POLICY BRIEF

3 / 2024 — Social

Ageing Report 2024 - High stability of the Austrian Pension System

Key Points

- In an international comparison, the Austrian public system still offers very good and reliable pensions, even for today's young people.
- At the same time – as the Ageing Report 2024 clearly shows – public pension expenditure as a percentage of GDP is expected to increase only very moderately in the long term, despite rising life expectancy and significant population ageing.
- The Austrian approach thus proves to be a suitable response to the demographic challenge, meeting the central objectives of adequacy and sustainability equally and very effectively.
- While – as the Ageing Report scenarios also show – raising the statutory retirement age misses the real challenges and would result in far-reaching negative effects for today's younger people, improving labour market integration (across all working ages) could further promote both adequacy and sustainability.

Background

Ageing societies, adequate pensions and financial sustainability

In order to assess the long-term sustainability of public finances in the EU member states, the Economic Policy Committee (EPC) together with the EU Commission (Directorate-General ECFIN), has been preparing the Ageing Report every three years since 2006. It provides long-term projections of age-related expenditure (pensions, health, long-term care and education) for EU member states (and Norway) up to 2070. The Ageing Report is complemented by the Pension Adequacy Report prepared by the Social Protection Committee (SPC) together with the EU Commission (Directorate-General EMPL).

The primary task of pension systems is to ensure good and reliable protection in old age, even under demographically challenging conditions. Financial sustainability is of considerable importance as the reliability of the promised benefits also requires credible financing prospects. In other words, it is of little value to promise good pensions if they are not based on a credible financing perspective. However, financial sustainability ultimately means nothing more than ensuring that current benefit promises can be kept in the future, and this is obviously primarily a political issue. Ensuring financial sustainability therefore means above all limiting the demographically induced increase in expenditure to a socially acceptable level. It certainly does not require public pension expenditure to be pushed below current levels despite significant social ageing.

The reliable prospect of good pensions itself contributes to financial sustainability, as the willingness "to pay (a little) more if necessary" will obviously be greater if this also means good protection in the future rather than only poor benefits to be expected. Given the extent of population ageing, it should not be disputed - in terms of intergenerational justice - that at least a somewhat larger slice of the (growing) cake should be reserved for the significantly growing group of older people in the future. The demographic projection on which the Ageing Report is based assumes a huge increase of 64% by 2070 (compared to 2013). Against this background, discrediting any increase in public pension expenditure as "lack of financial sustainability" has no objective justification.

The Austrian reform strategy – a “slightly” different approach

Pension reforms in Austria did not follow the international mainstream of pushing back public pay-as-you-go pension systems and shifting towards funded schemes. Thus the far-reaching negative consequences that this shift often entails have been averted. The massive shift of costs and risks to the individual level is often misinterpreted as containment of age-related expenditures while the key goal of providing adequate pensions has long been ignored. Although hardly any area in Austria has been reformed as extensively as public pensions in the last 20 years, the system still offers good pension levels for today’s younger generation. These levels are hardly to be found in an international comparison, after 30 years of mainstream reforms. This is because curbing the increase in expenditure in Austria is not achieved through general significant pension cuts, but through a balanced adjustment of the benefit commitment.

Good public pensions are to be expected also in the future, but on average at (notably) later retirement. The required extent of later retirement depends on the employment history. While there is little need for adaption for “typical workers” whose employment histories are often marked by very early entry and flat income development, in cases of steep income development, even more so in combination with late career entry, retirement will have to be considerably postponed. According to some economists, an increase in the statutory retirement age is necessary because of population ageing. In Austria the course has long been set in this direction, but with a focus on the de facto retirement age and in a socially balanced manner. There are strong incentives for later retirement in the pension system which are reinforced by its high level of transparency and traceability of the entitlement development.

Another important dampening effect results from the gradual alignment of the more generous systems for civil servants (and politicians). Ultimately there will be one system for all. This creates important additional scope for distribution.

