AUSTRIA 2050: PENSIONS OF THE FUTURE
NEITHER AGONY, NOR END OF CHRONIC CONDITIONS

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To write about developments up to 2050 in the year 2013 demands vision and audacity. Since Max Weber, those who want to be visionary have been recommended to visit the cinema or the doctor, in keeping with the ethics of responsibility versus the ethics of conviction. And projections over four decades, partly in areas where not even the quarterly forecasts are fully reliable, are rightly regarded as being highly risky; and yet, the thirst for knowledge of the longue durée is irresistible and legitimate. We want to be sure about the historical background and the path dependencies as much as the uncertainty of future options, which are, of course, still open as well as the responsibility-laden commitment to a specific course. Precisely with the high degree of path dependency that exists in Austria – in other words, the historical impact of past policy decisions on the present and future – one can only speak of possible and probable trends up to 2050 by having exact knowledge of the momentum, the successes and also the idle states of post-war developments.

On the status quo of welfare, gainful employment and pensions in Austria

As market participants, we are no more than the labour and purchasing power that we provide. Both we acquire not only through the labour and goods or service markets; also our income is increasingly sustained by state support. For almost half a century over our lifetime and, therefore, the largest part of our lives, public welfare, social security and pension institutions are co-determining what we can afford and who we can be and, therefore, a large part of our lives.

Over the lifecycle, during about one generation we have mainly been state-dependent care recipients (as children, pupils, students, home-makers, unemployed, patients, those unable to work/disabled persons, on leave, holiday-makers, pensioners etc.), and no longer as an active labour force. According to Karl Renner, the majority of us have long been among the ones needing care, benefits, support, i.e. among the so-called maintained "Versorgungsklassen" ["dependent classes"], and no longer part of the productive, proud, value-creating working or labouring classes.

If in the 1970s we were still employed for 43 years and dependent for 34 years, during the course of our lifetimes, we have become beneficiaries for 48 plus years and only work for 35 years, of which only 31 years are spent paying contributions to social security. On average, we spend over a quarter of a century in retirement, over 13 (men) to 18 years (women) during our working lives we are not working, of which about two years we spend in unemployment, two years on sick leave, almost four years (9.8–12.6 years in the case of those affected) in invalidity/disability, etc.

Imbalances and interest-driven tensions and potential conflicts arise, not between the generations, between the "young" and the "old", but between the active and the inactive of all age groups, between those who work and those who are beneficiaries, between those paying contributions and those receiving support; and, of course, also between paid and unpaid workers, mainly between men and women. This is the first generation of predominantly working women and mothers whose working time still preponderantly remains unpaid – thanks to the existing persistent dominance of the household versus the market sector. Austria is still one of the more traditionalist societies of Southeast Europe and the Mediterranean, where a majority of work is done unpaid, informally, outside the system of national accounts (SNA) productions.

While the imbalance between household and market economy is gradually decreasing, the situation between the active and inactive within the working population and the total population in the meanwhile has reached proportions that could endanger the entire economic situation, not only the fiscally demanding welfare system, and even bring it to collapse. Unsustainable pension plans largely not covered by contributions (and other, age-related expenses for health and long-term care) have in the meantime become the most important of all state expenditures. It is one of the most contentious political topics, a subject of greatest significance with regard to questions of inter-generational fairness, social justice and sustainability. In the mid-term, without full contribution equivalence and continued adjustment to the changing economic and demographic framework, a sustainable retirement security, economic and welfare development will no longer be possible.

Sustainable welfare vs. fiscal fiasco

Chronic stagnation in the Euro zone (not only since the most recent Cyprus crisis) and also state bankruptcies due to lack of budget consolidation can still not be ruled out. They are not unavoidable, but they are also – not only in Cyprus and Greece – not fully improbable. A balanced budget and thus long-term sustainable growth without the stabilisation of pensions, will be not be possible anywhere, also not in Austria.

Even with economic recovery and "fair-weather" conditions, we are faced with a challenge we have never seen before. The age-related additional costs for health, care and pensions will require, every year up to 2030, a consolidation of the same proportion similar to the economic stimulus and bank rescue packages following the economic crash and worldwide recession from 2008 – i.e. we will need a ten-fold-to-multiple times the amount of previous crisis costs.

The "biggest austerity package of all times" (Budget Implementation Act 2011, Second Stability Act 2012, Social Security Amendment Act/SRÄG 2012) by May 2012 will be nowhere near enough.

In the pension sector it is plugging a mere tenth of the annual "pension gap", which is currently running at about 15 billion euros (generously calculated, under the imputation of state government's fictive employer contributions for its civil servants). If we consider the fact that one single day (!) of irregular early retirement costs three times more than, for example, the annual additional expenditures for the upgrading of external child-care to reduce the weeks-long, even months-long, closing times or costs more than the (recently reduced) annual budget for the entire extramural research, then we can grasp the tsunami-like quality of this "crowding-out". Nothing is spared by the all-flattening, increasingly sprawling avalanche of expenditures for an indulgence of pension debts of chronic shortage or excessive cutbacks.

Here, I assume that the pension system in Austria is basically perfectly capable of surviving, but is also in great need of overhaul and repair; that the solidary pay-as-you-go (PAYG) system of the intergenerational contract can be upheld, but that it will need to be developed towards more contributory justice in the manner of the Swedish model; that systematic underfunding is not sustainable over time; that consumer debts for pension deficits are "bad" debts, as opposed to investments (in education, health, infrastructure, research and development) because not self-financing but permanently lost.

