

Austria

The pension system consists of a defined-benefit public scheme with an income-tested top-up for low-income pensioners.

Qualifying conditions

Normal pension age is 65 for men. For women, retirement age is currently 60 years but will be increased to 65 by 2033. There is a coverage condition: 180 months (15 years) in the last 30 years or 300 months (25 years) during the full lifetime. Alternatively, 180 months of contributions actually paid (as opposed to coverage alone) are sufficient. Insured months are either contributory months (from employment or voluntary contributions) or supplementary (i.e., credited months, known as *Ersatzzeiten*) for which only limited contributions are paid.

Benefit calculation

Earnings-related

The pension benefit currently accrues at 1.96% (2006: 1.88%) of earnings for each year of contributions but this will fall gradually, reaching 1.78% by 2009.

The averaging period for calculating benefits is being extended: from a smaller number of best years' earnings, it will reach 40 years from 2028. The valorisation procedure is complex although in practice adjustments have been closer to price inflation than to earnings growth. Valorisation under this new procedure is still under discussion. The modelling takes this full-career measure and assumes that earlier years' earnings are revalued in line with earnings growth.

Contributions are payable up to a ceiling of EUR 48 300 a year, corresponding to 147% of average earnings.

In 2005, pensions in payment were adjusted in line with prices up to the median pension; pensions above this threshold were increased by a flat amount, which was equal to the absolute increase given to the median pensioner. From 2006 to 2009, it is envisaged that pensions will be fully indexed to prices up to 15 times the daily contribution ceiling which for 2004 would have been EUR 115 x 15 = 1 725. The modelling assumes that this practice will continue.

Targeted

There is a means-tested top-up (*Ausgleichszulage*) that ensures a minimum retirement income of EUR 653 per month for single people and EUR 1 015 for a couple. There are fourteen annual payments. Again, adjustment of the safety-net income is discretionary; the modelling implicitly assumes that it will rise in line with average earnings.

Early retirement

Retirement is currently possible from 62 for men and from 60 for women, subject to 37.5 years of contributions or credits. From 2017 on, the earliest retirement age for women will also be 62. Pensions taken before the age of 65 are reduced by 4.2% for each year that the pension is claimed early.

Late retirement

For retirement between the ages of 65 and 68 the pension is increased by 4.2% per year and there is no such increment after 68. Workers who defer their pension continue to pay contributions thereby increasing their pension entitlements.

Combining work and pensions is possible but there is an earnings limit. If pensioners below the age of 65 earn more than EUR 323.46 (2005 value), the pension is fully withdrawn. After age 65, unlimited earnings from work and pension receipt are permitted.

