# An Austrian pensions cliffhanger

Either the government or its reforms will bite the dust, write **Florian Gimbel** and **Eric Frey**

**Three wise men: (left to right) Alois Guger, Professor Berhard Felderer and Professor Dr Bernd Marin**

When Austria ground to a halt this month in its first national strike since the 1950s, there was a Bastille spirit in the air.

Yet Austria's reforming impulse came not from below but from above – with the government proposing a shake up of one of Europe's most generous – and most expensive – state pension systems.

Under a draft bill, which could be put before parliament as early as next week, private sector workers will have to work longer and accept pension cuts. Benefits for new pensioners could drop by 11 per cent in the next three years, while those now in their 30s could lose a third of their pension by the time they retire.

"In the past, people would have simply said 'let's increase contributions'," says Professor Bernhard Felderer, director of the Vienna-based Institute for Advanced Studies. "Now everyone agrees that this is no longer a viable option."

Austria is still one of the world's richest countries. But its "pay as you go" system, in which today's workers are taxed to provide for the livelihood of today's pensioners, is expected to become unaffordable within the next few decades.

In 1956, when the private sector pension system launched, 10 workers were expected to pay for every three pensioners. Last year, the ratio was down to 6.4:3. It is expected to reach parity by 2030.

Even the government's most strident critics concede that something must be done. In 2000, Austria spent more on public pensions than any other member of the OECD – 14.5 per cent of gross domestic product.

**Retirement money**

Source of pension income (%share)

| | Sate pension | Occupational pension | Private pension |
|---|---|---|---|
| Spain | 92 | 4 | 4 |
| Austria | 92 | 2 | 6 |
| Germany | 82 | 5 | 13 |
| Italy | 74 | 1 | 25 |
| France | 51 | 34 | 15 |
| Neths | 49 | 40 | 11 |
| Switz | 42 | 32 | 26 |

*Sources: Deutsche Bank Research (2002); WIFO*

Early retirement has become the norm, with more than 70 per cent of those aged between 55 and 64 putting up their feet. Only Italians and Belgians have a shorter working life.

This comes on top of an unfavourable demographic trend. "Compared with the 1970s, Austrians now live four years longer, they start work two years later, quit six years earlier and stay seven years longer in retirement," says Bernd Marin, executive director of the European Centre for Social Welfare Policy and Research, also in Vienna.

It does not help that Austrians are largely dependent on the state pension system, which accounts for more than 90 per cent of total retirement income. Company pension schemes constitute only 2 per cent and private pensions take up 6 per cent.

The centre-right coalition government's proposal consists of three elements. First, it seeks to keep Austrians in work for 45 years, up from 40 years – a change that is to be phased in over the next three years.

Second, the government is planning to abolish early retirement by the end of the next decade, which experts believe could help to lift the actual average retirement age from the current 58.

Third, the government is planning to extend the earnings period used as a basis for calculating pensions from the "best" 15 years to 40 years.

The government insists that a reformed private sector system would become a benchmark for the more generous public sector system. Private sector workers contribute more than 80 per cent of their total pension, while civil servants contribute more than half, according to Alois Guger, pensions expert at the Vienna-based Wifo research institute.

Yet faced with a slump in opinion polls and the threat of further strikes, Chancellor Wolfgang Schüssel can no longer be certain that the pension bill will be put to a vote on June 4. The weakest link in his strategy is the increasingly fragile Freedom party, which has come under pressure from its former leader, Jörg Haider, the far-right populist.

Mr Haider is calling for an immediate "harmonisation" of Austria's pension systems, which would put an end to pension privileges for public sector workers and – notably – politicians.

Meanwhile, the opposition Social Democrats have presented an alternative plan aimed at softening the short-term impact of the reform. Alfred Gusenbauer, the party's leader, claims that the government's reform is designed to help finance a €2.5bn tax cut in 2005, an election year.

According to government estimates, the current proposals could lead to €700m of savings over the next four years. Amid the fighting over how to save the state system, there has been little talk about a funded pension system.

The government recently launched the Austrian equivalent of Germany's Riester Rente, a state-subsidised retail savings product. These funds, which have to invest 40 per cent of assets into Austrian stocks, have seen strong demand.

The government also created defined contribution plans by converting the traditional system of compulsory severance pay into a portable savings scheme.

The Austrian pension reform has all the qualities of a cliffhanger. It could easily bring down the government before next week's crucial vote. Yet, whoever sits in the splendid city palais that serves as the chancellor's office, there is no doubt that the problem needs fixing.