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OCCUPATIONAL PENSION SYSTEMS IN AUSTRIA 1996

Occupational pension systems supplement the public pension system with a fully funded provision. They are, however, comparatively underdeveloped in Austria. In the two years since the last projection by WIFO they have only expanded slightly. Sinking income replacement ratios in the public pension system due to the Pension Reform and more financing leeway for companies could change this situation in the years to come.

Most of the reforms of the old-age pension system suggested in the report by the Federal Ministry for Labor, Health and Social Affairs (*Rürup*, 1997) refer to the social insurance system. Their goal is to make the public pension system financeable and distribute the pension burden more fairly between generations. As in other studies (*Chand – Jaeger*, 1996), a complete change towards a fully funded system is rejected, however, the report does mention supplementing pension benefits from the social insurance system with occupational and private forms of provision as an option for further reform.

There are several reasons why this supplementation would make sense. The starting point of these ideas is the “three pillar model”, in which retirement households receive support from three sources: the public pay-as-you-go system, fully funded occupational pensions and private retirement savings. While the first pillar is mandatory in Austria for nearly all employed persons, the second and third pillars are voluntary or, in rare cases, based on collective bargaining agreements. For this reason a company’s financial situation plays a decisive roll in its decision on whether or not to grant occupational pensions. Weak economic growth in recent years, together with widespread structural changes caused by joining the EU and the opening of the East have worsened the conditions for occupational pension systems and the failing of companies with already established plans hampered their growth.

THE PUBLIC PENSION SYSTEM DOMINATES IN AUSTRIA

In comparison internationally, occupational pension schemes are not yet too popular in those Central European countries with strong social insurance systems. But with capital assets in pension funds at 0.9 percent of gross domestic product (1995)

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Table 1: Assets in pension funds in selected OECD countries 1995

	Billion US\$	Percent of GDP
Austria	2	0.9
France	74	4.8
Italy	61	5.6
Germany	140	5.8
Japan	1,263	25.5
Sweden	80	35.0
USA	4,258	61.0
U.K.	879	79.9
Netherlands	327	82.4
Switzerland	280	91.5

Sources: InterSEC Research, Austrian National Bank, WIFO.

Austria ranks low even compared with Germany or Italy (Table 1). Within Austria the scope of the second and third pillars are of little consequence compared to the public system. Table 2 shows the contributions and benefits for 1996 from the three sources. With contributions of ATS 380 billion and benefits of ATS 368 billion the public pension system constitutes by far the most important pillar. Since there is no new survey data for the second pillar, the numbers for 1996 can only be interpreted as rough estimates. If we use the ATS 14.6 billion allocation for direct commitments estimated for 1993 as a basis of comparison and add the total contributions to pension funds of ATS 6.5 billion (Table 4), then about ATS 21.1 billion flowed into funding the system. To that we should add pension money paid directly out of the wage bill, but there is no information on this source at present. About ATS 61 billion are paid into private life insurance policies, the third pillar, which at the same time paid out ATS 30 billion for pension claims.

Aside from the aspect of risk diversification between various income sources at retirement age (Url, 1997), occupational and private old-age provision schemes are attractive because they enable the employed to have individually tailored coverage that links contribution payments directly to pension benefits. The demand for strengthening the second and third pillars carries particular weight, however, when seen in context with suggestions for reforming the social insurance system. Even if only some of the reform suggestions are implemented, income replacement ratios in the public system will reduce for civil servants and persons who retire early. For these groups the gap between their last earned income and first pension benefit will therefore increase. A more far-reaching change in the pension adjustment formula that also effects the growth of current pension benefits has not yet been made; such an intervention would also worsen the relative income position of the retirees. The income they would lose if this measure were taken could only be made up by timely private or occupational provision in line with their individual needs.

Table 2: Distribution of contributions and benefits among the three pillars of old-age provision

	Contributions to pension systems		
	Million ATS	Percentage shares	As a percentage of GDP
Public pension systems	380,046	85.5	15.7
Pension funds ¹	3,532	0.8	0.1
Personal life insurance ²	60,755	13.7	2.5
Total	444,333	100.0	18.3
	Benefits from pension systems		
	Million ATS	Percentage shares	As a percentage of GDP
Public pension systems	368,117	92.2	15.2
Pension funds	1,232	0.3	0.0
Personal life insurance	30,042	7.5	1.2
Total	399,391	100.0	16.5

Sources: Austrian Central Statistical Office, Federal Ministry of Finance, The Austrian Insurance Association. – ¹ Current contributions. – ² Deferred gross premiums.