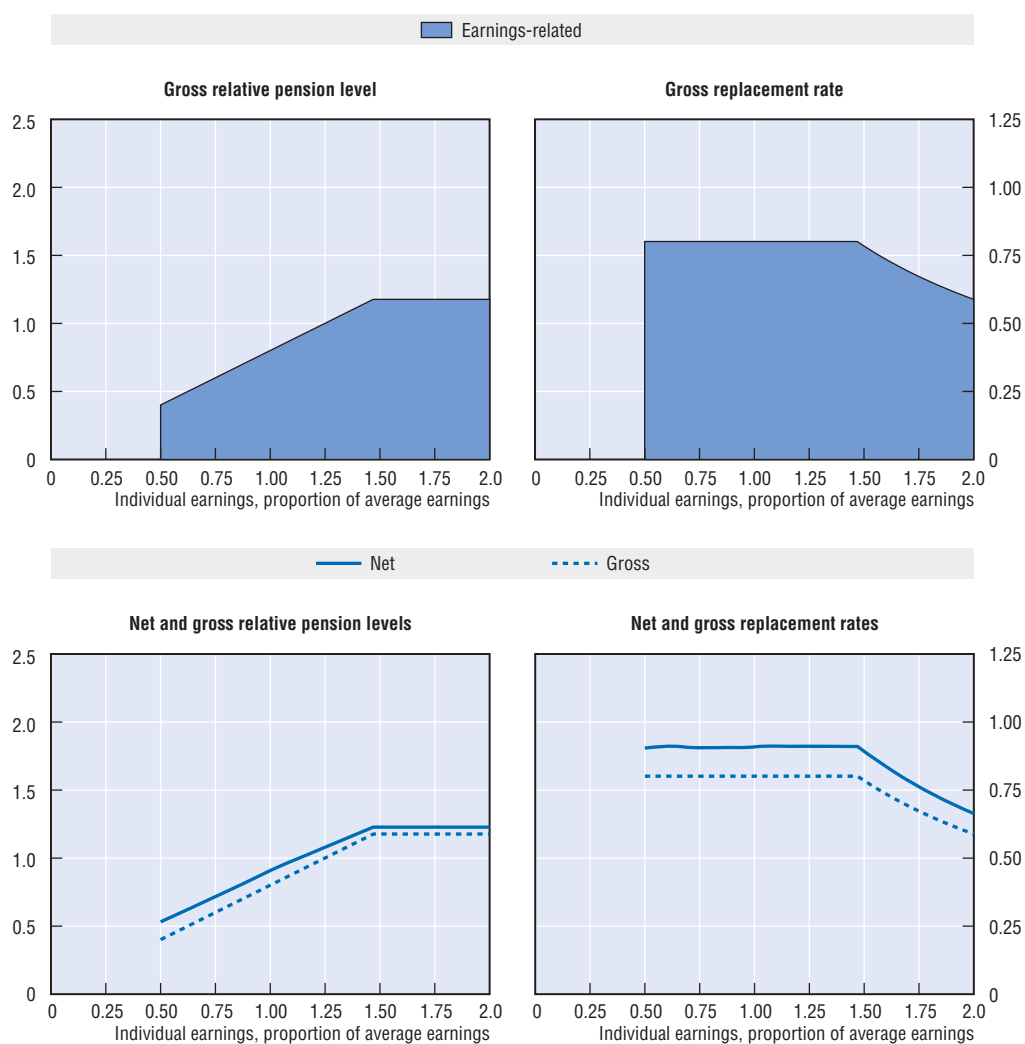
Pre-reform scenario

There have been three main pension reforms in the past decade, in 1997, 2000 and 2005. The modelling aims to capture the cumulated effects of these reforms since 1997.

The pre-reform accrual rate was 2% per year. The earnings measure was the best 15 years of earnings, valorised in line with prices.

The early retirement age was increased from 60 for men in 2000 to 61.5 in 2002. For women, the age was increased from 55 to 56.5. The 1997 reform introduced for the first time a reduction for early retirement of 2% per year.

Pension modelling results: Austria



| Men | Median earner | Individual earnings, multiple of economy-wide average | | | | |
|---|---------------|---|--------------|--------------|--------------|------------|
| | | 0.5 | 0.75 | 1 | 1.5 | 2 |
| Women (where different) | | | | | | |
| Gross relative pension level (% average gross earnings) | 68.1 | 40.0 | 60.1 | 80.1 | 117.7 | 117.7 |
| Net relative pension level (% net average earnings) | 79.3 | 53.2 | 71.5 | 90.9 | 122.8 | 122.8 |
| Gross replacement rate (% individual gross earnings) | 80.1 | 80.1 | 80.1 | 80.1 | 78.5 | 58.8 |
| Net replacement rate (% individual net earnings) | 90.6 | 90.4 | 90.6 | 90.9 | 89.2 | 66.4 |
| Gross pension wealth (multiple of individual gross earnings) | 12.0 14.0 | 12.2 14.2 | 12.2 14.2 | 11.7 13.5 | 10.8 12.5 | 8.1 9.4 |
| Net pension wealth (multiple of individual gross earnings) | 9.5 11.0 | 11.0 12.8 | 9.8 11.5 | 9.0 10.4 | 7.7 8.8 | 5.7 6.6 |

