2.3. Austria

2.3.1. Demographic profile and demographic forecast

Table 1: Austria: demographic forecast

	2019	2030	2040	2050	2060	2070	2019 - 2070
Population (thousand)	8,882	9,159	9,297	9,345	9,290	9,247	8,882 – 9,247
Population growth rate	0.5	0.2	0.1	0.0	−0.1	0.0	0.5 – 0
Old-age dependency ratio (pop 65+ / pop 20-64)	30.7	40.3	48.2	51.5	54.8	55.9	30.7 – 55.9
Old-age dependency ratio (pop 75+ / pop 20-74)	13.3	15.5	20.9	25.0	25.8	28.0	13.3 – 28
Ageing of the aged (pop 80+ / pop 65+)	27.3	29.0	31.3	40.0	39.1	41.7	27.3 – 41.7
Men - Life expectancy at birth	79.8	81.2	82.6	83.9	85.2	86.3	79.8 – 86.3
Women - Life expectancy at birth	84.3	85.7	86.9	88.1	89.2	90.2	84.3 – 90.2
Men - Life expectancy at 65	18.8	19.8	20.8	21.8	22.7	23.6	18.8 – 23.6
Women - Life expectancy at 65	21.8	22.9	23.9	24.8	25.7	26.6	21.8 – 26.6
Men - Survivor rate at 65+	87.4	89.4	90.9	92.2	93.3	94.3	87.4 – 94.3
Women - Survivor rate at 65+	92.8	94.0	94.8	95.6	96.2	96.7	92.8 – 96.7
Men - Survivor rate at 80+	60.5	65.7	70.0	73.9	77.3	80.3	60.5 – 80.3
Women - Survivor rate at 80+	75.8	79.5	82.4	84.9	87.1	89.0	75.8 – 89
Net migration (thousand)	44.3	31.3	29.4	27.2	26.4	25.5	44.3 – 25.5

Source: European Commission • Created with Datawrapper
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According to the demographic forecast for Austria (Table 1), the population will grow to about 9.3 million by 2040 and remain at that level until 2070. However, the composition of the population will change dramatically in the coming years. From the current old-age dependency ratio (the ratio of the population aged 65 and over to the population aged 20 to 64) of 30.7%, it will rise by almost ten percentage points to 40.3% in 2030 and further to about 50% thereafter. In addition, the "ageing of the aged" indicator, i.e., the ratio of the over-80s to the over-65s, will rise from 27.3% today to more than 40% in the longer term, reflecting the sharp increase in life expectancy. All indicators of life expectancy, both at birth and at age 65 for both men and women, are expected to increase sharply, reaching an average of more than 90 years for women in 2070. In addition, more than 90% of both men and women are expected to survive to the age of 65, and more than 80% are expected to survive to the age of 80 in 2070, with almost 90% of women surviving to the age of 80+. Finally, net migration is expected to decline from current levels, putting additional pressure on old-age dependency ratios.

Table 2: Austria: exit ages and expected duration of retirement

	2020	2030	2040	2050	2060	2070	2020 - 2070
Average labor market exit age (CSM) – Men	63.2	63.2	63.2	63.2	63.2	63.2	63.2 – 63.2
Duration of retirement – Men	20.3	21.4	22.5	23.5	24.4	25.3	20.3 – 25.3
Percentage of adult life spent in retirement – Men	31.0	32.1	33.2	34.2	35.1	35.9	31 – 35.9
Early/late exit – Men	3.7	2.5	2.1	2.4	2.2	2.3	3.7 – 2.3
Average labour market exit age (CSM) - Women	61.4	62.6	63.2	63.2	63.2	63.2	61.4 – 63.2
Duration of retirement - Women	25.3	24.6	25.6	26.6	27.5	28.4	25.3 – 28.4
Percentage of adult life spent in retirement – Women	36.8	35.6	36.2	37.1	37.8	38.6	36.8 – 38.6
Early/late exit - Women	0.5	2.2	1.9	1.8	1.6	1.8	0.5 – 1.8

The labour market exit age as calculated based on Labour Force Survey data for the base year and estimated by the Cohort Simulation Model thereafter; 'Duration of retirement' is calculated as the difference between the life expectancy at the average labour market exit age and that exit age itself; The 'percentage of adult life spent in retirement' is calculated as the ratio between the duration of retirement and the life expectancy minus 18 years; Early/late exit is the ratio between those who retire and are below the statutory retirement age and those who retire at the statutory retirement age or above.

Source: European Commission • Created with Datawrapper

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Despite increasing life expectancy, the average labor market exit age for males is not expected to rise until 2070 (Table 2). The average exit age for women is expected to rise to 63.2, the same as for men, because of recent reforms. Due to higher life expectancy, the duration of retirement will increase from 20 to 25 years for men and from 25 to 28 years for women. On average, men are expected to spend more than a third of their lives in retirement, while this figure is higher for women, at 38.6 years in 2070. Due to recent reforms, early retirement rates are expected to decrease for men, while the opposite is expected for women because of the increase in the retirement age.

