

Thomas Url

Occupational Pension Systems in Austria 2007

In Austria occupational pensions are considered merely a complement to comparatively high public pensions. The volume of their contributions and pension payments, respectively, is equivalent to slightly more than ½ percent of GDP, whereas revenue and expenditure flows of the public pension system amount to 13.7 percent of GDP. The results of WIFO's most recent business survey permit both to assess the pros and cons of occupational pensions and to project the most important indicators for the whole economy. In addition, potential incentives for a further expansion of occupational pension schemes can be identified.

This article is based on a current WIFO study prepared for the Austrian Federal Economic Chamber (WKO), Association of Austrian Occupational Pension Funds: Thomas Url, Die Verbreitung der betrieblichen Altersvorsorge in Österreich 2007 (The Prevalence of Occupational Pensions in Austria in 2007), September 2009, 148 pages, € 50, Download: € 45: http://www.wifo.ac.at/wwwa/jsp/index.jsp?fid=23923&id=36861&typeid=8&display_mode=2 • Thomas Url is an economist at WIFO. The author is thankful to Christine Mayrhuber for useful and constructive comments. The data were processed and analysed with the assistance of Ursula Glauningner • E-mail addresses: Thomas.Url@wifo.ac.at, Ursula.Glauningner@wifo.ac.at

In Austria occupational pension schemes are characterised by voluntariness and scope for individual negotiation between management and employees at the company level. Only in few cases they are regulated by collective agreements at the industry level. This complicates the assessment of the prevalence and volume of payments in the existing systems. Moreover, analysis of potential effects from changes in explanatory variables requires survey data. In spring 2008 WIFO conducted such a survey, the results of which serve as a basis for the current assessment.

In Austria public pensions offer relatively high replacement rates, i.e., up to the maximum assessment base in the social security system the final earned income is largely replaced by public pension payments after retirement. Therefore occupational pensions play a complementary role for the income of pensioners' households in Austria.

In Austria there are four organisational types of occupational pension schemes: pension funds, life insurance, employers' direct pension commitments and optional complementary insurance within the social security system. In practice the latter hardly plays any role. For a long time employer's direct commitments were the most popular way of financing occupational pensions. Here companies pay occupational pensions out of their current revenues or the pension provisions generated earlier. As far as direct pension commitments are not covered by assets or a pension liability insurance, they are at risk if the granting company goes bankrupt.

At the beginning of the 1990s the Law on Occupational Pensions and Pension Funds (Betriebspensions- und Pensionskassengesetz) established a general legal basis for occupational pension schemes and facilitated the outsourcing of accounts and asset management to specialised financial institutions. Since then pension funds have enjoyed a rapid growth of contracts and managed assets. Nevertheless, employers' direct pension commitments or combinations of them with other instruments are still frequently used.

Occupational pensions as a complement to the public pension

Three types of occupational pensions dominate in Austria: pension funds, group life insurance and employers' direct pension commitments.

Whereas the supervisory authorities and the Association of Pension Funds ensure a complete data base for pension funds, documentation of employers' direct pension commitments is incomplete. It is difficult to assess the evolution of group life insurance, partly because it cannot easily be distinguished from individual life insurance and partly because of the poor data base. Therefore published data still do not allow exhaustive conclusions with respect to the prevalence and volume of occupational pension schemes in Austria.

Already in 1995 WIFO examined the prevalence of and motivation for occupational pensions in the year 1993 (Mooslechner – Url, 1995, Rosner – Wörgötter – Url, 1997). The study was based on WIFO's analysis of a company survey combined with social security data. The results were updated in a follow-up study by WIFO for the year 1996 (Url, 1997, 1998). Another study (Url, 2003A, 2003B) also made use of a company survey – besides a number of other sources – to assess the prevalence of occupational pension schemes in Austria in 2000.

Since the WIFO's survey of 2001 the framework for occupational pension schemes has changed in several respects. From a macroeconomic point of view Austrian companies are facing increased competition and cost pressure from Eastern Europe and South East Asia. On the other hand, qualified workers are in short supply in certain qualification segments and regions (Huemer – Mahringer – Prean, 2008) and the incentives of occupational pensions offer some relief at the company level. The reforms of the public pension system of 2000-2004 also have an expansionary effect. Workers who have contributed to the public pension system for a long and uninterrupted period, whose income has been relatively stable and who retire at the statutory retirement age, are not put at a disadvantage by the pension reforms. For women the improved imputation of pension entitlements for periods of child-care may overcompensate the dampening effects of other measures on pensions (Stefanits – Hollarek, 2008). On the other hand, persons with a short contribution period (less than 45 years) or with a clearly rising or volatile earned income will receive lower pension payments (Mayrhuber, 2006). For these, usually higher-qualified, workers with a low expected public pension occupational pensions offer a convenient way of maintaining their living standards after retirement.