Pension modelling results: Austria, pre-reform scenario

| Men | Median earner | Individual earnings, multiple of economy-wide average | | | | |
|---|---------------|---|--------------|--------------|----------------|----------------|
| | | 0.5 | 0.75 | 1 | 1.5 | 2 |
| Women (where different) | | | | | | |
| Gross relative pension level (% average gross earnings) | 76.5 68.0 | 45.0 40.0 | 67.5 60.0 | 90.0 80.0 | 132.2 117.5 | 132.2 117.5 |
| Net relative pension level (% net average earnings) | 87.4 79.2 | 57.8 53.1 | 78.7 71.5 | 99.5 90.8 | 135.0 122.6 | 135.0 122.6 |
| Gross replacement rate (% individual gross earnings) | 90.0 80.0 | 90.0 80.0 | 90.0 80.0 | 90.0 80.0 | 88.2 78.4 | 66.1 58.8 |
| Net replacement rate (% individual net earnings) | 99.9 90.5 | 98.3 90.3 | 99.6 90.5 | 99.5 90.8 | 98.1 89.1 | 73.0 66.3 |
| Gross pension wealth (multiple of individual gross earnings) | 13.7 16.4 | 13.7 16.4 | 13.7 16.4 | 13.7 16.4 | 13.4 16.1 | 10.1 12.1 |
| Net pension wealth (multiple of individual gross earnings) | 10.6 12.9 | 11.9 14.8 | 10.8 13.2 | 10.3 12.6 | 9.3 11.4 | 7.0 8.5 |

Foreword

This report provides indicators for comparing pension policies across OECD countries. It gives estimates of the level of pension people will receive if they work for a full career and if today's pension rules stay unchanged.

Monika Queisser and Edward Whitehouse of the Social Policy Division of the OECD's Directorate for Employment, Labour and Social Affairs prepared the report. Rie Fujisawa and Edward Whitehouse were responsible for the pension modelling and the analysis of the tax position of pensioners. Anna Cristina D'Addio and Jongkyun Choi assisted in finalising the report.

National officials provided invaluable, active assistance in collecting information on their countries' pension and tax systems. The results have been confirmed by national authorities with the exception of those for Italy, which are based on the OECD's interpretation of parameters and rules provided by the government.*

Numerous OECD colleagues provided guidance and information, particularly Mark Pearson, Martine Durand and John Martin. The OECD private-pensions team in the Directorate of Financial and Enterprise Affairs – particularly Fiona Stewart and Juan Yermo – provided useful input to the special feature on private pensions. Delegates to the OECD Working Party on Social Policy advised on modelling procedures and development of indicators for cross-country comparisons of pension systems. They also gave constructive comments on earlier drafts.

The report is the product of a joint project co-financed by the European Commission and the OECD; the project also benefited from a financial contribution made by the government of Switzerland.

The OECD pension models use the APEX (Analysis of Pension Entitlements across Countries) infrastructure originally developed by Axia Economics, with the help of funding from the OECD and the World Bank.

* Italy has expressed serious doubts about the adequacy of data used in the report, and consequently about the comparability of results. In particular, baseline assumptions about labour market entry ages and career length (respectively, 20 and 45 years) are different from those agreed in a comparable exercise undertaken at the EU level, and differ from current Italian labour market norms. Italy thinks interpretations based on these data may be misleading.

Structure of the Report and Methodology

The general approach of *Pensions at a Glance* is a “microeconomic” one, looking at prospective individual entitlements under all 30 of OECD member countries’ pension regimes. This method is designed to complement alternative comparisons of retirement-income systems: long-term fiscal and financial projections (for example, Dang *et al.*, 2001; and European Union, 2006) and analysis of income-distribution data (such as Förster and Mira d’Ercole, 2005; and Disney and Whitehouse, 2001).

The report is divided into three main parts. Part I presents the information needed to compare pension policies in a clear, “at a glance” style. It starts by showing the different schemes that together make up national retirement-income provision. Next, there is a summary of the parameters and rules of pension systems.

This is followed by eight main indicators that are calculated using the OECD pension models.

- The first two are the most familiar to pension analysts. Both are replacement rates, *i.e.*, the ratio of pension benefits to individual earnings. These are given in gross and net terms, taking account of taxes and contributions paid on earnings and on retirement incomes. Two analyses of the sensitivity of the gross replacement rate follow. The first looks at individuals who enter the pension system later than the baseline assumption, while the second considers the importance of investment returns in pension systems with defined-contribution (DC) components.
- The next two indicators are pension wealth, again given in gross and net terms. Pension wealth is a more comprehensive measure of pension entitlements than replacement rates because it takes account of pension ages, indexation of pensions to changes in wages or prices and life expectancy.
- Countries differ in the way that their pension systems aim to provide an old-age safety-net or replace a target share of pre-retirement income. The balance between these two is explored by the next pair of indicators: the first on the progressivity of the pension benefit formula and the second on the link between pension and earnings.
- The final two indicators aim to summarise the pension system as it affects individuals across the earnings distribution, showing the average pension level, pension wealth and the contribution of each component of the retirement-income system to overall benefits.

