Federal Ministry
Republic of Austria
Finance

Austrian Country Fiche on Public Pensions

For the attention of the Economic Policy Committee's Ageing Working Group (AWG)

In cooperation with the Federal Ministry of Social Affairs, Health, Care and Consumer Protection (BMSGPK) and Statistics Austria (STAT)

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Contents

1 Introduction

Based on a mandate from the Economic and Financial Affairs Council (ECOFIN Council), the Economic Policy Committee's Ageing Working Group (EPC-AWG) and the Commission services (Directorate-General for Economic and Financial Affairs; DG ECFIN) produce – every three years – long-term projections of age-related expenditures (pensions, health care, long-term care and education) as part of the Ageing Report (AR). These projections feed into a variety of policy debates and processes at the European Union (EU) level, e.g. the European Semester.

An integral part of the AR are the country fiches on public pensions.

2 Overview of the pension system

2.1 Description

The Austrian pension system is based on three pillars (public, occupational and private pension provision).

The **public pension system (1st pillar)** in Austria is based on a pay-as-you-go (PAYG) scheme and public pension benefits are by far the primary source of income for retirees.

In order to harmonise the different schemes of blue and white collar workers, farmers, self-employed and civil servants, a standardised, more actuarially-oriented pension account system was introduced in 2005 for all employed born as of 1955; established in the "Act on Harmonisation of Austrian Pension Systems". So this new pension system will gradually replace those different pension schemes over the long-run, with quasi all new retirees currently covered under the harmonised public scheme. The reform of 2005 also brought new regulations being less generous than the old regulations aiming at strengthening the fiscal sustainability of the pension system. For instance, the assessment base is gradually being extended from the best 15 years to life-time earnings, the accrual rate was reduced from 2% to 1.78% and annual deductions for early retirement were increased.

Table 1: Qualifying conditions for retirement

			2019	2030	2040	2050	2060	2070
Qualifying condition for retiring with a full pension	Minimum requirements	Contributory period - men	15	15	15	15	15	15
		Retirement age - men	65	65	65	65	65	65
		Contributory period - women	15	15	15	15	15	15
		Retirement age - women	60	63,5	65	65	65	65
	Statutory retirement age - men		65	65	65	65	65	65
	Statutory retirement age - women		60	63,5	65	65	65	65
Qualifying condition for retirement without a full pension	Early retirement age - men		60	60	60	60	60	60
	Early retirement age - women		58	60	60	60	60	60
	Penalty in case of earliest retirement age		see Table 2	see Table 2	see Table 2	see Table 2	see Table 2	see Table 2
	Bonus in case of late retirement[1)]		-	-	-	-	-	-
	Minimum contributory period - men		see Table 2	see Table 2	see Table 2	see Table 2	see Table 2	see Table 2
	Minimum contributory period - women		see Table 2	see Table 2	see Table 2	see Table 2	see Table 2	see Table 2
	Minimum residence period - men		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Minimum residence period - women		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

1) Bonus in case of late-retirement (only when qualifying for full pension): 4.2% p.a.

Sources: BMF, BMSGPK

Entitlements for a regular old-age pension arise with a minimum of 15 insurance years (thereof at least 7 contribution years) and when the statutory retirement age has been reached.

The statutory retirement age is 65 years for men and all civil servants (also females) and 60 years for women, respectively. The female retirement age will be gradually raised to 65 years in the period from 2024 to 2033 (by ½ years steps). For postponing retirement beyond the statutory retirement age bonuses are granted.

The public pension system also comprises possibilities for early retirement (see table below), invalidity and occupational disability pensions (see chapter 6.7) as well as survivors' pensions (see chapter 6.8).

Table 2: Early retirement pension schemes

Pension Scheme	Min. retirement age		Required insurance/contribution years		Penalties for early retirement[11)]
	(women)	(men)	(women)	(men)	
Corridor pension (*"Korridorpension"*)	62 years[1)]	62 years	40 years	40 years	5.1% per year[2)]
Early old-age pension for long-term contributors (*"Hacklerregelung"*)	57 years[3)]	62 years[4)]	42 years[5)]	45 years	4.2% per year[6)]
Heavy worker regulation (*"Schwerarbeitspension"*)	60 years[7)]	60 years	45 years[8)]	45 years[8)]	1.8% per year[2)]
Early old-age pension for long-term contributors in combination with heavy worker regulation (*"Hackler-Schwerarbeit"*)	55 years[9)]	60 years[10)]	40 years	45 years	1.8% per year

1) This gets relevant only by 2028
2) For persons born as of 1955
3) Born as of 1959; will be gradually raised to 62
4) Born as of 1954
5) Will be gradually raised to 45
6) For men born as of 1954/for women at the age of 62 born as of 1966
7) This gets relevant only by 2024
8) At least 10 years of "hard labour" within 20 years before retirement
9) Born between 1 January 1959 and 31 December 1963
10) Born between 1 January 1954 and 31 December 1958
11) No penalties after 45 contribution years
Sources: BMF, BMSGPK

If individual pension claims are lower than legally defined thresholds, the gap will be closed by federal budget contributions (equalising allowance so called "Ausgleichszulage") to guarantee a minimum income for pensioners (see chapter 6.5).

The public pension system is financed mainly through compulsory contributions (up to a maximum contribution base). The present contribution rates are uniformly set at 22.8% (see table 3).

The differences to the standard contribution rate of 22.8% for farmers, self-employed and self-employed in the liberal professions are borne by federal transfers.

The Austrian social security ("Österreichische Sozialversicherung") gets also federal transfers to cover supplementary periods of insurance years such as parental leave, times in unemployment or military service. The federal budget also covers the deficits in most public pension schemes in the case of their actual emergence ("Bundesbeitrag"). These deficits are, thus, financed by general taxation. In 2019, this "Bundesbeitrag" amounted to 8.6 bn euro (2.16% of GDP).

Contributions to public old-age provisions in Austria are exempt from taxation. Pensions and special pension payments, however, are treated like income from employment and are subject to income tax. Taxes payable are deducted from the gross pension reduced by health care contributions (see chapter 6.4).

The maximum contribution base (see table below) as well as the revaluation coefficient of the pension account (see chapter 6.11) are linked to the average insured wage whilst pension benefits are adjusted to consumer price inflation (benchmark; can be higher or lower).

Table 3: Contribution rates/contribution base

	Contribution rates		Maximum contribution base (in 2020 per month)
	Employees	Employers	
Blue and white collar staff	10.25%	12.55%	5,370 €[2)]
Public employees with private contracts	10.25%	12.55%	5,370 €[2)]
Civil servants	10.25%	12.55%	5,370 €[2)]
Self-employed	18.5%[1)]		6,265 €[3)]
Self-employed in the liberal professions	20%[1)]		6,265 €[3)]
Farmers	17%[1)]		6,265 €[4)]

1) The difference to the standard contribution rate of 22.8% is borne by federal transfers

2) Contribution base: gross salaries

3) Contribution base: income tax assessment notice

4) Contribution base: unit values of agricultural enterprises

Sources: BMF, BMSGPK

Generally, private pensions in Austria (both occupational and private) are still of much less quantitative importance than public pensions. Nevertheless, the volumes of private pensions have gone up rapidly during the past decade.

The Austrian Occupational Pension Act ("Betriebspensionsgesetz") contains regulations for **occupational old-age provisions (2nd pillar)**. This Act regulates primarily following firm-related retirement provisions:

- Pension provision funds (“Pensionskassen”)
- Occupational collective insurances (“Betriebliche Kollektivversicherung”)
- Direct provisions allowed by a company to an employer (“Direkte Leistungszusage”)
- Life insurances

By the end of 2019, assets in the pension provision funds increased to 24.3 bn euro (6.1% of GDP) and assets in the occupational collective insurances (established in 2005) are steady at 1.0 bn euro (0.3% of GDP).

Since 2002, employers are obliged to transfer 1.53% of the monthly salary of their employees to a staff provision fund (“Mitarbeitervorsorgekasse”), set up especially for the new severance payment (“Abfertigung neu”). In case of termination of employment by the employer and after a minimum working period of 36 months, the employee is entitled to get a severance payment or to leave the amount in the staff provision fund. In view of old-age provision, retiring employees can choose to receive the pay-out in form of the total sum (taxed at 6%) or a monthly paid additional pension (tax exempt). By end of 2016, assets of the new severance payment fund rose to 13.3 bn euro.

Private pension provisions paid in by individuals form the **3rd pillar** of the Austrian pension system. Like for the occupational schemes, individuals can choose between multiple investment products, fulfilling directly or indirectly the purpose of old-age provision. Hence, in the private individual scheme one can generally distinguish between concrete pension-directed provisions and a general accumulation of savings over the life-cycle. Traditionally, life insurances play a significant role in long-term savings. Private life insurance contracts have continued to show a major upward trend over the past years. While in general a private life insurance leads to a one-off payment, private pension insurance contracts are usually concluded for the purpose of obtaining a life-long pension.

The most popular private old-age provision is the premium-aided pension savings scheme (“Zukunftsvorsorge”). This was introduced in 2003 as a kind of life insurance (incl. a capital guarantee) subsidised by the state with a tax premium. After a minimum investment period of 10 years, the taxpayer may dispose of those entitlements. If the entitlements are, however, paid out, half of the allowed state bonuses must be paid back, together with a retro-active tax of 25% on the capital gains, and the capital guarantee will be lost. If the entitlements are transferred or used for pension payments, no tax will be due. This scheme has been recording strong growth since its launch in 2003. In 2013, a two-tier life-cycle model was implemented where the minimum percentage invested in equities differs between people who are over 50 years of age and those who are below (more flexibility and less stringent investment rules). Due to a reduction of the tax premium in 2012 and some problems with fulfilling the capital

guarantee given very low capital gains in recent years, there has been a slight decrease of new contracts and payment of contributions. At the end of 2018, about 1.2 m contracts were held by insurance companies and investment businesses. Contributions in 2018 were about 0.84 bn euro and the total of assets amounted to 8.65 bn euro.