The role of migration

The scenarios presented above are based on the main demographic forecast for Austria, which includes a long-term positive net migration. In the main scenario, net migration is assumed to be about 35,000 per year (until 2060), which includes about 150,000 persons immigrating to Austria per year and about 120,000 persons emigrating from Austria. Moreover, the migrant population is characterized by a slightly higher fertility rate, which further improves the demographic forecast. It is instructive to show the role of international migration for the demographic forecast by comparing the main scenario with a scenario without international migration (Figure 11). The number of persons aged 65 and over is relatively similar in both scenarios until 2060 (after which the migrant population would also begin to retire). The main source of difference is therefore the population aged 20-64, which remains at around 5.2 million in 2060 in the main scenario but falls to 3.7 million in the no-migration scenario. The cumulative difference of 1.5 million persons is thus due solely to the positive migration balance. This leads to a large difference in the old-age dependency ratio in 2060 with and without migration (Figure 12), which increases to 54 in the main scenario (1,83 working population per population 65+) and to 76 in the no-migration scenario (1.31 working population per population 65+). Considering the fact that the retired population remains relatively constant in each scenario (due to the lower average age of migrants) and ignoring the differences in fertility rates between the scenarios, it is possible to calculate the

annual net migration that would be necessary to keep the old-age dependency ratio at its 2022 level (32). Under these simplifying assumptions, it can be estimated that about 130,000 net migrants per year would be needed until 2060 to keep the old-age dependency ratio constant. At the end of the projection period, if the number of persons aged 65 and over remains constant, the population aged 20-64 would be 8.9 million, of which 5.2 million would be immigrants from 2022 to 2060.

Figure 11: Austria: demographic forecast with and without migration (2022-2060)

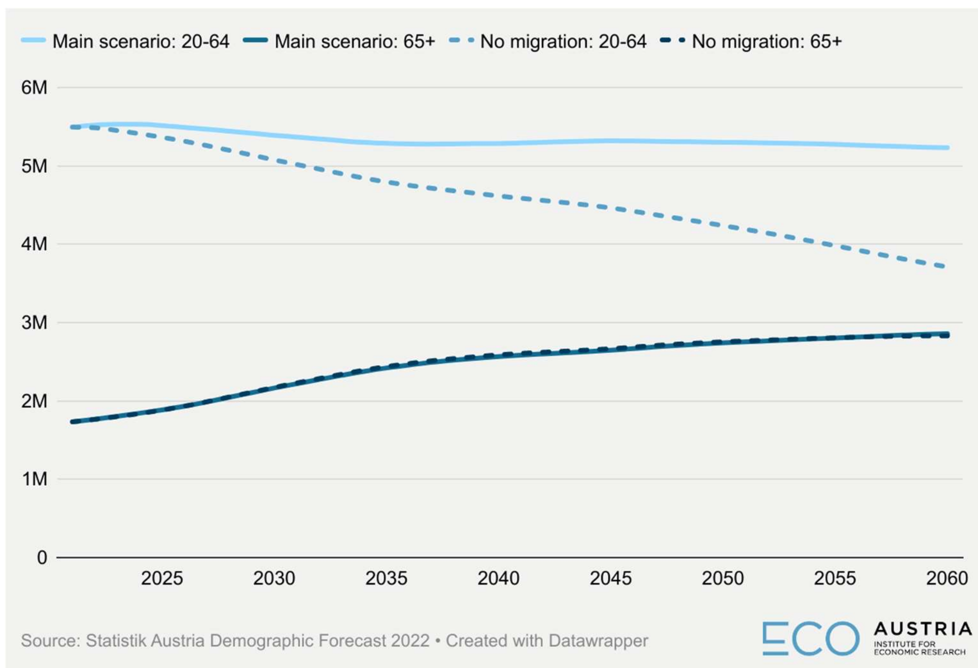
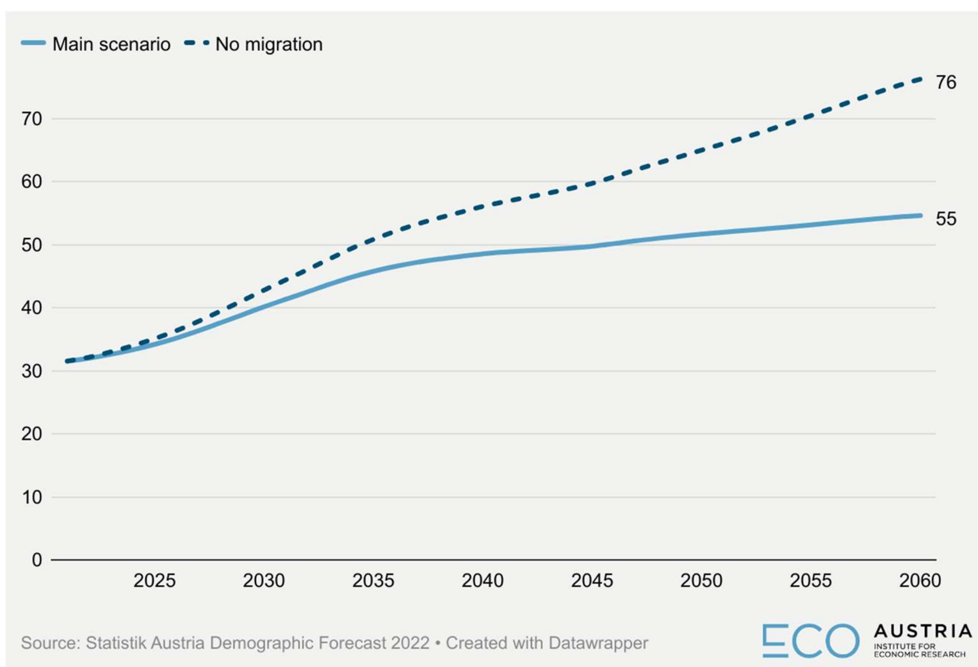