A partially funded system would avoid the disadvantages of a complete restructuring and, at the same time, assure the old-age pension system of greater independence from demographic developments: the supply shock in capital markets from the additional capital would be much smaller, low growth rates of aggregate wages can be made up with interest income. This cannot completely avert the expected double burden for cohorts with low birth rates, but the funded system allows for a more even distribution of the load over time and thus also over generations (Bovenberg – Broer – Westerhout, 1993). The growth of the second pillar could greatly increase the efficiency of the Austrian pension system by improving its quality which, in the end, increases its accuracy and its chances of fulfilling its purpose.

Within capitalized systems employees have only a limited ability of reacting to a loss of social insurance benefits. A savings plan that pays appropriate benefits requires high premium payments if the saving period is short and these can only be financed by a high regular income. For this reason, the reform of the first pillar must be early and comprehensive if it is to provide households with a sufficient transition period.

Occupational pension plans did receive a clear stimulus from the Pension Fund Law ("Pensionskassengesetz") and from the Occupational Pension Law ("Betriebspensionsgesetz") which went into effect in 1990, however, the expansion of the second pillar was relatively insignificant until 1994. In a WIFO study on the spread of occupational pension plans in Austria (Mooslechner – Url, 1995) in 1994 the percentage of employees in the non-agricultural private sector expecting an occupational pension was estimated to be 8.6 percent, the percentage of companies offering an occupational pension plan amounted to only 4.6 percent.

Basically, there are four possible ways to finance an occupational pension in Austria.

- The company sets aside reserves according to direct pension commitments. When they do this, however, they usually do not fund the complete amount of the pension obligation, but as a rule only one half of the actuarial pension value, which is tax deductible. The remaining amount is paid from the company's current income and is counted as part of the current wage bill.
- As an alternative to a direct pension commitment a company can form its own pension fund or make a contract with one of the pooled pension funds. In these cases the pension fund is an independent company and assumes the responsibility of managing benefit claims and accumulated capital, as well as the obligation to pay out benefits when the time comes. The beneficiaries' pensions are fully funded by the accumulated and interest bearing premium payments and thus separated from the fate of the company. The pension fund model also increases the mobility of the employed on the job market because their right to a pension becomes permanent after a certain number of years and claimants can take it with them if they change to a new job.
- Another possible method of financing occupational pensions is with individual or group life insurance policies. Annual premium payments into life insurance policies of up to 4,000 ATS can be deducted from income tax. Payments above this amount are considered income and are taxed.
- Finally, the public pension system enables retirement planning within its framework by allowing a voluntary payment of higher insurance premiums. As with the regular pay as you go system, capital reserves are not built up here either, but rather the assessment base for the pension calculation is increased through higher contributions.

WIFO surveyed the financing structure of occupational pensions in Austria in 1994. At that time direct pension promises existed in about 61 percent of the companies offering firm pension plans, clearly dominating over pension funds (25.5 percent), life insurance policies (9.5 percent) and voluntary increased coverage (4.1 percent). In 1993 capitalized occupational financing schemes saved a total of ATS 15.7 billion. Indications of current and future developments could be derived from companies' expectations in 1994 regarding changes in their financing structure. Table 3 shows the tendency away from direct commitments; there is a clear difference between companies that already offer an occupational pension plan and those that are planning to introduce one. Of those companies that already offer a plan, 62 percent wanted to change to

Table 3: Preferred financing structure for occupational pension systems

	All companies	With occupational pension system	Without occupational pension system
		Percentage shares	
Direct pension promise	18.0	21.5	14.0
Pension fund	31.1	61.5	29.8
Personal life insurance	46.7	15.4	49.1
Voluntary higher insurance	4.1	1.5	7.0
Total	100.0	100.0	100.0

Sources: WIFO survey of a total of 122 companies, 65 of them with an occupational pension plan, 57 without an occupational pension plan but intending to introduce one.

a pension fund solution, whereas the relative majority of the companies without an existing pension promise said they would be more likely to choose a life insurance (47 percent) than a pension fund solution (30 percent).

