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A comparison of the pension systems of Germany and Austria

Abstract

A comparison of the pension systems in Germany and Austria can be interesting for Czech academics and politicians who want to push through a fundamental pension reform. In Germany and Austria, the governments initiated a trend towards later retirement with the measures they introduced at the beginning of the century. Despite the drastic reduction in the benefits of their public pension systems since the early 2000s, Germany and Austria support later retirement to maintain the viability of their pension systems. This paper focuses on the basic structure of these two interesting pension systems and their main parameters that influence their adequacy and sustainability.

Keywords

Pension system, Austria, Germany, Pensioners

JEL classifications

H55, J26

Introduction

Many welfare states in Europe have changed their policies from permitting and encouraging older workers to retire before the mandatory retirement age to decreasing the incentives to do so by enacting different policy measures (Hinrichs, 2000; Ebbinghaus, 2011). This policy reform, which mostly came into force in the 1980s, is the product of evolving sociocultural conditions. Austrian labor market policies forced older workers to retire early in order to reduce pressure on the labor market after facing greater unemployment as a result of the oil crisis in the 1970s (Obinger and Talos, 2010). Welfare states face a difficulty in reforming their pension systems to endure demographic ageing and remain sustainable over the long term due to a rising number of older persons aged 50 and above in the populations of industrialized nations, low labor market participation rates, and low fertility rates (Schmidthuber et al,. 2016). This is addressed by a variety of measures, from changes to the statutory retirement age,

the elimination of early retirement options, and the reduction of public pension benefits to active labor market policies that encourage firms to take on older employees (Hofäcker and Naumann, 2015); (Christl and Kucsera, 2016). Lower pension benefits, unusual kinds of labor, and gaps between jobs all have an impact on income in old age, according to the literature (Mayrhuber et al., 2019; Möhring, 2015; Bäcker, 2018; OECD, 2019). Since the early 2000s, Germany and Austria have experienced an increase in the proportion of persons working over the age of 65 (Eurostat 2020, 2022).

Germany and Austria are more than just neighboring nations. The economic and social structures of both counties are similar. The pension system is among these similarities. In both nations, a public, pay-as-you-go social insurance system is at the heart of old-age support, with benefits reflecting previous life pathways, particularly working lives (Blank et al., 2021).

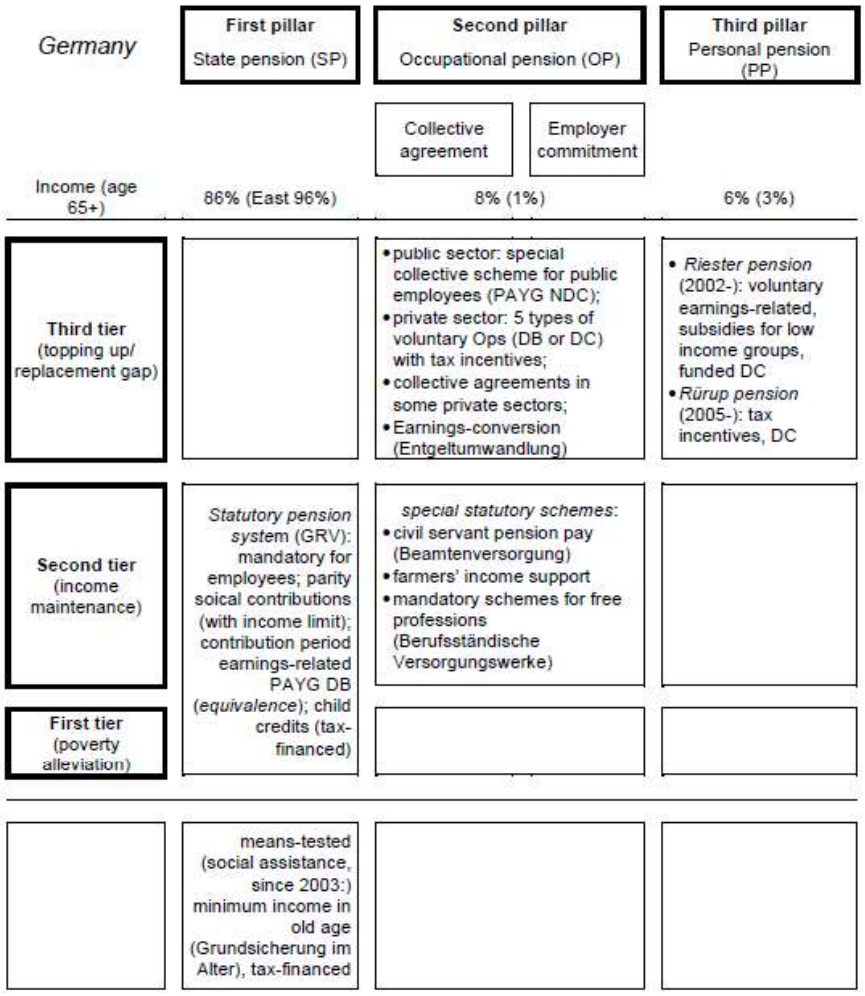
The Austrian laws that are in effect there have frequently been mentioned in recent years discussions about German pension policy (Haan and Schaller, 2021; Geyer et al., 2021). Comparing the two nations can aid in determining what can be achieved using social insurance as a tool, as well as identifying potential for reform and political scope for action. Comparing the two nations can also assist put alleged limitations into perspective and examine and reflect on presumptions about what is fair and proper and what functions in each country. The comparison may also be used as a form of experimental setup. For example, what would happen if one adjustment screw was moved in either direction (Blank et al., 2021)?