With the switch from the previous system of lump-sum severance payments to the mandatory "New Severance Payment Scheme" ("Abfertigung Neu") in 2003 economic policy makers created an instrument, which can be considered an alternative to conventional occupational pension schemes and which might dampen the future expansion of occupational pensions. Introduction of the collective occupational insurance (Betriebliche Kollektivversicherung) was used in 2005 to extend the favourable regulations which apply to pension funds to life insurance products. Enhanced competition caused by the introduction of alternative instruments might have a positive effect on the evolution of occupational pensions. On the other hand, repeated cuts of pension funds' payments have lead to a huge media response and have diminished public confidence in funded pensions.

An international comparison clearly shows that in Austria occupational pensions play the role of a complementary income in addition to public pensions. This is why their prevalence and payments are low in Austria. Of all West European countries only France and Switzerland stipulate mandatory occupational pensions. In Eastern Europe income-related pension payments have generally been the responsibility of mandatory funded occupational pension schemes since the reform of the public pension system (OECD, 2008). By contrast, most West European countries – similarly to Austria – use voluntary agreements at the company level or collective agreements.

It is difficult to measure the total volume of occupational pensions, because the documentation of employers' direct pension commitments and group life insurance is incomplete.

A new framework for occupational pension schemes

With the introduction of the "New Severance Payment Scheme" and occupational group insurance the institutional framework of occupational pension schemes has changed significantly.

International comparison of the relevance of occupational pensions

Figure 1: Income structure of persons aged 50 or over by type of income

As a percentage of total income



Source: SHARE data base. Public pensions: old age, disability, survivors' and war pensions as well as complementary public pensions and nursing allowances. Occupational pensions: old age, disability and survivors' pensions. Private pensions: all regular payments from life insurance, private pension schemes or health insurance. Other income sources: e.g., alimony. Number of observations: 9,893 (2004) and 10,884 (2006).

The share of pension incomes resulting from occupational pension schemes differs widely between countries. The Survey of Health, Ageing and Retirement in Europe (SHARE)¹ facilitates a comparison of European households' pension incomes from different income sources. The incomes include all public pensions, occupational pensions, private pensions and other income sources (such as alimony). The share of occupational and private pensions in total income provides information on the relevance of funded pension payments for individual income. In countries with low basic public pensions the share of occupational and private pensions should tend to be higher. On average, public pensions accounted for at least 80 percent of total

The share of occupational pensions in total pension income in Austria is below the international average.

¹ In addition to information on the family status of households and personal health this survey also provides data on the work status, the income, and the wealth situation (<http://www.share-project.org>).

income in all European countries in 2006 (Figure 1). The share of occupational pensions in total income is highest in Germany, at 12 percent, and lowest in Austria and France, at roughly 2.5 percent.

In co-operation with Eurostat Statistics Austria regularly interviews Austrian households on their income from occupational pensions (EU-SILC). According to this survey the pension income of persons with an occupational pension is almost twice as high as that of persons who receive a public pension only. In Austria the average occupational pension (paid 14 times per year) amounts to € 950 on average according to this data base and thus exceeds the average pension fund payment of € 695 (paid 14 times per year). The EU-SILC survey confirms the low average share of occupational pensions in pensioners' incomes concluded from the international comparison based on the SHARE data base. However, the low average share of 2.5 percent (2006) is not due to low per capita pensions, but a low number of recipients (Figure 1).

In 2006 the average occupational pension amounted to € 950 (14 payments per year).

In spring 2008 WIFO surveyed Austrian private non-agricultural companies on motives, doubts and indicators concerning occupational pension schemes for the third time. This direct survey facilitates a comprehensive assessment of the motivation for and against occupational pension schemes and simultaneously provides the data base for a projection for the whole economy. In addition, companies can assess future possibilities of deferred compensation instruments. A total of 872 companies filled in the questionnaire. The statistical validity of results for small enterprises with fewer than 20 employees is limited.

The WIFO-survey on occupational pensions

Compared to the previous survey of 2001 the prevalence of occupational pension has increased among participating companies. 228 out of the 872 companies offered an occupational pension scheme in 2008. The share of 26.1 percent in total thus significantly exceeded that of 2001 (20.8 percent; *Url, 2003A*). In part, however, the increase is due to a change in the sample: in the current survey utilities and financial institutions were contacted for the first time. If only the same sectors are taken into account as in the previous survey, the prevalence is only 21.7 percent. The increase is thus smaller. The prevalence of occupational pensions in Austria still depends largely on company size (between roughly one tenth for enterprises with up to 9 employees and almost 45 percent for large enterprises). A lot of the responding companies had not established occupational pension schemes until 1991 – the year, when pension funds were introduced. Only one fifth of the companies had already granted their employees an occupational pension before.

The prevalence of occupational pensions among the participating companies has increased since the previous survey.