Two special chapters form Part II of this report. They cover pension reforms and private pensions, respectively. Both of these analyses use the OECD pension models to explore more deeply the central issues of pension policy in national debates. The framework of *Pensions at a Glance* is forward-looking, focusing on future pension entitlements of today’s

workers. However, the past decade has seen intense reform activity in the world of pensions and retirement. The first special chapter looks at what countries did and how this is likely to affect future benefits. A number of these reforms have increased the role of the private sector in pension provision. The second special chapter identifies the complex range of private retirement arrangements and quantifies the savings effort individuals will have to make to maintain standards of living in retirement.

Finally, Part III provides detailed background information on each of the 30 countries' retirement-income arrangements. These include pension eligibility ages and other qualifying conditions; the rules for calculating benefit entitlements; the treatment of early and late retirees; and more detailed information on the pre-reform scenarios explored in the special chapter on pension reforms. The country studies summarise the national results in standard charts and tables.

The remainder of this section describes the methodology used to calculate pension entitlements. It outlines the details of the structure, coverage and basic economic and financial assumptions underlying the calculation of future pension entitlements on a comparative basis.

Future entitlements under today's parameters and rules

The pension entitlements which are compared are those that are currently legislated in OECD countries. Changes in rules that have already been legislated, but are being phased-in gradually, are assumed to be fully in place from the start. Reforms that have been legislated since 2004 are included where sufficient information is available (in Portugal, for example). Some changes (such as the increase in pension age in Germany and the reform package in the United Kingdom) have not been finalised or were finalised too late for inclusion.

The values of all pension system parameters reflect the situation in the year 2004. The calculations show the pension entitlements of a worker who enters the system today and retires after a full career. The results are shown for a single person only.

Career length

A full career is defined here as entering the labour market at age 20 and working until the standard pension-eligibility age, which, of course, varies between countries. The implication is that the length of career varies with the statutory retirement age: 40 years for retirement at 60, 45 years for retirement at 65, etc. As the results can be sensitive to the career-length assumption, calculations are also made for situations where workers enter at age 25 and so retire with five years less than a full career.

Coverage

The pension models presented here include all *mandatory* pension schemes for private-sector workers, regardless of whether they are public (i.e. they involve payments from government or from social security institutions, as defined in the System of National Accounts) or private. For each country, the main national scheme for private-sector employees is modelled. Schemes for civil servants, public-sector workers and special professional groups are excluded.

Systems with near-universal coverage are also included provided they cover at least 90% of employees. This applies to schemes such as the occupational plans in Denmark, the Netherlands and in Sweden. An increasing number of OECD countries have broad coverage of voluntary, occupational pensions and these play an important role in providing retirement incomes. For these countries, a second set of results is shown with voluntary pension schemes in the special chapter on private pensions.

Resource-tested benefits for which retired people may be eligible are also modelled. These can be means-tested, where both assets and income are taken into account, purely income-tested or withdrawn only against pension income. The calculations assume that all entitled pensioners take up these benefits. Where there are broader means tests, taking account also of assets, the income test is taken as binding. It is assumed that the whole of income during retirement comes from the mandatory pension scheme (or from voluntary pension schemes in those countries where they are modelled).

Pension entitlements are compared for workers with earnings between 0.5 times and twice the economy-wide average. This range permits an analysis of future retirement benefits of both the poorest and richer workers.

Economic variables

The comparisons are based on a single set of economic assumptions for all 30 countries. In practice, the level of pensions will be affected by economic growth, wage growth and inflation, and these will vary across countries. A single set of assumptions, however, ensures that the comparisons of the different pension regimes are not affected by different economic conditions. In this way, differences across countries in pension levels reflect differences in pension systems and policies alone.