Figure 12: Austria: old-age dependency ratio (65+/20-64) in the main scenario and without migration



2.3.2. General architecture of the pension system

Qualifying conditions

A person is entitled to a pension if contributions were paid for at least 180 months. (There are exceptions for disabled persons and persons who had a work accident.) From these 180 months, 84 months must come from employment (or contribution periods of similar quality). The remaining 96 months can come from other contribution periods, such as unemployment, sick-leave, military service, or child-rearing periods (OECD, 2022).

Current and future retirement age

The statutory retirement age is 65 years for men and all civil servants (also females) and 60 years for women, respectively. The female retirement age will be gradually raised to 65 years in the period from 2024 to 2033 (by ½ years steps). For retirement between the ages of 65 and 68 for men and between 60 and 63 for women the pension is increased by 4.2% per year. Workers who defer their pension also continue to pay contributions thereby increasing their pension entitlements. There are several possibilities for early retirement:

1. Long-term insurance contributions (*"Langzeitversichertenpension - Hacklerregelung"*), currently 44 (women)/45 (men) contributory years or more are required. The early retirement age is 62 years for men and 59 years for women, increasing stepwise to 62 years (4.2% deduction per year before the statutory retirement age).
2. Physically hard work (*Schwerarbeitspension*), a contribution period of 45 insurance years or more is required. Additionally, within the last 20 years before the application there have to be at least 10 years of physically hard work. The earliest possible retirement age is 60 years. There is a deduction of 1.8% per year before the statutory retirement age. For women this scheme will only be relevant from 2024 onwards.[4]
3. Corridor-pension ("*Korridorpension*"), at the age of 62 years, when having at least 40 insurance years (5.1% deduction per year, maximum 15.3% for 3 years before the statutory retirement age). For women this scheme will only be relevant from 2028 onwards.

First-tier pensions

Minimum pensions: pensioners with a low earnings-related benefit receive a means-tested supplement if the sum of the gross pension and income from other sources (some exceptions apply) is less than EUR 966.65 per month for a single person (EUR 1 472.00 for couples). The retiree will receive a compensatory transfer so that the retiree's total income is equal to the threshold. In 2020, an additional form of means-tested supplement was introduced. Pensioners (single households only) with at least 360 contribution months (30 years) will receive a minimum of EUR 1,080. Pensioners in single households with at least 480 contribution months (40 years) received a minimum of 1,315 EUR (1,782 EUR for couples). There are 14 annual payments, and

[4] For some persons (dependent on their birth date) there is also an option of *"Langzeitversicherungspension mit Schwerarbeit".*

the adjustment of benefits usually follows the adjustment of earnings-related pensions. The level of the minimum pension was at 28% of the average gross earnings in 2020.

Targeted support: The aim of the means-tested minimum income scheme is to provide a decent standard of living for individuals who are unable to meet their daily living expenses or those of their dependent family members. The assistance scheme is not specifically designed for the elderly. However, older people can only apply if no other resources are available. The monthly threshold in 2020 is EUR 917.35 for singles (EUR 1,376.02 for couples). There are 12 monthly payments. Before applying for a means-tested minimum income scheme, all individual resources must be used up, up to a threshold of EUR 4,586.75 in 2020. It is possible to own a house or an apartment, but the authorities may enter the land register after some time.

The minimum pension is generally indexed annually to consumer price inflation, while the targeted benefit is indexed at the discretion of the government. The level of targeted support was at 22.6% of average gross earnings in 2020.

Second-tier PAYG pensions

The second tier of the PAYG pension system is a defined benefit system. This pillar is mainly financed by compulsory contributions (up to a maximum contribution base). Current contribution rates are uniformly set at 22.8% of gross earnings. The nominal accrual rate in the pension system is 1.78%, which is the fifth highest among OECD countries with defined benefit systems. The calculation is based on lifetime earnings. Pensions are uprated with price inflation and indexed at a discretionary rate that typically exceeds price inflation. Pensionable earnings are capped at 1.55 times the average wage. Given these features, the effective accrual rate is 1.72%, which is currently the second highest in the OECD, just behind Colombia's 1.87%.

