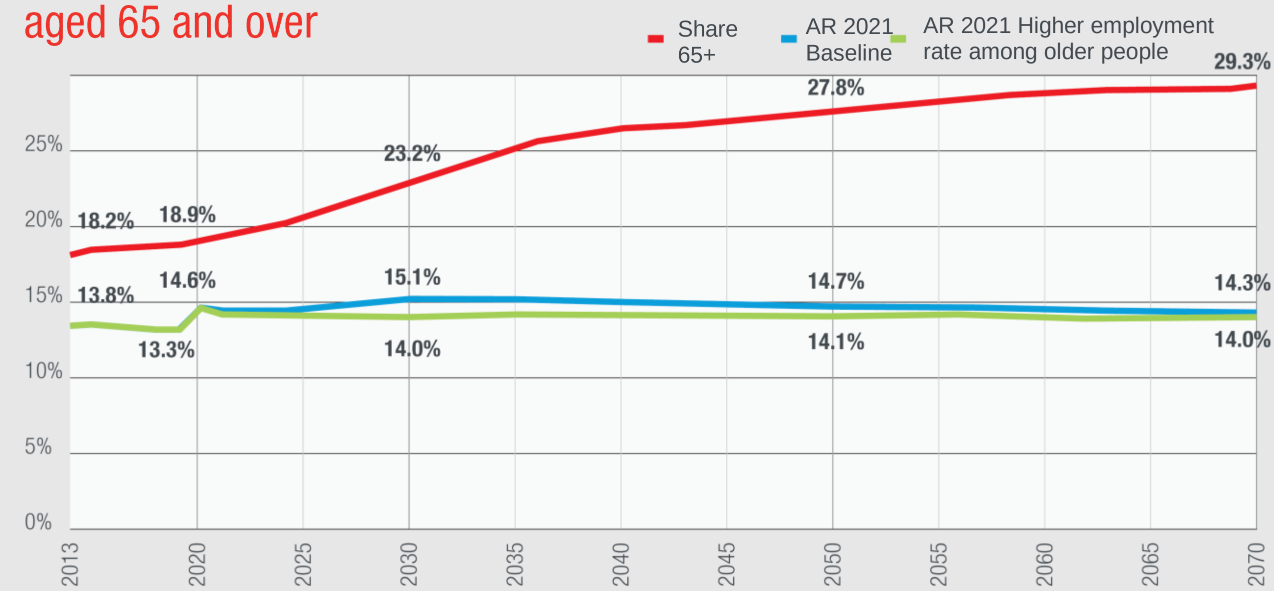
Austria's public pensions:
Sustainably safe social protection in old age

The debate about Austrian public pensions contains a lot of alarmist voices with unsubstantiated opinions. However, they tend to overlook a key point: Austria's statutory pension system performs very well. By international standards, it offers a high level of social protection also for today's younger generation. Despite rising life expectancy and the significant increase in the number of older people, the long-term increase in public pension expenditure as a share of GDP is set to be extremely moderate.

This is also confirmed again by the European Commission's **Ageing Report 2021 (AR 2021)**. According to this report, the share of the population aged 65 and over is projected to increase by more than 60% from 18.2% (2013) to 29.3% by 2070. However, public pension expenditure as a share of GDP is projected to increase by only half a percentage point from 13.8% (2013) to 14.3% (2070) over the same period.

Despite rising life expectancy and the considerably growing share of people aged 65 and over amongst the population, public pension expenditure is increasing only very moderately.

Public pension expenditure as % of GDP and share of the population aged 65 and over



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

Reality of pension expenditure always better than forecast

The results in the 2021 Ageing Report's baseline scenario are in the medium term – unsurprisingly – strongly influenced by the consequences of the pandemic. In the long term, however, they clearly confirm the results of the previous calculations, which show a high degree of stability.

The **actual development** to 2019 **was significantly more favourable** than assumed in the **2018 Ageing Report**. In 2019, public pension spending constituted 13.3% of GDP, noticeably less than expected three years before (13.9%) and also below the 2013 figure (13.8%). In addition to the favourable **employment development** up to the pandemic, this is also due to the fact that the already implemented pension **reforms** have in fact a much stronger impact than what has been assumed in the baseline scenario of the Ageing Reports up until its 2021 edition.

Moreover, a **more realistic scenario** with significantly rising employment rates amongst the over-55s leads to an **even stronger stabilisation** of pension expenditure with higher average pension benefits. The maximum value in the demographically most difficult phase around 2035 would then be 14.5%, below the current crisis-related peak.