The baseline assumptions are:

- real earnings growth: 2% per year (given the assumption for price inflation, this implies nominal wage growth of 4.55%);
- individual earnings: assumed to grow in line with the economy-wide average. This means that the individual is assumed to remain at the same point in the earnings distribution, earning the same percentage of average earnings in every year of the working life;
- price inflation: 2.5% per year;
- real rate of return after administrative charges on funded, defined-contribution pensions: 3.5% per year;
- discount rate (for actuarial calculations): 2% per year (see Queisser and Whitehouse, 2006 for a discussion of the discount rate);
- mortality rates: the baseline modelling uses country-specific projections (made in 2002) from the United Nations/World Bank population database for the year 2040;
- earnings distribution: composite indicators use the OECD average earnings distribution (based on 18 countries), with country-specific data used where available.

Changes in these baseline assumptions will obviously affect the resulting pension entitlements. The indicators are therefore also shown for alternative assumptions regarding the rate of return on funded defined-contribution schemes. The impact of variations in economy-wide earnings growth, and for individual earnings growing faster or slower than the average, was shown in the first edition of *Pensions at a Glance* (OECD, 2005)

The real rate of return on defined-contribution pensions is assumed to be net of administrative charges. In practice, this assumption might disguise genuine differences in administrative fees between countries (see Whitehouse, 2000 and 2001 for an analysis).

The calculations assume the following for the pay-out of pension benefits: when DC benefits are received upon retirement, they are paid in the form of a price-indexed life annuity at an actuarially fair price. This is calculated from mortality data. Similarly, the notional annuity rate in notional accounts schemes is (in most cases) calculated from mortality data using the indexation rules and discounting assumptions employed by the respective country.

Taxes and social security contributions

Information on taxes and social security contributions which were used to calculate the net indicators for 2002 were included in the country chapters in the first edition of *Pensions at a Glance* (OECD, 2005). The tax and social security contribution rules and parameters have been updated to 2004 but are not repeated in this volume for reasons of space (Fujisawa and Whitehouse, forthcoming 2007, provides more information).

The modelling assumes that tax systems and social-security contributions remain unchanged in the future. This implicitly means that “value” parameters, such as tax allowances or contribution ceilings, are adjusted annually in line with average earnings, while “rate” parameters, such as the personal income tax schedule and social security contribution rates, remain unchanged. General provisions and the tax treatment of workers for 2004 can be found in the OECD report *Taxing Wages* (OECD, 2006). The conventions used in that report, such as which payments are considered taxes, are followed here.

Average earnings

Starting with this edition, *Pensions at a Glance* uses a new and more comprehensive measure of average earnings corresponding to an “average worker” (AW). This is broader than the previous benchmark of the “average manual production worker” (APW). This new concept was introduced in the report *Taxing Wages* (OECD, 2006) and also serves as benchmark for *Benefits and Wages* (OECD, 2007).

The reasoning behind the change was that a manual worker in the production sector is not representative of the “typical taxpayer”, given the steady decline in manual employment in manufacturing in most OECD countries. The new base for calculating average earnings includes more economic sectors and both manual and non-manual workers. The concept and definition of earnings, however, remains the same: gross wage earnings paid to average workers, measured before deductions of any kind, but including overtime pay and other cash supplements paid to employees.

Table 0.1 reports average earnings levels under the old (APW) and new (AW) definition, for the year 2004. Only three countries (Ireland, Korea and Turkey) are not yet able supply earnings data on the broader basis and so the modelling is based on the old, APW measure of average earnings.

The effect of broadening the types of workers covered has very different effects on measured average earnings in different OECD countries. In 19 of the 27 countries for which new, AW data are available, these are *higher* than average earnings under the previous, APW definition but the size of the difference varies greatly (see Figure 0.1). The change in definition increases measured average earnings by 30% or more in six countries (Austria,

Table 0.1. OECD measures of average earnings, 2004
National currency and USD at market price and purchasing-power-parity exchange rates