2.2 Recent reforms of the pension system included in the projections

Austrian pension reforms of 2003 and 2005, together with the long-term harmonisation of the statutory retirement ages of women and men as well as the measures from the budgetary consolidation packages of 2010 and 2012 were already taken into account in the previous rounds of long-term public pension projections.

Recent measures include (inter alia):

- The eligibility criteria for the **corridor pension** were tightened. The penalty for early retirement was increased from 4.2% to 5.1% per year (as of 2017, for persons born as of 1955). The required insurance years for this corridor pension were gradually raised from 38.5 years in 2014 to 40 years in 2017.
- In 2014, eligibility criteria for the **„Hacklerregelung"** were designed to be more stringent, too. The minimum retirement age for this pension scheme was overall increased by 2 years. For women, the minimum retirement age will be gradually raised to 62 years and the required contribution years to 45 years, i.e. the same rules as for men. Time spent in school or at university will not be counted for contribution years any more. The penalty for early retirement amounts to 4.2% per year (max. 15%).
- On 1 January 2014 comprehensive new regulations for **invalidity and occupational disability pensions** came into effect with the main target to re-integrate people with health problems into the labour market. The temporary invalidity pension was replaced by medical and job-related rehabilitation and was completely abolished for people born after 31 December 1963. These people will receive special unemployment benefits ("Rehabilitationsgeld") instead.
- In order to harmonise the different pension schemes of blue and white collar workers, self-employed, farmers and civil servants, a **new pension account system** was introduced in 2005. In 2014, pension credits up to the end of the year 2013 were calculated as a single euro amount (considering credits granted under old and new law regulations) and posted as an initial credit to the pension accounts of all insured persons born after 1 January 1955. The (revalued) annual partial credits will then be added up to calculate the total credit. As a result, only one formula for calculating individual pension benefits is used (replacement of the system of parallel calculation

of old and new law provisions) which is designed in such way that every year of employment automatically and unlimitedly increases future pension. In chapter 6.11, you will find an example for an individual pension account.

- The age limit for **activity protection** was increased gradually from 57 years to the target age limit of 60 years in 2017.
- Only continuous **old-age part-time regulations** for employees (until the statutory retirement age) will be supported. Block-time arrangements will only entitle to old-age part-time pension, if a previously unemployed person or an apprentice is hired instead.
- If a person works beyond the statutory retirement age and thus postpones retirement, the **pension contributions** of the employee and employer are reduced by half (for up to 3 years). For the eventual pension calculation, however, the original contributions are used (effective since 2017).

Since the AR 2018, three measures worth mentioning were introduced and are now included in the AR 2021:

- If a person has **45 years of contribution**, there are no deductions in the case of early retirement.
- The **valorisation of** the individual **pension** now starts in the first year after retirement (instead of the second year).
- The equalising allowance has been raised and an **equalising allowance/pension bonus** has been introduced for people having reached a certain amount of contribution years (including times of raising a child or military/civil service).

3 Overview of the demographic and labour forces projections

3.1 Demographic developments

The 2019-based population projections by Eurostat (released at the end of April 2020) represent the starting point of the common pension projection exercise. According to these, the Austrian population is expected to increase from 8.88 m persons in 2019 to a peak of 9.35 m in 2049, before it starts to decline again to the level of 9.25 m by 2070. The Austrian population is projected to be larger by about 365,000 inhabitants in 2070, but also to be much older than it is now. According to the projections, the working-age population (aged 20-64 years) will continue to decline from a maximum of 5.48 m (in 2020) to 4.84 m in 2070. Simultaneously, the elderly population (aged 65 years and above) will increase markedly throughout the projection period. The number of elderly (65+ years) will go up by about 61%, rising from 1.68 m (in 2019) to 2.70 m in 2070.

Table 4: Main demographic variables

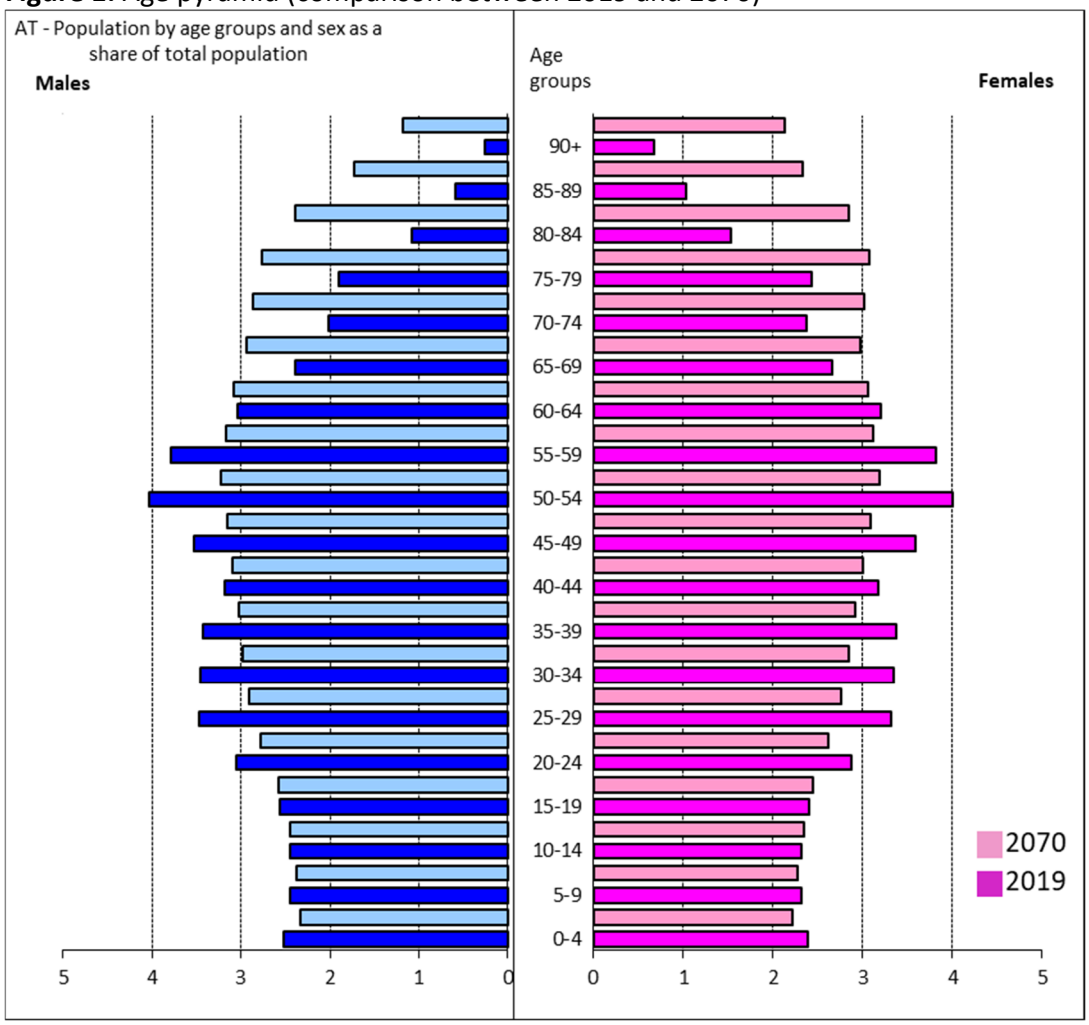
	2019	2030	2040	2050	2060	2070	peak value	peak year	change 2019-2070
Population (thousand)	8,882	9,159	9,297	9,345	9,290	9,247	9346	2049	365
Population growth rate	0.5	0.2	0.1	0.0	-0.1	0.0	0.5	2019	-0.5
Old-age dependency ratio (pop 65+ / pop 20-64)	30.7	40.3	48.2	51.5	54.8	55.9	55.9	2070	25.2
Old-age dependency ratio (pop 75+ / pop 20-74)	13.3	15.5	20.9	25.0	25.8	28.0	28.0	2070	14.6
Ageing of the aged (pop 80+ / pop 65+)	27.3	29.0	31.3	40.0	39.1	41.7	41.7	2070	14.4
Men - Life expectancy at birth	79.8	81.2	82.6	83.9	85.2	86.3	86.3	2070	6.5
Women - Life expectancy at birth	84.3	85.7	86.9	88.1	89.2	90.2	90.2	2070	5.9
Men - Life expectancy at 65	18.8	19.8	20.8	21.8	22.7	23.6	23.6	2070	4.8
Women - Life expectancy at 65	21.8	22.9	23.9	24.8	25.7	26.6	26.6	2070	4.8
Men - Survivor rate at 65+	87.4	89.4	90.9	92.2	93.3	94.3	94.3	2070	6.9
Women - Survivor rate at 65+	92.8	94.0	94.8	95.6	96.2	96.7	96.7	2070	3.9
Men - Survivor rate at 80+	60.5	65.7	70.0	73.9	77.3	80.3	80.3	2070	19.8
Women - Survivor rate at 80+	75.8	79.5	82.4	84.9	87.1	89.0	89.0	2070	13.3
Net migration (thousand)	44.3	31.3	29.4	27.2	26.4	25.5	44.3	2019	-18.8
Net migration over population change	1.1	1.6	2.9	-48.3	-3.7	-14.8	38.5	2049	-15.9

Source: EC

As a result, the old-age dependency ratio (the ratio of persons 65+ years in relation to the age cohort 20-64 years) will increase from 30.7% (in 2019) to 55.9% (in 2070) due to the baby-boom generation reaching the retirement age and increasing life expectancy. This entails that Austria would move from having 3.3 working-age people for every person aged over 65 years to a ratio of 1.8 to one.