2.3.3. PAYG and fiscal challenges

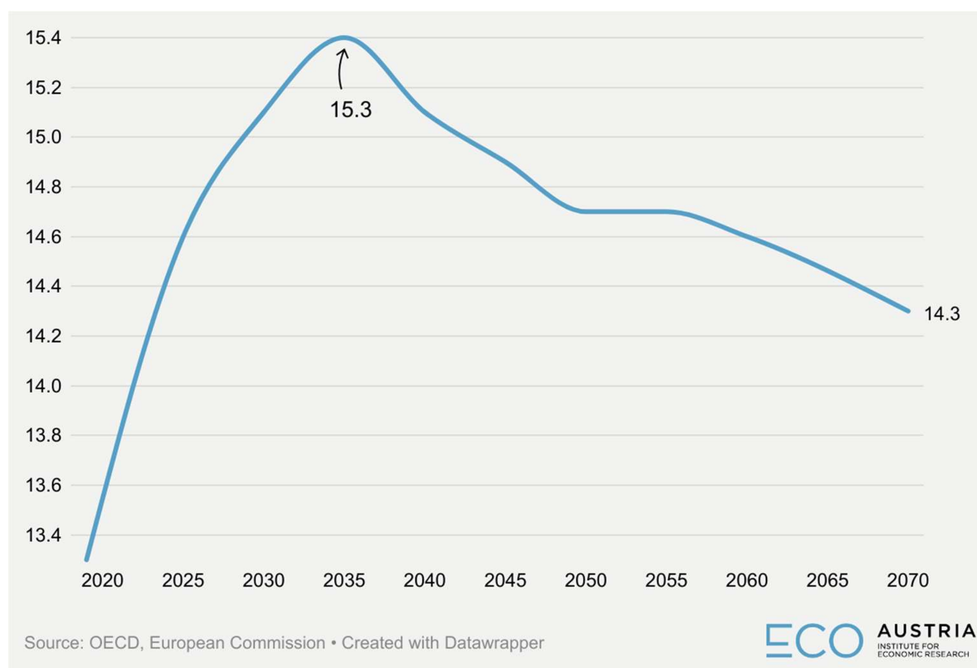
Public Expenditure

Public spending on pensions has increased steadily in recent years and currently stands at around 13.4% of GDP. Since 2010, it has increased by more than one percentage point. According to comparable data from 2021 or the latest available, Austria's expenditure was the fourth highest among OECD countries, with only France, Greece and Italy having higher levels in relation to GDP. Private spending on pensions is comparatively low, amounting to 0.7% of GDP in 2017. The old-age poverty rate, defined as the percentage of the population with an income below 50% of the median equivalized household disposable income, is 10%, which is low compared to other OECD countries, but slightly higher than the poverty rate of the total population, at 9.4% in 2018. For older women in particular, old-age poverty is significantly higher than the overall poverty rate at 12.1%, which is related to the high level of part-time work among women in Austria. The comparatively low old-age poverty is the result of higher replacement rates than in other countries (which, however, will decrease until 2070, as explained in the next section). The (gross) replacement rate for a person earning the average wage is 74.1%, while it drops to 57.3% for a person earning twice the average wage. The OECD averages are 51.8 and 44.4 respectively (OECD, 2021). By comparison, the Austrian system is very generous. Lifetime accumulated

pension wealth is higher than in most OECD countries, ranging from 13.7 times average male earnings for low earners to 10.6 times for high earners, and from 15 times for low and average female earnings to 11.6 times for high earners. The OECD averages are between 11.8 and 8 for men and 13 and 8.8 for women.

Forecast of the public expenditure

Figure 13: Austria: Forecast of public expenditure on pensions (in % of GDP)



Public spending on pensions is projected to increase from 13.3% currently to 15.3% in 2035 and then to decline to 14.3% (Figure 13). The dynamics of pension expenditure can be broken down into the dependency ratio, the coverage ratio, the benefit ratio and the labor market effect.