Undesirable developments like the following can neither be financially sustained nor are they politically justifiable. International record expenses for pensions for inadequate employment are not sustainable. Austria cannot stay an international "outlier" with early retirements and disability pensions and continue to fall behind OECD standards (today 4 to 5 years in arrears compared to 1 to 2 years in the year 2000): 90 per cent of Austrians retire before the age of 65. Payment commitments of 50 per cent over the payment contributions represent gaps in contributions for every fourth pension insurance, every second civil servant pension, every third retirement – already today. At the expense of future generations, every pension is currently being subsidised by 100,000 euros, every civil servant pension by significantly more than 400,000 euros. Special rights for former politicians, "Dienstordnungspensions" of the social security and employees of the Austrian National Bank (OeNB) are currently being subsidised by millions of Euros – per capita. Corporatist pension privileges, still outstanding for decades, primarily for public officials, also in provinces and municipalities, cost billions of euros annually, 15 per cent of all pension costs. This is, widely observable, perceived as unjustified and structural corruption, and is deeply demoralising and nourishes understandable resistance to all, even justified, reforms.

The chronic pension deficits amount to the interest payments for the entire accumulated debt burden of the Republic. The contribution gap (the "pension gap") doubles about every decade. Over three-quarters of a million "pensioners" are still at the best working age; we are currently already paying up to 180 pensions per 100 persons over 65: that means, over 2.6 million pensions for only 2.2 million pensioners, but hardly 1.5 million are over 65 years old. This – and only this massive early-retirement problem – endangers the existence and the sustainable stability of our pension scheme, and therefore also economic competitiveness and the wealth and welfare of the working population.

At the same time, the annual household income of an average retired couple is over 35,000 euros net; the average life pension benefit is 582,500 purchasing-power-adapted dollar per head, 24 per cent above the OECD level. It is not surprising therefore that with 19 per cent, pensioners have an almost twice as high savings ratio than those working and could thus significantly afford more than younger age groups (but in fact do not), even with an objectively somewhat lower income. Of course, the future up until 2050 will then show whether the hitherto greater frugality and modesty of the "oldies" will more likely be a historical one-time event unique to certain generations rather than an iron law of needs evolving over the lifecycle.

The backwardness of women's pensions as a case in point

Roughly 330,000 women were recently without an independent pension, and another about 150,000 women over 60 without any kind of pension respectively. Women continue to have hardly half a monthly pension and are at a higher risk of poverty, but, due to their much longer life expectancy and generous widows' pensions, have a higher life pension annuity than men (608,000 vs. 557,000 dollars). That is, an undeserving "late freedom" (Rosenmayr) due to dependency and derived rights rather than equality, as is also stipulated by the European Court of Justice which asks for a gender-neutral retirement age and gender-neutral life tables (which are both in favour of women). In this country, a full convergence [of retirement age] will not be completed until 2034, with a 40-year transition period, which will mean that Austria will be bringing up the rear in the EU and will be the last country to converge, ahead of the much younger Turkey (2048).

With the continued refusal to quickly implement EU law and recommendations (like recently in the EU White Book 2012), Austria, with its unequal retirement age for women, is among or even behind countries like Albania, Armenia, Azerbaijan, Bulgaria, Estonia, Georgia, Israel, Kazakhstan, Kyrgyzstan, Croatia, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia, Slovenia, Tadzhikistan, the Czech Republic, Tunisia, Turkey, Turkmenistan, the Ukraine, Uzbekistan and the Republic of Belarus. For very many of them have one to two years and not half a decade difference (e.g. Switzerland, Slovenia, Turkey, the Baltic states), while others may have the same five-year men/women difference, but overall have a higher retirement age by two years for both sexes (e.g. Israel). Apart from that, all EU states will have implemented the alignment quickly, Estonia in about 2013, Romania in 2015. Stragglers like the United Kingdom or Italy are raising women's retirement age in six to eight years (2010/2012 to 2018) by a full six years, that is 72 months versus zero in Austria in the next decade.

For some time now, almost all modern western welfare states from the northern countries to Germany, France, The Netherlands, Luxembourg, but also Canada and the USA, almost all Mediterranean, individual eastern European and Balkan countries have the same retirement age for women and men. That women today (in contrast with 1993, when the 40-year transition under constitutional law was sealed) are subject to double discrimination, disadvantages in employment, in further training and, above all, with regard to pensions, all to do with the unequal retirement age, is scientifically undisputed but politically has still had no effect. Whether it will be possible to hugely speed up the transition at the next coalition negotiations in 2013 will decide whether Austria, up until 2050 together with the most underdeveloped countries of the UN-European region (from eastern Europe to Central Asia), to a large extent (for another 21 years) will persist in an archaic, European-law-violating and gender-discriminatory regime. If there is no rapid transition, Austria, as is the case with other women-related issues, will remain the EU backmarker when it comes to equality. This would throw Austria back – and its women – compared to its European partners and competitors by at least one generation, and create a burden worth billions as well as irreparable disadvantages and damage – to nobody's good.

Lifetime indexing against age inflation

Are pensions continually getting worse – or better? This all depends on what we mean with "pension": the monthly or annual pension (annuity), together with eligibility requirements? Or payments relative to contributions? Or income from old-age security relative to the active income, either previous own earned income or current salary levels of the working population? Or the entire life pension amount, the amount of paid pension wealth?