Previous surveys of the WIFO already showed that higher loyalty of qualified workers and the motivation of employees for higher performance are the main motives for granting an occupational pension. The current survey confirms this conclusion. More than three quarters of the responding companies with an occupational pension scheme use deferred compensation to achieve a "higher loyalty of highly-qualified workers". A similar proportion agrees with the motive of an "incentive for higher performance". At 53 percent, avoiding search costs for new employees is significantly less decisive. Avoiding training costs is not an objective of the majority (45 percent). Purely financial reasons for the introduction of an occupational pension scheme have a rather small weight. Compared to the survey of 2001 the arguments "inadequate public pensions" (60 percent) and "employees' request for an occupational pension" (66 percent) gained about 4 to 5 percentage points in importance.

Tying qualified workers and providing performance incentives are the most important motives for the establishment of an occupational pension scheme.

In 2008 49 percent of the surveyed enterprises used pension funds as the financing mode, 9 percentage points more than in 2001. As a part of the work force often remains in the old system, when the pension scheme switches to a new financing instrument, there are also enterprises with several types of occupational pensions. Among mixed forms those using a pension fund dominated in 2008, mainly combined with direct pension commitments. Compared to the survey of 2001 life insurance had lost in importance (14 percent, 2001: 18 percent). Collective occupational insurance could not yet be established as a pension instrument on a large scale. Direct pension commitments as an independent pension instrument are considered an attractive alternative by only 7 percent of the businesses. In a few cases

Pension funds are the dominating type of occupational pensions ahead of life insurance and direct pension commitments.

they are combined with life insurance. Optional complementary insurance in the public pension system is very rarely used in combination with pension funds.

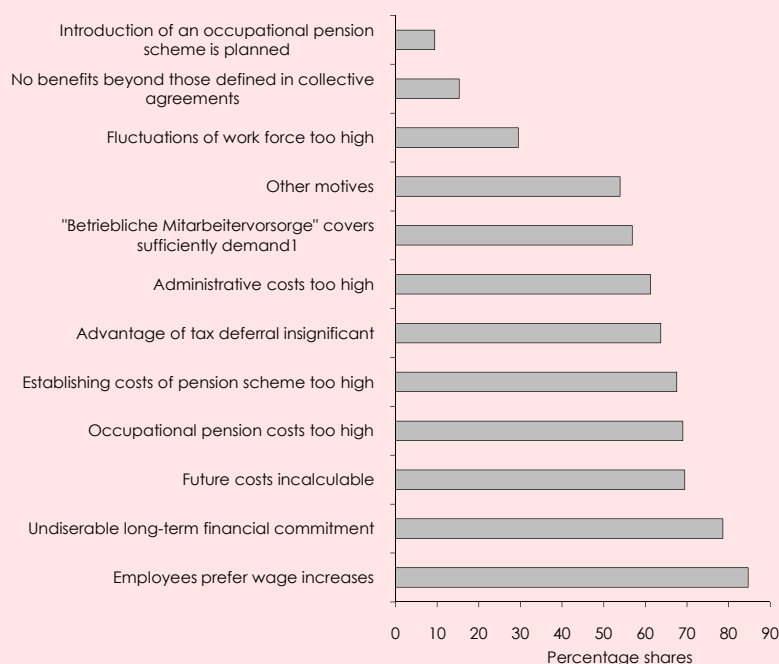
The majority of companies with an occupational pension scheme do not plan any change of existing arrangements. Compared to the survey of 2001 this share is up from 81 percent to 89 percent. Some companies are considering an enlargement of the group of entitled employees. However, their share diminished from 12 percent (2001) to 8 percent (2008). Nevertheless, only very few companies contemplate phasing out their occupational pension scheme (2 percent). Overall, the prevalence of occupational pension schemes in the private business sector is likely to expand less dramatically than most recently.

Enterprises were also interviewed on the reasons for rejecting occupational pensions (Figure 2). Above all, they mentioned the following motives: insufficient interest on the side of their work force, high costs and the particular structure of the company's demand for labour. Most companies stated that their employees preferred higher wages increases to an occupational pension scheme and that the tax benefit for contributions was irrelevant to employees. Almost 60 percent of companies said, that the mandatory "New Severance Payment Scheme" already met their employees' needs for old age insurance to a sufficient degree. In the view of numerous companies the new severance system has developed into a suitable substitute for occupational pension schemes, although entitled workers largely opt for a disbursement of the accumulated capital in case of a layoff. A substantial part of the companies does not want to incur long-term financial commitments and refers to uncertain costs of an occupational pension scheme. In addition, the costs for establishment and continuous administration weigh heavily. By contrast, only a small share of companies mentions labour market related reasons for rejecting occupational pensions: for 30 percent the high fluctuation of the labour force due to volatile business activity serves as an argument against occupational pensions, 15 percent do not offer any payments above those defined in collective agreements. Compared to the survey of 2001 both the order and the shares of firms supporting a particular objection have remained roughly unchanged.