The population projections assume the total fertility rate to rise from 1.45 live births per women in 2019 to 1.60 by 2070. In turn, life expectancy at birth for males is projected to increase by 6.5 years over the projection period, from 79.8 years (in 2019) to 86.3 (in 2070). For females, life expectancy at birth is expected to go up by 5.9 years, from 84.3 years (in 2019) to 90.2 years (in 2070). Annual net migration inflows are projected to fall from about 44,300 people in 2019 to 25,500 people by 2070.

Figure 1: Age pyramid (comparison between 2019 and 2070)



Source: EC

3.2 Labour force

The overall participation rate (for the age group 20-64 years) in Austria is anticipated to increase by 2.6 p.p. over the period 2019-2070 (from 80.3% in 2019 to 82.9% in 2070). The projected upward shift in the overall participation rate is mainly due to the increase of participation rates for elderly and women. While the participation rate for men within this age

group declines slightly over the projection horizon (from 84.9% in 2019 to 84.7% in 2070), the participation rate for women will be boosted by 5.4 p.p. (from 75.6% in 2019 to 81.0% in 2070). Due to the enacted pension reforms, the biggest rise in participation rates (+12.3 p.p.) is projected for older workers (60-64 years).

However, given the demographic developments discussed higher, the overall labour supply (aged 20-64 years) in Austria is projected to drop by 8.8% from 2019 to 2070, whereby the female labour supply decreases by 6.4% and the male labour supply by 11.0% over the projection horizon. According to the common methodology, the assumptions imply an initial unemployment rate (for the age group 20-64 years) of 4.4% in 2019 by Eurostat definition, decreasing to 4.1% until 2029 and staying at this level thereafter. Given the population projection, the unemployment rate assumptions and the labour force projection, the overall employment rate (of people age 20-64 years) in Austria is projected to increase from 76.8% (in 2019) to 79.5% in 2070; with a peak in 2064 (79.6%). The elderly employment rate (55-64 years) is expected to rise from 54.6% (in 2019) to 62.1% in 2070. The female employment rate (20-64 years) is expected to rise by about 5.4 p.p. from 72.4% in 2019 to 77.8% in 2070 while the male employment rate remains unchanged in 2070 compared to 2019 (around 81.1%).

Table 5: Participation rate, employment rate and share of workers

	2019	2030	2040	2050	2060	2070	peak value	peak year	change 2019-2070
Labour force participation rate 20-64	80.3	80.8	82.9	82.6	82.9	82.9	83.0	2064	2.6
Employment rate of workers aged 20-64	76.8	77.5	79.5	79.2	79.5	79.5	79.6	2064	2.7
Share of workers aged 20-64 in the labour force 20-64	95.6	95.9	95.9	95.9	95.9	95.9	95.9	2069	0.3
Labour force participation rate 20-74	70.6	68.1	69.3	70.0	69.3	69.9	70.6	2019	-0.7
Employment rate of workers aged 20-74	67.5	65.4	66.5	67.2	66.5	67.1	67.5	2019	-0.5
Share of workers aged 20-74 in the labour force 20-74	95.7	96.0	96.0	96.0	96.0	96.0	96.0	2063	0.3
Labour force participation rate 55-64	56.5	57.6	64.1	63.5	63.4	63.9	64.2	2041	7.4
Employment rate of workers aged 55-64	54.6	55.9	62.2	61.6	61.6	62.1	62.3	2041	7.5
Share of workers aged 55-64 in the labour force 55-64	96.6	97.0	97.0	97.1	97.1	97.1	97.1	2057	0.5
Labour force participation rate 65-74	7.1	9.3	9.5	10.5	10.3	10.3	10.5	2050	3.2
Employment rate of workers aged 65-74	7.0	9.2	9.4	10.4	10.2	10.2	10.4	2050	3.2
Share of workers aged 65-74 in the labour force 65-74	99.3	99.1	99.1	99.1	99.2	99.1	99.3	2019	-0.1
Median age of the labour force	40.0	40.0	41.0	40.0	41.0	41.0	41.0	2035	1.0

Source: EC

Table 6: Exit ages and expected duration of retirement - men

	2020	2030	2040	2050	2060	2070	peak value	peak year	change 2020-2070
Average effective retirement age (administrative data)*	63.2								
Average labour market exit age (CSM)**	63.2	63.2	63.2	63.2	63.2	63.2	63.2	2032	0.0
Contributory period	:	:	:	:	:	:	:	:	:
Duration of retirement***	20.3	21.4	22.5	23.5	24.4	25.3	25.3	2070	5.0
Duration of retirement/contributory period	:	:	:	:	:	:	:	:	:
Percentage of adult life spent in retirement****	31.0	32.1	33.2	34.2	35.1	35.9	35.9	2070	4.9
Early/late exit*****	3.7	2.5	2.1	2.4	2.2	2.3	3.7	2021	-1.4

* The effective retirement age shows the age at which people on average start receiving an old-age pension benefit. It is calculated on the basis of the administrative data for 2019 (see tables 23 and 24); ** The labour market exit age as calculated based on Labour Force Survey data for the base year and estimated by the Cohort Simulation Model thereafter; *** 'Duration of retirement' is calculated as the difference between the life expectancy at the average labour market exit age and that exit age itself; **** The 'percentage of adult life spent in retirement' is calculated as the ratio between the duration of retirement and the life expectancy minus 18 years; ***** Early/late exit is the ratio between those who retire and are below the statutory retirement age and those who retire at the statutory retirement age or above.

Source: EC

Table 7: Exit ages and expected duration of retirement - women

	2020	2030	2040	2050	2060	2070	peak value	peak year	change 2020-2070
Average effective retirement age (administrative data)*	60.6								
Average labour market exit age (CSM)**	61.4	62.6	63.2	63.2	63.2	63.2	63.2	2044	1.8
Contributory period	:	:	:	:	:	:	:	:	:
Duration of retirement***	25.3	24.6	25.6	26.6	27.5	28.4	28.4	2070	3.1
Duration of retirement/contributory period	:	:	:	:	:	:	:	:	:
Percentage of adult life spent in retirement****	36.8	35.6	36.2	37.1	37.8	38.6	38.6	2070	1.8
Early/late exit*****	0.5	2.2	1.9	1.8	1.6	1.8	2.3	2032	1.3

* The effective retirement age shows the age at which people on average start receiving an old-age pension benefit. It is calculated on the basis of the administrative data for 2019 (see tables 23 and 24); ** The labour market exit age as calculated based on Labour Force Survey data for the base year and estimated by the Cohort Simulation Model thereafter; *** 'Duration of retirement' is calculated as the difference between the life expectancy at the average labour market exit age and that exit age itself; **** The 'percentage of adult life spent in retirement' is calculated as the ratio between the duration of retirement and the life expectancy minus 18 years; ***** Early/late exit is the ratio between those who retire and are below the statutory retirement age and those who retire at the statutory retirement age or above.

Source: EC

4 Pension projection results

4.1 Extent of the coverage of the pension schemes in the projections

The projection results comprise public gross pension expenditures (1st pillar) for:

- Private employees, public employees with private contracts, self-employed and farmers ("Gesetzliche Pensionsversicherung") and for
- Civil servants ("Beamte") from the federal, state and municipal levels as well as other public entities (such as the Austrian Federal Railways and the Austrian Post)

The projections do not include the 2nd pillar (occupational old-age provisions) and 3rd pillar (private pension provisions).

4.2 Overview of projection results

Total public pension expenditure in Austria (incl. equalising allowance (Ausgleichszulage) and Rehabilitationsgeld) are projected to rise from 13.3% of GDP in the year 2019 to a high of 15.4% in 2035. Thereafter, total public pension expenditure would decline to 14.3% of GDP in 2070 reflecting both the effects of ageing population and the implemented reforms. The number of pensions (2019: 2.70 m) will increase strongly in the medium term because of the retirement of the baby-boomer generations. An overall increase in the number of pensions is expected until the year 2053 with a peak of 3.46 m. Until the end of the projection the number of pensions stays constant with a slight tendency of declining.

Table 8: Austrian public pension expenditure (% of GDP)

	2019	2030	2040	2050	2060	2070
Public pension expenditure (according to projections)	13.0	14.7	14.7	14.3	14.1	13.9
+ Equalising allowance (not included in the projections)	0.2	0.3	0.3	0.3	0.3	0.3
+ Rehabilitationsgeld (not included in the projections)	0.1	0.1	0.1	0.1	0.1	0.1
Total public pension expenditure	13.3	15.1	15.1	14.7	14.6	14.3
Pension-related other expenditures not being directly linked to pension benefits						
Other (not included in the projections)[1)]	1.2	1.3	1.3	1.3	1.3	1.3

1) Health care and rehabilitation, health insurance, administrative costs and other expenses

Sources: BMF, BMSGPK, EC

The spending on old-age and early pensions accounts for the largest part of the pension expenditure, starting at 10.9% of GDP in 2019 and peaking at 13.2% of GDP in 2035. At the end of the projection old-age and early pensions amount for 12.8% of GDP. The number of old-age and early pensions is increasing steadily throughout the projection horizon from 2.0 m in 2019 to 2.8 m in 2070.

Spending for disability pensions are expected to decrease from 0.5% of GDP in 2019 to 0.3% of GDP in 2070 which is mainly due to the reform of the invalidity and occupational disability pensions (peak year: 0.5% of GDP in 2020). Disability pensions are transformed into old-age benefits when the statutory retirement age is reached. The number of disability pensions is slowly decreasing from 0.12 m in 2019 to 0.09 m in 2070.

Survivors' pension expenditure would decrease from its peak in 2020 of 1.7% of GDP to 0.7% of GDP in 2070. The number of survivor pensions is peaking in 2043 at 0.63 m and decreases to 0.53 m at the end of the projection.

Other pensions in table 9 includes equalising allowance and Rehabilitationsgeld which amounts to around 0.4% of GDP over the projection horizon.

