

CHAPTER 4. OLD-AGE PENSIONS

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4.1. Survey

The most extensive system for providing retirement income is the statutory pension insurance scheme. It covers, with the exception of civil servants, all persons formerly gainfully employed. Besides old age pensions the statutory pension insurance also includes invalidity and survivors' pensions. The major part of expenditure on survivors' pensions and more than half of the invalidity pensions is paid out to persons over the age of 60/65 years.

Second in size is the civil servants' pension insurance scheme (tenured public servants), which is regulated individually according to the civil servant's employer (Federal Government, Laender and regional authorities).

Further schemes for war victims, army victims etc. ("victims' compensations") and for persons with permanent damage due to accidents at work exist. The majority of these pension-like benefits are drawn in addition to pensions from the statutory pension scheme or civil servants' pension schemes.

In some sectors and companies, there exists a claim to supplementary company pensions in addition to the pension under statutory pension insurance. Due to the reform of the severance law in the direction of a scheme of employer-based retirement income provision, company pensions will become more significant in the future.

Social assistance is responsible for a minimum of social protection for persons not included in or with insufficient claims

Pensions and similar benefits¹, 2003 in billion EUR

Old age-, invalidity-, survivors' pensions for persons older than 60/65	27.44
Invalidity pensions for persons under the age of 60/65	4.25
Survivors' pensions for persons under the age of 60/65	0.87
All pensions	32.56

1) excluding private pensions and social assistance
Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS Databank Social Expenditure

to the systems mentioned above.

In 2004, ca. 2.5 million pensions or benefits similar to pensions (excluding company pensions and social assistance) were paid out. Approximately 80 percent were paid to persons older than 60/65.

According to ESSPROS-Social Expenditure, in 2003, the total expenditure on pensions and similar benefits amounted to EUR 32.6 billion. 27.4 billion were spent on benefits for persons older than 60/65. That is 42 percent of the total social expenditure or 12 percent of the GDP.

70% of the expenditure on public pensions and benefits similar to pensions for persons over the age of 60/65 is spent on old-age pensions, 10 % on invalidity pensions, 15% on survivors' pensions and 5% on supplementary company pensions.

Included in this chapter are the old-age pensions under the statutory pension insurance scheme, the civil servants' pensions and the pensions under victims' compensation schemes¹.

With the pension reform 2004 the largely varying systems for old-age provision of the statutory pension insurance scheme

¹ The scheme of employer-based retirement income provision, which partly has the function of a company pension, is illustrated in chapter 13. In chapters 5 and 6 the survivors' and invalidity pensions are illustrated. They refer to a large extent to persons over the age of 60/65 also. Until recently, the early retirement pension (due to long insurance periods, unemployment because of limited capacity for work) played an important role. They were abolished with the pension reforms of 2000 and 2004 and are gradually expiring at present. For this reason they are not included in this brochure. In 2004, a share of 17 percent of all old-age pensions from the statutory pension insurance was attributable to early retirement pensions.

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Pensions¹ for persons older than 60/65 years, 2003 in billion EUR

Statutory pension insurance	
Old-age pension ²	13.14
Survivors' pension ³	2.88
Invalidity pension ⁴	2.16
Civil servants' pension	
Old-age pension ⁵	6.12
Survivors' pension ⁶	1.32
Victims' compensation ⁷	0.27
Work accident pension ⁸	0.20
Supplementary company pensions ⁹	1.35
Total	27.44

1) Excluding private pensions and social assistance

2) Including early retirement pensions due to long insurance period. In the case of long insurance periods these pensions are paid out to persons under 60/65. In the frame of the pension reform, this type of pension has been abolished and is gradually expiring.

3) For persons under the age of 60/65 pension expenditure amounted to EUR 0.6 billion

4) For persons under the age of 60/65 pension expenditure amounted to EUR 2 billion

5) For persons over 60 years

6) For persons under the age of 60 the pension expenditure amounted to EUR 0.23 billion

7) Mainly compensation to war victims, compensation to political victims: Essentially these are invalidity and survivors' pensions; however 98 percent of the recipients are older than 60 years.

