

Austrian pensions: Justice across generations

In the Austrian pension policy debate, one often comes across the demand for “comprehensive reforms” which would supposedly strengthen intergenerational justice. What is generally meant by this, however, is a massive deterioration, especially for today's young people. In fact, the Austrian pension system has already been comprehensively reformed. It has been changed in such a way that the system continues to guarantee **young people a good level of income protection in old age** while at the same time being also fiscally **affordable**. The system of defined benefit pension accounts thus

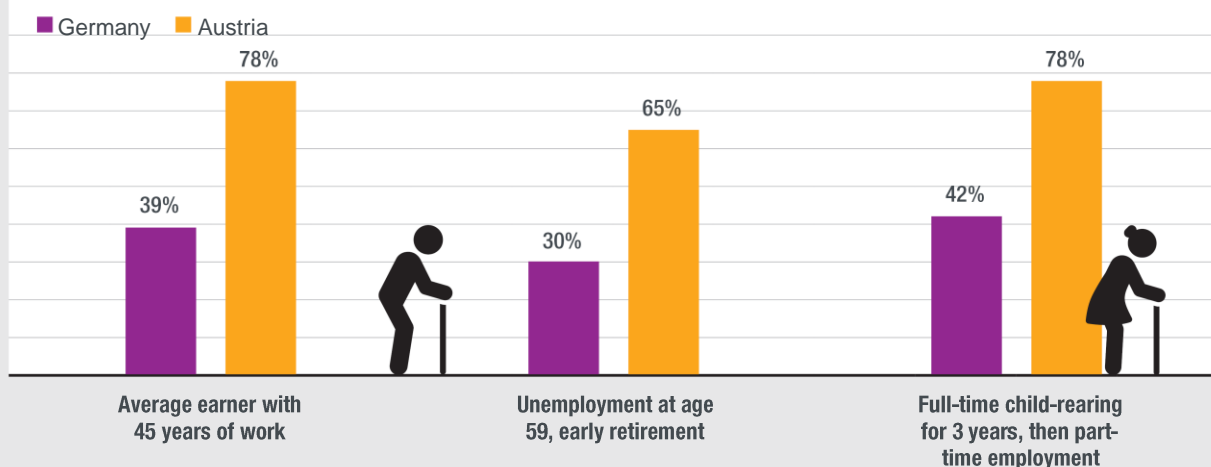
offers young people very good prospects, particularly by international standards, and it does so in a very transparent manner.

At the same time, however, it must be clear: **Intergenerational justice also means giving the fast-growing population group of people aged 65 years and above** an at least slightly larger slice of the growing overall pie – the gross domestic product. In view of the extent of societal ageing, it is absurd to declare any increase in relative pension expenditure, no matter how moderate, as unaffordable.

Whilst the older generation is relatively well protected from cuts due to the protection of legitimate expectations, current deteriorations would hit today's young people with full force.

Better income protection for Austria's pensioners

Measured against their previous average gross income, the pension for people who started working in 2018 will later amount to ...



Source: Blank/Türk (2021).

It's the labour market, stupid!

The future of young people and the future of the pension system will be determined in the same place: the labour market. Only if today's young people have good education and training as well as employment opportunities and earn good incomes will they be able to make a substantial contribution to the financing of pensions and achieve good pension entitlements themselves.

For the **financing** of pensions and the welfare state as a whole, the labour market is crucial. Ultimately, it is not a question of the numerical ratio between younger and older people, but rather of that

between contributors and recipients of benefits. People of working age who do not earn any or earn only insufficient income because they are unable to enter the workforce, are unemployed or cannot work for health reasons cannot contribute to the financing of the pension system either, but are themselves dependent on social benefits. **Intergenerational justice** and sustainability therefore also means **to ensure good employment opportunities at all working ages.**

The future of the younger generation and that of the pension system will be determined on the labour market. Good employment opportunities for the young also safeguard the pension system.