CHANGE IN THE LEGAL SITUATION HELPS PENSION FUNDS

At the beginning of the year 1997 the Amendments to the Occupational Pension and Pension Fund Laws went into effect. Probably the most important change concerns who is now entitled to a pension: before 1997 only employees in private companies could acquire rights to a pension fund, now employers and public servants can do so as well. Entrepreneurs and the self-employed can join a pension fund when premiums to the fund are paid in the company for at least one other employee. The contributions of the self-employed cannot be claimed as operating expenditures, but must be filed as personal exemptions in their tax declaration. As with employees, there is an upper limit to contributions. Similarly, the legal scope of validity has been expanded: until now pension fund agreements were underwritten on a firm-specific basis, in future they can be incorporated in branch-wide collective contracts as well, as long as the branch had an agreement on occupational pensions in effect beforehand.

Further changes were made concerning the flexibility of pension fund administration. Since the contract pattern no longer has to be approved when the contract is set up, pension funds are now on equal footing with the life insurance companies as far as supervision by the authorities is concerned. At the same time, the rules for the settlement of claims were modified: if a person leaves a company early his/her pension claim can be paid off up to a maximum of ATS 120,000. This reduces the number of small accounts without movements that the pension funds must handle, thereby lowering their administrative costs.

In the Amendment the investment guidelines for pension funds were also relaxed so that pension funds can now in-

Table 4: Pension funds statistics

	Current premium payments	One-off payments	Pension benefits	Entitlements and beneficiaries as of December 31		
				Total	Entitlements	Beneficiaries
	Million ATS			Number of persons		
1990	89.9	1,451.2	79.8	–	–	–
1991	267.3	2,292.9	411.0	25,382	21,762	3,620
1992	472.2	1,118.2	476.0	40,975	35,868	5,107
1993	879.9	1,005.7	562.0	54,020	48,490	5,530
1994	827.4	2,218.8	707.0	60,792	54,751	6,041
1995	1,164.3	4,289.9	868.8	84,172	76,596	7,576
1996	3,532.2	2,974.5	1,232.1	121,820	109,471	12,349

Source: Federal Ministry of Finance.

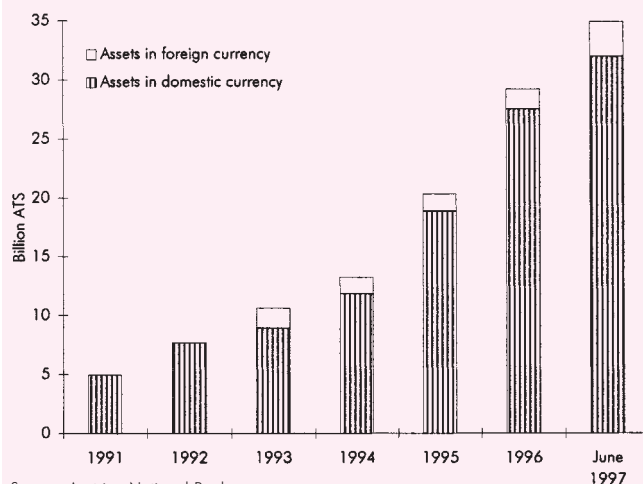
vest in higher risk securities with higher returns. At the beginning of 1997 the percentage of the pension funds' money that must be kept in fixed interest securities was decreased from 50 to 40 percent and the maximum share of stocks was increased to 40 percent. The upper limit for the amount of foreign stock in the portfolio lies at present at 25 percent.

OCCUPATIONAL PENSIONS SELDOM ANCHORED IN COLLECTIVE BARGAINING AGREEMENTS

Since 1994 there has only been a slight rise in the number of occupational pension fund agreements that are incorporated in collective bargaining agreements: only for the staff of the now privatized Labor Market Service, a collective agreement offers access to the second pillar. An expansion of existing systems took place solely in the Raiffeisen banking sector: individual pension benefits were reduced and partially substituted by employee contributions; at the same time the eligibility criteria for a firm pension were relaxed. According to most of the collective agreements in the various banking sectors a fixed percentage of the wage bill, for example, 2 to 2.5 percent, is paid into the pension fund instead of a wage increase. At present, an expansion of the occupational old-age pensions in the civil service areas is being considered. In case public companies are privatized or if the practice of permanent tenure is discontinued these plans would then serve as a compensation.