8) Recurring benefits from the work-accident insurance scheme for persons older than 60/65 years; Pension expenditures for persons under 60/65 amounted to EUR 0.23 billion

9) Recurring benefits to former staff members financed by companies (in individual sectors and companies).

Source: Statistics Austria, Federal Ministry of Social Security, Generations and Consumer Protection: ESSPROS Databank Social Expenditure

and the pension scheme for civil servants were harmonized and a system of pension accounts was created. The new system is applicable to all persons who were under the age of 50 per 1 January 2005. Pension claims acquired before the 1 January 2005 are calculated according to the old legislation, pension claims acquired after the 1 January 2005 according to the new legislation. The total benefit is then composed of two partial performances, calculated according to the pro-rata-temporis method. For persons who had already completed the age of 50 per 1 January 2005, the old legislation remains applicable with minor modifications.

In the following presentation it will therefore be necessary to differentiate between these two groups of insured persons.

4.2. Statutory pension insurance scheme

Retirement income provision in Austria is mainly (with the exception of civil servants)

based on the statutory pension insurance. Old age pension shall replace a reasonable part of the contributory income which is no longer available because of retirement. Further the statutory pension insurance also provides protection in the case of reduced ability to work (see Chapter 6) and for survivors (see Chapter 5).

Financing

The means of the statutory pension insurance are to a large extent raised according to the pay-as-you-go principle (implicit social contract between the generations/"Generationenvertrag"). That means that benefits from the pension insurance are financed via the contributions of those insured in the relevant calendar year. At the same time, people paying contributions acquire a claim to benefits, which will be financed by the contributions of later generations. In 2004, a number of 3,245,000 persons (as a rule gainfully employed) were insured under the statutory pension insurance scheme and, on the other hand, there were 2,026,000 pensions.

Total expenditure and share of federal means according to pension insurance institutions

Pension insurance institution In million Euro	2004 (preliminary values) in million EUR		
	Total expenditure of the pension insurance ¹	Means ² by the federal budget	Federal means in in percent of the total expenditure
Pension insurance of the employees	21.417	4.244	19.8
Pension insurance of the self-employed	3.966	2.421	61.0
Pension insurance total	25.383	6.665	26.3

1) Excluding the social insurance institution for Austrian notaries

2) Federal contribution towards pension insurance and the equalisation supplements

3) Source: Federation of Austrian Social Insurance, Federal Ministry of Social Security, Generations and Consumer Protection

For each 1000 persons paying contributions, there were 624 pensions.

These contributions are supplemented by transfers from other systems (e.g. unemployment insurance, Family Burden Equalisation Fund) and a contribution from the Federal Budget.

Every pension insurance institution receives the difference between expenditures and revenues from the federal state. Over one quarter (26.3%) of the social insurance expenditure was covered by federal means.

The contribution ratio for the pension insurance is 22.8% (employees 10.2%, employers: 12.55%). The contributions are calculated from the income up to a ceiling

on insurable earnings (2005: EUR 3,630 per month). Those parts of the income exceeding the ceiling on insurable earnings are non-contributory.

Benefits

In addition to old-age pensions, the pension insurance does also provides benefits for survivors and invalids. In addition, health measures are financed (to a small extend), aiming above all at the prevention of early invalidity.

62% of all persons drawing pensions are women. This can be explained by the high number of widows' pensions and in the case of old-age pensions by the lower retirement age and the higher life expectancy of women.

