

CHAPTER 3. SOCIAL EXPENDITURE AND FINANCING

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3.1. Survey

In 2003, 29.5% of the GDP was redistributed to public social and health schemes. This percentage is above the average of the EU-15 states.

Almost half of the social expenditure (47%) is spent on pensions, long-term care allowances and long-term care institutions for the elderly, 25% on health care, 11% on family benefits, 9% on invalidity benefits and 6% on unemployment- and labour market benefits.

Over 70% of the social expenditure is offered in the form of cash benefits.

Benefits under social insurance laws prevail in Austria. They amount to over 50% of the social expenditure. However, during the past years their share was reduced in favour of universal benefits (mainly due to the new benefits: long-term care allowance, tax credit for children and child care allowance).

As a whole, the social systems are financed by each more than one third via employers' contributions and subsidies from the state and regional authorities' budgets, and more than one quarter is financed by contributions of the insured persons. In the

past decade, the share paid by the insured persons showed a slight increase, while the employers' and state and regional authorities' shares declined.

3.2. Development of the social expenditure ratio

In the first half of the 1990s, a strong increase in the social expenditure ratio, (from 26.2% to 28.9%) due to the extension of social benefits, could be observed. Between 1995 and 2000, the ratio declined to 28.3%. The main reasons for this decline are an over proportional growth of the GDP and consolidation measures in the social sector. Despite the necessary consolidation measures undertaken since 2000, social service and family benefits, among others, have significantly improved, which – together with reduced GDP growth and additional costs due to the labour market situation – has produced a growth of the social expenditure ratio since 2000.

3.3. Social expenditures by functions

Between 1990 and 2003, the percentage of social expenditure in the sectors of

Development of social expenditure and the social expenditure ratio

Year	Social expenditure in billion EUR	GDP in billion EUR	Social expenditure ratio (social expenditure in% of the GDP)
1990	35.7	136.3	26.2
1995	50.6	175.5	28.9
2000	59.5	210.4	28.3
2001	61.8	215.9	28.6
2002	64.5	220.7	29.2
2003	66.9	227.0	29.5

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

¹ The description of the social expenditure is in accordance with the methodology ESSPROS (European System of integrated Social Protection Statistics), agreed upon by EURSTAT and the European Union member states. According to ESSPROS, only expenditure with redistribution-character (that is, no private expenditure, no saving and life insurance schemes, no private co-payments, no occupational social benefits without redistribution-character) may be included. Further, the borders with regard to other public systems (e.g. from tax redistributions, which are not primarily socially induced, public expenditure on education, government housing promotion etc.) have been defined.

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Social expenditure by functions¹

in billion EUR	1990	2000	2003	growth in % from 1990-2003
Health	8,983	14,618	16,058	79%
Invalidity	3,196	5,205	5,549	74%
Old age	15,980	27,108	30,373	90%
Survivors	761	891	876	15%
Family	3,570	6,153	6,987	96%
Unemployment	1,625	2,866	3,859	137%
Others ²	504	816	1,107	120%
Total	34,619	57,657	64,810	87%

Share in %	1990	2000	2003
Sickness/health care	25,9	25,4	24,8
Invalidity/disability	9,2	9,0	8,6
Old age	46,2	47,0	46,9
Survivors	2,2	1,5	1,8
Family/Children	10,3	10,7	10,8
Unemployment	4,7	5,0	6,0
Others	1,5	1,4	1,7
Total	100,0	100,0	100,0

1) among others without administrative expenses

2) among others part of the social assistance expenditure, housing benefits, student grants

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

unemployment and labour market support showed the highest increases. The expenditure on families and old age rose to an above average level. Increase in the sectors health and invalidity remained below average and the least increase could be seen in the survivors' benefits.

3.4. Cash benefits and benefits in kind

In Austria 71.5% of the social expenditure is spent on cash benefits. Almost two thirds of the cash benefits are spent on old age benefits, 13% on family transfers, 10% on invalidity benefits, 6% on unemployment transfers and 5% on cash benefits in the case of sickness.

Three quarters of all benefits in kind are attributable to the health sector.

The share of benefits in kind within the different social sectors varies widely, showing a range between 85% for health services and 3% for old-age and survivors'

benefits. The share of benefits in kind in the sectors family, invalidity and unemployment lies between one seventh and one third of the total expenditure in the relevant sectors.

In the area of social benefits for the elderly, the share of public expenditure on community and institutional services is relatively low compared with the expenditure on cash benefits. The total of long-term care allowances for the elderly is higher than the public expenditure on institutional and community services. One basic feature of the policies towards elderly people in Austria is the principle of providing transfers, therefore elderly persons in need of care the possibility to choose the form of care they consider optimal for them. However, that does not mean, the growing demand for services for the elderly has been neglected. Since 1990, the expenditure on institutional and community services demonstrates an over proportional increase.