Eligibility requirements for annuities continue to deteriorate; lifetime pension wealth continues to improve: both, for decades, quasi automatically. Both were supposed to be stabilised after 2006 through an "automated pension", which integrated life expectancy gains into the pension formula in order to finally generate trust rather than to continue to unpredictably and erratically fluctuate, in terms of amount and time frame. Most of the deteriorations would have been superfluous, if Austria – like Denmark, Sweden and another dozen OECD countries in the 1990s – had a self-stabilising sustainability automatism. An automatism, which would have hindered foreseeably untenable promises and administered adjustment requirements in unnoticeable, painless, homeopathic small doses and brought about changes in the attitudes of companies and workers towards age inflation.

Age inflation means that we, in the same chronological age, have a longer life expectancy, a higher survival probability, a lower mortality risk, better health, cognitive, professional and other capabilities – in other words (according to prospective age) are much "younger" – than those chronologically the "same age" who were born earlier (or in other countries with lower longevity). Since 1951, our life expectancy has increased by 15 years, retirement since 1971 by 11 years; amongst men, it has doubled. Lifetime pension incomes have improved accordingly. In the last decade alone, men have gained three years' life expectancy, currently about 109 days every year. This means that they, purely as far as the decisive end of life is concerned, at this point in time, only age by three in a period of four years. In other words, we, within less than every three-and-a-half years in the same age, let's say 40, are becoming one year "younger". Over the long term period of the last half a century: this means every three three-quarter years, one year younger (since 1951, men 96 days; women 98 days per year). Even in retirement age until 2050: every seven-and-a-half years, one year younger.

In practice, this means that a 30-year-old born in 1956, when the General Social Insurance Act (ASVG) was enacted, was about as old/young as a 40-year-old today; a 58-year-old was equal to a 65-year-old today. A 73-year-old today is the new 65 of the Kreisky era of the 1970s. A 65-year-old in 2034, when the unified retirement age of 65 for women and men will be reached, will be as young as a 60- to 62-year-old today, at the retirement age of 60. This absolutely breathtaking life extension and rejuvenation is accompanied by an accordingly high life pension income in as much as the lifespan gain continues to be spent 100 per cent in leisure. A "pension automatism" through "lifetime indexing" – similar to the price adjustment clause for automated pension adjustments to purchasing power loss through inflation, actually a civilisational matter – would only ensure that depreciation be as avoided as deflation.

This is a de facto stabilisation of the acquisitions of a previously almost unimaginable automatic improvement process: would anyone from the generation of Khol & Blecha, or those starting work in 1960 with 1,000 schillings (72 euros) monthly income, have dreamed of an average of eight million Schillings lifetime pension in today's terms; a primary school teacher about 20 million schillings? And does anyone seriously believe that about a further 10 years' increase of life expectancy by 2050 could lead to 40 instead of the current 30 years of pension duration for a middle-class worker, without a threat to the amount of pension and security? Or that it is fair not to openly and honestly tell those starting to work today (who will hardly retire before 2058 and also the pensioner generation post-2030) that they may be able to expect a higher and more secure pension, but only by "making up" for their future life expectancy increases, meaning: a significantly longer working life or at least a later retirement age? Or that – age-inflation adjusted – the retirement age of 62 to 66.8 years in 1970 means 70 to 74.5 years today?

How to create greatest dissatisfaction with the highest pension expenditures?

Those politically responsible in Austria have accomplished a unique, paradoxical feat – to have created the greatest dissatisfaction and insecurity with the highest pension expenditures – and with medicine against it, however, have prolonged illness. In contrast to, for example, Switzerland, The Netherlands or Sweden, Finland, Denmark and Norway, Austrian politicians have constantly promised too many benefits and have then tried to foil the untenable promises by backing down, using tricks and continuous yet self-denying, inconsistent, "pension reforms" which exasperate the population – always mainly at the expense of the respective working generations.

The politically contradictory results are that Austria has one of the highest pension expenditures worldwide and relatively high but absolutely much too low and continually worsening pensions, the highest early retirement rate, and also unassured pensioners and early retirees. Austria also has many more dissatisfied aspiring pensioners and active people than the more rigorous but at the same time honest "automated pension" countries in north-western Europe or our more rational Swiss neighbours.

In short: in an international comparison, Austria's pension system is objectively very expensive, but neither luxurious nor satisfactory. On the contrary, it causes a great deal of dissatisfaction because, for a long time now, it has been considered chronically insecure, unfair – and to be deteriorating rather than improving. It is constantly being measured by the untenable and therefore disappointing promises from yesterday, rather than on real experienced improvements; and because, by seriously breaching the contributory justice, it is suffering from demoralising comparisons with up to the present day better-off privileged individual interests. All in all, a guide to collective unhappiness, the likes of which Paul Watzlawick or Dan Greenberg couldn't have thought up more perfectly.

This specifically Austrian formula for unhappiness and big-time whinging, how to make yourself miserable under the terms of a historically and internationally almost unique pension wealth, should have been, according to an governmental agreement from 2006, replaced by a much less self-destructive "automated pension". This would have brought an end to unforeseeable and unsettling fluctuations in benefits by constant, parametrical pension reforms once and for all by an automatic connection and stabilisation of monthly annuities and lifetime pension incomes through life expectancy. It would thus have created the kind of predictability, stability, trust and security that pension schemes should have. It is well known that this didn't happen, but rather a revocation of the governmental pact and early elections in 2008, with a dramatic loss of votes for the feuding coalition partners; and a weakened continuation of their alliance, which for the time being has immortalised nightmarishly random, ad-hoc decisions and unpredictability with "discretionary policy making".