The expansion of occupational pensions in the private business sector will slow in the future.

Excessive costs and insufficient demand by employees are the main impediments to an expansion of occupational pension schemes.

Figure 2: Reasons for the rejection of an occupational pension scheme



Source: WIFO survey. Share of companies without occupational pension scheme who name a motive. Number of observations between 394 and 597. Only 152 companies answered the question on "other motives". – ¹ "Betriebliche Mitarbeiterversorge" is a mandatory scheme replacing the former severance payments (Mayrhuber, 2000).

To promote a further expansion of occupational pension schemes additional incentives have repeatedly been suggested in the public debate. In this discussion tax benefits, a more flexible arrangement for contribution payments and simpler pension schemes play an important part. The WIFO-survey also included questions on potential changes of the economic and social policy framework which would induce companies to establish an occupational pension scheme. Companies would react most strongly to additional tax benefits: in this case 88 percent would consider introducing a new system or expanding the existing one. Above all they would welcome an exemption of entrepreneurs' own contributions from income tax (three quarters of companies). At 70 percent cost and planning arguments are also significant. Almost two thirds of the enterprises want more flexibility in their contribution payments to occupational pension schemes, e.g., more profit-related amounts. An opening clause in the collective agreement, making the occupational pension an option, is an incentive worth considering for slightly more than half of the enterprises.

Tax benefits are among the most important incentives possibly fostering a further expansion of occupational pension schemes. Flexibility of contribution payments and opening clauses in collective agreements are less significant.

The overall number of companies with an occupational pension scheme was projected by using an econometric model based on the WIFO-survey (Url, 2009). Additionally, information of the court of auditors, a survey among pension funds, the Austrian Insurance Association, OeNB publications on financial institutions, the OeNB data base on Austrian companies (BACH), and information on existing collective agreements have been utilised. The additional information is particularly important for projections concerning those industries, which were not covered by the survey (public administration, education, health, "other community, social and personal services").

At the beginning of 2007 240,000 companies operated in Austria: of these 232,000 were outside agriculture and forestry, private households and extraterritorial organisations. This reduced sample forms the basis for the projection. In 2007 a total of 60,000 or 25 percent of active companies offered an occupational pension scheme to their employees (Table 1). Compared to the projection of 2000 (13 percent) the prevalence of occupational pensions has thus increased strongly. For prior periods only data of the non-agricultural business sector (NACE C to K; Table 1) are comparable with current projections: within NACE sectors C to K the share of companies offering occupational pensions rose from 6.1 percent in 1993 to 12.6 percent in 2000 and amounted to 19.2 percent in 2007.

The increase was due in equal shares to an expansion of pension funds and a successful promotion of old age provision (according to section 3 para. 1, no. 15 of the Austrian income tax code, EStG) via group life insurance. The salary reform in the civil service caused a significant increase in the share of institutions with a direct pension commitment in the three related sectors: public administration (53 percent), education (99 percent) and health services (90 percent). Traditionally occupational pension schemes are wide-spread in the financial sector, mostly governed by collective agreements. The prevalence of occupational pensions is also high among utilities. Transport and communication services offer occupational pensions more often than the average of Austrian companies, whereas the prevalence in manufacturing and business services roughly corresponds to the average. Occupational pension schemes are particularly rare among hotels and restaurants. In the construction and trade sectors the willingness to offer occupational pensions is very limited, too. In mining and quarrying the prevalence of occupational pensions has remained constant since 2000 and in "other community, social and personal services" their share is only half the average.

Additional information on group life insurance suggests that 865,000 persons or almost 32 percent of all employees (2007) in Austria are entitled to an occupational pension. The share of employees has thus doubled since 2000. In 2007 it was highest among utilities (87 percent) and in the financial sector (86 percent). An above average number of pension entitlements also exist in the transport and communication industries (55 percent), in mining and quarrying (44 percent), in health services (43 percent) and in "other community, social and personal services" (39 percent).

Prevalence of occupational pension schemes in Austria

In 2007 a quarter of all companies in Austria offered an occupational pension scheme to their work force.

Vigorous demand for group life insurance and the salary reform in the civil service were the driving forces behind the expansion of occupational pensions.

By 2007 almost a third of all employees is entitled to an occupational pension. Entitlements are very unevenly spread across industries.

Occupational pensions are least common among employees in hotels and restaurants (4 percent), construction (9 percent) and trade (12 percent).