A detailed assessment of how common occupational pensions really are in Austria is not only hindered by the lack of collective agreements, but also by the incomplete official statistics on these for the most part individual or firm-specific agreements. This is why studies of the development of the second pillar in Austria must be based on estimates. WIFO's latest projection (*Mooslechner – Url, 1995*) refers to a survey done in 1994 on the expansion of occupational pension systems in Austria and was used as a basis for the calculations in this article.

Figure 1: Assets in Austrian pension funds



Source: Austrian National Bank.

There is exact data on the pension funds which give a first impression about the current distribution of the second pillar in Austria (Table 4). They show the dynamics in the funds that was already predicted in the first study: both the number of entitled persons and those already receiving benefits have doubled since 1994. Regular premium payments into pension funds have increased by more than four times since 1994. Part of this growth is due to the conversion of existing systems from direct commitments and other kinds of financing to a pension fund solution.

In the 1994 survey 62 percent of the companies with existing pension plans said they wanted to change to a pension fund model (Table 3). This portion was particularly large among companies with more than 1,000 employees: over 80 percent of these wanted to find a pension fund solution. This lively conversion activity can be seen in the relation between reserve fund transfers to pension funds and current premium payments since 1990; 1996 was the first year that the running premiums exceeded converted reserve funds. However, this does not mean that the conversion process is finished: at the end of June, 1997, pension funds were still showing ATS 378 million outstanding against companies resulting from the transfer of pension reserves, and several big companies are now in negotiation with pension funds.

Employees themselves are not showing much willingness to spend their own money on contributions to pension funds: only about a third of the prospective beneficiaries are paying employee premiums.

The introduction of pension funds is tied to hopes of enlivening the Austrian capital market and, in fact, the amount of money invested since 1994 has grown rapidly along with the number of entitlements. Pension fund assets rose from ATS 4.9 billion (1991) to 34.8 billion in June, 1997,

Table 5: Distribution of assets in the Austrian pension funds
As of June 30, 1997

	Assets in domestic currency	Assets in foreign currency	Assets in domestic currency	Assets in foreign currency
	Million ATS		Percentage shares	
Cash and sight deposits	220.3	57.6	0.6	0.2
Loans and credits	1,315.0	0.0	3.8	0.0
Property, buildings, real-estate funds	264.7	0.0	0.8	0.0
Domestic bonds ¹	2,568.7	308.5	7.4	0.9
Domestic investment certificates	26,418.3	102.9	75.8	0.3
Domestic other securities ²	546.8	0.0	1.6	0.0
Foreign bonds ³	304.2	306.2	0.9	0.9
Foreign investment certificates	188.4	2,037.6	0.5	5.8
Foreign investment securities ⁴	0.0	107.3	0.0	0.3
Other assets ⁵	99.6	5.3	0.3	0.0
Total assets	31,926.0	2,925.4	91.6	8.4

Source: Austrian National Bank, evaluation according to art. 23 par. 1 Pension Fund Law ("Pensionskassengesetz"). – ¹ Treasury bills, fixed interest securities, commercial bank papers. – ² Equities, participation certificates, other participations, options. – ³ Fixed interest securities. – ⁴ Equities, other participations, options. – ⁵ Excluding outstanding contributions.

and are mainly invested in schilling securities (Figure 1, Table 5). Of these, investment certificates clearly lead with slightly over three quarters of the total assets, ahead of domestically issued securities and foreign investment certificates in foreign currency. The investment strategy of pension funds can only be partly documented by these figures, however, because investment certificates are considered part of the investment form that dominates the fund with 50 percent, the rest of the funds' assets can be invested at discretion. According to estimates by the Professional Association of Pension Funds ("Fachverband der Pensionskassen") they are not yet taking full advantage of their investment possibilities within the guidelines; at present about 25 to 30 percent of the investment money is said to be directly or indirectly in stock (1996 23 percent). The large percentage of investment funds in the portfolio also gives the impression that pension funds are mainly limiting themselves to indirect fund management and are only minimally active as portfolio managers.

Since 1994 the number of people expecting or receiving benefits in pension funds has doubled, the volume of premiums paid has increased by more than 320 percent. The average premium payment in 1996 was about 2,700 ATS per month.