Table 9: Projected gross public pension spending by scheme (% of GDP)

Pension scheme	2019	2030	2040	2050	2060	2070	peak value	peak year	change 2019-2070
Total public pensions	13.3	15.1	15.1	14.7	14.6	14.3	15.4	2035	1.0
Old-age and early pensions	10.9	12.8	13.0	12.8	12.9	12.8	13.2	2035	1.9
Flat component	:	:	:	:	:	:	:	:	:
Earnings-related	10.9	12.8	13.0	12.8	12.9	12.8	13.2	2035	1.9
Minimum pensions (non-contributory) i.e. minimum income guarantee for people above 65									
Disability pensions	0.50	0.39	0.37	0.37	0.34	0.34	0.5	2020	-0.2
Survivors' pensions	1.59	1.49	1.33	1.16	0.93	0.74	1.69	2020	-0.8
Other pensions	0.35	0.39	0.41	0.42	0.43	0.42	0.43	2058	0.1

Sources: BMF, BMSGPK, EC

4.3 Description of main driving forces behind the projection results and their implications

In order to describe and analyse the main driving forces behind the projection results, a standard arithmetic disaggregation of the pension-expenditures-to-GDP ratio is used. Pension expenditure dynamics are broken down into the dependency, coverage and benefit ratio and the labour market effect.

Figure 2: Disaggregation of public pension expenditure

$$\frac{pension\ \ expenditure}{GDP} = \underset{\downarrow}{\frac{population\ \ 65+}{population\ \ 20-64}} \times \underset{\downarrow}{\frac{number\ \ of\ \ pensioners}{population\ \ 65+}} \times \underset{\downarrow}{\frac{average\ \ pension\ \ income}{\frac{GDP}{hours\ \ worked\ \ 20-74}}}} \times \underset{\downarrow}{\frac{population\ \ 20-64}{hours\ \ worked\ \ 20-74}} \quad [1]$$

dependency ratio *coverage ratio* *benefit ratio* *labour market effect*

$$\frac{number\ \ of\ \ pensioners}{population\ \ 65+} = \underset{\downarrow}{\frac{number\ \ of\ \ pensioners\ \ 65+}{population\ \ 65+}} + \left(\underset{\downarrow}{\frac{number\ \ of\ \ pensioners\ \ \leq 65}{population\ \ 50-64}} \times \underset{\downarrow}{\frac{population\ \ 50-64}{population\ \ 65+}}\right) \quad [2]$$

coverage ratio old-age *coverage ratio early-age* *cohort effect*

$$\frac{population\ \ 20-64}{hours\ \ worked\ \ 20-74} = \underset{\downarrow}{\frac{population\ \ 20-64}{employed\ \ people\ \ 20-64}} \times \underset{\downarrow}{\frac{employed\ \ people\ \ 20-64}{hours\ \ worked\ \ by\ people\ \ 20-64}} \times \underset{\downarrow}{\frac{hours\ \ worked\ \ by\ people\ \ 20-64}{hours\ \ worked\ \ by\ people\ \ 20-74}} \quad [3]$$

1/employment rate *1/labour intensity* *1/career shift*

Source: EC

The **dependency ratio effect** reflects the evolution of the ratio of old-aged people (population 65+) to working-age people (population 20-64). While this ratio amounts to 30.7% in 2019, it is expected to increase to 55.9% by 2070 (see Table 12). If no other effect would offset these adverse dynamics, pure ageing would increase public pension spending by 9.3 p.p. of GDP in 2070 as compared to 2019.

The reduction of the **coverage ratio** goes back predominantly to the enacted legal changes assuming a marked increase in the female exit age from the labour market in the coming decades. After some reforms stepping in during the subsequent years (e.g. phasing out of old law early pension opportunities), the harmonisation of the statutory retirement age of women from 60 to 65 years between 2024 and 2033 is expected to have the largest impact on exit ages. The declining number of pensions in relation to elderly people is also linked to the reduction of the number of survivors' pensions (the relative share of survivor pensions to all pensions declines from 21% in 2019 to 16% in 2070). This results from emerging changes in family structures, converging life expectancies of women and men and fading out of pensions for World War II victims or veterans.

The **replacement rate** (of old-age earnings-related and disability pensions) goes down from 55.4% in 2019 to 52.1% in 2070. Apart from the gradual substitution of the more generous old regulations by the new law, the dampening effects also stem from an increasing share of cross-country pensions with pension entitlements being on average smaller and more women

working part-time. Consequently, lower relative first pensions feed through ultimately to the pension stock, with the respective dampening effects on benefit ratios.

The **benefit ratio** falls over the whole projection period from initially 53.6% to 42.5% in 2070 (see table 11) mainly due to the pension reforms implemented in the past, especially the introduction of the new pension account system which takes into account the full career for calculating pension benefits (see chapter 2.2).

Labour market developments also help to counteract demographically induced spending, though they play a smaller role.

Table 10: Factors behind the change in public pension expenditures between 2019 and 2070 (in percentage points of GDP) - pensioners

	2019-30	2030-40	2040-50	2050-60	2060-70	2019-70
Public pensions to GDP	1.8	0.1	-0.4	-0.2	-0.3	1.0
Dependency ratio effect	4.2	2.8	1.0	0.9	0.3	9.3
Coverage ratio effect*	-1.1	-1.0	-0.3	-0.4	-0.1	-2.9
Coverage ratio old-age	0.0	0.0	0.0	0.0	0.0	0.0
Coverage ratio early-age	0.0	0.0	0.0	0.0	0.0	0.0
Cohort effect	-3.9	-2.7	-0.6	-1.3	0.0	-8.6
Benefit ratio effect	-0.8	-1.2	-1.1	-0.6	-0.5	-4.2
Labour market effect	-0.3	-0.4	0.0	-0.1	0.0	-0.7
Employment ratio effect	-0.1	-0.4	0.1	-0.1	0.0	-0.5
Labour intensity effect	0.0	0.0	0.0	0.0	0.0	0.0
Career shift effect	-0.2	0.0	0.0	0.0	0.0	-0.2
Residual	-0.3	-0.2	0.0	0.0	0.0	-0.6

** Subcomponents of the coverage ratio effect do not add up necessarily.*

Sources: BMF, BMSGPK, EC

Table 11: Replacement rate at retirement (RR), benefit ratio (BR) and coverage by pension scheme (in %)

	2019	2030	2040	2050	2060	2070	change 2019-2070 (pps)
Public scheme (BR)	54%	53%	49%	46%	44%	42%	-11.1
Coverage	90.4	91.2	91.8	92.5	93.3	94.2	3.84
Public scheme: old-age earnings related (BR)	54%	54%	51%	48%	46%	45%	-9.2
Public scheme: old-age earnings related (RR)	55%	56%	55%	55%	54%	52%	-3.3
Coverage	74.8	77.8	78.7	79.0	80.5	81.8	6.98

Sources: BMF, BMSGPK, EC

Table 12: System dependency ratio and old-age dependency ratio

	2019	2030	2040	2050	2060	2070	change 2019-2070
Number of pensioners (thousand) (I)	2437.5	2858.7	3106.4	3199.7	3209.0	3218.0	780.5
Employment (thousand) (II)	4410.9	4337.1	4328.1	4255.8	4151.1	4102.3	-308.6
Pension system dependency ratio (SDR) (I)/(II)	55.3	65.9	71.8	75.2	77.3	78.4	23.2
Number of people aged 65+ (thousand) (III)	1680.2	2125.3	2465.0	2597.8	2682.4	2704.7	1024.5
Working-age population 20-64 (thousand) (IV)	5478.3	5268.3	5115.3	5046.9	4891.7	4838.2	-640.1
Old-age dependency ratio (OADR) (III)/(IV)	30.7	40.3	48.2	51.5	54.8	55.9	25.2
System efficiency (SDR/OADR)	1.8	1.6	1.5	1.5	1.4	1.4	-0.4

Sources: BMF, BMSGPK, EC

In 2019, the number of pensioners amounted to 2,437,000 of whom around 10% received more than one pension. The overwhelming majority of the mostly female “multi-pensioners” receive in most cases an old-age or, in a lesser number of cases, an invalidity pension in combination with a survivors’ pension. The tables 13 and 14 show the number of pensions to inactive population ratio by age group (%) and to total population ratio by age group (%) respectively. As the Austrian national pension projection models are based on the number of pensions and not on the number of pensioners - due to the high number of pensioners receiving more than one pension - base year figures for the age groups 60+ can be above 100.

Table 13: Pensions (public scheme) to inactive population ratio by age group (%)

	2019	2030	2040	2050	2060	2070
Age group -54	5.1	4.4	4.3	4.0	3.8	3.6
Age group 55-59	59.6	60.7	64.4	65.0	65.5	63.6
Age group 60-64	112.2	84.7	87.5	86.7	90.4	87.9
Age group 65-69	123.1	125.2	120.3	117.6	119.2	119.9
Age group 70-74	125.4	123.8	115.7	109.8	109.0	111.5
Age group 75+	131.3	134.7	132.0	126.6	120.1	116.5

Sources: BMF, BMSGPK, EC

Table 14: Pensions (public scheme) to total population ratio by age group (%)

	2019	2030	2040	2050	2060	2070
Age group -54	1.8	1.6	1.5	1.4	1.4	1.3
Age group 55-59	14.0	12.4	11.5	11.4	11.2	10.9
Age group 60-64	76.1	52.8	48.8	48.5	50.4	48.8
Age group 65-69	112.5	108.7	102.2	99.0	100.4	100.8
Age group 70-74	118.8	118.4	110.8	104.8	104.1	106.4
Age group 75+	131.3	134.7	132.0	126.6	120.1	116.5

Sources: BMF, BMSGPK, EC

Table 15: Projected and disaggregated new public pension expenditure (old-age and early earnings-related and disability pensions)

New old-age and disability pensions	2019	2030	2040	2050	2060	2070
Projected new pension expenditure (million EUR)*	2531	3366	4115	6307	8971	12065
I. Number of new pensions (1000)	113.7	112.7	102.3	110.7	111.5	110.4
II. Average contributory period (years)	37.3	38.1	38.2	38.3	38.4	38.3
III. Average accrual rate (%)	1.8	1.8	1.8	1.8	1.8	1.8
IV. Monthly average pensionable earnings (1000 EUR)	2.7	3.4	4.6	6.5	9.1	12.4
V. Sustainability/adjustment factors	1.0	1.0	1.0	1.0	1.0	1.0
VI. Average number of months paid the first year	14.0	14.0	14.0	14.0	14.0	14.0
(Monthly average pensionable earnings) / (monthly economy-wide average wage)	83%	79%	76%	75%	74%	72%

*New pension expenditure equals the product of I, II, III, IV, V & VI
Sources: BMF, BMSGPK, EC

4.4 Financing of the pension system

Public pension contributions are projected to decline from 9.9% of GDP in 2020 (peak year) to 9.0% of GDP in 2029 and to remain relatively constant afterwards. The development of pension contributions is mainly driven by the assumptions concerning the working force and the contribution base upon which contributions are paid (see also chapter 6.10). The number of contributors is constantly declining from a peak of 4.30 m in 2019 to 4.03 m in 2070.