Pension Insurance Austria 1945-1956-2013: Looking back 57-68 years, with amusement, without anger

If we look at the period since the establishment of the General Social Insurance Act (ASVG), a quite obvious periodization can be discerned – in keeping with Hans Stefanits from the social ministry. The "golden era" of the *trente glorieuses* (Fourastié) arrived a decade late (1955–1984); then "the silver era" of the PV [Pensionsversicherung – pension insurance] (1985–1999); and finally the "bronze era" (2000–2015). Stefanits leaves open whether we can expect a "tin era" or a consolidation of the "bronze" between 2015 and 2050, which, in the light of the unique challenges, would really represent a "golden 21st century". Tin or modern gold will not least be dependent on the success or failure of further consolidation steps or from the international comparative assessment standards.

For almost 40 years, from 1945 to 1985, without exception, social security reforms saw benefit improvements in factual, temporal and social terms: the inclusion of the self-employed and farmers, higher pensions (14 instead of 12 times a year), the creation of early old-age pensions, widows' pensions, development of the invalidity pensions through job protection – financed by increasingly higher contributions and rising federal grants. As soon as the contributions (with exceptions) needed to be stabilised and only the federal funds were able to be increased (1985 to 1999), further benefit increases (from the elimination of work constraints in retirement over "eternal qualifying periods" to pension credits for child -rearing periods) were compensated step by step with benefit limitations: longer calculation periods, smaller increases, deductions, stricter entrance requirements and more modest "net adjustments" of pensions.

In the "bronze era" since the Millennium, there was still, indeed, a mix, yet it only included a few benefit improvements and numerous deteriorations, which significantly prevailed in the 21st century. These include: even higher surcharges and discounts (yet actuarially calculated, still far too low), an extended assessment period for the calculation of all the years in the work force; decreased increments (in the amount of a five-year longer working life for the same pension entitlements); worse entry conditions, abolition of previous early old-age pensions (due to unemployment, reduced capacity, sliding scale pensions); raising of the retirement age for early-age retirement due to long insurance periods; increase of the age for occupational protection and the required insurance months for various early retirement schemes; a deferment of the pension adjustment for new entrants by one year of delayed payment; sliding scale for special payments; reduction of the pension adjustment 2013 and 2014 below the statutory value maintenance clause; invalidity pension reform. The creation of a sustainability factor (initially unusable), and a change of the still very generous survivor's pensions face a far from generous consumer-price index value maintenance with pension adjustments and strongly improved additive pension credits for child-raising periods (or also one-time pension payments in the 2008 pre-election time).

All this occurred over a longer time period, as it were, in a kind of obliquely orchestrated three-quarter beat in which four steps forward were confronted with about three steps back. Several forms of early-age retirement were abolished while at the same time, new ones were introduced, from the heavy labour pension to the *Hacklerregelung* [which allows long-term contributors to the state pension system to retire much earlier than the statutory age]. Fees were increased but remain on the same level for opting out. Accrual rates were reduced in such a way that forced longer contribution times to maintain the same pension level but at the same time were counteracted by opposing measures. The requirement for an adjustment also of the statutory retirement age at the latest by about 2025 is today still officially contentious; costly widow pensions were restricted but not fundamentally questioned or replaced by an independent pension for women; etc.

Privileges allowed for long-term contributors *[Hacklerei]* have become a symbol of these over-complex stop-go-stop policies of a contradictory and often absurd "muddling through" under pressure from the respective powerful lobbies of individual interest. Between 2000 and 2003, all early retirement was supposed to be abolished, at the same time, however, the *Hacklerregelung* was introduced as an early retirement scheme. Since then it has benefited many privileged groups of wealthy employed to civil servants and bank directors but hardly ever workers or real blue-collar workers. It was seen as a phase-out model but quickly developed into a "winner", with impressive growth rates. It was supposed to be phased out but was extended again and again under populist pre-election din (mainly the bipartisan, stultifying catchy slogan "45 years are enough") from all parliamentary parties. It was temporarily even highly subsidised through tax-favoured additional purchase of school and study time, which was then actually reversed again in the Budget Implementation Act 2011 from 2013 onwards.

With this in mind, in 2008, the eligibility requirements for the *Hacklerei* were eased through the inclusion of sick benefits and other substitute periods, to then be made more difficult in 2011 by increasing the entry age to 62, increasing the purchase tariffs and introducing (if only reduced) reductions, without ever simply abolishing it altogether. Fundamentally, the *Hacklerregelung*, justifiably, was supposed to reward the particularly "conscientious and diligent", that is, long-time insured workers, yet it does not do this for those who continue working, but only in the case of those who retire early, quasi as an outrageously expensive labour-force dropout premium (similar to the socalled "block variant" of the costly "elderly part-time" arrangement). An overview of three years of privileges is no easier than receiving a table with 144 cells and claims are based on public support of early retirement with up to 200,000 euros per capita and dropout and official advice on it. So much for the Austrian real constitution regarding statutory pension insurance and its ongoing reforms demonstrated by a recent example that stands for many others.