Main Findings

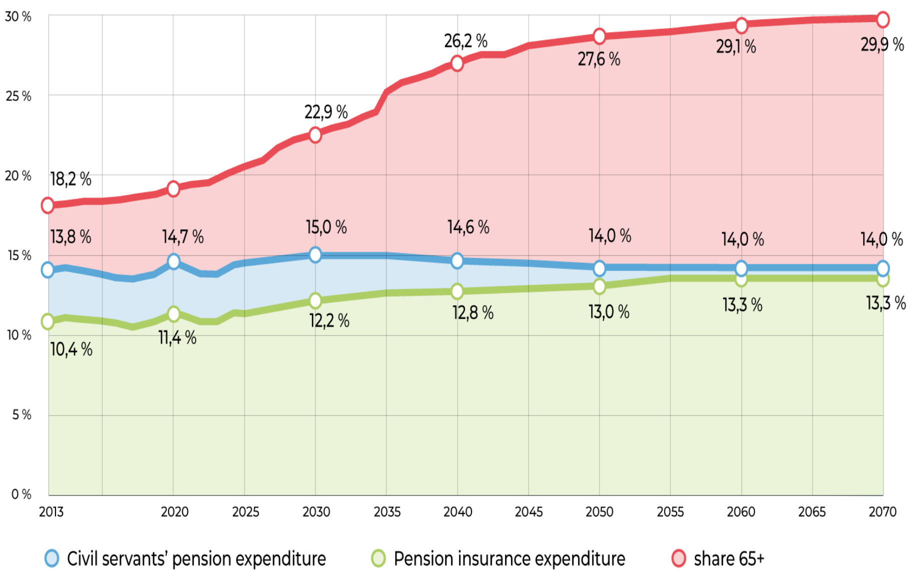
Long-term projections on age-related pension expenditure confirm high stability – improved labour market integration as a key driver

Previous EU long-term calculations have already shown that the Austrian pension system is well positioned in terms of financial sustainability. In the baseline scenario of the current Ageing Report, the relative pension expenditure (including expenditure on compensatory supplement and rehabilitation allowance) deviates further downwards by up to 0,8 percentage points of GDP. Over the entire forecast period, relative pension expenditure is on average half a percentage point below the previous results. The baseline scenario of the Ageing Report 2024 clearly confirms: Despite a marked increase in the proportion of older people and continued good levels of protection, relative pension expenditure will be only marginally higher in the long term than at present.

Baseline Scenario

Public pension expenditure* 2013–2070 as % of GDP

The number of older people is growing significantly, but pension expenditure is forecast to increase only moderately.



*including expenditure on compensatory supplement and rehabilitation allowance | Sources: Ageing Report 2024; empirical values until 2021: Austrian Pension Commission (ASK) 2023

The findings in detail

- Austria´s development of pension expenditure was (again) significantly better than assumed. Relative pension expenditure in 2022 is 0,9 percentage points lower than projected three years earlier and 0,2 percentage points lower than the starting point (which is presumably based on provisional data) in the current Ageing Report. The significant increase caused by the pandemic, which resulted from the massive slump in GDP combined with stable pension payments, was offset much faster than expected. Secure pensions, in addition to short-time work and unemployment benefits, have contributed significantly to overcoming the crisis quickly.

- In the baseline scenario, the particularly dynamic ageing of the population as baby boomers reach retirement age is temporarily accompanied by an increase in expenditure of around one percentage point, but this is quickly replaced by an opposite trend. In view of the massive shifts in the age structure, it is hard to argue that this would exceed the limits of financial viability. It can be assumed that a large majority of voters will rightly deem the maintenance of good pension provision to be worth this temporary additional expense. And there is more good news on top of that: Given that in the baseline scenario employment potential is far from being fully exploited, there are opportunities to further contain this moderate increase through positive strategies (see below for a more detailed discussion).

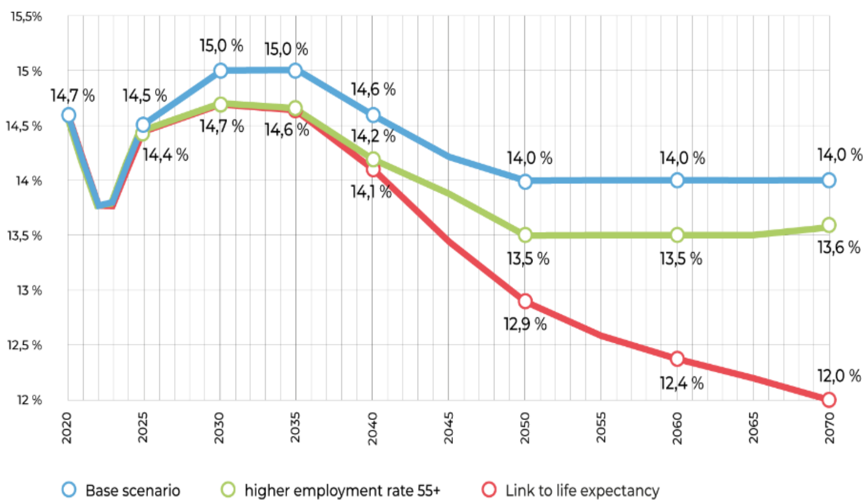
- After the baby boomer peak, pension expenditure in the baseline scenario quickly approaches a value that is only slightly higher than the 2013 baseline value shown here, despite a much older total population.
- The development of the relative total pension expenditure is therefore generally stable, with only a rather moderate, temporary increase. The long-term increase in pension insurance expenditure is largely offset by the decline in civil servants' pensions. This is due to the alignment of systems as well as a significant shift in the employment structure: The proportion of civil servants is declining, which correspondingly leads, with a time lag, to a shift in pension expenditure from civil servants' schemes to pension insurance, where a considerable share of the increase is due to this shift.