Table 16: Financing of the public pension system

	Public employees	Private employees	Self-employed
Contribution base	Gross salaries	Gross salaries	Income tax assessment notice; unit values of agricultural enterprises for farmers
Contribution rate/contribution[1)]			
Employer	12.55%	12.55%	-
Employee	10.25%	10.25%	18.5% for self-employed; 17% for farmers; 20% for liberal professions
State			Difference with 22.8% covered by federal transfers
Other revenues	The federal budget covers the deficits in public pension schemes (Bundesbeitrag) financed by general taxation. The federal budget also covers equalising allowance (Ausgleichszulage) as well as compensatory periods (Ersatzzeiten)		
Maximum contribution	Maximum assessment base: monthly earnings of 5,370 € (2020)	Maximum assessment base: monthly earnings of 5,370 € (2020)	Maximum assessment base: monthly earnings of 6,265 € (2020)
Minimum contribution[2)]	-	-	-

1) These contribution rates relate to the harmonized scheme of 2005
2) Contributions only arise when assessment bases exceed a certain low income threshold
Sources: BMF, BMSGPK

Table 17: Revenue from contribution (%GDP) number of contributors in the public scheme (in 1000), total employment (in 1000) and related ratio (%)

	2019	2030	2040	2050	2060	2070	change 2019-2070
Public pension contributions (%GDP)	9,4	9,0	9,0	9,0	9,0	9,0	-0,4
Employer contributions							
Employee contributions							
*State contribution**	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
*Other revenues**	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
Number of contributors (I) (1000)	4301,1	4197,6	4199,3	4145,4	4060,3	4027,6	-273,5
Employment (II) (1000)	4410,9	4337,1	4328,1	4255,8	4151,1	4102,3	-308,6
(I) / (II)	1,0	1,0	1,0	1,0	1,0	1,0	0,0

*only legislated contributions are reported

Sources: BMF, BMSGPK, EC

4.5 Sensitivity analysis

Given the uncertainty surrounding the assumptions of long-run projections, it is necessary to carry out a number of sensitivity tests so as to quantify the responsiveness of projection results to changes in key underlying assumptions.

As already shown before, pension spending is projected to increase from 13.3% of GDP in 2019 to 14.3% of GDP in 2070 in the baseline scenario (incl. equalising allowance and Rehabilitationsgeld).

Given the underlying common framework the following 12 sensitivity tests additionally to the baseline scenario were carried out. These tests deliver following concrete results (see table 18):

High life expectancy (1): A scenario with an increase in life expectancy at birth of two years by 2070 compared with the baseline projection.

Projection results: Compared to the baseline scenario the assumption of higher life expectancy raises expenditure in 2070 by 0.7 p.p. of GDP. The increase develops gradually in line with the higher longevity. Higher life expectancies leave average pensions unchanged but increases the years spent in retirement and hence the number of pensions.

Lower (2)/higher net migration (3): A scenario with 33% less/more net migration compared with the baseline over the entire projection horizon.

Projection results: If migration is 33% lower/higher than in the baseline, pension spending to GDP will increase/decrease by 0.7/0.6 p.p. of GDP. This result draws heavily on the migrant population to become, to a large extent, part of the working-age population until 2070, therefore only a small fraction adds to the retirees. Hence, lower migration decreases employment and output, whereas pension spending falls only marginally (i.e. therefore the "denominator effect" dominates the "numerator effect") and vice versa.

Lower fertility (4): A scenario with 20% lower fertility compared with the baseline over the entire projection horizon.

Projection results: The lower fertility assumption raises expenditure by 0.5 p.p. in 2070. The lower fertility scenario is mostly relevant for the contribution side of the projection (it has a very small effect on disability and survivors' pensions due to the demographic structure). It causes less income for the pension system due to the lower contributions. However, because of the lower GDP the overall rise in expenditure is mainly caused by a denominator effect.

Higher employment rate of older workers (5): A scenario with the employment rate of older workers (55-74) being 10 p.p. higher compared with the baseline projection. The increase is introduced linearly over the period 2021-2033 and remains 10 p.p. higher thereafter.

Projection results: An increase of the employment rate of the elderly in relation to the baseline scenario will result in lower pension expenditures by -0.3 p.p. in 2070.

Higher TFP growth (6): A scenario where TFP growth is assumed to converge to 1.2% (instead of 1%). As done for the baseline scenario, a period of fast convergence for "followers" is assumed for which TFP can grow by up to 1.2% + 0.5%.

Projection results: Productivity changes have two effects in the projection outcome (higher pensions and higher contributions) which interact with each other (with a time lag). Higher Productivity means higher wages and therefore higher contributions (with a ceiling). This leads (with a serious time lag) to higher pensions (even beyond the forecast horizon). Public pension expenditure would be 0.4 p.p. of GDP lower in 2070 under this scenario.

TFP risk scenario (7): A scenario where TFP growth is assumed to converge to 0.8% (instead of 1%). As done for the baseline scenario, a period of fast convergence for "followers" is assumed for which TFP can grow by up to 0.8% + 0.5%.

Projection results: This scenario behaves like the higher TFP growth scenario but only in the opposite direction. Additional spending amounts to 0.4 p.p. of GDP in 2070.

Linking retirement age (8): In this scenario the retirement age is shifted year-over-year in line with ¾ of the change in life expectancy at current retirement ages.

Projection results: The shift in the retirement age leads to a lower number of pensioners but also higher pension entitlements as the contributory period is extended. Compared to the baseline scenario this scenario results in lower pension expenditure by -1.5 p.p. in 2070 (greatest cost containment effect).

Unchanged retirement age (9): In this scenario the early and statutory retirement ages as well as career requirements are frozen at the situation in the base year. For Austria that means the statutory retirement age for women remains at the age of 60.

Projection results: Keeping the retirement age unchanged will lead to a higher number of pensioners, thus leading to a rise in expenditure by 0.3 p.p. in 2070.

Offset declining pension benefit ratio (10): In this scenario policy measures are taken when the (earnings-related) public pension benefit ratio would decrease by 10% relative to the base year. Therefore, the benefit ratio will be kept constant at this 10% lower point for the remainder of the projection period.

Projection results: In this scenario, pension expenditure would increase by 1.9 p.p. in 2070 compared to the baseline scenario, as pension entitlements are increased to keep the benefit ratio constant. At this point, however, it is important to mention, that in this scenario it is assumed that there will be no GDP effect due to keeping the benefit ratio constant, e.g. from higher consumer spending.

Lagged recovery scenario (11): In this scenario the initial negative growth rate shock in 2020 is 50% larger than in the baseline, with a 50% lower recovery in 2021 and a higher recovery in the following two years, after which GDP growth follows the baseline assumptions. The output gap is assumed to be closed in 2028 instead of in 2025. The resulting GDP growth shock is split equally between labour and labour productivity growth.

Projection results: In the lagged recovery scenario, there would be no deviation from the baseline in 2070 as the effects on pensions and GDP level each other out.

Adverse structural scenario (12): On top of the stronger cyclical downturn in the lagged recovery scenario (11), this scenario additionally assumes that the growth potential would be lower over the next decade and potential output growth will thus be permanently lower than in the baseline.

Projection results: Contrary to the lagged recovery scenario, this permanent shock scenario raises expenditure by 0.7 p.p. in 2070 (compared to the baseline). Even though the pension expenditure in absolute figures is lower than in the baseline scenario, the huge drop in the GDP leads to higher expenses in % of GDP.