Pensions under the statutory pension insurance, 2004¹

	Total	women	men
Invalidity pensions	406,000	168,000	239,000
Normal old-age pensions	950,000	581,000	369,000
Early retirement pensions due to unemployment	9,700	7,700	2,000
Early retirement pensions due to long insurance period	112,000	46,000	66,000
Early retirement pensions due to reduced capacity for work	43,000	900	42,000
Survivors' pensions	472,000	432,000	41,000
Orphans' pensions	48,000	25,000	24,000
Total pensions¹	2,042,000	1,260,000	782,000

1) All pensions (also for persons under 60/65 years) per December 2004.

Source: Federation of Austrian Social Insurance

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47% of all pensions are normal old-age pensions, 8% early retirement pensions, 25% survivors' pensions and 20% invalidity pensions. While survivors' pensions with a share of 36% play an important role for women, pensions due to invalidity (including early retirement pensions in the case of reduced capacity) with a share of 36% (women 13%) are above average for men.

1.6 million persons are drawing one pension and 225,000 persons draw more than one pension under the statutory pension insurance scheme. In particular these are women drawing a survivors' pension besides old-age pension or invalidity pension.

Retirement age

At present, the retirement age for the normal old-age pension is 60 years for women and 65 years for men. Until now the statutory retirement age for early retirement pensions was significantly below the normal retirement age and is now gradually being increased to the level of retirement age for the normal old-age pension. In 2004, the effective retirement age was 59.2 years for women and 62.8 years for men. If invalidity pensions are also considered, the effective retirement age for direct pensions

(without survivors' pensions) was 56.9 years for women and 58.5 years for men.

Calculation of pensions

The pension shall provide an adequate compensation for the contributory income from gainful employment, which is not available anymore with retirement. The assessment basis is an average of the contributory income.

For the level of the pension, the following factors are mainly decisive:

- the number of accumulated insurance months
- the level of the assessment basis
- the retirement age and
- in the case of pensions below a certain threshold, there is an entitlement to an equalisation supplement

Under the old legislation, months in which compulsory or voluntary contributions to pension insurance were paid, as well as non-contributory periods (credited periods as e.g. sickness-, unemployment-, confinement benefit; periods of military and alternative civilian service, child raising) are considered as insurance months. Under the new legislation, there are only contribution months; however, the contributions for the previous non-contributory periods are partly paid from the federal budget or by intergovernmental transfers from other social schemes (e.g. unemployment insurance, family burden equalisation fund).

Originally, the assessment basis was calculated from the insured income (contribution bases) of the "best" 180 contribution months (15 years). In the frame of the pension reform, this period will be gradually raised to 480 months (40 years). In 2028 the average of the 480 highest monthly total contribution bases from the period of the first entry in the insurance

Retirement age

	2000	2004
Old-age pension		
Men	60.5	62.8
Women	58.3	59.2
Men and Women	59.4	60.7
Invalidity pension		
Men	51.8	54.5
Women	49.2	51.0
Men and Women	50.8	53.4
Old-age and invalidity pensions		
Men	58.5	58.5
Women	56.8	56.9
Men and Women	57.7	57.7

Source: Federation of Austrian Social Insurance

scheme until the end of the calendar year before the qualifying date will be considered for the calculation of the assessment basis. If there are less than 480 contribution months, the assessment basis has to be calculated from the existing contribution months.

Until 2003 2% per year of the relevant assessment basis were due as a rate of increase. Within the scope of the pension reform of 2003 the rate of increase will gradually be lowered to 1.78%.

The regular retirement age for men is 65, for women 60 years.

From 2024 to 2033 the retirement age for women will be gradually increased to the same level as the retirement age for men.

Until 2015 the retirement age for early retirement pension due to long insurance periods will be gradually raised from 57 years for women and 62 years for men (early retirement age per 1.1.2006) to the level of the regular retirement age.

In the future it will be possible to retire at the age of 62 however deductions from the pension (4.2% per year) will be made for every year short of the regular retirement age. For a retirement after the age of 65,

pension supplements (also 4.2% per year) are granted.

For pensions below a certain minimum level, a claim to supplements exists in the case of neediness (see Chapter 11: Minimum provision).