Pension forecasts have so far proved to be too pessimistic. In the future, too, the rising effective retirement age and the good employment trend are set to noticeably curb expenditure.

A look at the complete picture is necessary: Expenditure on civil servants' pensions is falling drastically

Everyone knows that an **image can be strongly distorted** when you only look at a part of it and ignore the rest. However, in the discussion about pensions, this is exactly what happens over and over again: Only the rising expenditure for pension insurance is routinely presented in the national debate, while the **decreasing expenditure for civil servants' pensions** is mostly **neglected**.
But these developments are two sides of the same coin. As a result of spin-offs and significantly fewer tenures, there is an increasing shift in expenditure away from civil servants' pension schemes towards the general pension insurance (PV). In an isolated view of the PV, therefore, mere shifts in spending are misrepresented as increases in spending. The harmonisation of pensions in 2004 created a uniform system for all occupational groups, including civil servants. The alignment of the more generous civil servants' pension schemes with the PV leads to **considerable savings** which, in addition to the reforms in the PV, will further dampen the increase in overall spending.

The overall picture shows two trends: a rise in expenditure in the general pension insurance on the one hand, but a considerable decline in spending in civil servants' pension schemes, on the other hand. From an overall perspectives, expenses are projected to develop in a stable way.

Privatisation as the wrong approach

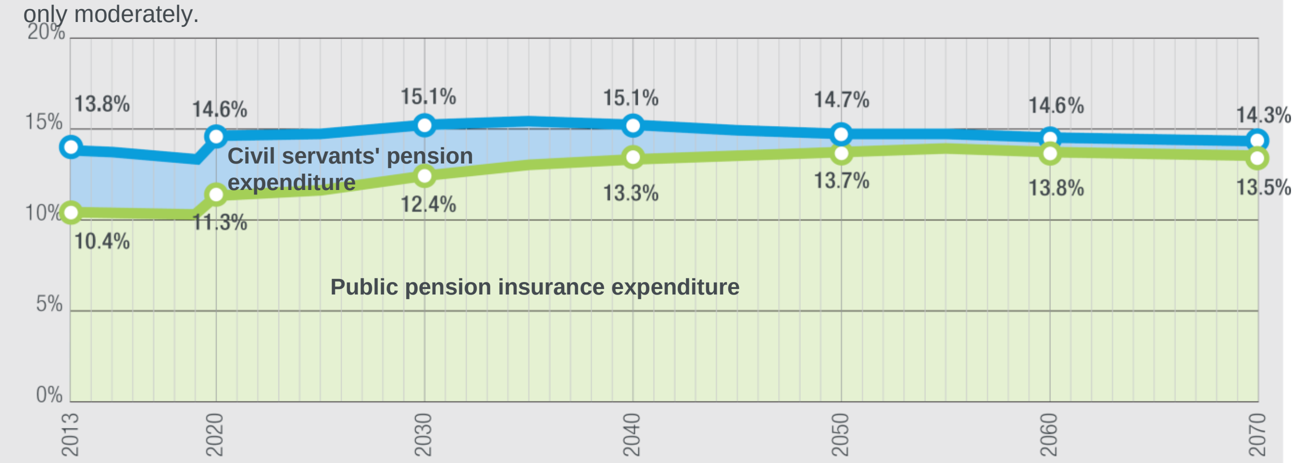
Since the 1980s, the World Bank, the OECD, but also the European Commission, have been propagating more private capital-based pension provision. However, a 2019 **ILO study** drew a damning conclusion about pension privatisation in a large number of countries: Massively reduced benefit levels and a sharp increase in old-age poverty were accompanied by exploding administrative costs. Only the financial sector benefited from privatisation.

Austria, on the other hand, has relied on a strong public system based on the pay-as-you-go and social equity principles. The system also takes into account phases of childcare, caring for a relative, unemployment etc. and greatly reduces old-age poverty. The financing of pensions is secured on a sustainable basis. In other countries, especially in Germany, the **Austrian pension system is increasingly seen as a role model**.

Austria has not followed the wrong path of pension privatisation, and its social and sustainable public pension system is now considered a model for other countries.

Public pension expenditure 2013–2060 (as a share of GDP in %)

Even though the number of older people is growing significantly, public pension expenditure is projected to increase only moderately.



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