Table 18: Public and total pension expenditure under different scenarios (p.p. deviation from the baseline)

Public pension expenditure	2019	2030	2040	2050	2060	2070	change 2019-2070 (pps)
Baseline (% GDP)	13.3	15.1	15.1	14.7	14.6	14.3	1.0
Higher life expectancy at birth (+2y)	0.0	0.1	0.3	0.4	0.6	0.7	0.7
Higher migration (+33%)	0.0	-0.1	-0.2	-0.3	-0.5	-0.6	-0.6
Lower migration (-33%)	0.0	0.1	0.2	0.3	0.6	0.7	0.7
Lower fertility (-20%)	0.0	0.0	0.0	0.2	0.3	0.6	0.6
Higher employment rate of older workers (+10 pps.)	0.0	-1.1	-0.8	-0.6	-0.5	-0.3	-0.3
Higher TFP growth (convergence to 1.2%)	0.0	0.1	0.0	-0.2	-0.3	-0.4	-0.4
TFP risk scenario (convergence to 0.8%)	0.0	-0.1	0.0	0.2	0.3	0.4	0.4
Policy scenario: linking retirement age to change in	0.0	-0.3	-0.5	-0.9	-1.3	-1.5	-1.5
Policy scenario: unchanged retirement age	0.0	0.6	0.5	0.4	0.3	0.3	0.3
Policy scenario: offset declining pension benefit	0.0	0.0	0.0	0.8	1.4	1.9	1.9
Lagged recovery scenario	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Adverse structural scenario	0.0	0.1	0.2	0.4	0.5	0.7	0.7
Total pension expenditure	2019	2030	2040	2050	2060	2070	change 2019-2070 (pps)
Baseline (% GDP)	13.3	15.1	15.1	14.7	14.6	14.3	1.0
Higher life expectancy at birth (+2y)	0.0	0.1	0.3	0.4	0.6	0.7	0.7
Higher migration (+33%)	0.0	-0.1	-0.2	-0.3	-0.5	-0.6	-0.6
Lower migration (-33%)	0.0	0.1	0.2	0.3	0.6	0.7	0.7
Lower fertility (-20%)	0.0	0.0	0.0	0.2	0.3	0.6	0.6
Higher employment rate of older workers (+10 pps.)	0.0	-1.1	-0.8	-0.6	-0.5	-0.3	-0.3
Higher TFP growth (convergence to 1.2%)	0.0	0.1	0.0	-0.2	-0.3	-0.4	-0.4
TFP risk scenario (convergence to 0.8%)	0.0	-0.1	0.0	0.2	0.3	0.4	0.4
Policy scenario: linking retirement age to change in	0.0	-0.3	-0.5	-0.9	-1.3	-1.5	-1.5
Policy scenario: unchanged retirement age	0.0	0.6	0.5	0.4	0.3	0.3	0.3
Policy scenario: offset declining pension benefit	0.0	0.0	0.0	0.8	1.4	1.9	1.9
Lagged recovery scenario	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Adverse structural scenario	0.0	0.1	0.2	0.4	0.5	0.7	0.7

Sources: BMF, BMSGPK, EC

4.6 Description of the changes in comparison with the 2006, 2009, 2012, 2015 and 2018 projections

Table 19 presents the effects of the different underlying factors on total pension spending across the current and previous projection exercises.

Table 19: Overall change in public pension expenditure to GDP under the 2006, 2009, 2012, 2015, 2018 and 2021 projection exercises

	Public pension expenditure	*Dependency ratio effect*	*Coverage ratio effect*	*Benefit ratio effect*	*Labour market effect*	*Residual (incl. interaction effect)*
2006 Ageing Report (2004-2050)	-1.0	*11.3*	*-5.8*	*-4.3*	*-1.3*	*-0.8*
2009 Ageing Report (2007-2060)	0.9	*9.9*	*-2.6*	*-5.0*	*-0.5*	*-1.0*
2012 Ageing Report (2010-2060)	2.0	*11.0*	*-2.9*	*-4.5*	*-0.5*	*-1.1*
2015 Ageing Report (2013-2060)	0.5	*9.4*	*-3.3*	*-4.1*	*-1.0*	*-0.6*
2018 Ageing Report (2016-2070)	0.5	*10.1*	*-3.3*	*-4.6*	*-1.1*	*-0.5*
2021 Ageing Report (2019-2070)	1.0	*9.3*	*-2.9*	*-4.2*	*-0.7*	*-0.6*

- The disaggregation for 2006/2009/2012 is on the basis of pensions; for 2015/2018/2021 it is on the basis of pensioners.

- The projection horizon has been extended over consecutive Ageing Reports, limiting comparability over time.

Sources: BMF, BMSGPK, EC

Table 20 shows the 2018 and new public pension projections for 2019-2070. Differences between both are due to changes in the underlying assumptions (demographic and macroeconomic assumptions) and on improvements in modelling (see chapter 5), though a precise assessment of these effects is not possible (as in the 2018 projection round).

Table 20: Breakdown of the difference between the 2018 and the new public pension projection (% of GDP)

	2019	2030	2040	2050	2060	2070
Ageing Report 2018 projections	13.9	14.4	14.9	14.6	14.7	14.3
Change in assumptions (pps of GDP)						
Improvement in the coverage or in the modelling (pps of GDP)						
Change in the interpretation of constant policy (pps of GDP)						
Policy-related changes (pps of GDP)						
New projections	13.3	15.1	15.1	14.7	14.6	14.3

Sources: BMF, BMSGPK, EC

5 Description of the pension projection model and its base data

The Austrian pension projections within the given EU framework are based on two autonomous models, covering the private social insurance sector and the civil service schemes, respectively. They include all benefits, penalties and contributions to old-age, early retirement, disability and survivor schemes and contain the effects of all major pension reforms.

5.1 Institutional context in which the projections are made

Traditionally, medium-term pension projections, covering at least five future years, are contained in the yearly report submitted by the Austrian Pension Commission (APC) to the federal government in preparation of annual pension adjustments. This consultative body represents the main forum for periodic policy discussions. It is composed of experts, academics, government and social partner representatives.

At the beginning, these **medium-term pension projections**, which were initially limited to the private social insurance schemes ("Gesetzliche Sozialversicherung"), have been the central policy instrument for assessing pension developments. However, the tendency towards a more frequent use of quantitative analyses and external advice was intensified during past reform efforts. As a result, **long-term pension projections** for the private social insurance schemes based on demographics by Statistics Austria were presented as a complementary tool to clarify the need for adjustment and to assess the impacts of the major past reform efforts initiated by the federal government. This has proven to be a very helpful and transparent instrument. This is why, with the aim to have long-term pension projections constantly available and to ensure long-term financial sustainability of the Austrian pension system, the federal government set up a permanent monitoring mechanism as of 2007.

The APC reviews long-term financial developments in the pension system every three years and in particular with regard to the sustainability factor newly established in 2005. This sustainability factor does not operate automatically. The analysis of the financial sustainability of the Austrian pension system by the APC is based on recent demographic projections of Statistics Austria, in particular projections of life expectancy at the age of 65. If life expectancy exceeds the reference value as defined in the law by more than 3% the committee is obliged

to put forward respective proposals to offset potentially higher pension expenditures (e.g. through changes in the contribution rate, retirement age, benefit adjustment). The APC concluded work on the sustainability factor the first time in April 2011 with a set of recommendations to the federal government. The APC also puts strong emphasis on the monitoring of the implementation of measures to increase the effective retirement age during the next decade.

In 2016 there was a reform of the ACP concerning the composition of members as well as the scope. On the one hand the number of voting members was reduced (with the inclusion of non-voting experts) and on the other hand the civil service sector was included with separate medium- and long-term projections (but based on the same assumptions as for the private social insurance sector projections).

The projections for the private social insurance sector are done by the Federal Ministry for Social Affairs, Health, Care and Consumer Protection, while the projections for the civil service sector are prepared by the Federal Ministry of Finance.

5.2 Data used to run the models

In line with the common and agreed methodology for delivering EU-wide comparable results, demographic projections (EUROPOP2019) provided by Eurostat and macroeconomic assumptions delivered by the European Commission were used as data input to run the national pension models. For more detailed information on this, please see the report on “The 2021 Ageing Report: Underlying Assumptions and Projection Methodologies” by the EPC and the European Commission.

The private sector model is based on individual social security data from the corresponding agencies (employed, self-employed, farmers, etc.) compiled by the “Dachverband der Sozialversicherungsträger”. The civil service model is based upon data from the income tax statistics enriched by social security data.

5.3 General description of the models

For the Austrian pension projections two autonomous models are used. Both models consist of partial equilibrium models and comprise deterministic elements only. In order to achieve consistency in the results, the two models for the private social insurance and the civil service sectors are consolidated, both as to macroeconomic developments and to expected shifts of

contributors from one to the other category of schemes. For instance, the developments in civil service sector employment are captured by the private social insurance sector model. Hence, though the two models are autonomous, they have been made fully consistent with regard to employment and wage developments.

The **private social insurance sector model**, accounting for around three quarters of total public pension expenditure is central to simulate the financial effects of population ageing. It covers all relevant social insurance schemes, for blue and white collar employees (ASVG) incl. public employees with private contracts ("Vertragsbedienstete"), self-employed and farmers, among others. The model is composed of two major blocs that are intimately linked together. The macro part is made up of ten modules, reflecting economic, labour market, public finance and pension insurance developments. In effect, most single parameters are endogenously determined with the exception of participation and inflation rates, which fit in as exogenous inputs. The pension-specific micro part relies on inputs from the macro side on employment and on the payroll, from demographics and from age-related time series describing past pension contributions and benefits. These micro modules are designed so as to incorporate already enacted reforms with their effects in the near and distant future (based on the financial estimates made during the establishment of the reforms) and to simulate reform options. The basis of the micro modules is a large sample of new pensioners (in the base year) including their whole working career which is then modified (according to enacted reforms e.g. raised retirement age) and projected into the future. These pension modules permit to calculate the bulk of already existing pensions, the number of new pensions and of exits, average pension benefits and replacement rates as well as aggregate figures in a given (future) year. On the other hand, pension contribution rates and the level of the social insurance pension deficit covered by the federal budget feed back into the macro modules.