Pension level

In 2004 the average gross old-age pension (incl. supplements) amounted to EUR 946 per month (14 times per year). This is 55% in relation to the average gross income from gainful employment. The difference in contribution years and income levels between women and men is reflected in sex-related pension levels. The average old-age pension for women within the statutory pension insurance (EUR 726) corresponds to 59% of the average pension for men (EUR 1,239).

Minimum income under the pension insurance scheme

The pension insurance does not provide an unconditional minimum income for persons above a certain age limit. However a means-tested equalisation supplement

Average old-age pension¹ – December 2004

Men ¹	Old-age pension in EUR
blue collar worker	958
white collar worker	1,616
self-employed	1,338
farmer	886
Pension insurance total	1,239
Women ¹	Old-age pension in EUR
blue collar worker	526
white collar worker	944
self-employed	830
farmer	443
Pension insurance total	726

1) including all supplements, 14 times per year
Source: Federation of Austrian Social Insurance

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guarantees a minimum income for persons who have claim to pension (see Chapter 11).

Pension reforms since 2002

For a sustainable financing of the pensions, the systems of retirement income provision must be adapted to the changing situation in society (rising expectation of life, rising number of pensioners). A further objective is the achievement of more fairness with regard to the present differences between the pension systems. The reform steps in the last few years have created preconditions for a financial sustainability of the pension systems. Further a harmonization of all pension systems with unified contributions and benefits has been initiated.

The essential features of the pension reform 2003 were:

- Gradually raising the limits for early retirement towards the statutory regular retirement age (60 years for women, 65 years for men) starting in 2004.
- Gradually extending the period for averaging working time for the calculation of the assessment basis for pensions from 15 to 40 years over a period of 25 years until the year 2028.
- Reducing the credit for every insured year from 2% to 1.78% (within a transitional period of 5 years). In the future, 45 insurance years (up to now 40 years) will be necessary to reach a pension level which equals 80% of the assessment basis.
- New regulation of the bonus/malus system: 4.2% bonus for each year of employment after the regular retirement age (women 60, men 65), 4.2% deduction for each year of pension earlier than the regular retirement age.
- Better protection for women: 24 months instead of 18 months during which child

care allowance has been drawn are credited as pension constituting contribution periods.

- The maximum individual loss caused by all cost saving measures was limited to 10%.
- Already existing pensions have not been altered.

By the Pension Harmonisation Act, which entered into force per 1 January 2005, a unified pension law for all persons gainfully employed (workers, employees, farmers, businessmen- and women/ tradesmen- and women, civil servants) has been created.

This pension reform – with the vastest impact of all pension reforms within the past decades – is applicable to all persons born in 1955 or later, who are not yet retired².

The objective of this unified pension legislation for all gainfully employed persons is to reach a pension level of 80% of the average life income after 45 insurance years at the age of 65.

The most important items of the pension harmonisation are:

- Per 1 January 2005 a transparent pension account was established for every insured person. This account shows the paid and valorised contributions as well as the acquired claims (as e.g. child raising periods, military and civil service). The claims in this account can not be touched. The valorisation of earned claims in the pension account is linked to the average increase development of the contribution base.
- On the base of a regular retirement age of 65 years, the possibility of retirement exists after the age of 62 at the earliest (corridor pension) with a deduction of

² Newly addressed with this reform is the earliest retirement age (at 62) for the long-term unemployed and the pension regulations for heavy labourers, which are applicable to all birth years as well as to persons to whom the former legislation is still applicable.

4.2% per year prior to the regular retirement age. However, there is a guarantee that the conditions of eligibility for the corridor pension do not exclude the entitlement to invalidity pension and to unemployment insurance benefits.

- Contributions are paid for all insurance periods (either by the insured person or via intergovernmental transfers); equal contributions cause equal benefits.
- A unified contribution rate of 22.8% is applicable to all schemes. In the schemes for the self-employed, however, a partner-contribution of the federal state is provided for.