| | OECD measure of average earnings | | | | Exchange rates with USD | |
|-----------------|-------------------------------------|------------------------------------|----------------------------|-------------------|-------------------------|--------|
| | Old – National currency (APW) | New – National currency (AW) | New – USD, market price | New – USD, PPP | Market price | PPPs |
| Australia | 52 777 | 48 827 | 35 922 | 35 917 | 1.36 | 1.36 |
| Austria | 24 946 | 32 872 | 40 842 | 37 872 | 0.80 | 0.868 |
| Belgium | 32 281 | 35 578 | 44 205 | 41 151 | 0.80 | 0.865 |
| Canada | 40 912 | 38 945 | 29 933 | 31 269 | 1.30 | 1.25 |
| Czech Republic | 213 573 | 209 489 | 8 153 | 14 936 | 25.69 | 14.03 |
| Denmark | 323 900 | 316 500 | 52 860 | 37 684 | 5.99 | 8.40 |
| Finland | 29 152 | 31 539 | 39 186 | 32 372 | 0.80 | 0.974 |
| France | 23 087 | 29 549 | 36 713 | 32 199 | 0.80 | 0.918 |
| Germany | 34 088 | 41 046 | 50 998 | 45 898 | 0.80 | 0.894 |
| Greece | 12 525 | 17 360 | 21 569 | 24 996 | 0.80 | 0.695 |
| Hungary | 1 262 712 | 1 697 268 | 8 377 | 13 682 | 202.61 | 124.05 |
| Iceland | 2 849 554 | 2 770 000 | 39 463 | 29 461 | 70.19 | 94.02 |
| Ireland | 30 170 | n.a. | 37 485 | 30 321 | 0.80 | 1.00 |
| Italy | 23 044 | 22 053 | 27 400 | 25 628 | 0.80 | 0.861 |
| Japan | 4 223 100 | 4 943 208 | 45 708 | 37 139 | 108.15 | 133 |
| Korea | 27 356 688 | n.a. | 23 888 | 34 974 | 1 145.20 | 782 |
| Luxembourg | 32 586 | 39 171 | 48 668 | 42 649 | 0.80 | 0.918 |
| Mexico | 66 432 | 76 332 | 6 767 | 10 446 | 11.28 | 7.31 |
| Netherlands | 32 457 | 37 026 | 46 003 | 41 300 | 0.80 | 0.897 |
| New Zealand | 41 778 | 39 428 | 26 129 | 26 793 | 1.51 | 1.47 |
| Norway | 314 523 | 366 161 | 54 332 | 41 005 | 6.74 | 8.93 |
| Poland | 26 745 | 29 263 | 8 015 | 15 858 | 3.65 | 1.85 |
| Portugal | 9 372 | 12 969 | 16 113 | 18 344 | 0.80 | 0.707 |
| Slovak Republic | 190 000 | 200 722 | 6 228 | 11 679 | 32.23 | 17.19 |
| Spain | 17 913 | 19 828 | 24 635 | 26 215 | 0.80 | 0.756 |
| Sweden | 251 282 | 300 814 | 40 949 | 32 773 | 7.35 | 9.18 |
| Switzerland | 64 419 | 70 649 | 56 849 | 40 900 | 1.24 | 1.73 |
| Turkey | 13 959 | n.a. | 9 789 | 16 788 | 1.43 | 0.831 |
| United Kingdom | 20 560 | 27 150 | 49 747 | 43 881 | 0.55 | 0.619 |
| United States | 34 033 | 30 355 | 30 355 | 30 355 | 1.00 | 1.00 |

n.a.: Not available.

AW = average wage.

APW = average production worker.

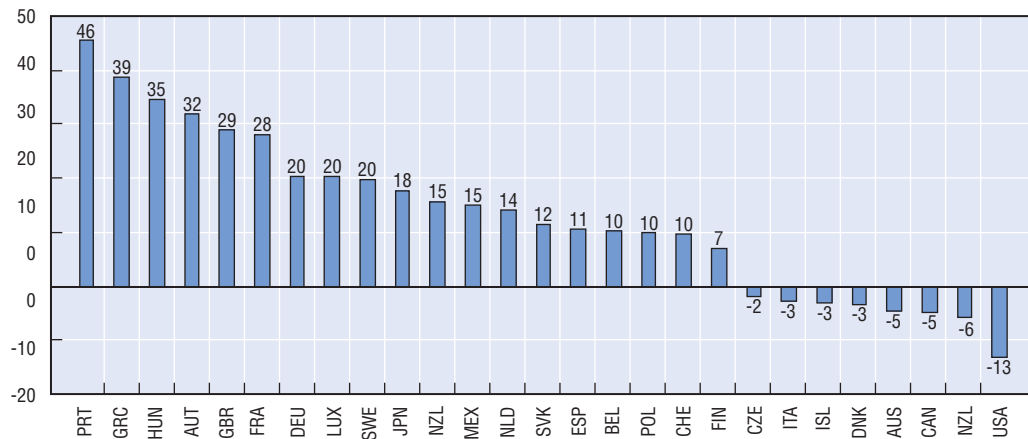
PPP = purchasing power parity.