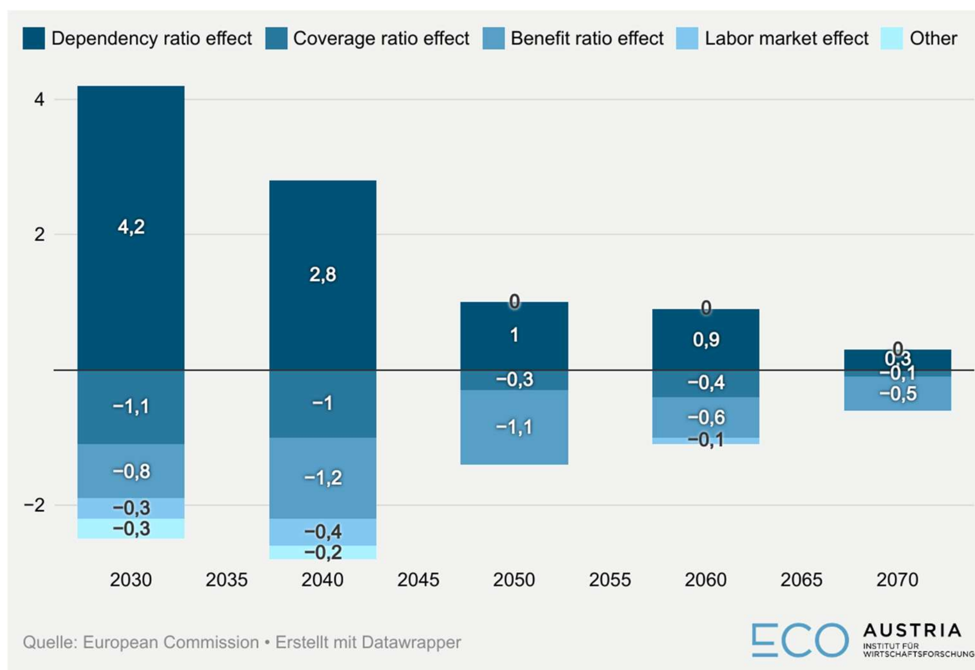
The **dependency ratio** effect reflects the evolution of the ratio of the elderly (population 65+) to the working-age population (population 20-64). While this ratio is 30.7% in 2019, it is projected to rise to 55.9% in 2070. In the absence of other effects offsetting these adverse dynamics, ageing alone would increase public pension expenditure by 9.3 percentage points of GDP in 2070 compared with 2019.

The reduction of the **coverage ratio** goes back predominantly to the enacted legal changes assuming a marked increase in the female exit age from the labor market in the coming decades. After some reforms in the following years, the harmonization of the statutory retirement age for women from 60 to 65 between 2024 and 2033 is expected to have the largest impact on the exit age. The decline in the number of old-age pensions is also linked to the reduction in the number of survivors' pensions.

The **replacement rate** declines from 55.4% in 2019 to 52.1% in 2070. The **benefit ratio** declines throughout the projection period from an initial 53.6% to 42.5% in 2070, mainly because of past pension reforms, notably the introduction of the pension account system. While the reforms

somehow reduce the fiscal pressure stemming from ageing, they do raise the question of increasing old-age poverty.

Figure 14: Austria: Components of change in the public expenditure



The changes due to the four effects are presented in Figure 14. Overall, until 2070 an increase due to increasing dependency ratios of 9.3 percentage points is dampened by 2.9 percentage points with the decreasing coverage ratios, by 0.7 percentage points due to effects on the labor market and by a substantial 4.2 percentage points due to the reduction in the benefit ratios.

Forecast of the replacement rates

Table 3: Austria: Benefit ratios and replacement rates until 2070

	2019	2030	2040	2050	2060	2070	change in pp
Public scheme (BR)	54%	53%	49%	46%	44%	42%	−11.1
Public scheme: old-age earnings related (BR)	54%	54%	51%	48%	46%	45%	−9.0
Private occupational scheme (BR)							
Private individual schemes (BR)							
Total benefit ratio							
Total replacement rate							

Source: European Commission • Created with Datawrapper
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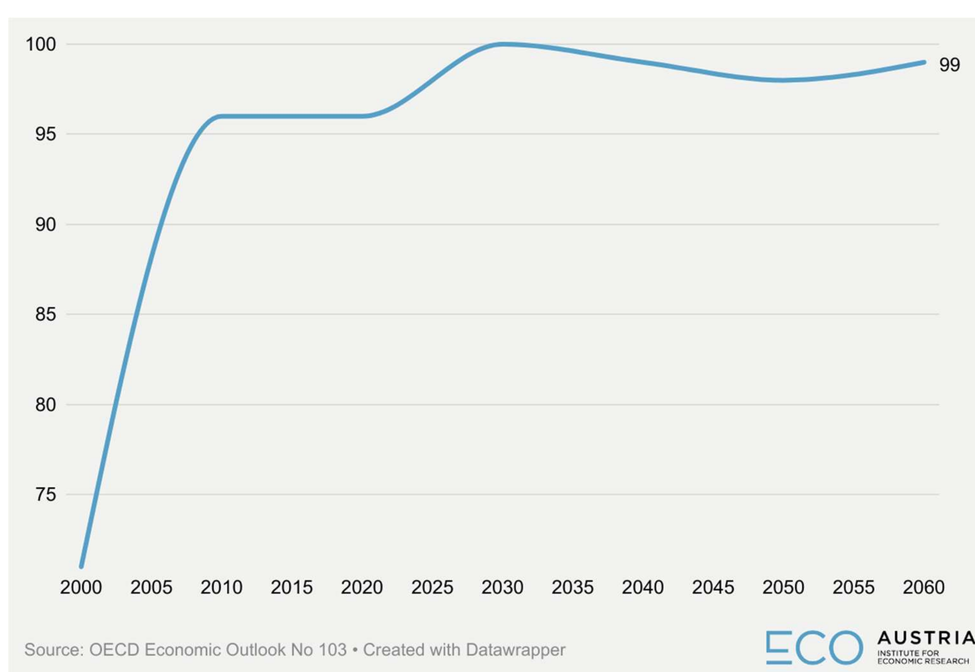
Benefit ratios and replacement rates are shown in Table 3. The total benefit ratio, i.e., including earnings-related and minimum benefits, is reduced by more than 11 percentage points in 2070.