Table 1: Number of companies with occupational pension schemes

2007, activities according to NACE 2003, projection based on WIFO survey

	Companies with ... employees					Total
	1 to 9	10 to 19	20 to 49	50 to 299	more than 299	
C Mining and quarrying	33	14	17	10	5	80
D Manufacturing	3,123	1,125	886	682	176	5,992
E Electricity, gas and water supply	233	39	36	46	18	372
F Construction	786	286	202	87	15	1,376
G Wholesale and retail trade, repair of motor vehicles, motorcycles and household goods	6,766	1,070	648	356	67	8,908
H Hotels and restaurants	934	105	59	19	1	1,118
I Transport, storage and communication	2,101	447	333	186	37	3,104
J Financial intermediation	2,469	369	358	327	71	3,594
K Real estate, renting and business activities	9,412	1,018	591	365	55	11,441
L Public administration and defence, compulsory social security	849	316	353	316	100	1,934
M Education	1,500	289	116	91	21	2,017
N Health and social work	14,652	550	443	320	103	16,068
O Other community, social and personal service activities	2,202	167	162	147	32	2,710
Total	45,060	5,796	4,204	2,953	700	58,713
Percentage shares of all companies						
C Mining and quarrying	13.0	25.1	28.1	31.7	51.1	19.2
D Manufacturing	18.1	36.6	38.9	41.6	58.3	24.5
E Electricity, gas and water supply	52.2	71.0	73.4	77.2	88.4	59.1
F Construction	5.7	11.9	13.7	15.8	29.8	7.6
G Wholesale and retail trade, repair of motor vehicles, motorcycles and household goods	15.6	22.7	25.1	27.0	42.1	17.1
H Hotels and restaurants	3.5	4.5	4.8	5.1	7.8	3.7
I Transport, storage and communication	27.1	38.6	41.7	45.0	64.1	30.5
J Financial intermediation	95.2	98.7	98.5	100.0	100.0	96.4
K Real estate, renting and business activities	22.3	37.5	38.1	43.3	54.6	24.1
L Public administration and defence, compulsory social security	40.0	45.0	80.0	100.0	100.0	52.5
M Education	99.0	100.0	100.0	100.0	100.0	99.3
N Health and social work	90.0	90.0	95.0	100.0	100.0	90.4
O Other community, social and personal service activities	12.0	14.6	24.3	41.5	55.1	13.1
Total	23.4	29.5	34.9	44.4	65.8	25.3

Figures may not add up due to rounding.

The number of persons receiving an occupational pension is well-documented only for pension funds (almost 60,000 in 2007). An additional 13,500 persons receive an annuity from a group life insurance, about 60,000 receive direct pension payments from a company. Thus a total of 135,000 persons enjoyed benefits from an occupational pension system (Table 2). This means that 13 percent of all pensioners in the public pension system for employees (Pensionsversicherung der Unselbständigen) have an additional pension, an increase of 30 percent since 2000.

Contribution revenues include intakes by pension funds (€ 532 million in 2007), group life insurance premiums (€ 420 million in 2007) and companies' net pension provisions (€ 410 million in 2007). In total € 1.4 billion were dedicated to future pension payments in 2007. This corresponds to 1 percent of the compensation of employees or 1.3 percent of gross wages and salaries. The level of contribution payments increases with company size, because occupational pension schemes are more common in large enterprises and average salaries are higher.

About one eighth of all pensioners receive an occupational pension.

On average contribution payments amount to 1 percent of staff costs and are evenly spread across financing modes.

Table 2: Distribution of occupational pensions across the three main financing modes

2007

	Number of companies	Accrued entitlements Persons	Pensioners	Contributions Million €	Pension payments	Actuarial reserves
Direct pension commitments	4,707	68,417	62,145	414	1,184	19,024
Life insurance	41,475	311,430	13,541	422	91	1,773
Pension funds	12,530	484,359	58,500	532	402	12,985
Total	58,713	864,206	134,186	1,368	1,677	33,783
Percentage shares						
Direct pension commitments	8.0	7.9	46.3	30.3	70.6	56.3
Life insurance	70.6	36.0	10.1	30.9	5.4	5.2
Pension funds	21.3	56.0	43.6	38.9	24.0	38.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Data on pensioners and pension payments under "direct pension commitments" include group life insurance. Figures may not add up due to rounding.

Occupational pension benefits largely consist of annuities to beneficiaries. In case of a low accrued capital, retirees receive a lump-sum compensation. In 2007 a total of € 1.7 billion was disbursed for occupational pensions. Thus, since 2000 occupational pension payments have increased by 38 percent. This figure compares with an advance of public spending on old age pensions of 27 percent. The average pension of the 135,000 pensioners amounted to € 890 per month (14 payments per year). This figure lies between the average pension from pension funds of 695 percent and the result of the EU-SILC household survey for Austria of € 950.

The WIFO estimates companies' total pension provisions in 2007 at € 19 billion. This figure is substantially higher than in 2000. Actuarial reserves of group life insurances and pension funds amounted to a total of € 14.8 billion, so that occupational pensions in Austria were covered by reserves of € 33.8 billion (Table 2). This corresponds to a quarter of the compensation for employees.