The **civil service model** covers the pension projections of the civil servants, taking into proper consideration the fact that these pension benefits are fully financed out of the federal government, federal states and the various communal budgets. The federal government sector clearly dominates by size. In this vein, the other segments comprise all pension and survivors' benefit payments to civil service retirees of the federal states, the municipalities, the postal, telecom and railway services and other specific groups such as school teachers. Ongoing structural reforms in the civil service sector aim at enhanced application of private-sector-based labour contracts for employees in the public sector ("Vertragsbedienstete"). As a consequence, the number of civil servants is decreasing from 185,000 in 2019 to around 130,000 by 2043 remaining constant thereafter. This decline, however, will be compensated by public employees with private-sector-based labour contracts (then included in the private social insurance sector model) keeping the number of public employees almost unchanged. As a general trend, civil service developments are assumed to be much more exposed to the

present age-structure in the civil service and the future internal reforms rather than to demographics and economic developments, which are nonetheless taken into adequate consideration. The civil service model is in its core a cohort simulation. The underlying anonymised individual data is aggregated to cohorts which are used to simulate the entire life cycle of a civil servant. Beginning with the entry of a cohort into the professional career and ending with dropping out of later retirement contributions and pension expenses are calculated. During the first phase of the life cycle the professional career of a cohort is simulated, the main part being the assigning of an annual salary (based on empirical data) upon which pension contributions are estimated according to the contribution rates determined by law. The actual beginning and end of a civil servant career are also based on empirical data and lead genuinely to an average contributory period. At the transition from working life into retirement the pension entitlement is calculated, taking into account the whole professional career including the (early) pension scheme taken as well as all other fundamental legal specifications. An actual example of the calculation of a pension entitlement can be found in the annex (see chapter 6.11). In the second phase of the life cycle the cohorts remain in retirement generating an annually valorised pension income up until dropping out of the model. Survivor pensions are generated using the probability of a deceased to leave behind a partner respectively children entitled to survivor pensions. The amount of the pension entitlement is determined by the statutory provisions. Additional to the probability for survivors the model has underlying assumptions of entering the disability pension scheme which are extracted from historical data.

6 Methodological annex

6.1 Economy-wide average gross wage at retirement

A consolidated average gross wage at retirement for private and public sector employees is delivered.

The average gross wage at retirement for private sector employees is calculated by taking the average contribution base (incl. special payments) of all employed men at the age of 58 to 61 and all employed women at the age of 56 to 59 in 2019. This starting value for 2019 is subsequently linked to the growth of the average gross wage given by the European Commission.

The data for the public sector is output of the model and linked to labour productivity as well as seniority.

Table 21: Economy-wide average wage at retirement (1000 EUR)

	2019	2030	2040	2050	2060	2070	% change 2019-2070
Economy-wide average gross wage at retirement	45.8	58.6	79.4	112.8	161.8	227.9	397.9
Economy-wide average gross wage	39.6	52.1	72.8	103.4	147.0	208.7	427.4

Sources: BMF, BMSGPK, EC

6.2 New pension block

The new pension block has received some improvements concerning the average contributory period, the average accrual rate and the monthly average pensionable earnings.

Average contributory period: For the private sector system, a starting value data from the social security agencies is used. The further development is then linked to the average career of a person (which is a model output). For the civil service sector the actual beginning and end of a civil servant career are based on empirical data and lead genuinely to an average contributory period. The two values are then consolidated.

Average accrual rate and monthly average pensionable earnings: The average accrual rate is now fixed to the value 1.78% throughout the projection horizon (which is the annual statutory value for the accrual rate in the Austrian pension system). This amendment is done to get a better estimate of the monthly pensionable earning which now is calculated as follows:

monthly average pensionable earnings = ("old-age and early pension expenditure new" + "disability pension expenditure new") / "number of new pensions" / "average contributory period" / "average accrual rate" / "average number of months paid in the first year"

6.3 Pensioners vs. pensions

The Austrian pension projections are based on two autonomous models, covering the private social insurance sector and the civil service schemes, respectively. Both models are in general based on the number of pensions (pay slips) and not on the number of pensioners.

Given the fact that many pensioners receive more than one pension the number of pensioners differs from the number of pensions in Austria. In 2019 the private and public sector schemes counted for about 2,697,000 public pensions that were claimed by about 2,437,000 pensioners, giving a ratio of around 90%. It is assumed that due to the rising female employment rates more women will claim more own (and higher) pensions in the future and thus will to a lesser extent fulfil requirements to claim multiple pensions (i.e. survivor pensions). Given this probable assumption the number-of-pensioners to the number-of-pensions-ratio is assumed to go up from 90% in 2019 to 94% by 2070.

6.4 Pension taxation

Contributions to public old-age provisions are exempt from taxation. Pensions and special pension payments (e.g. 13th and 14th pensions), however, are treated like earned income and are subject to income tax. The annual income tax will be calculated as shown in the following figure.

In addition, the Austrian tax system provides for several tax allowances and tax credits, which reduce the assessment base and the amount of tax payable respectively. Care and equalising allowances are exempt from taxation. Taxes payable are deducted from gross pension reduced by health care contributions. No projections of taxes on pensions were made.

Figure 3: Tax rate/annual income tax

Annual income	Tax rate	Annual income tax in €
Up to 11,000 €	0	0
Over 11,000 € up to 18,000 €	25% [1)]	$\frac{(Income - 11{,}000) * 1{,}750}{7{,}000}$
Over 18,000 € up to 31,000 €	35%	$\frac{(Income - 18{,}000) * 4{,}550}{13{,}000} + 1{,}750$
Over 31,000 € up to 60,000 €	42%	$\frac{(Income - 31{,}000) * 12{,}180}{29{,}000} + 6{,}300$
Over 60,000 € up to 90,000 €	48%	$\frac{(Income - 60{,}000) * 14{,}400}{30{,}000} + 18{,}480$
Over 90,000 € up to 1,000,000 €	50%	$\frac{(Income - 90{,}000) * 455{,}000}{910{,}000} + 32{,}880$
Over 1,000,000 €	55%	$(Income - 1{,}000{,}000) * 0.55 + 487{,}880$

1) As of 1 January 2020, the tax rate was reduced retroactively from 25% to 20%.

Source: BMF

6.5 Equalising allowance (Ausgleichszulage)

The Austrian pension system does not provide for a minimum pension. If individual pension claims are lower than legally defined thresholds the gap will be closed by federal budget contributions (equalising allowance) to guarantee a minimum income for pensioners (in order to avoid elderly poverty).

In 2020, these thresholds amount to 966.65 euro per month for single pensioners and 1,524.99 euro per month for couples living together in one household.

In addition, if a certain number of insurance months is reached, an equalising allowance bonus is due. Provided that an equalising allowance is drawn on a direct pension (“Eigenpension”) and if the total income is below a certain limit.

Thus, for a single pensioner with 360 (480) insurance months, the maximum bonus is 146.94 euro (381.94 euro) if the total income is below 1,080 euro (1,315 euro). For a couple in one household with 480 insurance months, the maximum bonus is 383.03 euro if the total income is below 1,782 euro.

In 2019, 205,306 recipients were counted (2/3 female) and total equalising allowance amounted to 979.8 m euro - which corresponds to 0.25% of GDP.

As you can see in table 8 the equalising allowance (as the Rehabilitationsgeld, see chapter 6.6) is added to the "Public Pension Expenditure (according to projections)" to get "Total Pension Expenditure". It is not included in the projections (as it was in the AR 2018) because it cannot be split into age groups.

6.6 Rehabilitationsgeld

The consolidation package of 2012 brought a reform of disability pensions. People being classified as "temporarily disabled" and born after 31 December 1963 do not claim any longer disability pensions but so called "Rehabilitationsgeld".

"Rehabilitationsgeld" are (strictly speaking) healthcare expenditures which are paid out of the "pension insurance pocket". Therefore "Rehabilitationsgeld" is not included in the healthcare projections. For this reason, it is added to "Public pension expenditure (according to projections)", as the equalising allowance, to get "Total public pension expenditure" (see table 8). It is not included in "Public pension expenditures (according to projections)" because recipients of this benefit are no pensioners.

6.7 Disability pensions

Entitlement to a disability pension depends on a medical assessment of the person's health status and on whether the disabled person has paid contributions for a sufficient amount of time (qualifying period). The qualifying period depends on the age of the disabled person. If a disability pension is the result of a work accident, there will be no minimum qualifying period. The disability pension amount depends on a person's contribution history. In the calculation process for a disability pension it is assumed that the disabled person would have contributed until the age of 60, at which point the person would have retired with a deduction.

For the purpose of the projection exercise, the categories “old-age and early pensions” and “disability pensions” are defined according to an age threshold: ≥ and < 60 years, respectively. While the functional aspect of the pension obviously is not fully respected (“disability pensions” are regarded as “old-age and early pensions” as soon as the pensioner reaches 60 years) mainly due to data issues, this definition comes nevertheless rather close to the current and even more to future actual practice, with (early) pensionable age at 60 years. The actuality that in the presently used model no strict distinction of old-age and disability pensions is feasible the “below-60-years-distinction-factor” leads to the fact that at the beginning of the projection horizon almost all new female old-age pensions are included in the new-disability-pension-expenditure-section.

6.8 Survivors’ pensions

In Austria, a survivor pension is paid to surviving spouses and orphans. Entitlement to a survivor pension depends on whether the deceased was a pension recipient, or, if the deceased died before retirement, on the insurance history of the deceased (i.e. whether the qualifying period is fulfilled). The period of entitlement to a survivor's pension depends on whether the spouses had children, the marriage duration, the age of the survivor and the deceased at the time of death, and on whether or not the deceased was a pension recipient at the date of death. The survivors’ pension amount is the product of the pension which the deceased would have received in the absence of death and a percentage amount that ranges between 0% and 60%. The percentage amount depends on the income ratio of the survivor and the deceased.

An orphan’s pension is 24% or 36% from the pension of the deceased (24% for orphans who lost one parent and 36% for orphans who lost both parents). Orphans are usually entitled to an orphans’ pension until the age of 18, but there are exceptions for orphans who continue their education and for orphans who are disabled.

The main driver behind the survivor pension projections is the population (by age group) on the one hand and sociodemographic trends on the other. Based on historical data (by gender, type (widow/orphan) and insurer (employed, self-employed and farmer)) a path is estimated as percentage of the corresponding age group incorporating (among other factors) an increasing divorce rate, rise of one person households and a rising percentage of women with pension rights.