Cash benefits and benefits in kind, 2003

	Amount in billion EUR	Share in total social expenditure
Cash benefits		
Old age	29,44	45,4%
Survivors	0,87	1,3%
Invalidity	4,70	7,3%
Children and families	5,84	9,0%
Unemployment benefits	2,66	4,1%
Health	2,48	3,8%
Other expenditure	0,35	0,5%
Total cash expenditures	46,34	71,5%
Benefits in kind		
Old age	0,94	1,5%
Survivors	0,01	-
Invalidity	0,85	1,3%
Children and families	1,14	1,8%
Unemployment	1,20	1,9%
Health	13,58	21,0%
Other expenses	0,76	1,2%
Total benefits in kind	18,47	28,4%
Total cash benefits and benefits in kind¹	64,81	100,0%

1) The expenditure according to this table is below the total social expenditure. Certain benefits are not classified according to functions.
Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

About one third of all benefits for the unemployed are benefits in kind (labour market support schemes), which also include cash benefits if they are part of active labour market measures. The share of activating benefits in the total benefits for the unemployed has greatly increased.

The high share (EU-wide comparison) of family benefits in the GDP is attributable to cash benefits (family allowance, tax credit for children, confinement benefit, child care allowance). The public means available for child-care facilities in 2003 corresponds to about one fifth of the total family

allowances and tax credits for children.

3.5. Classification of cash benefits

Benefits under social insurance legislation prevail. Their share in the cash benefits is 59%. Civil servants' pensions come in second with 19%. 15% are spent on universal benefits, 5% on employees' claims under labour law (continued payment of wages in the case of sickness), 4% on means-tested benefits, and 3% on supplementary occupational pension systems.

Compared to 1990 the share of the universal benefits has increased from 10% to 15% (introduction of the long-term care allowance, the tax credit for children and since 2002 the child care allowance), while the share of benefits under social insurance laws went down by 2 percentage points. The share of claims under labour law and of civil servants' pensions went down by 1 percentage point each. The share of means-tested benefits stayed constant.

Share of benefits in kind in the total expenditure in the respective social sector, 2003

	Share of benefits in kind in the total expenditure
Old age and survivors	3%
Invalidity	15%
Unemployment	31%
Family	16%
Health	85%

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

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Cash benefits by schemes, 2003, in billion EUR

Benefits under social insurance laws	
Pensions of the statutory pension insurance ¹	21,82
Cash benefits of the health insurance	0,71
Cash benefits of the accident insurance	0,47
Cash benefits of the unemployment insurance ²	1,52
Universal benefits	
Benefits of the Family Burden Equalisation Fund, tax credit for children ³	5,21
Long-term care allowance (federal state and Länder)	1,72
Means-tested benefits	
Pension insurance (equalisation supplements)	0,79
Unemployment insurance (unemployment assistance)	0,66
Family Burdens Equalisation Fund	0,04
Länder and local authorities (social assistance, housing benefit)	0,32
Grants for pupils and students	0,21
Civil servants' pensions	8,63
Victims' compensation	0,29
Claims under labour law	2,09
Supplementary occupational schemes	1,35
Other cash benefits ⁴	0,51
Total	46,34

1) excluding means-tested equalisation supplement

2) excluding unemployment assistance

3) all cash benefits from the Family Burden Equalisation Fund which are not means-tested and tax credit for children

4) above all bankruptcy contingency fund, cash benefits from the Laender which are not means-tested, bad weather compensation for construction workers, National Fund for disabled persons

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

3.6. Financing of social benefits²

In 2003, 38% of the social expenditure was financed by employers' contributions, 35% by budget means of the state and regional authorities and 26% by employees' contributions from the insured persons.

Financing structure of the total social expenditure, 2003, in %

	2003 in %
Social contributions of private enterprises	31,8
Social contributions of the federal and regional authorities as employer ¹	5,7
Employees' contributions	21,5
Contributions of self-employed persons	2,8
Pensioners' contributions	1,9
Budget means of the federal and regional authorities	34,6
Other revenues	1,7
	100,0%

1) Including „assumed“ social contributions of the federal and regional authorities: It is assumed, that the state's contribution rate for its civil servants equals that of private employers.

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditures

Since 1990, the shares of employers' contributions and of the federal state in total financing have decreased by one percentage point while those of the insured have increased, by one percentage point.

