the last WIFO survey as of 1996. A change in the employment law for government employees of non-civil-servant status helped drive a development that is now spreading to provincial and local government levels. At the federal level, a pension fund is used to finance occupational pensions.

Precedence to be given to improved information on expected benefits from the public system

Before consideration is given to extending subsidies to voluntary old-age provision schemes, a major information deficit exhibited by insurees should be eliminated: due to the sheer complexity of calculating actual pension entitlements, very few of the potential beneficiaries have an idea of their expected benefits from the public system. In view of this uncertainty, it is virtually impossible for individuals to arrive at an optimal personal savings decision, but they will, in general, be either over- or undersupplied. It thus appears of urgent importance to disclose to individual insurees their expected benefits from their current status. It is only when proper information is ensured to make individuals aware of the scope of income loss suffered by retirement that insurees can take steps to obtain a suitable old-age provision of their own.