Inclusive strategies to further promote adequacy and sustainability

The expected development is therefore very positive: permanently good pensions with only a moderate temporary increase in expenditure. In addition, sensible strategies can further promote both adequacy and sustainability. A closer look at two scenarios of the current Ageing report reveals further interesting findings:

Public pension expenditure* as % of GDP

Linking the retirement age to life expectancy would mean a dramatic slump in pension spending and thus significantly worse security for today´s young people.



*including expenditure on comensatory supplement and rehabilitation allowance | Sources: Ageing Report 2024; empirical values until 2021: Austrian Pension commission (ASK) 2023

Scenario 1 – Increasing employment rates of older workers

Unfortunately, the effects of better employment integration across all working age groups, for example by expanding employment opportunities through improved social infrastructure, reducing training disadvantages, a sustainable reduction in unemployment and involuntary part-time work, etc., are once again not taken into account. However, a stronger increase in the employment rates of older people is assessed separately. Here it is assumed that the employment rates of those aged 55 and over will rise to levels 10 percentage points higher than in the baseline scenario. The central strategy of better employment integration is thus at least addressed, although the considerable potential for better employment integration before the age of 55 is ignored.

The improved labour market integration of older people leads to an even stronger stabilisation of relative pension expenditure. The increase of expenditure is even weaker and the downward trend starts noticeably earlier. The 2020 pandemic-related peak is not exceeded in any year. This does not involve additional pension cuts, but rather a sensible smoothing of expenditure, as the savings from later retirement are then offset by higher individual pensions.

Scenario 2 - Linking the statutory retirement age to longer life expectancy

The scenario "Linking the statutory retirement age to life expectancy" is also extremely revealing: in the demographically most challenging phase, nothing is gained compared to the inclusive strategy. The dampening of the temporary increase is largely the same until 2040. Afterwards, in the scenario of rising employment rates, pension expenditure stabilises at the average of the last 10 years. The link to longer life expectancy in comparison leads to an unabated further decline. Towards the end of the projection horizon only 12% of GDP will be reserved for pensions, much less than 10 years before, when it was about 14%. At the same time the number of older people massively increases (plus 85%). This means that younger people of today would have to make do with a much smaller share of the "total cake" in the future, despite a much higher proportion of older people.

The proposal of linking the statutory retirement age to life expectancy as a response to demographic challenges or even as a contribution to "securing the pensions of today's younger people" can only be described as nonsense for Austria. It would not only be unnecessary and ineffective but also unfair because further life expectancy and its increases are highly unequally distributed depending on social status.

Demands

- Adequacy and sustainability are intertwined, central objectives of pension systems, as the Pension Adequacy Report rightly emphasizes. The goal is to ensure adequate pensions and socially accepted expenditure developments despite significant population ageing. Pushing back public systems per se, under the pretext of financial sustainability, is not in the interest of EU citizens, but only serves financial market players.

- Recommendations to further massively increase statutory retirement age are backed up by the alleged deterioration of the numerical relationship between pensioners and contributors due to significant population ageing. But this deterioration can be counteracted in another way. Notably through inclusive strategies promoting more and better jobs for people of all working ages. This would be a much more promising strategy from both a social and economic point of view.

- Inclusive overall strategies aimed at improving employment opportunities across all working ages and particularly of disadvantaged groups, such as women, the elderly, the low-skilled or people with a migrant background, are required. Strategies that address key social needs and go far beyond the elderly, with measures such as

  - Improving education and training

  - Reducing far too high unemployment, especially among young people

  - Creating equal opportunities for women in the labour market through an expansion of care and childcare facilities

  - Improving working conditions and age-appropriate workplaces thus preventing health-related early retirement

  - Eliminating precarious forms of work, etc.

- The consistent use of existing employment potential in all working ages through inclusive, broad-based overall strategies would not only equally promote adequacy and sustainability of pensions, but also significantly improve the living conditions of tens of millions of EU citizens, not least those of the currently particularly disadvantaged groups.

- The implementation of inclusive strategies would therefore also make a significant contribution to the achievement of the poverty reduction target, not only among the elderly through higher pension entitlements but also among those of working age.

Literature

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