Without denying the advantages of "muddling through" (Lindblom) as a policy strategy, it is still undeniable that this hullaballoo of partly coherent, partly incoherent, ad-hoc reactive, contrary and, in its overall effect, largely opaque measures, characterises the entire pension policy of the post-war era. Instead of using the *Hackler* long-term employed regulation as an example, we could just as well explain it based on the Pension Fund Transition Act or the various Social Law Amendment Acts (SRÄG). Or it could even be explained by the ambitious, if late by several decades, reform attempts on invalidity pension or the pension account according to the General Pension Act (APG), which is likewise overdue by a decade.

Of course, the pension account also shows the ambivalence of the existing benefit-defined system. It is, on the one hand, absolutely capable of significant parametric reforms even within the given framework, when and insofar as it assumes the actuarially correct and contribution-defined principles and reconstructs the relevant components of sustainable pension systems. On the other hand, it still remains far behind its own possibilities as an individual entitlement account as long as it cannot also ensure the statutory "guaranteed" personal legal rights and entitlements to payments economically and in the public budgets. This requires connecting individual social rights, such as those on adequate pensions quasi automatically with fiscal sustainability, and thus developing and reconstructing them to a self-regulating capacity. With the introduction of the first account credit and APG account (Austrian General Pension Law) from 2014, a very important step towards self-supporting pensions has been taken, but comprehensive sustainability is still far from being guaranteed. However, we are closer than ever to the decisive turning point towards sustainable, secure pensions.

Pension Insurance Austria 2013-2050: Looking 37 years ahead, without illusions

APG pension account 2014 – 2050: "don't worry, a lot will improve"

The decision to introduce a pension account along with a first account credit is really a milestone for pension insurance. The pension account was introduced by the APG as a "benefit account" in the pension reform 2004, but in the light of the social security legislative over-complexity (and the self-interests of some leaders), it has still not been implemented. The fragmentation of the insured combined with the year of birth (before/after 1 January 1955) and insurance times before 2005 resulted in seven different categories of newcomers with pension entitlements; older (or unassignable) legal situation; net legal situation 2003; net previous law (legal situation 2003 with a cap on loss or legal situation 2004); parallel calculation previous law and pension account (in the same two variants); and a net APG pension account. In 2012, according to Stefanits: 0.1 per cent of the applicants were from the previous legal situation; 0.5 per cent the new direct pensions in the net legal situation 2003; most (46.4 per cent) in the net previous law legal situation 2003 with a cap on loss; 23.0 per cent legal situation 2004; 8.7 per cent in the parallel calculation old legislation with a cap on loss; and 20.2 per cent in the parallel calculation legal situation 2004, only 1.2 per cent in the new net APG pension account. Without ongoing research, even experts can hardly keep up with this development and calculate individual benefit entitlements.

The Stability Act 2012, which will be implemented in 2014, has now taken up the long expressed idea of a first-account credit as a substitution for the continued parallel calculation of three entitlements per claimant. But this still also demands four complicated comparison calculations according to which all claims up to a certain time frame will be replaced by a one-time "basic amount", precisely, the "initial credit", for which a "starting amount" and a "settlement amount" will have to be determined under numerous and respectively again highly complex assumptions. Using the settlement amount: upper and lower thresholds from 1.5 to 3.5 per cent have to be calculated according to age group, thereupon the starting amount will be accepted within the limits as an annual fourteenth and be defined outside the limits as the first credit at the 14-fold of the respective lower and upper thresholds of the settlement amount.

Hence, even four parallel calculations are accepted on a one-time basis to then be able to continue calculating for the entire future exclusively according to the APG account regulations. Political guidelines stipulated that it was necessary to take into account that the base calculations over the total period up to 2050 (calculated over the supporting years 2014, 2020, 2025, 2035, 2045) were to be cost-neutral as well as to minimize individual winners and losers at a rate from 1.5 to 3.5 per cent deviations compared with the parallel calculation.

After the calculation of 3,000 individual cases, a period of 28 years of calculation and a 30 per cent higher re-evaluation factor compared with the previous law were determined as ideal assumptions for the approximation of these pension policy aims. Previous "substitute periods" become "contribution periods" on their respective own contribution bases through public contribution guarantors. These partial insurance times provide very generous contribution bases (2012: per month 1,570.35 euros), as before, for child-rearing (48 months per child, additively on any earned income); for care granted to terminally ill relatives *(Familienhospizkarenz)* and for military and civil service. Furthermore, each 100 per cent of the assessment base for maternity allowance and sickness benefits, as well as for emergency employment assistance; 92 per cent of 70 per cent of the unemployment benefits assessment base; and 70 per cent when receiving unemployment benefits (ALG) were calculated.

The pension account has a "performance guarantee" of a 1.78 per cent increase, or account percentage rate, per year as a partial credit, with various discounts (normally 4.2 per cent, corridor pensions from the year of birth 1955: 5.1 per cent, heavy physical work 1.8 per cent, for long-term insured women (*Hacklerinnen*) under voluntary deferred retirement 1.2 per cent from 2014). The discounts are, however, (almost) consistently below the actually neutral and fair reduction requirements, which according to Brunner and Hoffmann (2010) would be a discount rate of 3 per cent between 5 and 8 per cent minus per year. All the insurance periods until 31 December 2013 are adjusted as aggregate or first credit on the pension account; from 1 January 2014, calculations will be exclusively carried out in the APG account and according to APG guidelines.