The transition from direct pension promises to the pension fund model is likely to enliven the capital market inasmuch as pension funds must fully back their obligations with securities, while – according to the tax code – only 50 percent of the reserve allowances have to be covered by domestic fixed interest securities. The Austrian stock

market most likely profits from the growing amount of money in the pension funds because, according to the Professional Association of Pension Funds almost a third of the capital is invested in stocks. In light of the relaxed restrictions on foreign investments and the transition to the Euro foreign investment funds should continue to grow in importance.

Yet growth in the pension funds is not limited to the conversion of existing systems: about three fourths of the newly completed contracts (1995 314, 1996 1,213) are with companies that are introducing a new occupational pension scheme (1995 217, 1996 910). The new contracts have more than doubled the average running premium payments per future beneficiary from 15,112 ATS (1994) to 32,266 ATS (1996). With approximately 2,700 ATS per month (1996) the average savings activity is much more pronounced than in the personal life insurance sector which had an average premium of 755 ATS per month in 1996 for its 6.63 million risks¹.

GROUP LIFE INSURANCE NOT ESTABLISHED AS A FINANCING FORM

According to the 1994 survey barely 30 percent of the companies wanted to choose a pension fund solution to finance their new occupational pension system, 49 percent preferred life insurance and only 14 percent would have liked a direct commitment scheme (Table 3). According to these figures, group life insurance policies should have developed at least as dynamically as the pension funds. However, the Austrian Insurance Association's business report shows a constant number of risks in group life insurance. Within this sector in the last few years life and endowment policies have been replaced by capital insurance policies (1995 +2 percent, 1996 +3.9 percent). That corresponds to an increase in the number of voluntary savings plans for employees by about 8,900.

There are two possible explanations for the weak growth in group life insurance: either companies took out individual insurance policies for their employees (which is unlikely, considering the price advantages of collective agreements), or the pension funds were able, through good advertisement, to neutralize the starting advantage that life insurance policies showed in the survey, so that most of the expansion in occupational old-age provision actually got channeled into pension funds. The following analysis is based on this second assumption.

¹ Number of risks in individual insurance – life without risk and credit residual debt insurance according to the Austrian Insurance Association.

Table 6: Projected number of companies with an occupational pension system

1996

	Total	Employee size groups					
		3 to 9	10 to 49	50 to 99	100 to 499	500 to 999	1,000 and above
Number of companies							
Energy and water supply, mining and manufacturing	1,209	328	321	137	328	49	45
Construction	116	53	36	8	13	2	4
Trade	1,464	721	458	102	163	9	12
Traffic and telecommunications	205	80	66	19	26	2	12
Banking and insurance	1,120	326	502	132	128	21	11
Other services ¹	2,125	1,556	451	40	70	5	4
Total	6,239	3,065	1,834	437	728	88	88
Percentage shares in all companies							
Energy and water supply, mining and manufacturing	6.2	3.0	5.0	13.5	32.1	46.7	95.7
Construction	0.9	0.7	0.7	1.2	3.4	10.5	80.0
Trade	3.6	2.5	4.5	10.0	25.0	27.0	62.9
Traffic and telecommunications	4.0	2.5	4.0	10.0	22.2	26.4	68.2
Banking and insurance	68.4	66.7	67.1	68.2	73.1	100.0	100.0
Other services ¹	10.0	10.5	11.0	10.0	22.0	25.0	58.8
Total	6.1	4.7	6.5	12.6	27.3	42.7	82.7

Source: WIFO projections. – ¹ Including investment counseling.

SLIGHT INCREASE IN OCCUPATIONAL PENSIONS SINCE 1994

The updated projection on the spread of occupational pension systems in Austria combines new data on the number of companies and employees as of January, 1997 and July, 1996 (for the construction industry) with the regression estimates used in *Mooslechner – Url* (1995). In addition, the projection is based on information from pension funds and the new collective bargaining agreements. Table 6 summarizes the estimated number of companies with an occupational pension system, listed according to economic sectors and employee size groups. The number of companies offering an occupational pension system rose from 4,800 (1994) to 6,240 (1996). As a share of all companies this represents an increase from 4.6 to 6.1 percent². Firms in the banking and insurance sector continue to have the best coverage with occupational pensions, but the numbers in Tables 6 and 7 are no longer fully comparable with the values listed in *Mooslechner – Url* (1995), because the definition of the corresponding categories in the social insurance statistics has been changed (above all for small and medium sized companies).