The comparison between the two nations is particularly fascinating since it demonstrates that one need not reinvent one's pension system from scratch when learning from one's neighbor. By comparing the two, it is possible to find methods to improve the current system. It is particularly relevant from a German viewpoint to observe that a much more efficient pension system is conceivable without causing an adverse impact on the economy (Blank et al., 2016).

1 German pension system

The existing multi-pillar concept is the foundation of the German pension system and is shown below.

Table no. 1: German Pension Pillars and Tiers



Source: Mayer, 2020

The approach focuses on individual retirement savings plans, with the state pension (first pillar) acting as a mechanism to reduce poverty (Ebbinghaus et al., 2011). The German state pension accounts for around 86% of retirement income, as stated above in Table 1. The state pension has been increased to include new professions as well as individuals who work only a few hours per week, dubbed "mini-jobbers" (Bäcker, 2018). 83,8% of the whole work force that was dependant was covered by the statutory pension in 2018. Benefits have been reduced over the last 20 years, leaving the gross ratio at 46% of lifetime earnings (Bäcker, 2018). The decreased earning capacity pension criteria have been strengthened, while others have been altered. Old age pension for extended insurance periods can be utilized from 63 years but only with deductions, for example) (Bäcker, 2018). As long as insurance-legal conditions are met, the insured may choose to retire from the statutory pension either early with deductions or at the usual retirement age, which will eventually rise to 67 years old by 2029 (Schmitz-Kießler, 2019). There are not just deductions when using early retirement, but there is also

an earnings restriction. Another option for retiring early was provided in 2017 with the flexibilization of the transition into retirement by receiving a portion of the pension benefits, the so-called partial pension, before the statutory retirement age while remaining in the job market (Bäcker, 2018). There are no adverse impacts on an individual's public pension benefits by working above the statutory retirement age, and there are no further earnings caps (Schmitz-Kießler, 2019).

For those with a decreased earning ability, the German statutory pension system offers two pension routes, which are the full and partial earning capacity pensions (Bäcker, 2018). These have extra earnings constraints as well (Schmitz-Kießler, 2019).

Occupational pensions have grown massively in the twenty-first century. Employers who implement an occupational pension program, for example, enjoy tax breaks. The vesting time for employees to switch firms and maintain their accrued pension benefits has been steadily eliminated. Employees who have worked for the same firm for three years and are at least 21 years old can now transfer their accrued occupational pension benefit to a new employer (ibid).