In addition, improvements to the pension reform 2003 have been created:

- For the years of birth until 1954 (men) and 1959 (women) a transitory regulation concerning the protection of long-term insured persons was created in order to prevent an abrupt increase in the earliest possible retirement age for this group.
- Pension for heavy labourers: in 2007 it will be possible to claim a heavy-labourer pension if 540 insurance months (45 years) have already been acquired, including a minimum of 120 months of heavy labour (10 years) within the last 20 years of gainful employment. The earliest retirement age is 60. There will be a deduction of 1.8% for each year of pension earlier than the regular pension age.
- An entitlement to old-age pension exists, if at least 15 insurance years are completed at the age of 65 and at least 7 years have been accumulated due to gainful employment.

The ceiling for the maximum amount of pension losses incurred through the pension reform 2003, has been retrospectively modified insofar as the ceiling of 10% will

be effective from the year 2024 onwards only. So, in 2004, the attenuation of the benefits introduced by the pension reform 2003 may only amount to 5%. This value will increase by 0.25% per year during the following years. Accordingly, pensions already granted had to be newly calculated.

The pension harmonization has provided an improvement for women in the following areas:

- Increase of the assessment base for child raising periods from EUR 650 at present to EUR 1,350. This amount corresponds to about the average income of women.
- The periods credited for child raising periods in the pension insurance scheme have been raised from 2 years at present to 4 years per child.
- The number of contribution years due to gainful employment required for old-age pension has been reduced from 15 to 7 years. Also periods of care for a disabled child or care for a family member with an entitlement to long-term care allowance at level 3 (minimum) as well as periods of family hospice leave (care for a dying or a severely ill family member) are now considered periods of gainful employment. The remaining minimum insurance period of 8 years can be reached e.g. by child raising periods.
- The provisions for early retirement in the case of long-time insurance are further applicable to women; this form of early retirement will only expire after the year 2017.
- In order to improve the situation of those mothers who exclusively care for a handicapped child, the possibility of a non-contributory self-insurance in the pension insurance scheme exists until the child is 40 years old (up to now until the child is 30 years old).

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- With the introduction of the voluntary "pension splitting" for child raising periods under the Austrian social insurance scheme, new ground towards creating an independent pension provision for women has been covered.

4.3. Civil servants' pensions

At present the civil servants' pension schemes play still an important role. Approximately one eighth of all pensions are civil servants' pensions. More than one quarter of the total pension expenditure is attributable to civil servants' pensions.

In the future, the role of an independent old-age provision for civil servants will gradually decline as a diminishing number of employees in public service obtain the status of a civil servant. Since 1997, the civil service pension law (more generous in many aspects) has been gradually harmonized with the pension legislation of the statutory pension insurance for civil servants in active working life³. Civil servants who have already retired still receive pensions based on the former regulations (e.g. calculation of the pension based on the last salary, higher rate of increase per working year).

According to the pension reform 2004 "harmonisation" the regulation of the statutory pension insurance scheme will be applied to civil servants under the age of 50. The special pension legislation for civil servants will only be effective for the calculation of the total pension for civil servants who are at present active in federal service and born after 1955, depending on the number of the years of service until 31

December 2004. The other part of the total pension is calculated according to the regulations of the statutory pension insurance scheme.

For civil servants who achieved this status after 1 January 2005 the pensions are calculated according to the same regulations as those of the statutory pension insurance scheme. To civil servants employed by the Laender and regional authorities, individual pension legislations are applicable because, up to now (2005) they were not included in the reform mentioned above.

The public authorities do not pay contributions for their civil servants. Civil servants pay pension contributions. During active service these amount to 12.55% of the salary for civil servants born until 31 December 1954. The contributions for civil servants born on 1 January 1955 or later depend on the year of birth and amount to between 10.25% and 12.40% (for parts of the income over the maximum ceiling on insurable earnings of the General Social Insurance Act between 0 percent and 11.7%). The difference between the revenues from contributions and the expenses for the pensions is covered by the individual employers (Federal Government, Laender, Gemeinden).