ith this innovation, the date of effective operation of the pension account in its final form becomes considerably advanced, estimated to be brought forward by at least 15 years. The actuarial neutral, strong work incentive effects of the APG can be effective earlier because they are also visible earlier. For example, according to Stefanits, middle income males (income career 80 to 140 percent of the median income) beyond the duration of the pension corridor of 62 to 68 years, beyond the 45 insurance years, retiring at the age of 68 will have 53 per cent more account credit pension (KGP) than at the age of 62. In the parallel calculation (PR), their income increase was only 33 per cent and according to the legal situation 2003, even only 12 per cent for six year's prolonged working. This strong incentive for prolonged working in the future guarantees higher claims but only over the normal retirement age of 65 and significantly lower pensions at an earlier retirement age: 1,560 euros according to the KGP instead of 1,611 euros according to

PR and in contrast to the 1,942 euros according to the legal situation 2003. Stefanits interprets this as an indication of the entire extent of "too high pensions, mainly much too high early retirement awards". This is currently around 135,000 Euros overindulgence or early retirement bonus per capita of the overwhelming majority of the current retirement generation (of which 70 per cent retired before the statutory retirement age and 90 per cent retired before the age 65).

It therefore becomes clear who the winners and who the losers are – from the point of view of actuarial fairness quite legitimate – of the first account credit of a base calculation like that of the APG account in general. With the abolishment of the calculation restriction of an 80 per cent cover, those insured with very long professional and contribution careers, are finally adequately rewarded and (in contrast to the long-term insured of the "*Hacklerregelun*g") are rewarded for continued working instead of exiting, likewise predominantly workers with long, constant and flat income trajectories, women with eternal entitlements, many child-rearing hours and yet few career interruptions. On the other hand, those insured with steep but irregular "soldiers of fortune" careers that have been previously protected by "safety cover" and often discounted up to many times their own contribution payments (e.g. part-time academics who have 10 to 15 "very good years") lose these advantages compared to the ordinary standard pensioner. In the years 2014 to 2016, especially those insured with many years of contribution payments who just miss out on the *Hacklerregelung*, are considered losers. Experts may dispute whether this development belongs to the intended turning point or is the small blemish of the whole pioneering reform work.

APG pension account 2014–2050: No problems with the "benefit account"?

In any case, further, decades-long parallel calculations with three different legal positions will be cancelled in the future due to the APG pension account along with first account credit 2014 from 2017. In addition, the importance of contributions and insurance periods will become more transparent and thus increase the incentive to work. Previous account notifications were, in fact, completely uninformative and were not worth the paper they were printed on. In rudimentary form, they became available, with a four-year delay, as of 2008. The previous "pension account" was not an account in any kind of a common understanding of the word "account". They did not apply (though they will in future) to everyone and also not for all years of birth equally (whereas apportionment of the old and new pension accounts would have been the ideal interim solution for all age groups). It wasn't compatible with the 5- to 10-per cent "safety cover" (2013: 7.25 per cent), which, however, in the future will be unnecessary with the APG pension account. This will be a great improvement over the period up to and including 2013.

The new APG pension account from 2014, however, is by no means ideal. This is not only visible in its unsteady introduction, delayed by a decade. The new account doesn't always give such clear, unambiguous and definitive answers as the philosophy of a "benefit" account insinuates – and as it would without doubt be desirable. So the promised "benefit guarantee" is theoretically incompatible with the "sustainability factor" according to ASVG, § 108e, Abs. 9 in the current version of the law (which is actually economically inefficient and probably politically almost unenforceable). Accordingly, the accrual rate of 1.78 account percentage rate annually could – or rather should, according to the enacted law – even be reduced again belatedly. This is necessary if with regard to the "target path increase of the period-related life expectancy to the age of 65 of the middle scenario of Statistics Austria deviations of the medium prognosis" were ascertained. This inherent contradiction in the current version of the law, namely a statutory stipulated reduction of a simultaneous legally assured benefit assurance would "automatically" have to ensue with a fifth of the necessary means "to secure the fiscal affordability".

With the current sustainability factor not only would the PV contribution rate of the active workforce further increase and and aggravate its tax burden through the higher federal contribution level, it would also push up the retirement age for new entrant pensioners and push down the pension adjustment for existing pensioners below the statutory minimum according to the consumer price index. Above all, however, the central promises of steadier and unchangeable account percentage rates (or even the account postings) for "benefit accounts" would be broken and thus the total alleged advantage of benefits compared to contribution accounts on a PAYG basis would be lost.

This is, of course, not a horror scenario but the prevailing legislation. Furthermore, the entrance of such – positive! – deviations from the middle variant of the increase of life expectancy were already empirically shown in the first few years after the adoption of the law on the sustainability factor. The gain in longer life expectancy right in the first three years exceeded even the most optimistic calculation by Statistics Austria – and positive deviations of the middle variants are also extremely likely in the future. In contrast, the objections to the new APG pension account that are frequently brought up, such as that it is presumably initially not only far behind the annual Swedish "Orange Envelope" account notifications, but also likely to remain behind those of the American Social Security, will not pose a risk even when the concerns are found to be true. And so, at least in the beginning, in Austria one will presumably experience neither the expected pension benefits – not even for the corridor entry age (or even for the normal pension age) – nor even be able to read the coverage rate of contributions, such as which public contribution guarantors have supplemented how much to their own pension insurance contributions. Although this makes the pension account far less effective in terms of control than it could be, in contrast to the untenability of its benefit promises, it does not remove any decisive basis of its legitimacy.