The three pillars of the Austrian pension system consist of public, occupational and private pensions. Especially private pension provision is difficult to distinguish from savings for other purposes. For example, the purchase of a home both ensures that current housing needs are met and serves as an old age provision, which lowers regular expenditures on housing in old age. For this study, a strongly simplifying classification is applied: all premium payments and claims received related to life insurance are fully assigned to old age insurance, whereas other savings forms are not assumed to be related to old age provision.

In the total economy benefits amounting to € 41.6 billion were spent in 2007 (Table 3). This was equivalent to 15.4 percent of total output. The share published for 2000 in *Url* (2003A) was significantly higher. Only a minor part of this decline can be attributed to the effects of budget consolidation on current pension benefits or the dampening effects resulting from the pension reforms of 2000, 2003 and 2004. The reduction of old age related benefits between 2000 and 2006 is mainly due to a methodological change in the survey of public pension expenditures. At 13.7 percent of GDP the ESSOSS data of the Federal Ministry of Labour, Social Affairs and Consumer Protection now provide a lower estimate of expenditures in 2000 than previously (14.5 percent of GDP). At the same time the estimation approach now allows to use additional information on life insurers' payments, which caused a revision of benefits in 2000 to merely 1 percent of GDP, compared to 1.6 percent according to previous projections in *Url* (2003A).

Across all financing modes the monthly occupational pension amounted to € 890 in 2007.

In 2007 companies' total pension provisions were substantially higher than in 2000.

A comparison of the three pillars of the Austrian pension system

In 2007 € 41.6 billion or 15.4 percent of GDP were spent on old age benefits. Public pension insurance clearly dominates at a share of 83 percent of revenues and 89 percent of benefits.

Out of the public pension insurance system and other public entities € 37 billion or 13.7 percent of GDP were spent on pensions. Additional smaller amounts were disbursed on the basis of the Laws on Social Provision ("Versorgungsgesetze", social compensation for survivors and disabled persons) and the Law on Strenuous Night Work ("Nachtschwerarbeitsgesetz"). Public institutions disburse large amounts, which are not related to old age but concern other social purposes, such as health or provision for survivors. If public expenditures are adjusted for these components, the resulting old age pension benefits in a narrow sense amounted to € 30.4 billion (11.2 percent of GDP) in 2007.

Table 3: Distribution of contributions and pension payment across the three pillars of the Austrian pension system

2007

	Million €	Percentage shares	As a percentage of GDP
Contributions to old age provision			
Total revenues of the public pension system ¹	37,092	82.7	13.7
Occupational pension schemes ²	1,368	3.0	0.5
Private life insurance	6,402	14.3	2.4
Total	44,862	100.0	16.6
Pension payments			
Public pension payments ¹	36,984	89.0	13.7
Occupational pensions	1,677	4.0	0.6
Private life insurance	2,910	7.0	1.1
Total	41,572	100.0	15.4

Sources: Federal Ministry of Labour, Social Affairs and Consumer Protection, Federal Ministry of Finance, Statistics Austria, Austrian Insurance Association, WIFO. – ¹ Social expenditures or expenditures financed by social security systems: public pension insurance, pensions of public entities, Laws on Social Provisions (Versorgungsgesetze – social compensation for survivors and disabled persons), pension according to the law on strenuous night work (Nachtschwerarbeitsgesetz). This item also includes public social expenditures, which do not directly serve the purpose of old age provision, such as health expenditures. Expenditures on old age provision alone amounted to € 30.4 billion in 2006 (including bank transfers). – ² Excluding transfers and one-off payments of pension funds.

Business and private institutions accounted for more than one tenth of total expenditures on old age benefits of € 41.6 billion in 2007. At € 2.9 billion or 1.1 percent of GDP payments of private pension insurance were somewhat higher than occupational pensions (0.6 percent of GDP in 2007). Compared to 2000 the shares of the second and third pillars declined from 12.9 percent (Url, 2003A) to 11 percent of total expenditures. Adjusted for the structural break (revision of ESSOSS numbers and change in the estimation method of life insurance benefits) the reference value for 2000 is reduced to 10.2 percent of total expenditures. The second and third pillars thus gained slightly in importance, contrary to what unadjusted data suggest.

As public pensions are based on a pay-as-you-go system and excess expenditures are covered by government transfers, revenues are almost identical to expenditures. Contributions to private and occupational pension institutions, however, are about twice as high as their benefits. The difference is due to the funding principle in these two pillars: during a long savings period a capital stock is accumulated which is annuitized after retirement. Austria's early position within the life cycle of funded old age systems explains the surplus of contributions over benefits. At 2.5 percent of GDP contributions to private life insurance are more than four times as high as contributions to occupational pension schemes. Overall, contributions equivalent to 16.7 percent of GDP are paid into old age insurance.

Even with new estimation methods the importance of funded pensions diminished slightly.

Revenues from contributions to old age provision clearly exceed expenditures due to the build-up of the second and third pillars.