Private pension systems such as the Riester and Rürup pensions have been improved to make them more consumer friendly (ibid.). Deferred compensation, for example, is now permanent. The cost of switching private pension plans is capped at 150€. (ibid.). Additionally, the Riester pension can be tapped for accumulated funds for real estate investment (ibid.).

After taking a short look at the history of the pension, more specifically the latest policy changes and status quo in Germany the author will now focus on Austria as Austria is quite often discussed as a role model for Germany.

Minimum pension levels have been reduced since the millenium, with the objective of maintaining contribution rates around 20% until 2020 (Mayer, 2020). Following the archetypal Riester reform, subsequent changes have focused on early retirement (Hofäcker and Naumann, 2015). Starting in July 2005, the minimum age for receiving an old age pension owing to unemployment was raised from 60 to 63 years old (Bäcker, 2018). The statutory regular pensionable age was raised in 2012 (Bäcker, 2018). The mandatory retirement age will increase to 67 years old in 2029. Deductions of up to 14.4% have been granted to all early retirement programs (Bäcker, 2018). Additionally, the minimum retirement age for those with lengthy contribution histories has been raised to 63 years (Bäcker, 2018). Beneficiaries who are 50 years of age or older can contribute more to the public pension as of 2017 (Bäcker, 2018).

Furthermore, Germany has established policies to boost employment in old age (50+ years), such as offering additional training allowances for older persons and awarding incentives to enterprises who hire previously jobless older adults (Bäcker, 2018).

Since 2001, there are now two different pension entitlements for people receiving invalidity benefits.

1. For individuals who are unable to work three hours per day (full pension due to diminished earning capacity)
2. For individuals who can work three to six hours per day (pension for half of one's earning capacity) (Bäcker, 2018).

In 2012, the minimum age to be eligible was raised from 63 to 65 without deductions. Utilizing this retirement option prior to turning 65 entails maximum 10.8% withdrawals from the individual pension (Bäcker, 2018).

Germany implemented a new retirement route in 2017 (Bundesministerium für Arbeit und Soziales, 2020) to make the transition from productive job to retirement simpler. This new retirement option allows recipients to cut their work hours before reaching the statutory pension age and earn a portion of their pension payments early. Additionally, voluntary occupational pensions have undergone change (Mayer, 2020).

As of 2002, beneficiaries had to have worked for a single employer (30 years of age) for a minimum of 5 years before their occupational pension rights become vested (Bäcker, 2018). As of 2005, pension benefits might be transferred to a new employer (Bäcker, 2018). This has been changed such that a person's benefits now vest after three years with the same job and a minimum age of 21. (Bäcker, 2018).

2 Austrian pension system

The existing multi-pillar concept is the basis of the Austrian pension system and is presented below.

Table no 2: Austrian Pension Pillars and Tiers

Austria	**First Pillar** State Pension	**Second Pillar** Occupational Pension	**Third Pillar** Private Pension
Income (age men: 65, women: 60)	89%	7%	4%
Third tier (topping up/ replacement gap)		based on the BPG (Betriebspensionsgesetz); 4 types: collective company insurance scheme; direct payments (voluntary); life insurance policies (subsidized); pension fund commitment (DB or DC; subsidized)	Zukunftsvorsorge (2003-): voluntary, tax-privileged investment fund
Second tier (income maintenance)	*Statutory pension system* (PV) based on ASVG and APG: mandatory for employees parity social contributions (with income limit); contributions-based, earnings-related PAYG DB (equivalence)		
First tier (poverty alleviation	tax-funded income-tested top-up for low earners; means-tested top-up for low earners with 30 or more insurance years		

Source: Mayer, 2020

In Austria, the state pension system is by far the most significant source of retirement income for older people. As shown in table 2, the public pension accounts for around 89% of retirees' income. Yet income from occupational and private pensions accounts for less than 10%. Currently, the public pension attempts to provide a fair quality of living from wages earned throughout one's working life. Due to its generosity, the Austrian pension system perfectly illustrates how state pensions swamp out alternative sources of pension earnings (Mayer, 2020).

