



Austria can learn from Denmark

03 Jan 2012

Birgit Vogt-Majarek, Dr Natalie Seitz and Jakob Arffmann explain how Austria's pension system might benefit from the experiences of Denmark in promoting greater participation of the over-50s in the labour market

The International Monetary Fund (IMF) wants Austria to strengthen reforms in the pension sector, especially the closure of all avenues to early retirement.

Austria's three-pillar old-age pension scheme – consisting of a statutory pension scheme, occupational pension scheme and individual pension provision – is similar to Denmark's. However, the main pillar, the statutory pension scheme, is at risk of collapse. One of the reasons for this situation is the very low average retirement age (58.2 years). The statutory pension scheme not only provides for old age pensions, but also for invalidity pensions and direct benefits, such as survivors' and orphans' pensions.

The statutory pension scheme is mainly financed through contributions from economically active people. Tax revenues are used to cover remaining pension scheme imbalances.

Until 2005, the statutory pension scheme stipulated different regulations for different occupational groups. According to the General Pension Act (Allgemeines Pensionsgesetz), which has been in force since 1 January 2005, every insured person at the age of 65 receives a pension amounting to 80% of the average lifetime income after 45 years of contribution. However, there are still specific provisions that allow insured persons to retire at a lower age. The current legal retirement age is 60 for women and 65 for men. The retirement age for women will gradually be increased to 65 years over the period from 2024 to 2033.

Under an older pension scheme which has been abolished but still applies until 1 October 2017, men and women with a long period of contribution can currently retire aged 63.5 years and 58.5 years respectively. The retirement age under this scheme will be gradually increased until 2017, when it will reach the normal retirement age. Between 2008 and 2009, the number of insured persons making use of this scheme increased by 36%, resulting in additional costs of €172.6m.

This scheme will be replaced by a new system that allows people to determine their own retirement age: if a person born after 1 January 1955 has chalked up 37.5 contribution years, he or she (for women this system will be relevant only after 2028) can retire between the ages of 62 and 65. If the person remains in employment until 68, specific bonuses apply.

Plans for pension reform

The government and social partners are currently working on proposals for a reform of the pension system with the main target to discourage people from early retirement. The social partners have proposed bonuses of €2,000, €3,000 and €4,000 in the first, second and third year the person remains in employment. According to the Austrian financial minister, Maria Fekter, this measure is not sufficient, but no specific proposals have yet been made by the government.

However, there are already some measures to encourage elder employees to remain in employment. Employees who have 15 contribution years to the statutory social security system in the last 25 years and who are older than 53.5 years (women) or 58.5 years (men) can ask to work part-time until retirement. They can choose either to reduce working time by 40-60% until retirement, or to divide the remaining time until retirement between a 'working phase' and 'free time'. This scheme of part-time employment is financially supported by the Austrian Public Employment Service (AMS).

Opportunities for older people

In an international comparison, Austria is considered to be the country of early retirees. Therefore it will have to raise the statutory and virtual retirement age. However, increasing the retirement age is not enough to make the pension system fundable. It is also necessary to increase the employment rate for elder employees, especially for those over 50.

Compared with the rest of Europe, the employment situation in Austria is relatively favourable. However, it has been achieved at the cost of an unusually strong displacement of older employees from the labour market. Slightly more than 40% of 55 to 64-year-olds are employed in Austria. The EU average in this age segment is 45.8%. Austria's overall unemployment rate of 3.7% is significantly below the European average (in Denmark the rate is 7.1%). The employment situation for older employees in Austria is unsatisfactory. The relatively high unemployment level among older employees shows how difficult it is for people over the age of 50 to remain employed or get back into employment.

Denmark's experience

In some EU member states – especially in Denmark – the employment situation for employees over 50 is particularly favourable compared with Austria. Older employees are valued for their experience and performance on the job. Very few European countries have a larger proportion of older people in employment than Denmark, where almost 58% of 55 to 64-year-olds are in work. The European average is not even one in two, even though the EU member states reached an agreement in 2001 to increase the employment rate in this age group to at least 50% by 2010. As in all European countries, the population of Denmark is getting older. Even today, three in 10 Danes are older than 55.

In future, the demand for employees in advanced age should be greater than has been the case to date. Companies should make use of older employees' experience. They should be assigned mentor roles to introduce those beginning their careers into the world of business and work. In mixed teams, both young and old could learn from one another.

Danish legislation has recognised this demand. In order to keep older employees in their jobs, it has placed restrictions on early retirement. Rehabilitation measures aim at improving the health of older people and, consequently, contributes towards enabling them to work for as long as possible. People who can no longer work full-time should be given the opportunity to work part-time.

Depending on the person's date of birth, the statutory retirement age in Denmark is between 65 and 67 years. As of 2022, the statutory retirement age will be 67 years. The earliest date that pension benefits can be paid out varies. In general, pension benefits cannot be paid out until the age of 60. On average, Danish men and women enter retirement at 61 or 62.

The Danish government also places significant importance on further training. Overall, the country spends 7.4% of its gross domestic product on training and education. Many courses and programmes are targeted at the over-50s. The government also promotes special programmes for integrating older employees into the labour market. The internet platform www.vidar.dk, for example, provides information about all public providers of further training. The education ministry's internet site, eng.uvm.dk, and that of local adult educating centres, www.ffd.dk, also provide information about further training.

To solve the problem of the Austrian pension system a change of attitude in the companies and the society as a whole is needed. In addition to that, political measures should further facilitate the employment of older people.

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