The earnings-related benefit ratio falls by about 9 percentage points and the replacement rate by more than 3 percentage points. These figures imply that without private savings, the income level of the elderly will be significantly reduced in the coming years.

Forecast of the debt levels

An increasing pressure on the public finances in Austria, stemming from an increase in old-age-related expenditure reduces fiscal sustainability. According to the OECD long-term projections, gross financial liabilities as percentage of GDP will rise above 100 % around 2030 and stay at this level until the end of the projection period in 2060 (see Figure 15).

Figure 15: Austria: Projection of long-term gross financial liabilities (in % of GDP)



The assessment of long-term fiscal sustainability can be based on two complementary fiscal gap indicators that show the upfront fiscal adjustment required to achieve two specific long-term fiscal goals (see, DG-ECFIN, 2023):

- the S2 indicator measures the fiscal effort required to stabilize government debt in the long term,
- the S1 indicator measures the fiscal effort required to bring the government debt-to-GDP ratio to 60% by 2070.

The S2 indicator measures the permanent adjustment in the structural primary balance (SPB) in 2024 that would be required to stabilize government debt in the long term. It consists of two components, namely (i) the "initial budgetary position", which measures the gap between the initial SPB and the debt-stabilizing structural primary balance, and (ii) future ageing costs. Austria is assessed to be at medium risk, with an S2 indicator of 3.2% of GDP, of which 2.4 percentage points are due to ageing costs. The main risk stems from the long-term costs of health care and long-term care. The structural primary balance required to achieve fiscal consolidation is 2.6% of

GDP, compared to -0.6 projected for 2024, and the European Commission assesses the plausibility of achieving this target (based on past projections) as zero.

The S1 indicator measures the permanent fiscal effort needed in 2024 to bring the debt ratio down to 60% of GDP by 2070. The S1 indicator consists of three components, namely (i) the "initial budgetary position", which measures the gap between the 2024 SPB and the debt-stabilizing structural primary balance, (ii) the debt requirement, which is related to the distance of the current debt ratio from the 60% reference value, and (iii) future ageing costs (DG-ECFIN, 2023). Austria's S1 indicator is 2.4%, indicating a medium fiscal risk, mainly driven by ageing costs, with pensions accounting for 0.3 percentage points, health care for 0.7 percentage points and long-term care for 1 percentage point. The implied structural balance in 2024 is 1.8, compared to a projected -0.6% of GDP.

2.3.4. Funded Pensions (Second and third tier)

Voluntary/Mandatory, Occupational/Personal, Book reserves

The Austrian Occupational Pension Act (“*Betriebspensionsgesetz*”) contains regulations for occupational old-age provisions in the second pillar. This Act regulates primarily following firm-related retirement provisions:

- Pension provision funds (“*Pensionskassen*”)
- Occupational collective insurances (“*Betriebliche Kollektivversicherung*”)
- Direct provisions allowed by a company to an employer (“*Direkte Leistungszusage*”)
- Life insurances

By the end of 2021, the assets of pension funds have increased to EUR 27 billion (6.7% of GDP), and the assets of collective occupational insurance schemes (established in 2005) will be around EUR 1.0 billion (0.3% of GDP). Since 2002, employers have been required to pay 1.53% of their employees' monthly salaries into a pension fund set up specifically for the new severance pay system. In the event of termination of employment by the employer and after a minimum period of service of 36 months, the employee is entitled to receive a severance payment or to leave the amount in the employee provident fund. For retirement purposes, retired employees can choose to receive the payout in the form of a lump sum (taxed at 6%) or as an additional monthly pension (tax-free). A recent industry report by the Financial Market Authority (FMA) on Austria's eight occupational pension funds shows that the pension assets they manage will total EUR 16.6 billion at the end of 2022.

Other elements of the funded second tier, besides the severance pay, are voluntary. Occupational pension provision in Austria is regulated on a voluntary basis and is dependent on the employer. In addition to direct benefit commitments, the employer can - depending on the model - pay approximately 10.25% of an employee's gross salary into a private pension fund. These payments can be claimed as business expenses and are therefore tax-free. The pension fund subsequently assesses these contributions, and the funds are exempt from both capital gains tax and corporate

income tax. The employees' own additional contributions are tax privileged. In addition, a state premium is added for up to 1,000 euros per year.