Note: Monetary values for Turkey divided by 1 000 000. Average earnings are not available on the AW measure for Ireland, Korea and Turkey.


Source: OECD (2006), p. 13; and OECD Main Economic Indicators.

France, Greece, Hungary, Portugal and the United Kingdom). For three additional countries the increase was 20% (Germany, Luxembourg and Sweden). In contrast, a sizeable decrease occurred only in the United States (13%), with more modest declines (of around 5% or less) in seven further countries.*

* Countries have endeavoured to supply data based on the new Average Wage concept. However, as when any new series is introduced, there are teething problems and different interpretations of guidelines need to be reconciled. It appears possible, for example, that the US data excludes some groups that are included in other countries' estimates of the average wage, which may partly explain the surprisingly low US average wage estimate. This issue is subject of ongoing work, and updates to the wage series will be posted on the OECD website as and when they become available.

Figure 0.1. **Percentage difference of average earnings AW levels with regard to previous APW levels, 2004**

Source: OECD (2006), p. 13.

StatLink  <http://dx.doi.org/10.1787/886456570455>Table 0.2. **Total life expectancy at age 65, 2040 projected mortality rates**

| | Men | Women |
|---------------------|-------------|-------------|
| Australia | 84.0 | 87.4 |
| Austria | 83.7 | 87.3 |
| Belgium | 83.8 | 87.3 |
| Canada | 83.8 | 87.4 |
| Czech Republic | 82.5 | 86.0 |
| Denmark | 83.1 | 86.0 |
| Finland | 83.6 | 87.5 |
| France | 83.9 | 87.6 |
| Germany | 83.2 | 86.6 |
| Greece | 83.3 | 86.6 |
| Hungary | 80.8 | 85.0 |
| Iceland | 84.8 | 87.5 |
| Ireland | 82.8 | 86.2 |
| Italy | 83.0 | 87.0 |
| Japan | 85.8 | 88.7 |
| Korea | 81.8 | 85.6 |
| Luxembourg | 83.0 | 87.2 |
| Mexico | 80.9 | 84.8 |
| Netherlands | 83.5 | 86.7 |
| New Zealand | 83.6 | 86.8 |
| Norway | 84.2 | 87.5 |
| Poland | 81.5 | 85.6 |
| Portugal | 82.8 | 86.2 |
| Slovak Republic | 81.1 | 85.1 |
| Spain | 83.4 | 87.0 |
| Sweden | 84.3 | 87.5 |
| Switzerland | 84.5 | 88.2 |
| Turkey | 80.0 | 83.0 |
| United Kingdom | 83.3 | 86.4 |
| United States | 83.8 | 87.3 |
| OECD average | 83.1 | 86.6 |

Note: These projections build on recent national census data. The assumptions for future changes in mortality rates vary between countries but nonetheless use a consistent methodology. The resulting mortality rates can differ from national projections because of differences in assumptions.

Source: OECD calculations based on United Nations/World Bank population database.

Demographics and life expectancy

Table 0.2 shows the country-specific total life expectancy, separately for men and women, conditional on surviving until age 65. Given that pension entitlements are projected into the future, the calculations use the projections for 2040 from the United Nations/World Bank population database. Workers who enter the labour market in 2004 will retire between 2044 and 2051. Unfortunately, mortality-rate projections are available only for 2040 and 2075.

Citizens of poorer OECD member states are projected to retain lower life expectancies than their counterparts in richer economies. In Hungary, Mexico, Poland, the Slovak Republic and Turkey, life expectancy at age 65 is 1½-3 years shorter than the OECD average. Japan and Switzerland have significantly longer life expectancy than the OECD mean today and are projected to remain at the top in 2040. Other countries are clustered around the OECD average.

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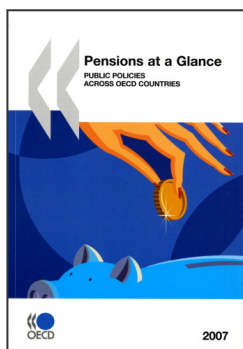
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