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## Pension in Austria

### 1. Introduction

#### Overview

Austria's pension system consists of three pillars. Generally, the legal framework plays an important role in all three pillars (Adam 2004: 2).

- The first pillar clearly is the most important part of the Austrian pension system. Since the introduction of the *Pensionsharmonisierungsgesetz* (Law on Pension Harmonization) in 2005 all occupational sectors should have been integrated (or are going to be) in one single scheme: a statutory pay-as-you-go system which is compulsory for employees (Schulze/Schludi 2007: 567).
- The second pillar consists of voluntary occupational pension schemes. There are five different types of schemes: pension funds, direct insurance, occupational group insurance, book reserve, and support funds (ISSA 2008: Pension Plans (Voluntary)). None of the schemes is compulsory and demand seems to be rather low (Schulze/Schludi 2007: 567): Only 18 per cent of the employees are covered by an occupational pension (ÖBV 2009: Betriebliche Altersvorsorge – die zweite Säule). Most of the complementary schemes are organized at company level (Adam 2004: 6). In these cases, the schemes must be based on agreements negotiated between the company and the works council or directly with the employees. However, in case of pension funds it is possible for a group of

employers to establish a common scheme together with the trade union at sectoral level (ISSA 2008: Pension Plans (Voluntary)). Yet, in 2004 collective agreements on occupational pensions at sectoral level only existed in a few small sectors (Adam 2004: 5).

- Voluntary private pension schemes do exist as well. But similarly to the second pillar, they are not very wide spread (Schulze/Schludi 2007: 567).

The role of collective labor agreements (CLAs):

In Austria, collective bargaining at sectoral level does not play an important role in the domain of pensions. In fact, only some special aspects of complementary pensions are regulated in collective labor agreements (CLAs) (Adam 2004: 3). As this report does not focus on schemes at company level, only the few pension funds at sectoral level are of interest here.

## **Levels of Bargaining**

As mentioned above, most occupational pension schemes are established at company level. Only in a few cases, a scheme has been negotiated and introduced at sectoral level (Adam 2004: 6)

## **Actors**

According to Franz (10.05.2010, interview) the following main trade unions and employers' associations are involved in negotiating pension CLAs:

- Main trade unions that are involved in the negotiation of pension CLAs:
  - The specific sectoral organizations of the ÖGB (*Österreichischer Gewerkschaftsbund*, Austrian Trade Union Federation).
  - GPA-djp (*Gewerkschaft der Privatangestellten Druck Journalismus und Papier*, Union of Private Sector Employees, Printing, Journalism, and Paper). According to EIRO (2009: Main Actors), this trade union is one of the most important affiliates of the ÖGB. It has been involved in the pension agreements of the paper and pulp industry and of the banking sector.
- Main employers' associations that are involved in the negotiation of pension CLAs:
  - The specific sectoral organizations of the WKÖ (*Wirtschaftskammer Österreich*, Austrian Federal Economic Chamber). In the case of the paper and pulp industry, the

agreement was negotiated by the *Sparte Industrie, Fachverband der Papierindustrie* (industry sector, professional association of the paper industry).

### **Critical Junctures**

Definition: critical junctures are years or time periods when important decisions on the development of the collectively negotiated pension scheme were made.

- According to the ÖGB (2009: Grundprinzipien der österreichischen Kollektivvertragspolitik), CLAs with pensions provisions have been negotiated since 1973.
- The Pension Fund Act and the Company Pensions Act of 1990 delivered the legal framework for the establishment of pension funds (ISSA 2008: Pension Plans (Voluntary)).

## **2. Important Collective Agreements (Examples)**

Examples are mentioned in section 3.

### **3. Important Sectors**

- Until 2004, sectoral CLAs on occupational pensions only existed in the following sectors (Adam 2004: 6):
  - banking,
  - saving bank,
  - paper and pulp industry: according to GPA-djp (2009: 76), this CLA was concluded in 2003.
- Today, there are at least two additional sectoral CLAs on occupational pension in the health care sector (Franz 10.05.2010, e-mail interview):
  - one for doctors and dentists,
  - and another one for administration staff, care attendants and employees of dentists.

## **4. Structure, Organization and Mode of Administration**

- As mentioned in section 1, pension funds can be subject to sectoral agreements if they are established as multi-employer funds (ISSA 2008: Pension Plans (Voluntary)).

- Pension funds are based on a contract between the fund and the contributing employers and must cover at least 1,000 employees. They are independent legal entities and therefore separate from the employers. Their legal form is a joint-stock company with the headquarter in Austria. The contract between the fund and the employers must include the following contents: benefit provisions, employer and employee contribution rates, an investment policy framework, information obligations for the sponsoring employers, and administrative charges (ISSA 2008: Pension Plans (Voluntary)).
- Each pension fund must have a supervisory board consisting of between 10 and 22 members in the case of multi-employer funds (ISSA 2008: Pension Plans (Voluntary)).
- The directors of a multi-employer pension fund must prove professional experience in the area of pension fund management, banking or insurance and must have been in a management position for at least three years (ISSA 2008: Pension Plans (Voluntary)).
- A consultative committee can be established within a pension fund. This committee should consist of an equal number of representatives of the fund management and of fund members. It has the right to obtain certain information and to make proposals to the supervisory board (ISSA 2008: Pension Plans (Voluntary)).