Occupational pensions have expanded very dynamically in Austria since 2000. In the year 2000, Austria's share of the labour force (employees and unemployed persons excluding the self-employed) entitled to an occupational pension of 12 percent was far below the West European average of 51 percent. Since then Austria's share increased to almost 22 percent. Starting with 2008, occupational pension schemes have been established for public employees, who are gradually switching to the regulations of the General Pension Law (Allgemeines Pensionsgesetz, APG – formerly ASVG). This will sustain the upward trend in the coming years. However, at 0.5 percent of GDP the contributions paid in Austria are still low: on average, contributions to pension funds amount to 1.8 percent of GDP in Europe (2006, Eurostat data). This difference results from the low number of entitlements in combination with low per-capita contributions in collective agreements of the civil service as well as group life insurance. Because recently granted entitlements are often associated with small contribution rates the system will produce beneficiaries with modest annuities and consequently the average benefit level will be lower than today.

The success of group life insurance shows that deferred compensation combined with tax benefits is an effective instrument to promote the expansion of occupational pensions, at least for small amounts. Since 2000 a large number of prospective beneficiaries in a group life insurance have, in agreement with their employers, converted part of their compensation into a contribution to old age provision. This payment is exempted from income tax. As the upper limit of the tax exemption is low at € 300 per year, only little capital is accumulated. Additionally, the accumulated capital within group life insurance can also be disbursed as a lump-sum payment, which means that it does not directly imply annuities. The presently rapid growth of occupational pension schemes will thus not lead to future pension payments of equal size.

From the employers' perspective the successful switch of severance regulations to the "New Severance Payment Scheme" is a sufficient alternative instrument of old age provision at the firm level. Therefore it reduces companies' willingness to establish occupational pension schemes. This argumentation misses the fact that currently employees choose lump-sum disbursements of the accumulated capital whenever possible and thus do not usually build up capital to fund an annuity.

Two factors will enhance the positive trend of occupational pensions in Austria:

- Already during the most recent economic boom a shortage of qualified workers was observed in some regions and quality segments. If the disequilibrium in the labour market persists, occupational pensions seem an appropriate instrument to tie highly qualified workers to a larger extent.
- With the transition to the General Pension Law (APG) average pension payments will decline in the private business sector just as in the civil service. From about 2050 onwards beneficiaries who passed their complete working life under the new pension law will reach the retirement age for the first time. Thus, there will no longer be any limit on losses compared to the previous regulation (ASVG). Losses will tend to affect workers with steep income increases, extensive education periods, periods of unemployment or incomes fluctuating with the business cycle. For them occupational pensions offer a cost-effective way of smoothing their income across employment and retirement.

As the financial burden of a funded pension is easier to bear over an extended contribution period, occupational pensions should be initiated early in the career. For this purpose, in addition to employees' interest enhanced incentives for companies are required. Participating firms in the WIFO survey identified additional tax benefits as the most important incentive for the introduction of an occupational pension scheme (88 percent of businesses), especially an income tax exemption of an entrepreneurs' own contributions to old age provision (74 percent). One interesting way of strengthening occupational pension schemes would consist in a more flexible design of contribution payments: currently, contributions must be paid regularly and may not exceed 10 percent of an employee's compensation. Contribution payments that are more directly related to firm performance might induce enterprises to establish an occupational pension scheme, particularly as companies have

Incentives for further expansion of occupational pension schemes

Deferred compensation combined with tax benefits is an effective instrument to expand occupational pensions.

A shortage of qualified workers and the expected decline of public pension payments will raise the potential for occupational pensions in coming years.

Tax benefits for entrepreneurs' own contributions are likely to provide a stronger incentive for the introduction of occupational pension schemes than deferred taxation of employees' contributions.

mentioned the long-term financial commitment resulting from occupational pension schemes as a main obstacle. However, only 62 percent of the respondents refer to performance related contributions as an interesting incentive. Similarly only 59 percent would be motivated by the possibility to convert part of the annual wage increase into a contribution to old age provision.

An important supporting factor for the expansion of occupational pension consists in the expected cuts of public pension payments. They are likely to increase employees' interest in pension provision systems with low transaction costs. If this demand is noticed by workers' representatives in the private business sector, the occupational pensions could be more firmly rooted in collective agreements. This purpose could also be met via opening clauses: here companies are granted a discount on agreed wage increases, if they fulfil certain additional conditions. Such a condition might also comprise the establishment of an occupational pension scheme. In this case, contributions would be financed by the partial sacrifice of wage increases. The opening clause would also have the advantage that occupational pensions continue to be agreed between the company and the respective worker representatives on a largely voluntary basis. However, at the moment opening clauses would induce only slightly more than half of the enterprises to introduce an occupational pension scheme.