The greatest expansion since 1994 has been within small and medium sized companies in the category “other services” and in investment counseling. The decreased coverage within the largest employee group in the trade sector reflects the bankruptcy of the Konsum Co-operative, and the figure for the construction sector shows that the

traditional rarity of the second pillar of pension provision has grown even more pronounced. Within the large construction companies, however, bankruptcies and company mergers have resulted in an increase in occupational pension systems.

A similar picture is painted by the projected number of employees with an entitlement to an occupational pension (Table 7): whereas in 1994 8.6 percent of the workforce had acquired a right to an occupational pension, by the end of 1996 this percentage had already risen to 10.4 percent (204,000 people). A large portion of this growth is due to the new collective agreement for the staff in the Raiffeisen sector: restrictions in the pension level were compensated by a relaxation of eligibility requirements so that the number of beneficiaries greatly increased. In the small and medium sized credit institutes the share of people entitled to benefits rose from 1.3 to 5.5 percent (1994) to about 50 percent (1996). Because of the large number of employees in the Konsum Co-operative its bankruptcy pushed the absolute number of entitlements in the trade sector down more than that of the companies with an occupational pension. In all other sectors the spread of the second pillar of pension provision has continued since 1994, in the sectors “transportation/telecommunications” and “other services” it has even doubled.

FUTURE PROSPECTS FOR OCCUPATIONAL PENSION SYSTEMS

In the mean time, the advantageous legal conditions for pension funds have made occupational pension systems in

² Companies with more than 3 employees in the non-agricultural private sector.

Table 7: Projected number of active employees with entitlements
1996

	Total	Employee size groups					
		3 to 9	10 to 49	50 to 99	100 to 499	500 to 999	1,000 and above
		Number of employees					
Energy and water supply, mining and manufacturing	93,771	686	2,914	3,330	27,335	12,784	46,722
Construction	2,147	106	133	114	629	273	892
Trade	23,504	1,050	2,594	2,079	9,083	1,641	7,056
Traffic and telecommunications	19,657	121	389	379	1,482	483	16,802
Banking and insurance	44,474	1,444	8,896	6,022	13,063	6,181	8,870
Other services ¹	20,016	5,936	4,253	1,097	5,516	1,059	2,154
Total	203,569	9,343	19,179	13,021	57,109	22,422	82,495
		Percentage shares of all employees					
Energy and water supply, mining and manufacturing	15.0	1.2	2.3	4.7	12.9	18.0	56.4
Construction	1.0	0.3	0.2	0.4	1.3	3.6	22.1
Trade	4.1	0.8	1.4	3.0	7.5	8.1	18.9
Traffic and telecommunications	11.4	0.8	1.2	3.0	6.7	7.9	20.4
Banking and insurance	42.5	52.1	50.2	45.8	36.0	45.3	42.2
Other services ¹	7.6	8.4	5.5	4.0	8.8	7.5	17.6
Total	10.4	2.9	3.6	5.8	11.4	16.9	34.4

Source: WIFO projections. – ¹ Including investment counseling.

Austria more popular. However, the growth since the last WIFO projection has been relatively modest and confined for the most part to the expansion of existing systems or to small companies. On the other hand, Germany has shown a decrease in occupational pension systems in the last few years. Therefore, we could say that the improved legal situation in Austria has at least enabled a different development.

The reasons for the slight growth are found on both the supply and the demand sides. Compared to other countries, the Austrian public pension system provides a high income replacement ratio for its blue-collar workforce below maximum contribution base. This evidently makes an occupational pension plan for workers in this income class less interesting than higher pay checks, a fact that is also reflected in the rareness of collective bargaining agreements to transfer direct payments into a company pension.

The income replacement ratio in the public pension system is relatively low for white-collar workers. This can be shown by a comparison of the median income level for elderly employees with the median pension level of new retirees (Table 8). For this group, occupational and private pension schemes are already the only way to retain their income level in retirement. If a future pension reform lowers the income replacement ratio for recipients of incomes below the maximum contribution base, we can expect a changing trend in the second pillar of old-age provision due to an increase in demand from this group. The 1994 survey already showed this desire to be an important reason for introducing occupational pensions.

