Pensions at a Glance - Public Policies across OECD Countries 2007 Edition

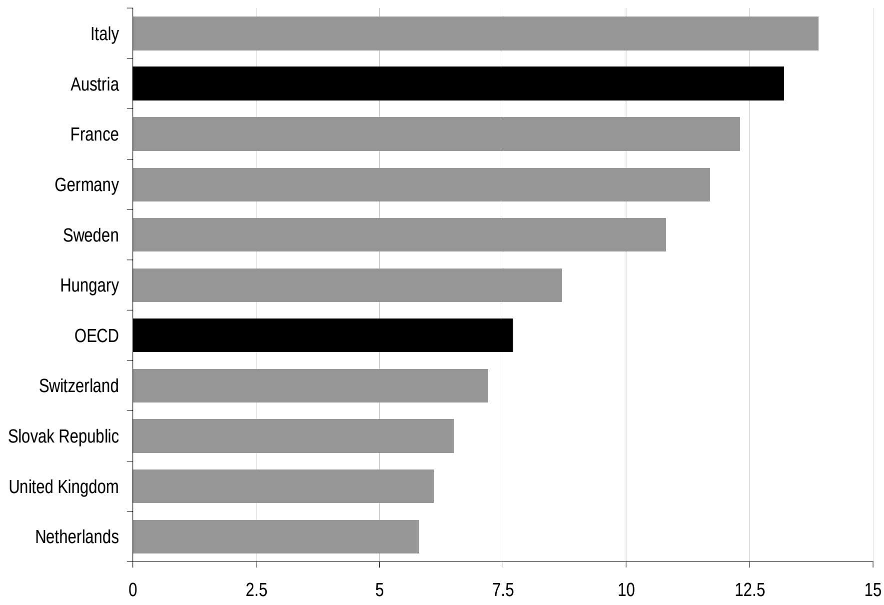
(www.oecd.org/els/social/ageing/PAG)

- Austria has the second highest public spending on pensions in the 30 OECD countries.
- Even after recent changes to the pension system, target pensions are still expected to be the fifth highest in the OECD.
- The 4.2% adjustment to benefits for early or late retirement is low by international standards. It is also lower than the level that actuarial standards would set.

Austria has the second highest current pension spending in the OECD, behind only Italy. Spending in Austria is 13.2% of national income (GDP), well above the average expenditure in the 30 OECD countries of 7.7% of GDP.

Recent reform has improved the long-term financial sustainability of the pension system but the change is phased in very slowly. This is because the value of future pensions is guaranteed to be only marginally lower than benefits calculated under current rules. The fiscal gains will therefore be a long time in coming.

Figure 1. **Public spending on pensions in 10 European countries, 2003**



Source: OECD Social Expenditure database; OECD *Pensions at a Glance*

Target pensions for average earners in Austria are the fifth highest in the 30 OECD countries, behind only Greece, Luxembourg, the Netherlands and Spain. The gross replacement rate – pension in retirement relative to earnings when working – is projected to be 80% of average earners in Austria, compared with 59% for the OECD as a whole (central column of Table 1). This is double the expected replacement rate of only 40% in Germany.

The replacement rate is constant at different levels of earnings in Austria whereas the pattern for the30 OECD countries as a whole is for a replacement rate that is higher for low earners and vice versa. Austria's 80% replacement rate is not much above the OECD average of 73% for low earners (on half average earnings). For higher earners (150% of average) the replacement rates are 79% in Austria and 49% for the OECD, a much larger gap between the replacement rates than there is for low earners.

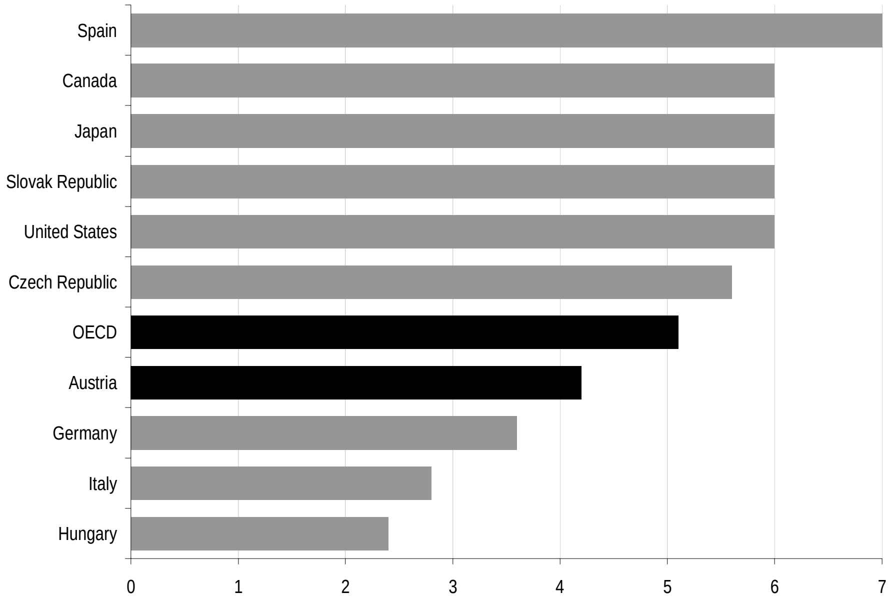
Table 1. **Gross replacement rate in 10 European countries at 50%, 100% and 150% of average earnings**

	50%	100%	150%
Austria	**80.1**	**80.1**	**78.5**
France	51.2	51.2	46.9
Germany	39.9	39.9	39.9
Hungary	76.9	76.9	76.9
Italy	67.9	67.9	67.9
Netherlands	80.6	81.9	82.4
Slovak Republic	56.7	56.7	56.7
Sweden	79.1	62.1	64.7
Switzerland	62.5	58.4	40.7
United Kingdom	53.4	30.8	22.6
OECD 30	**73.0**	**58.7**	**49.2**

Source: OECD *Pensions at a Glance*

Austria's adjustment of pension benefits for early and late retirement is low. The 4.2% reduction for each year of early retirement is less than many OECD countries: for example, Canada, Japan, the Slovak Republic and the United States reduce benefits on average by 6% for each year of early retirement (Figure 2).

Figure 2. **Reduction in pension for a year of early retirement in 10 OECD countries**



Source: Monika Queisser and Edward Whitehouse, "Neutral or fair? Actuarial concepts and pension-system design", Social, Employment and Migration Working Paper no. 40, OECD.

The OECD has calculated the benefit adjustments for early and late retirement that are *actuarially neutral*. "Neutrality" here means that the pension system, through the way that benefits are calculated, neither subsidises nor penalises people for retiring at different ages. For early retirement in Austria, the neutral adjustment is around 7-7.5%, based on current information on mortality from the United Nations population database. For late retirement, the neutral adjustment would be in the range 7.5-8.5%.

The current policy of a 4.2% adjustment to benefits for retirement before or after the normal age is well below the *neutral* level and so subsidises early retirees and penalises people who keep working.

Notes to editors

Reference to forthcoming OECD Economic Survey…

See also OECD (2005), *Ageing and Employment Policies – Austria*.