6.9 Non-earnings related minimum pension (means-tested minimum income)

The means-tested minimum income is the responsibility of the federal states. Therefore, the level of benefits varies from federal state to federal state. An entitlement to the means-tested minimum income is given if a person does not have sufficient financial security through other means (e.g. income, benefits from social insurance, maintenance, etc.) or assets. Those who are capable of work, however, must be prepared to take on a job with a few exceptions (e.g. care obligations). If a reasonable job is not accepted, the means-tested minimum income can be reduced or even withdrawn. Before the means-tested minimum income can be claimed one's own assets and income have to be used up; again with a few exceptions (e.g. objects used for exercising a profession, vehicles which are required for work or due to a disability).

6.10 Contributions

Contributions are estimated based on the number of insured people (which is a subgroup of the labour supply) subdivided by insurer. The reason for the lower number of people (in relation to the labour supply) who pay contributions is due to a lower threshold (446.81 euro per month in 2019). Contributions amount to 22.8% of the contribution base. There are also contributions for partial insurance periods which are defined as a fixed amount of money per month (e.g. for child bearing, military service) or as a percentage of the income (e.g. unemployment).

6.11 Pension account system

In order to harmonise the different schemes of blue and white collar workers, farmers, self-employed and civil servants, a pension account system was introduced in 2005 for all employed born as of 1955. The most important benefit of this pension account system is that entitled persons always have a clear overview of their future pension (more transparency).

A simple example of an individual pension account is given below and shown in the following figure.

How does the pension account work and how is the monthly pension calculated?

For the following example of the pension account an individual starting full-time employment at the age of 20 and working 45 years without interruptions (e.g. due to unemployment, raising children etc.) is assumed, thus retiring at the age of 65 without bonuses or penalties.

The assessment basis for the calculation of the monthly pension is the annual contribution base (i.e. the annual income of the individual up to a certain ceiling). The annual contribution base is multiplied by the accrual rate of 1.78% which results in a partial credit for this year. This procedure is repeated for every consecutive year in employment whilst the partial credits of the preceding years are revaluated on a yearly basis (the revaluation coefficient is linked to the average insured wage). The sum of the partial credit and the revalued credits results in the total credit. At retiring the total credit is divided by 14 and will be paid to the retiree on a monthly basis (14 times a year).

Hence every year of employment automatically increases the future monthly pension.

Figure 4: Example of an individual pension account

Age	Year	Monthly income (14 times)	Annual contribution base	Maximum monthly contribution base	Accrual rate	Partial credit (current year)	Revalued credit (previous year)	Revaluation coefficient	Total credit
20	2017	2.500	35.000	4.980	1,78%	623	0	1,01	623
21	2018	2.525	35.350	5.030	1,78%	629	629	1,01	1.258
22	2019	2.550	35.704	5.080	1,78%	636	1.271	1,01	1.907
23	2020	2.576	36.061	5.131	1,78%	642	1.926	1,01	2.568
24	2021	2.602	36.421	5.182	1,78%	648	2.593	1,01	3.241
25	2022	2.628	36.785	5.234	1,78%	655	3.274	1,01	3.929
26	2023	2.654	37.153	5.286	1,78%	661	3.968	1,01	4.629
27	2024	2.680	37.525	5.339	1,78%	668	4.676	1,01	5.344
28	2025	2.707	37.900	5.393	1,78%	675	5.397	1,01	6.072
29	2026	2.734	38.279	5.447	1,78%	681	6.132	1,01	6.814
30	2027	2.762	38.662	5.501	1,78%	688	6.882	1,01	7.570
31	2028	2.789	39.048	5.556	1,78%	695	7.646	1,01	8.341
32	2029	2.817	39.439	5.612	1,78%	702	8.424	1,01	9.126
33	2030	2.845	39.833	5.668	1,78%	709	9.217	1,01	9.926
34	2031	2.874	40.232	5.724	1,78%	716	10.026	1,01	10.742
35	2032	2.902	40.634	5.782	1,78%	723	10.849	1,01	11.573
36	2033	2.931	41.040	5.839	1,78%	731	11.688	1,01	12.419
37	2034	2.961	41.451	5.898	1,78%	738	12.543	1,01	13.281
38	2035	2.990	41.865	5.957	1,78%	745	13.414	1,01	14.159
39	2036	3.020	42.284	6.016	1,78%	753	14.300	1,01	15.053
40	2037	3.050	42.707	6.077	1,78%	760	15.204	1,01	15.964
41	2038	3.081	43.134	6.137	1,78%	768	16.123	1,01	16.891
42	2039	3.112	43.565	6.199	1,78%	775	17.060	1,01	17.836
43	2040	3.143	44.001	6.261	1,78%	783	18.014	1,01	18.797
44	2041	3.174	44.441	6.323	1,78%	791	18.985	1,01	19.776
45	2042	3.206	44.885	6.387	1,78%	799	19.974	1,01	20.773
46	2043	3.238	45.334	6.450	1,78%	807	20.981	1,01	21.788
47	2044	3.271	45.787	6.515	1,78%	815	22.005	1,01	22.820
48	2045	3.303	46.245	6.580	1,78%	823	23.049	1,01	23.872
49	2046	3.336	46.708	6.646	1,78%	831	24.110	1,01	24.942
50	2047	3.370	47.175	6.712	1,78%	840	25.191	1,01	26.031
51	2048	3.403	47.646	6.779	1,78%	848	26.291	1,01	27.139
52	2049	3.437	48.123	6.847	1,78%	857	27.411	1,01	28.267
53	2050	3.472	48.604	6.916	1,78%	865	28.550	1,01	29.415
54	2051	3.506	49.090	6.985	1,78%	874	29.709	1,01	30.583
55	2052	3.542	49.581	7.055	1,78%	883	30.889	1,01	31.772
56	2053	3.577	50.077	7.125	1,78%	891	32.089	1,01	32.981
57	2054	3.613	50.578	7.196	1,78%	900	33.310	1,01	34.211
58	2055	3.649	51.083	7.268	1,78%	909	34.553	1,01	35.462
59	2056	3.685	51.594	7.341	1,78%	918	35.817	1,01	36.735
60	2057	3.722	52.110	7.415	1,78%	928	37.102	1,01	38.030
61	2058	3.759	52.631	7.489	1,78%	937	38.410	1,01	39.347
62	2059	3.797	53.158	7.564	1,78%	946	39.741	1,01	40.687
63	2060	3.835	53.689	7.639	1,78%	956	41.094	1,01	42.049
64	2061	3.873	54.226	7.716	1,78%	965	42.049	1,00	43.015

Monthly income at retirement:	3.873
Monthly pension at retirement:	3.072
Replacement rate at retirement:	**79,3%**

Annual contribution base = Monthly income x 14
Partial credit = Annual contribution base x Accrual rate
Revalued credit = Total credit (t-1) x Revaluation coefficient
Total credit = Partial credit + Revalued credit

Sources: BMF, BMSGPK

6.12 Alternative pension spending disaggregation

Table 22: Factors behind the change in public pension expenditure between 2019 and 2070 (percentage points of GDP) – pensions

	2019-30	2030-40	2040-50	2050-60	2060-70	2019-70
Public pensions to GDP	1.8	0.1	-0.4	-0.2	-0.3	1.0
Dependency ratio effect	4.2	3.4	1.4	1.5	0.5	11.0
Coverage ratio effect*	-1.1	-0.9	-0.3	-0.4	-0.2	-2.8
Coverage ratio old-age	0.0	-0.3	-0.4	-0.4	-0.1	-1.3
Coverage ratio early-age	-1.6	-1.8	0.2	0.2	-0.5	-3.5
Cohort effect	-3.4	-1.7	-0.4	-0.7	0.0	-6.1
Benefit ratio effect	-0.6	-0.9	-0.8	-0.3	-0.2	-2.9
Labour market effect	-0.2	-0.3	0.0	-0.1	0.0	-0.6
Employment ratio effect	-0.1	-0.3	0.0	0.0	0.0	-0.5
Labour intensity effect	0.0	0.0	0.0	0.0	0.0	0.0
Career shift effect	-0.1	0.0	0.0	0.0	0.0	-0.2
Residual	-0.5	-1.2	-0.8	-0.8	-0.3	-3.7

** Subcomponents of the coverage ratio effect do not add up necessarily.*

Sources: BMF, BMSGPK, EC

6.13 Administrative data on new pensioners

The following tables show the administrative data for the base year (2019) but only for the private insurance sector.

Table 23: Administrative data on new pensioners (2019) - men

Age group	All	Old-age	Disability	Survivor	Other (including minimum)
15 - 49	3834	49	1946	1839	0
50 - 54	1835	64	1586	185	0
55 - 59	4541	670	3572	299	0
60 - 64	27191	23098	3754	339	0
65 - 69	12713	12208	46	459	0
70 - 74	945	347	0	598	0
75+	2559	164	0	2395	0

Sources: BMF, BMSGPK, EC

Table 24: Administrative data on new pensioners (2019) - women

Age group	All	Old-age	Disability	Survivor	Other (including minimum)
15 - 49	4396	25	1919	2452	0
50 - 54	2554	41	1705	808	0
55 - 59	7950	3914	2720	1316	0
60 - 64	44321	42215	114	1992	0
65 - 69	4830	2073	0	2757	0
70 - 74	3658	254	0	3404	0
75+	10812	132	0	10680	0

Sources: BMF, BMSGPK, EC

Table 25: Administrative data on new pensioners (2019) - total

Age group	All	Old-age	Disability	Survivor	Other (including minimum)
15 - 49	8230	74	3865	4291	0
50 - 54	4389	105	3291	993	0
55 - 59	12491	4584	6292	1615	0
60 - 64	71512	65313	3868	2331	0
65 - 69	17543	14281	46	3216	0
70 - 74	4603	601	0	4002	0
75+	13371	296	0	13075	0

Sources: BMF, BMSGPK, EC

Tables

Figures

Sources/Links

European Commission (EC)

https://ec.europa.eu/info/index_en

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http://ec.europa.eu/eurostat

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http://www.statistik.at/

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