Following the FPÖ-ÖVP partnership, a new Grand Coalition took office and implemented a minimum wage and a means-tested basic income. In order to better safeguard residents who work in new occupations, such as quasi-freelancing, pension benefits were increased once again (Bundeskanzleramt, 2007).

The decision to let the Langzeitversichertenrente (a route to early retirement based on a long insurance record) expire in 2017 was made in 2016 (BMASK, 2016). Prior to that,

eligibility requirements were strengthened. This gradually raised the earliest retirement age for males from 60 to 62 and for females from 57 to 62. (BMASK, 2016).

Prior credited periods for the personal pension account were transformed in 2014 to become a beginning credit for all pension accounts. This was done to simplify and make public pension calculations more transparent for the general public.

Additionally, the eligibility requirements for invalidity payments have been strengthened. The right to pay for rehabilitative measures has taken the role of the temporary invalidity pension retirement path, which has expired. However, the indefinite invalidity pension is still in place.

Currently, the Austrian pension system uses a personal pension account and complies with the General Pensions Act. Own pensions and survivor's pensions are the two main categories of pension benefits offered by the Austrian public pension system. Only the personal pensions will be discussed in further depth below.

According to BMAGSK (2018), own pensions include the standard old-age pension, early retirement pension based on long-term insurance contributions, corridor pensions, manual labor pensions, and invalidity or occupational disability pensions (Mayer, 2020).

When a person reaches the statutory pension age, which is 65 for males and 60 for females, they are eligible to receive regular old-age benefits. Starting in 2024, the retirement age for women will be gradually raised to 65, reaching 65 in 2033. The minimum number of contribution months required to qualify for pension benefits is 180, or 15 years, according to the Ministry of Social Affairs (Mayer, 2020). 7 of these 15 years must be spent in productive employment. The General Pensions Act, which offers the personal pensions account, is applicable to claimants born after January 1, 1955. Additionally, times of unpaid caregiving labor can be taken into account when calculating pension contributions, and periods of education can be purchased and used toward a voluntary pension plan's contribution periods (Mayer, 2020).

Men who have gathered 45 contribution years can request early retirement on the basis of long-term insurance contributions (Hacklerregelung), which allows them to retire at the age of 62 without abductions. Women are exempt from this.

According to the theory behind corridor pensions (Korridorpensionen), claimants (male) are eligible for an early retirement at age 62 if they have amassed at least 40 years of insurance. Deductions amount to 5.1% each year of early retirement or 0.425% per month. Deductions are subject to a 15.3% maximum (Mayer, 2020). Women are exempt from this.

Workers who undertake physically difficult work can retire at the age of 60 thanks to manual labor pensions (Schwerarbeiterrente). A minimum of 10 of the previous 20 years must have been spent in physically demanding job, with a minimum insurance duration of 45 years. Deductions range from 4.2% each year to 13.8% at most (Mayer, 2020).

Only when a person is determined to have a permanent handicap or be unable of working is the new invalidity pension plan (Invaliditätsrente) granted. This kind of public pension intends to lower the number of invalidity pensions and aid workers who are experiencing health problems in returning to the workforce. Regional health insurance funds will pay for medical care and rehabilitation for those who are temporarily critically ill (BMAGSK, 2018).

3 Comparison

After comparing the German and the Austrian pension systems, it can be seen that the structure of the pillars and tiers is the same. However, differences arise in the retirement age, benefits, occupational pensions as well as possibilities for private old-age provision.

In Germany, the first pillar includes, within the framework of the state pension, benefits for income protection and poverty reduction. In addition, the second pillar covers supplementary or replacement pensions under occupational pensions, additional benefits through collective agreement or employer commitment by employees. Furthermore, the second pillar covers some pensions for income maintenance on the second floor. Finally, private pensions can be built up in the third pillar with the Riester pension or Rürup pension.