On the supply side, an increase in companies' financial flexibility encourages the growth of the second pillar of

old-age provision. The structural change brought forth by the adaptation to the Single Market, the opening of the East and the introduction of new technologies restricted the affordability of occupational pensions not only for companies in formerly protected sectors. Their tendency to convert direct commitments into pension fund solutions with employee participation clearly demonstrates their efforts to lighten the cost burden. When this adjustment process is finished companies should have more leeway to reshape their salary systems.

Rürup (1997) recommends developing the second and third pillars of old-age provision as one possible reform option for the Austrian pension system, thus combining the advantages of a fully funded system with those of a pay-as-you-go system. This brings up the economic policy question of whether further tax support of occupational pensions would make sense. In light of tight public budgets and the fact that it has not been empirically proven beyond a doubt that tax incentives for pension provision really encourage savings, it would seem that further government support for the second pillar is unlikely over the next few years. However, during the course of the next tax reform equal tax treatment for different kinds of old-age pension systems should be discussed, all the more so because pension investment funds increasingly provide another alternative to private pension provisions.

The motives for a stronger expansion of the second pillar of old-age provision should focus above all on integrated income packages: deferred compensation, in addition to transferring income tax effectively into the retirement phase, also fulfills the original goal of occupational pension systems, namely to bind important workers to the

Table 8: Median contributory monthly income and median public pension of new retirees

1995

	Total	Male	Female
50 percent of white-colour workers earn more than ... ATS per month			
Contributory monthly income ¹			
55- to 59-year-olds	39,624	43,894	25,927
60 years and above	36,115	42,450	20,938
Old-age pension ²	15,594	22,134	12,143

Source: Hauptverband der österreichischen Sozialversicherungsträger. – ¹ Earned income up to 37,500 ATS per month plus special Christmas and holiday remunerations. – ² First time grants for all old-age pensions, excluding international social security transfers.

company by deferring their payment into the retirement phase. Up to now such a shift has been accomplished by seniority rules in lifetime earning profiles. Because the negative firm specific and economic wide effects of such earning profiles have become more and more evident, management and unions now tend to aim for smoother lifetime earning profiles in their collective bargaining agreements. The Efficiency Wage Theory predicts that, giv-

en high search or training costs, wage systems that transfer parts of the income into the future help dampen personnel fluctuation. This offers numerous perspectives for occupational pensions. Well structured criteria for entitlements (i.e., if the waiting time is made long enough) can achieve the same effect within pension fund systems.

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Occupational Pension Systems in Austria 1996 – Summary

In Austria the system for old age provision is dominated by the public pension system – as is obvious when comparing the capitalization of pension funds in OECD member states. In this respect Austria ranks low even when compared to other countries that offer high income replacement ratios in their public pension systems. Due to the voluntary character of occupational pension plans and their principal foundation on firm-specific agreements there is only one official data source available for assessing their scale in Austria: figures published by the pension funds which were established in 1990. For other systems covering employee pension promises, projections have to be made, based on information on the labor market, the number of companies involved, collective bargaining agreements, and a survey of occupational pensions conducted by WIFO in 1994. The update shows a slight expansion of occupational pensions in the non-agricultural private sector since 1994. At the end of 1996 about 6,240 firms or 6.1 percent of all companies in this sector offered occupational pensions to some 204,000 of their

workforce (10.4 percent). This compares with 4.6 percent of the firms and 8.6 percent of their staff in 1994 and provides clear evidence of a slight extension of occupational pension plans. It is mainly small firms in the "other services" category and a collective bargaining agreement in the Raiffeisen banking sector which are responsible for this development. Most of the dynamics derives from the growth of pension funds. These profit from the switch of direct pension provision to pension funds and the fact that private insurance companies have lost ground as they were not able to exploit demand for this type of coverage. Due to a shortage of funds in public budgets and the doubtful effect of tax breaks for pension saving plans, the success of occupational pension plans in Austria will depend on the decline of the income replacement ratio in the public pension system. This would strengthen the demand for employee pensions and might, in combination with more favorable business conditions, create a positive climate to replace steep age-earning profiles with occupational pension plans.