Respectively, the coverage of the voluntary occupational tier is comparatively low. While in countries with mandatory or quasi-mandatory occupational systems (e.g., through incentives or opt-outs) systems like Denmark or the Netherlands coverage rates are close to 100% of the working-age population, the coverage in the voluntary occupational system in Austria ("*Pensionskassen*") is currently[5] at 15.2% of working-age population. The coverage has increased slightly by 0.5 percentage points since 2001. Out of about 25 billion EUR under management of the *Pensionskassen*, about 80% of assets are allocated in defined-contribution schemes while the rest is allocated in defined-benefit schemes (see OeNB, 2023).[6]

The third tier of the Austrian pension system consists of private pension provision by individuals. As with occupational schemes, individuals can choose from a variety of investment products that directly or indirectly serve the purpose of retirement provision. Thus, in the private individual system, a distinction can generally be made between particular pension-oriented provisions and a general accumulation of savings over the life cycle. Traditionally, life insurance has played an important role in long-term savings. Private life insurance contracts have continued to show a strong upward trend in recent years. While private life insurance generally results in a single payment, private annuity contracts are usually taken out for the purpose of receiving a lifelong pension (BMF, 2021). The most popular form of private old-age provision is the so-called "*Zukunftsvorsorge*". It was introduced in 2003 as a form of life insurance (including a capital guarantee) subsidized by the state with a tax premium. After a minimum investment period of 10 years, the taxpayer can dispose of these rights. However, if the rights are paid out, half of the allowed government bonus must be repaid, along with a 25% retroactive tax on the capital gain, and the capital guarantee is lost. If the rights are transferred or used for pension payments, no tax is due. Coverage is comparatively low at 16.5% of the working-age population (OECD, 2022) and has even declined in recent years (by 1.2 percentage points since 2011) due to low capital gains in the face of low interest rates and the reduction of the government subsidy in 2012.

Investment regulations

Both second- and third-tier plans are subject to a statutory "capital guarantee". Occupational pension plans must provide a guarantee for the invested funds unless the provision of this minimum return guarantee is excluded. In principle, the pension fund is obliged to provide the minimum return guarantee for the invested funds. However, this minimum return guarantee can be excluded in the contract between the pension fund and the employer. In such cases, a pension fund commitment exists without a minimum return guarantee. This requires a waiver of the minimum return guarantee in an agreement between the employer and the employees (company agreement, collective agreement). Employee involvement is not required if the pension fund model is based on a defined benefit plan, because in a defined benefit plan the employer bears the investment risk and the contributions paid by the employer are adjusted depending on the

[5] Latest data from 2021.
[6] https://www.oenb.at/isaweb/report.do?lang=DE&report=3.16

investment performance. The minimum return guarantee is based on half of the average monthly circulation-weighted average yield on bonds (a weighted average of the yields on federal bonds listed on the Vienna Stock Exchange) over the last five years minus 0.75 percentage points (see FMA, 2023). There are no strict rules regarding investment strategies, except for the explicit mention of the "prudent person rule" in the law. According to this rule, pension funds may only invest in assets and instruments whose risks they can adequately identify, measure, monitor, manage and report. All assets must be invested in such a way as to ensure the safety, quality, liquidity and profitability of the overall portfolio. However, the yield guarantee results in conservative investment strategies. For example, as of the first quarter of 2023, of the EUR 25 billion under management in the occupational second tier, EUR 5.3 billion was invested in equity funds, EUR 6.7 billion in bond funds, EUR 8.9 billion in balanced funds and EUR 1.4 billion in real estate funds (OeNB, 2023).

The third tier (*Zukunftsvorsorge*) is subject to strict investment rules regarding the proportion of invested capital in different assets. In addition, the pension fund must provide a 100% capital guarantee on the amounts paid in and on the state contributions, except in the case of a cash payment. Regarding investment strategies, as of 2010, at least 30% of the capital must be invested in shares that are listed for the first time on a stock exchange in a member state of the European Union or the EEA. For policies taken out between January 1, 2010, and July 31, 2013, the equity quota depends on the taxpayer's age (life-cycle model): 30% up to the age of 45; 25% from 45 to 55; 15% from 55. Existing contracts may be converted to the life-cycle model. The stock market capitalization of the relevant EU or EEA country in whose shares are invested may not exceed 40% of GDP over a period of several years. As of August 1, 2013, the life-cycle model for new contracts has been changed to a two-tier model with a range within which the equity allocation must lie: up to the age of 50, 15% to 60%; from the age of 50, 5% to 50%. Initially, only 60% of the shares must be listed on certain stock exchanges in the EU or EEA (see above). Existing contracts may be converted to the new model under certain conditions.[7]

Assets allocated

In international comparison, there is comparatively little capital allocated in funded pensions in Austria, with currently about 6.7% of GDP under management in pension savings. The OECD average is significantly higher at 99.9%, meaning that the sum of assets in pension plans in the OECD countries roughly equals the GDP of all OECD countries combined. Internationally comparable data is only available for the "*Pensionskassen,*" and shows that in Q1 2023 21.2% was invested in equity, 27% in bonds and cash, 5.2% in real estate and 35.6% in other funds. The "other" category includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, and other structured products. Regarding home bias, as of end of 2021, 96.1% of assets of funded schemes were allocated abroad (Fenzal, 2021).