In the following table, the major social schemes (expenditure over 50 million EUR/year) are classified according to their financing structure.

Over two thirds of benefits under social insurance legislation (with the exception of health insurance) are financed by almost equal contributions from employers and insured persons. In the case of health insurance, the insured person's share is higher.³

The highest social expenditure financed from the budget attributable to health services extending beyond health insurance (particularly in the in-treatment

2) Private payments by the population, instance private pensions, prescription charge, co-payments etc. are not included in the social expenditure according to ESSPROS.

3) The higher share paid by the insured can be explained by the fact, that besides the more or less equal contributions paid by employers and employees, additional health insurance contributions from pensioners, self-employed and farmers are collected.

Financing structure by schemes, 2003

	Share of employers' contributions ¹ in %	Share of the insured persons in %	Share of budget means in %	Share of other revenues ² in %
Exclusively from budget means				
Victims' compensation			100	
Long-term care allowance			100	
Tax credit for children			100	
Health benefits (excluding health insurance)			100	
Housing benefits			100	
Social benefits from Länder and local authorities ³			100	
Exemptions from charges			100	
Grants for pupils and students			100	
National fund for disabled persons			100	
At least two thirds from employers' means/ contributions				
Continued payment of wages in case of sickness	100			
Bankruptcy contingency fund	98	4		2
Company pensions	96			
Accident insurance	96			4
Family Burden Equalisation Fund	82		17	1
At least two thirds from employers' and employees' contributions				
Unemployment insurance	45	45	9	
Pension insurance	35	34	27	4
Health insurance	26	43		30

1) incl. assumed employers' contributions in the civil servants' pension schemes

2) mostly intergovernmental transfers, dissolutions of reserves

3) Private co-payments and cost-sharing are not included according to ESSPROS

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS databank social expenditure

sector), the social services of the Länder and local authorities, long-term care allowance and means-tested benefits (not including unemployment assistance for the long-term unemployed).

Exclusively or predominantly financed by employers are benefits under labour law (e.g. continued payment of wages in the case of sickness until a certain duration), benefits in the case of inability of an enterprise to pay, occupational pensions, benefits in the case of occupational accidents and part of the family benefits.

Contribution rates for employees

For those gainfully employed in 2005, 31.5% of the contributory wages are paid to the social insurance: 22.8% for pension

insurance, 7.5% for health insurance, 1.4% for accident insurance. These contributions are payable up to a certain income limit. In 2005, the ceiling on insurable earnings for wage and salary earners amounts to EUR 3,630 per month (14 times a year). This corresponds more or less to a double mean income of wage and salary earners.

In addition to the social insurance contribution, 6% is payable for unemployment insurance.

Sole employers' contributions are payable for the maintenance of pay in the case of the bankruptcy of a company (0.7%) and for the Family Burden Equalisation Fund (4.5% of the wage bill). For individual groups of employees, additional employers' contributions are

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Contribution rates for employees, 2005 (% of the contributory pay)

	Employer and employees	employers	Employees
Pension insurance	22,80	12,55	10,25
Health insurance ¹	7,50	Between 3,55 and 3,75	between 3,75 and 3,95
Accident insurance	1,40	1,40	-
Unemployment insurance	6,00	3,00	3,00
Bad weather compensation ²		1,40	
Night shift and heavy work compensation ²		2,00	
Scheme of employer-based income provision		1,53	
Maintenance of pay in the case of a company's bankruptcy	0,70	0,70	
Family Burden Equalisation Fund	4,50	4,50	
Housing promotion	1,00	0,50	0,50
Statutory representations of employees	0,50		0,50
local taxes	3,00	3,00	
Total	between 47,40% and 52,33%	between 29,20% and 34,33%	between 18,00% and 18,20%

1) for blue collar workers 3.55% employers' - and 3.95% employees' contribution, for white collar workers 3.75% employers' - and 3.75% employees' contribution

2) these contributions only refer to specific groups of employees

Source: Federation of Austrian Social Insurance

payable (for construction workers, a bad weather compensation of 1.4%, 2% for persons working night shifts including heavy labour).

Further contributions are payable for housing promotion (each 0.5% for employers and employees), for employees' statutory representations of interests (0.5%) and in the form of a local tax (3%).

Since 2003 an employers' contribution of 1.53% of the wage bill is payable for employer-based retirement income

provision for every new employment contract.

In total all income-related contributions amount to between 47% and 52% of the pay (employers' share: between 29% and 34%, employees' share: 18%).

For self-employed persons and civil servants, individual contribution rates exist. For pensioners under the pension insurance scheme a health insurance contribution of 4.95% is payable.