## **5. Role of the State: Financial Support, Legislation, and Extension Procedures**

- Even though pension funds are established on the basis of CLAs, the framework is regulated by the state.
- Since 1990:
  - The Company Pensions Act has authorized different types of occupational pension plans (ISSA 2008: Pension Plans (Voluntary)).
  - The Pension Fund Act (*Pensionskassengesetz*) has regulated the establishment, operation and supervision of pension funds. This act includes rules concerning asset management, minimum funding and accounting (Adam 2004: 3; ISSA 2008: Pension Plans (Voluntary)).
- In addition, since 2005 the Company Pensions Act has been a framework for the regulation of all five different types of complementary pensions (ISSA 2008: Pension Plans (Voluntary)).
- Furthermore, the FMA (*Finanzmarktaufsichtsbehörde*, Financial Market Authority) is responsible for the authorization and supervision of the pension funds (ISSA 2008: Pension Plans (Voluntary)).

- Tax rules:
  - Employer contributions to defined benefit schemes are tax deductible company expenses as long as the total benefit target including social security benefits is not higher than 80 per cent of current salary. Employer contributions to defined contribution schemes up to 10.25 per cent of the wage are tax deductible (ISSA 2008: Pension Plans (Voluntary)).
  - Investment income of pension funds is tax exempted (ISSA 2008: Pension Plans (Voluntary)).
  - Pension benefits are taxed as earned income (ISSA 2008: Pension Plans (Voluntary)).

## **6. Financial Structure of the Collectively Negotiated Schemes**

- Pension fund assets must be separated from the assets of the sponsoring employer (ISSA 2008).
- Contributions: Employer contributions are compulsory, while voluntary employee contributions are allowed as well (Adam 2004: 4-5; ISSA 2008: Pension Plans (Voluntary)). But in reality, contributions are paid exclusively by the employer (Adam 2004: 4-5).
  - In the case of defined contribution plans, contributions are paid on the total salary, with the contribution rate usually ranging between one per cent and three per cent of salary below the social security ceiling (which is 3,750 EUR a month) and between 5 per cent and 15 per cent of salary above the ceiling (ISSA 2008). The concrete contribution levels are set by both parties the employers and the unions (Adam 2004: 5).
  - An interruption of contributions is only allowed when the relevant collective agreement provides for clauses explicitly allowing this in the case of serious financial problems (Adam 2004: 4-5).
- Every pension fund must establish a volatility reserve of between 10 per cent and 25 per cent of the pension liabilities (ISSA 2008: Pension Plans (Voluntary)). But if a pension fund has serious financial problems, the contributing companies can be obliged to subsidize the fund (Adam 2004: 5).
- Concerning investment, the Financial Market Authority FMA has established very detailed minimum standards. For example, pension funds are obliged to diversify their investments (ISSA 2008: Pension Plans (Voluntary)).

The example of the paper and pulp industry:

- Starting in May 2004 and based on a sectoral CLA the employers of this sector were obliged to pay 0.9 per cent of the wages into a pension fund (Adam 2004: 6). Later, the contributions were increased on several occasions. For example, in May 2007 employers' contribution to the pension fund was raised from 1.65 to 1.95 per cent (Austropapier 2008: 8). Since May 2008 the contribution rate has been 2 per cent (GPA-djp 2009: 77).

## **7. Benefits and Measures of the Collectively Negotiated Schemes**

- The usual retirement age in Austria is 60 years for men and 55 for women. However, it is normal that occupational pension schemes (at company and sectoral level) have introduced an equal retirement age of 65 for both men and women (ISSA 2008: Pension Plans (Voluntary)).
- Looking at all types of occupational pensions, defined benefit as well as defined contribution schemes are common in Austria (ISSA 2008: Pension Plans (Voluntary)). Thus, the actual amount of the pension benefits is usually determined by two factors: firstly, the former earnings in the form of either a final salary scheme or of an average wage scheme considering the average of earnings within a certain time period of employment prior to retirement. Secondly, the pension percentage rate resulting from the number of years of pensionable earnings on which the pension received is calculated (Adam 2004: 4).
- Lump-sum payments are allowed if the vested benefit amount at retirement is less than EUR 10,200 (ISSA 2008: Pension Plans (Voluntary)).
- Together with other social security benefits, the total replacement rate is usually 70 per cent of final earnings. In fact, a total target replacement rate above 80 per cent of final earnings is prohibited (ISSA 2008: Pension Plans (Voluntary)).

## **8. Coverage Rates of the Collectively Negotiated Schemes**

According to the ÖBV (2009: Betriebliche Altersvorsorge - die zweite Säule), 18 per cent of the employees are covered by an occupational pension. However, this coverage rate includes both pension schemes at company and at sectoral level.

## **9. The Politics around the Collectively Negotiated Schemes**

### **Linkages to Public Reform Policies**

We have not found any evidence.

### **Linkages to Wage Agreements and Wage Policy (e.g. Wage Restraint, Tripartite Agreements) and Other Agreements**

We have not found any evidence.

### **Actors' Strategies and Conflicts among and between Them (State, Political Parties, Employers, Trade Unions)**

We have not found any evidence.

## **10. Recent Developments and Other Interesting Information**

We have not found any evidence.

## **11. Contacted Experts**

We thank the following expert and colleague for providing information and answering very specific questions:

- Franz, Silvia, 10.05.2010, contact person for CLAs at the ÖGB, telephone and e-mail interview.

## **12. List of Abbreviations**

- CLA: collective labor agreement
- EIRO: European Industrial Relations Observatory On-Line
- EUR: Euro
- FMA: *Finanzmarktaufsichtsbehörde* (Financial Market Authority)
- GPA-djp: *Gewerkschaft der Privatangestellten Druck Journalismus und Papier* (Union of Private Sector Employees, Printing, Journalism, and Paper)
- ISSA: International Social Security Association

- ÖBV: *Österreichische Beamtenversicherung* (Austrian Insurance for Public Officials)
- ÖGB: *Österreichischer Gewerkschaftsbund* (Austrian Trade Union Federation)
- WKÖ: *Wirtschaftskammer Österreich* (Austrian Federal Economic Chamber)

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