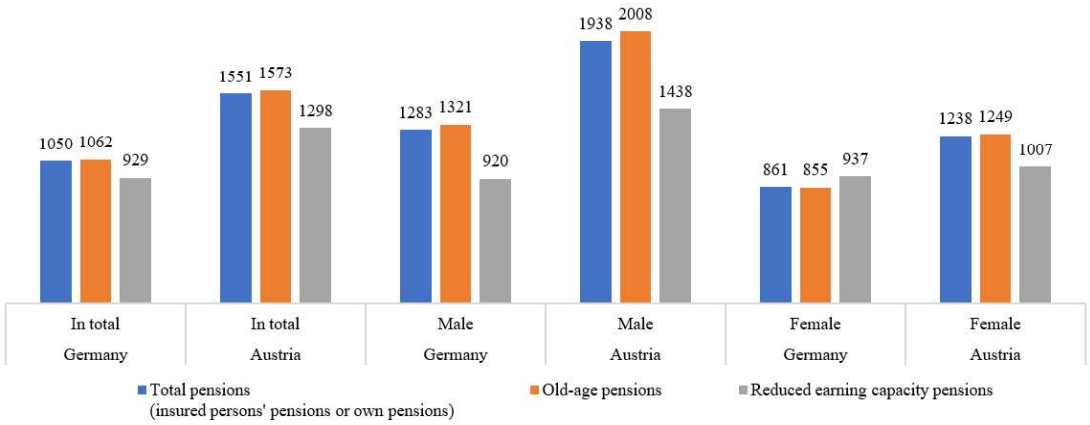
The Austrian pension system, on the other hand, offers separate benefits for income security and poverty reduction in the first pillar of the state pension. There are no collective agreements or employer commitments for the supplementary occupational pension. There are also no separate pensions in the second pillar compared to Germany.

If one looks at recent developments in the pension systems, it becomes clear that the retirement age and pension level have essentially been harmonised.

With regard to the actual pension benefits, the comparison shows that the Austrian pension insurance provides considerably more benefits than the German pension insurance. This becomes clear when comparing the average pension payments. The following two tables show the gross payment amounts of the German and Austrian pension insurance pensions for non-self-employed persons in 2019. Table 3 shows the average gross monthly pensions in Germany and Austria in 2019 for existing pensioners, while Table 4 shows the average gross monthly pensions in Germany and Austria in 2019 for new, additional pensioners. As there are 14 pension payments per year in Austria, the amounts are converted to 12 months so that

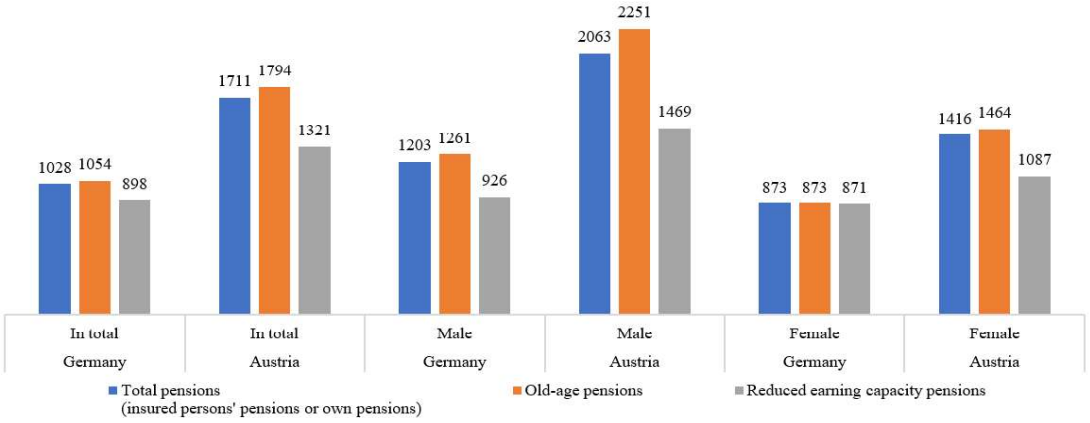
a comparison with Germany is possible. The two tables are broken down in euros by pension type and gender.