4.4. Victims' compensation⁴

War victims

Austrian citizens, who served in the army during the World Wars suffered a health impairment as a result, are considered to be war victims under the Act on Compensation to War Victims. Civilians,

³ The regular retirement age for men and women was 60 years and will now be gradually raised due to the pension reform. At present the retirement age is 62 years and will rise to 65 years by 2017. Retirement before this minimum age is linked to deductions. At present just 35 years are required in order to reach the maximum pension level. These 35 years will be raised to 45 years within the coming years. Up to now, there has been no ceiling for the level of civil servants' pensions.

⁴ In principal, the victims' compensation systems must be classified as provisions in the case of invalidity. In consideration of the fact that the majority of those covered by victims' compensation and their survivors are already over 70 years old (over 95 %), this Act on Compensation War Victims has the function of a retirement income pension. The same can be said for Crime victims' compensation.

Benefits to war victims, level per month, 2005, in EUR

Basic pension	from 86 to 430,20
Supplements for old-age and/or impediments	from 17,70 to 167,90
Supplement for severe disability	from 129,10 to 344,20
Means-tested pension supplements	up to 662,30
Supplements for diet food	from 26,80 to 80,90
Special care supplements, supplements for blind persons	from 565,50 to 2,261,10

Source: BMSG

whose health was impaired without their fault due to military action or the use of arms are also part of this group of the population.

The Act on Compensation to war victims provides for compensation in the form of recurring cash benefits, therapeutic measures and orthopaedic treatment as well as medical, professional and social rehabilitation measures.

The year 2002 brought a number of improvements in the provisions governing benefit suspension in case of stays in hospital or health resorts, a take-over of crediting systems for income in agriculture and forestry from social insurance for recipients of means-tested benefits and expansion of the eligibility for a widows' pension.

Between 1995 and 2005 the number of recipients of these benefits decreased from 99,000 to 49,000 and financial expenditure declined from EUR 521 million to EUR 324 million.

Political Victims

The Political Victims' Compensation Act provides a number of recurring benefits analogous to war victims' compensation for victims of resistance and of political persecution, who suffered health impairments between 1933 and 1945.

Further supplements for detention of

EUR 40 per month (2005) and means-tested pensions (up to EUR 886 per month for single persons, up to EUR 1,235 for married persons or persons in a partnership, as well as up to EUR 886 for survivors) and measures of therapy and orthopaedic care are provided.

In 2002, the Austrian citizenship as a precondition of entitlement to pensions was been abolished. Further benefits according to the level of the seven levels for long-term care allowance were created for persons forced to emigrate and live abroad due to persecution.

In 2005, legal claims for victims of the NS-military court, for persons persecuted because of their sexual orientation or those accused of being antisocial was made possible.

Between 1995 and 2005 the number of persons entitled to this benefit decreased from 2,800 to 2,000 and the total expenditure decreased from EUR 22.6 million to EUR 13.7 million.

Prisoners of war

In 2001, the Act on the Compensation to Prisoners of War entered into force, providing compensation payments for Austrian nationals who were prisoners of war in Central or Eastern European countries during the course of World War II. The compensation is graduated according

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to the duration of the captivity. Since 2002, people who were prisoners of war of the Western Allies in World War II, persons who were arrested outside of Austria and placed in civilian detention, persons with habitual residences outside Austria, or prisoners of war of World War I have also been eligible for compensation under the Act on the Compensation to Prisoners of War.

The Act provides a benefit between EUR 15 to EUR 37 graduated according to the duration of the captivity. The number of recipients per 1 January 2005 amounted to 61,000 persons. In 2004 the expenditure amounted to EUR 14.9 million.