Best practice would be, for example, what the Austrian financial administration as regards openness offers taxpayers together with their tax assessment – that is: a breakdown of what, in detail, exactly was spent of the average five-figure tax benefits according to the 16 most important state expenditure categories. Thus, in 2011, 22.6 per cent went into provinces and municipalities; social welfare, health: 17.0 per cent; tax subsidies for statutory pension insurance (ASVG): 10.2 per cent; education and teaching, art and culture: 8.4 per cent; interest rates for government debt: 8.3 per cent; government administration: 5.5 per cent; public-sector pensions: 4.9 per cent; research and science: 4.5 per cent; Austrian Federal Railways (ÖBB): 4.4 per cent; state and legal security: 3.2 per cent; contribution to the European Union: 2.6 per cent; national defence: 2.2 per cent; roads and other transport: 2.0 per cent; agriculture and forestry: 2.0 per cent; economy: 1.1 per cent; and tourism and economic development: 1.1 per cent.

Undisputedly important is the knowledge that almost a third of all public expenditures goes towards social security and every second social euro into the pensions. Or that interest payments servicing the national debt now cost more than our entire education system, or more than the total amount for the military, road transport as well as the support of the economy, agriculture, tourism and economic development. It would be also interesting to know exactly how many thousands of euros the personal tax contribution to the debt service of the republic in individual cases recently cost. It would be equally important to know the many titles and amounts of subsidy contributions, which markedly improve the old-age security of pension recipients above their own pension insurance contributions to an average six-figure euro subsidy per capita by the next generations. This would be a fundamental contribution to what in Sweden and elsewhere is referred to as pension literacy or as pension and social literacy and seen as an indispensible prerequisite for democratic policy forming and 'normal' rational political decision processes.

The crucial weakness of the APG pension account compared to a self-regulating, contribution-defined PAYG (notional defined-contribution/NDC or contribution accounts) is that it doesn't provide any automatic compensation mechanisms, and that is, neither for foreseeable changes of demographic and economic frameworks nor for unforeseeable, shock-like imbalances. Should, for example, the number of contribution payers sink below the usual or expected level, a value adjustment to the wage development could adjust the internal rate of return or the accrual rates, but not a fixed account percentage rate. Likewise, it is only the periodisation of the accumulated account credits (not until the actual time of retirement) and not its fixation on a fixed and unchanged entry age that could integrate unexpected high increases in life expectancy into the pension formula, thus making pensions sustainably secure.

Because the Austrian APG benefit account compared to, for example, the Swedish NDC "contribution account" does not intend any automatic stabilisers, the chronic pension deficits will continue to be almost unavoidable. So the formula 65-45-80 of the "benefit account" between the years 2000 and 2004 was created and, at the turn of the century, was actually able to be fiscally represented. In order for it to be in force and sustainable today, it would have to take into account the more than three life years gained up to the year 2013 via the adjustment of the formula to 65+/45?/80 or 65/45?/80 etc. and stabilise it through automatic annual APG modulations. Under the APG "benefit account", once-granted credits can no longer be changed – and the account percentage rate for future accrual rates will politically probably not be changed. What remains, therefore, with higher PV contribution rates and/or lower pension adjustments for pensioners, is only the third-best choice.

The option of continually rising contributions is, of course, not practical from an economic and location-policy point of view, while sinking pension indexation, on the other hand, would breach the planned statutory maintenance clause. Pension cuts or pension taxes would be both macro-economically foolish as well as costly from a political viewpoint – given the millions-strong pensioners electorate and the corresponding lobbying power of pensioners' organisations – and thus de facto not implementable. However what remains is the currently most unpopular, but long-term only sustainable and also most plausible from a common-sense perspective alternative, which says: "live longer, work longer" (OECD). It is no coincidence that also the Austrian sustainability factor is not constructed around the complex interaction of numerous pension relevant parameters but primarily around the further developments of life expectancy and their deviations from the most probable assumed projection paths.

"Work longer" does not by any means always means "longer". It can also often simply mean – due to much longer training times and long-term career breaks during working life – begin working "later" and stopping "later", as long as one exclusively takes into account the chronological and not also the prospective age, the period of time (not only the third age) until death, healthy life years and age inflation. So it is not only about the indispensable necessary – and very strong – increase of the actual retirement age to the statutory, but also about the surprisingly controversial increase of the statutory retirement age in very small but continual doses. The latter, from a purely demographic and bottom-line point of view, will still not be necessarily compelling up to roughly 2025. But it will be essential in the period from 2025 to 2050 from a purely demographic point of view, by about five years to retiring at the age of 70; with ideal economic development and increasing employment, perhaps only a reference retirement age of 68 to 69 will be necessary.

These requirements are theoretically and practically completely uncontested; politically contentious is only what time populations will need to be prepared for these necessary alterations. Here it is noticeable that governments of countries like Austria, where the protection of legitimate expectations and thus desirable long transition periods are clearly written in case law, needlessly and radically reduce the security and confidence-building measures and long warning times for their citizens and then bring about reforms in a "mugging" fashion. In contrast, countries like Denmark, Sweden or the United Kingdom have long since implemented necessary adjustments of the statutory retirement age for the period 2030 to 2050 with decades-long preparation times. In Austria, instead of treating age inflation and life expectancy clauses or increases in the normal pension age as self-evident and practiced elsewhere in Europe, the topic is downright taboo. And those who still dare to bring it up immediately decline into reflexive anathema of political exclusion – and the overall policy of a proverbial "Mikado" paralysis.