Linking the statutory retirement age to rising life expectancy would be fatal

The pension system was comprehensively reformed in several respects. With the introduction of the system of defined benefit pension accounts in 2004, a uniform pension system was established for all employees, including civil servants, and clear incentives were created for later retirement. And these measures are working: since the end of the 1990s, the **effective retirement age** has risen by a considerable 3.7 years for men and by 3.2 years for women. In order for this trend to continue, **employment opportunities for older people** must be further improved.

In contrast, linking the statutory retirement age to life expectancy would be fatal. This would mean that **young people**, who are fully affected by the already implemented reforms, **would be asked to pay a second time**. This is also impressively shown by the European Commission's **current Ageing Report**: relative pension spending would be only about 12.8% of GDP by 2070, which is well below the level of recent years – and that with a massive increase in the number of elderly people!

If the statutory retirement age were to be linked to life expectancy, today's young people would be much worse off despite retiring much later than current retirees – without any necessity.

Justice for young people means: education and training, employment, reliable pensions and climate protection

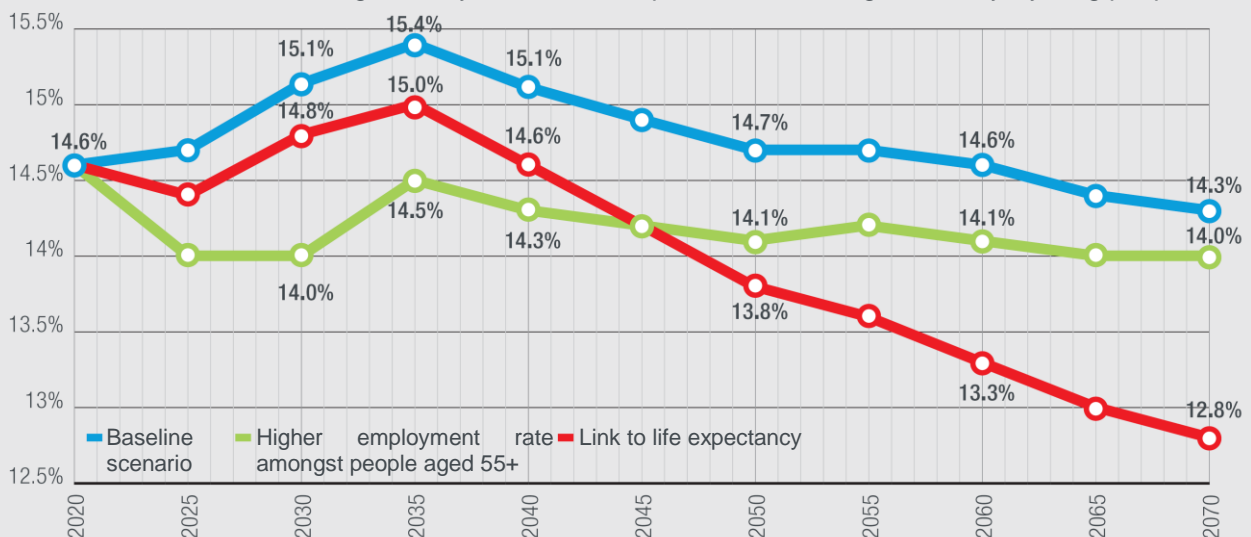
Intergenerational justice means ensuring that today's young people get the **opportunity for good education and training and a good start in the labour market** and find fairly paid jobs with good working conditions. With good employment and

income opportunities for today's young people, future pensions will also be secured. Intergenerational justice, however, also means standing up for **active climate protection** so that the world is still a good place to live when today's young people reach retirement age.

Intergenerational justice means ensuring equitable opportunities in education and the labour market. This also ensures good pensions today and tomorrow.

Public pension expenditure as % of GDP

Linking the statutory retirement age to life expectancy would mean a dramatic slump in pension spending as a share of GDP and thus significantly worse income protection in old age for today's young people.



Source: European Commission (2021); Ageing Report 2021; Pension Commission (2021).