Investment performance

In 2021, Austria's funded and private pension plans performed around the OECD average with a real return of 3%, while rates ranged from 15.5% in Poland to -9.7% in Turkey. Over the long term,

[7] https://www.wko.at/service/steuern/Die_praemienbeguenstigte_Zukunftsvorsorge.html

Austrian pension plans performed poorly, with a geometric average of 1.8% in real terms over the last five and ten years, and 1% over the last 15 years. By comparison, real returns in the Netherlands and Denmark averaged more than 4% over the past 15 years (OECD, 2021). According to preliminary data for 2022 (OECD, 2023), Austria's real rate of return was negative at -18%, which is around the average for all OECD countries.

The main point of criticism regarding the poor performance of the funds is the "capital yield guarantee", which is mandatory for both second- and third-tier products (see previous section). The yield guarantee results in funds investing in riskless assets, which tend to underperform in the long run.

Tax treatment

As mentioned above, the pension fund’s funds (second tier) are exempt from both capital gains tax and corporate income tax. The employees' own additional contributions are tax privileged. In addition, a state premium is added for up to 1,000 euros per year. Investment income is tax-exempt for pension companies, occupational group insurance, direct insurance, support funds and personal pensions (i.e., for all collective and personal plans). Investment income is considered a company profit and subject to profit tax for direct commitments. Tax treatment of the income depends on the type of the plan: Pension companies and occupational group insurance: Pensions are taxed as earned income at the individual’s marginal rate of income tax. The portion of pension accrued by employer contributions is fully taxed. Only 25% of the portion of pension accrued by employee contributions is taxed; Personal pension insurance: Pensions are taxed as earned income at the individual’s marginal rate of income tax from the moment the total value of benefits paid exceeds the capital value of the pension at retirement. It means that pension benefits are tax-free until that point in time; State-sponsored retirement provision (*Zukunftsvorsorge*): Withdrawals are tax-exempt after having reached a certain age and a certain length of investment if the entitlements are transferred to an occupational or personal pension plan or used to buy an annuity. If they are paid out as a lump sum, the individual must pay back 50% of the government subsidies and a 27.5% tax on capital gains. This roughly corresponds to a TET/TEE/TE(PE) regime in the second tier and a TEE regime in third tier.

2.3.5. Highlights and main features of the system

1. Strengths and weaknesses (according to Overall Pension Index – OPI)
- The Austrian pension system shows good results with regard to "Adequacy" (with an OPI score of 0.66 and ranked 4th among 11 countries) and "Equitability" (OPI score 0.68, ranked 1st). - The overall pension system shows, however, medium to low results in terms of "Sustainability" (OPI score 0.37, ranked 9th) and "Market capitalization" (OPI score 0.39, ranked 6th).
2. Tax treatment
- 2nd tier employer financed occupational plans: EET; 3rd tier state-sponsored retirement provision: TEE; 3rd tier personal plans: TET.
3. Contribution rate to funded plans and split between employer and employee
- Participation is not legally binding. However, participation is anchored in collective agreements or company-level agreements. Contributions are paid by employer according to agreed conditions. - The employer can pay up to 10.25% of an employee's gross salary into a private pension fund. These payments can be claimed as business expenses and are therefore tax-free.
4. Asset Allocation
- In the year 2022 according to OECD: Equities (33.0%), Bills & Bonds (27.2%), Cash & Deposits (2.0%), Other* (37.8%) * Assets invested in loans, real estate (land and buildings), unallocated insurance contracts, private investment funds and other alternative investments.
5. Obligatory character
- Occupational schemes are subject to auto-enrolment from 2012. Individual pension plans are voluntary.
6. Pay-out options of funded plans
- Occupational funded pensions in the form of "betriebliche Altersvorsorge" are paid out in the form of a continuous annuity pension. A one-off payment is only possible under certain conditions and only up to an upper limit ("Abfindungsgrenze" of currently EUR 15,600).
7. Contributions to funded plans as percentage of GDP
- According to OECD Pension Markets in Focus 2022 (OECD 2023) the volume of contributions to all forms of funded schemes was only 0.3% of GDP in 2021.
8. Investment performance
- According to time-series data in OECD Pension Markets in Focus 2022 (OECD 2023) the average investment rate of return from 2011 to 2021 was 2.0%. - At the same time the OECD average was 3.7%.

Additional information and results

- High and increasing public costs for the pension system. There is a need to subsidize assets from the general budget, especially for women.

- Recent reforms have reduced costs somewhat, but at the cost of low long-term benefit ratios.
- Assets in funded second and third tier pension plans are very low by international standards-only about 6.7% of GDP is allocated to funded schemes.
- Funded schemes have performed poorly in recent years, probably because the "capital guarantee" forces providers to invest in very low-risk assets.