The crucial pension question remains the choice between benefit or contribution accounts, between parametric individual measures or a coherent set of systemic reforms; a further development of the absolutely useable APG pension accounts towards more contributory justice, full cost and account verity, contribution equivalence and transparency. For example, in March 2013 the Insurance Forum Austria placed the general debate on pensions under the alarmist, anxious slogan "The pension question: terror without end?". It would have been rather more appropriate to say that in Austria, in terms of the APG account of 2014 there is neither a "terror without end" nor with the preliminary decision against the "Swedish" notional defined contribution (NDC) system an "end with terror" (as the conversion to contributions on a PAYG basis is often falsely perceived).

"Rather, what will remain is most probably the Austrian compromise of a chronic, fundamentally incurable but somehow controllable malaise of "muddling through". It moves on the sidelines of demographic and economic reality constraints as well as political nerve and the social pain threshold of all those involved. In other words: no terror, but also no end. In a setting of chronic and only ever temporarily successful attempts, one can at best hope for alleviating the symptoms, not for a correct diagnosis, effective therapy, complete recovery and an end to our distressingly enervating, endlessly recurring and unsettling major disruptions of our old-age security.

Long-term outlook: the reform of invalidity pensions as a key cornerstone

What is far more important than the necessary pension reform for the fiscal sustainability of the whole PV, however, is a reform of invalidity pensions (IP). The social minister calls the data and facts surrounding IP "horror figures". Since the turn of the century, 75 to 80 per cent of men – by 2014, one million Austrians – have attempted to retire through an invalidity pension. Although in 2012 only 43 per cent of them were awarded the invalidity pension, long-term studies show that the application is accompanied by an "inner farewell" (Dantendorfer) and the overwhelming majority of applicants never return to regular work again, even if their applications are rejected. However, there are also sectors that have awarded IP prevalence rates close to the general frequency of application. In 2011, despite having a higher average life expectancy than the overall population, farmers, for example, reached retirement age by 5 percent only through normal old-age security pathways; 24 per cent through early exit pathways, and 71 per cent as formally recognized invalids.

Average Austrians spend 3.9 years of their working life in disability (compared with 1.9 years in unemployment); disability pensioners spend on average 10.8 years in incapacity (women: 9.8 / men: 12.6), three quarters of which are aged over 50. While the rates of invalidity are generally within the European average, in the transition phase to retirement they belong to the highest in the EU27 and OECD. Invalidity is thus the most serious form of non-employment. The expenditures for invalidity pensions were more than twice as high as the costs for unemployment at the peak times of highest unemployment – or for care allowances. The average IP entrance age of early 50 and the high IP prevalence bring down the average age for the exit pathway by a whole four years and are the main cause for the serious Austrian backlog with the direct pensions compared to OECD-Europe.

Most recently, mental illness has become the main cause for early invalidity. Twenty per cent of all early retirees, 32 per cent of all new entrants, with the tendency continually sharply rising – from 2007 to 2009 by 9.6 per cent with somatic and 21.9 per cent with psychological diagnoses. Of 900,000 patients, 420,000 are of working age but only 130,000 are receiving psychotherapeutic treatment; 840,000 are using psycho-pharmaceutical drugs; 70,000 are being treated in hospital. While orthopaedic and cardiovascular related IPs are declining, mental suffering is increasing: 27 per cent of the working population – of which 33 per cent women and 22 per cent men fall ill each year. The average duration of sick leave is 40 days for psychological illnesses; for physical illnesses, 11 days. In the last two decades, the number of those on sick leave due to mental problems has risen by 300 per cent. In 2010, 52 per cent of women on invalidity were mentally ill. The expenditures for health insurance for psycho-stress and mental illnesses are 830 million euros: 250 million for medication, 71 million for sickness benefits and only 63 million for psychotherapy and psychotherapeutic medicine. In addition, more than a billion is spent on disability and disability pensions and on rehabilitation: the total expenditures for the mentally ill in 2012 came to 3.3 billion euros for the state and businesses.

The most prevalent illnesses are anxiety disorders, depressive and somatoform illnesses as well as alcohol and drug abuse. Behavioural and affect disorders, neurotic stress disorders such as burnout have long been the main diagnoses for hospital stays, ahead of classic delusional disorders like schizophrenia. At 20 to 40 per cent, anxiety and compulsive disorders, exogenous (stress-related, non-hereditary metabolic) depression or chronic fatigue, exhaustion, hypochondria are the most prevalent illnesses of GP patients and hospitals, the medical costs of which run into over 1,000 per cent of the average per-capita expenditures.

That the overwhelming majority of largely psychologically overstrained people want to end their working life in invalidity (without this being granted to them) is, quietly considered, actually shocking – in peace not (post) war times, in the 21st century, in one of the best health systems and welfare states in the world; much more frequently than anywhere else – and compared to the short-lived, harder and much more stressful eras of our forefathers. Here, moralising reproaches of abuse, benefit fraud and malingering for such a unique, deeply rooted and highly complex metastatic syndrome simply fall short. The enigmatic human plague of invalidity and its "*Austriakan*" pandemic dimensions require a more precise diagnosis and therapy. However this may look, this is certain: by 2050, the future of early, invalidity and disability pensions and thus of the entire system of social security, pensions and welfare and therefore the economic competitiveness and wealth of Austria will be decided by factors such as fear of failure and waning resilience to stress, and by sharply rising psychological illnesses that are appearing ever earlier and compromise working capacity. ■

(translated by Mỹ Huê McGowran)

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