By means of the pension reforms of 2000 to 2004 the legislature aimed at a sustainable reduction of the public pension system's demands for further transfers from the federal budget. According to the General Pension Law (Allgemeines Pensionsgesetz) pension payments are now more closely linked to contribution payments. Administratively they are recorded in a pension account, which also offers prospective beneficiaries an improved overview of their pension entitlements. An easily accessible query process seems an important and relatively cost-effective instrument to improve the information about the expected value of public pension levels. Potential differences between the expected pension payments and desired levels then become obvious for employees, and this facilitates the planning of measures to improve their income situation during retirement.

Opening clauses in collective agreements are still no effective instrument to expand occupational pensions.

A transparent statement of the expected payments from the public pension system (pension account) would make individual planning of additional measures substantially easier.

- Huemer, U., Mahringer, H., Prean, N., Mittelfristige Beschäftigungsprognose für die Ostregion Österreichs. Berufliche und sektorale Veränderungen 2006 bis 2012, WIFO, Vienna, 2008, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=37522&typeid=8&display_mode=2.
- Mayrhuber, C., "Umstellung des Abfertigungsrechtes: Impuls oder Hemmnis auf dem österreichischen Arbeitsmarkt?", WIFO-Monatsberichte, 2000, 73(12), pp. 737-746.
- Mayrhuber, C., "Pensionshöhe und Einkommensersatzraten nach Einführung des Allgemeinen Pensionsgesetzes", WIFO-Monatsberichte, 2006, 80(11), pp. 805-816, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=27763&typeid=8&display_mode=2.
- Mooslechner, P., Url, T., Betriebliche Altersvorsorge in Österreich, WIFO, Vienna, 1995.
- OECD, Complementary and Private Pensions throughout the World 2008, Organisation for Economic Co-Operation and Development, Paris, 2008.
- Rosner, P., Wörgötter, A., Url, T., "The Austrian Pension System", in Rein, M., Wadensjö, E. (Eds.), Enterprise and the Welfare State, Edward Elgar, Cheltenham, 1997, pp. 33-64.
- Stefanits, H., Hollarek, F., "Die Pensionsreformen der Jahre 2000, 2003 und 2004. Auswirkungen auf die individuellen Pensionshöhen", Soziale Sicherheit, 2008, (4), pp. 178-192.
- Url, T., "Occupational Pension Systems in Austria 1996", Austrian Economic Quarterly, 1998, 3(1), pp. 43-50, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=490&typeid=8&display_mode=2.
- Url, T. (2003A), Die Entwicklung der betrieblichen Altersvorsorge in Österreich, WIFO, Vienna, 2003, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=23649&typeid=8&display_mode=2.
- Url, T. (2003B), "Occupational Pension Schemes in Austria", Austrian Economic Quarterly, 2003, 8(2), pp. 64-70, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=24245&typeid=8&display_mode=2.
- Url, T. (2009), "Die Verbreitung der betrieblichen Altersvorsorge in Österreich 2007", WIFO-Studie, Vienna, 2009, http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=36861&typeid=8&display_mode=2.

References

Occupational Pension Systems in Austria 2007 – Summary

In Austria occupational pensions serve as a voluntary complement to public pension payments. This is why at 2.5 percent (2006) Austria's share of occupational pensions in total pension income is below the international average. With pension funds, group life insurance and direct pension commitments there are three dominant financing modes for occupational pensions, which are only incompletely captured by regular statistics. For this reason WIFO occasionally carries out independent surveys on the extent of occupational pensions in the private business sector.

Among participants of the WIFO survey occupational pensions are more widespread now. Stronger loyalty of qualified employees and the incentive for higher performance are the key motives for granting an occupational pension. According to the results of the survey a slow expansion of occupational pensions among private sector firms can be expected for the future. The long-term financial commitment, excessive costs and a lack of demand by employees are the main impediments. On the other hand, tax breaks provide important potential incentives for a further expansion of occupational pensions. By contrast, the flexibility of contribution payments and opening clauses in collective agreements play a minor role.

In 2007 a quarter of all Austrian firms offered their employees an occupational pension. This corresponds to a doubling of the share compared to 2000. The successful promotion of group life insurance and the salary reform in the civil service are key drivers behind this increase. The availability of occupational pensions varies strongly between industries. Utilities and the financial sector make extensive use of deferred payments, whereas hotels and restaurants, construction and trade largely do without occupational pension schemes. Overall, slightly less than a third of employees have entitlements. About one eighth of the pensioners in the public pension system for employees (*Pensionsversicherung der Unselbständigen*) are entitled to an additional occupational pension. Total contributions account for 1 percent of staff costs and are evenly distributed between the three financing modes. Overall, pension payments amount to an average monthly occupational pension of € 890.

In Austria a total of € 41.6 billion or 15.4 percent of GDP (2007) were spent on old age pensions. The public pension system clearly dominates with a share of 83 percent of revenues and 89 percent of expenditures. Due to the build up of the second and third pillars, the € 44.9 billion of contribution revenues, significantly exceed expenditures.