Table no. 3: Average gross monthly pensions in Germany and Austria in 2019 - Existing Pensioners



Source: Blank et al., 2021

Table no. 4: Average gross monthly pensions in Germany and Austria in 2019 - New Pensioners



Source: Blank et al., 2021

The two tables do, however, also highlight a similarity between the two nations. Men enjoy much greater benefits than women. This reflects the historical and ongoing division of labor, which results in different rates of labor force participation between the sexes, with men's labor force integration in both countries being significantly better and associated with higher contribution payments and longer contribution payment phases (Dessimirova and Bustamante 2019).

There are clear disparities across nations in present pension payouts. OECD projections, which use the current legal position as a starting point for evaluating future benefits for persons with comparable job histories, indicate that the Austrian system is far more generous (OECD

2019). Under the current legislative framework, these forecasts also imply a further decline in the benefit level of the German pension insurance system in the future. For more differentiated and up-to-date comparisons, the OECD estimates can serve as the foundation (Blank/Türk 2021).

The outcome of calculations using the OECD models is shown in Figure 1. The gross replacement rates for persons entering the labor market in 2063 are displayed here with half, one and one and a half times average earnings. What becomes visible here is not only that the public system in Austria offers significantly higher replacement rates, but also the effect of the equivalence principle. This leads to largely uniform replacement rates across income groups within countries (Blank et al., 2021).

Figure no. 1: Projected gross replacement rates as a percentage at the start of the 2018 occupation

Source: Blank et al., 2021

Finally, a comparison of ratios reflecting the system's benefit core shows that Austria has a significant advantage. If, as in Austria, we examine what pension flows from contributions (relative pension entitlements), we discover that this entitlement is much larger in 2018 in the Austrian pension account system, at 1.72 percent of gross income, than in Germany, at 0.99 percent (Blank et al., 2021). If the OECD's estimate of diminishing pension levels is implemented, the entitlement in Germany, for individuals who start a career in 2018 decreases to 0.86 percent (Blank et al. 2021). In other words, a contribution payment on a contributed yearly income of 30,000 euros in Austria leads in a monthly pension entitlement of roughly 43 euros, whereas the entitlement in Germany is just around 25 euros, and this value still reduces to just under 22 euros per month over time (Blank et al. 2021).

4 Conclusion

The Austrian pension system makes a compelling case for being adopted by Germany. The Austrian system, like the German one, is the outcome of a decades-long series of individual choices, some of which have been overturned, as well as cutbacks. The Austrian transition to an employment insurance system, for example, is the culmination of a process that began in the postwar period. Many elements influence the respective evolution, including various party-political power linkages and state-association interactions.

Proposals for transfer should include consider system flaws and contentious issues in both systems. As a result of the equivalence principle, both nations have a significant gender pension discrepancy.

The warning against directly transferring the Austrian system is not intended to imply that there are no lessons to be learned for Germany, especially since demands for employment insurance, strengthening the statutory pension, and improved minimum security have long been raised in the political arena. And, following careful consideration and prioritization of pension policy goals, the Austrian system may, of course, contribute to further develop the German system's aims as well as its means.

First and foremost, the comparison demonstrates the options and room that may be exploited especially with the social insurance instrument. This includes, but is not limited to, the amount of benefits. If approved, pension insurance can give higher benefits than in Germany!

The analogy might also prompt thought about one's personal views on justice. Performance equity was a major topic of discussion during the basic pension debate in Germany. The basic pension is meant to help people who, despite putting in a lot of time at work, only earn a little income when calculated in terms of periods of pensionable service. They shouldn't, however, fare any better than others who have worked more diligently. The Austrian equalization supplement is not very equitable in this regard as it raises low (pension) incomes to a flat rate regardless of how well the prior work was done.

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