Occupational Pension Choice in a System of Organized Capitalism: Austria in Comparative Perspective

A Report Submitted to the Austrian Marshall Plan Foundation
October 2013

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This paper places the evolution of Austrian pension politics in the larger context of comparative economic change in Western Europe over the last two decades. Within these larger economic shifts, the tensions between market efficiency and non-market forms of social protection represent a key dimension of political debate. As a nearly paradigmatic example of "organized free enterprise," the Austrian case is highly illustrative of the tensions facing many Continental economies. At the same time, Austrian institutions allow for several uniquely Austrian ways of responding to contemporary challenges. Among the changes facing the Austrian economic and political establishment, the development of funded occupational pensions is particularly illuminating.

The concept of organized free enterprise, originally from Andrew Shonfield's work on the mixed economy, has been developed by a distinguished lineage of comparative political economists in the last 50 years (Shonfield, 1965). It now refers to economies where the state and the organized social partners play prescribed roles that result in well-known economic tendencies: long-term investment, a highly trained workforces, gradual technical change, and extensive policies for social protection. These characteristics differ from the more open-ended patterns of politics in the Anglo-American countries that are associated more consistently with short-term investment horizons, variable workforce qualifications, more radical patterns of technological innovation, and more selective policies for social welfare.

One of the more widely adopted frameworks in recent literature on comparative capitalisms is the so-called "Varieties of Capitalism" perspective developed by Peter Hall and David Soskice. According to the Varieties (VoC) approach, the central characteristic of the more organized variants of capitalism lies in employer coordination, which leads Hall and Soskice to designate such countries as coordinated market economies (CMEs). It is this high level of employer coordination that in turn leads to patient capital, medium and long-term investment in existing skill systems, corresponding tendencies toward incremental rather than radical technological innovation, and structured bargaining with organized labor over social welfare policies. The central question for the CMEs is whether pressures toward more open market competition will offer individual firms opportunities outside their national economies that unravel the very patterns of coordination among CME employers that have enabled them to maintain their long-term and high quality strategies for fitting into the international economy. It is precisely on this question – the viability of the more coordinated market economies in a global marketplace – that Austria provides particular insights.

In enumerating these insights, this paper proceeds in four steps. First, it lays out the implications of employer coordination for social welfare policy in the more organized forms of advanced capitalism. Second, it summarizes recent changes in Austria's patterns of coordinated policymaking with an emphasis on pension reform as an exemplary case. Third, it reviews Austria's experience with occupational pensions with comparative reference to other Continental European cases, in particular Germany. Fourth, it concludes with several questions raised by the evolution of occupational pensions regarding Austria's broader capabilities for adjusting to the changing terms of international competition.

I. Employer coordination and the welfare state.

According to the VoC approach and other perspectives on comparative capitalism, employer coordination can be associated either with the Scandinavian model of universal welfare benefits or the conservative Continental model of the occupationally defined welfare benefits. At a general level, both of these welfare state models emerge from neo-corporatist patterns of policymaking in which centralized business associations negotiate with trade union federations according to the practices of social partnership. Yet, according to the typology advanced by Gøsta Esping-Andersen, the results fall into two broadly different categories of social policy. In short, there are two types of welfare capitalism which feature high levels of what the VoC school calls employer coordination. The Scandinavian model provides an egalitarian social safety net on universalistic criteria by virtue of citizenship. The conservative Continental model, sometimes termed the male-breadwinner model, provides a more differentiated social safety net that extends status-preserving benefits to individuals according to their occupation and work history (Esping-Andersen, 1990).

The distinction between the Scandinavian and the Continental models is particularly significant with respect to the link between workforce qualifications and old-age security. The Scandinavian model tends to enable a high level of workforce qualification across all occupations with universally high retirement benefits based on citizenship. According to the VoC approach, the Continental model supports high levels of qualification only in particular occupations. The evidence for this difference comes particularly from Germany, where extensive investment in industrial apprenticeship at the beginning of an individual's career is compensated through relatively high industry-specific pension guarantees in old age (Estevez-Abe, et. al, 2001; Manow, 2005). These industry-specific patterns result from a public pension system that pegs retirement benefits to career long compensation levels, supplemented in many cases by differential pension schemes for employees in broad occupational categories such as: public service, the liberal professions, the craft trades, or private business in many individual firms. Although in different proportions, Austria, like Germany, provides old age benefits primarily through its public system with some supplementary benefits paid from occupational sources.

It is well known that all of the CMEs, including both the Scandinavian and the Continental countries, have experienced increasing pressure on their public pension systems since the 1980s. As a result, different countries have experimented with a range of policy measures for broadening the usage of occupational pensions as well as individualized or private pensions. The relative growth of these different categories of old-age provision have striking implications for several irreducibly political questions. Since the public pension systems are financed through intergenerational transfers, their financial health is a major factor in any country's fiscal health. The growth of occupational and individual pensions implies an increasing individualization of risk in old age. The relative strength of occupational pensions may in turn alter the kinds of educational investments that individuals can make as a function of differential prospects for old-age security in different professions. Occupational pensions, if negotiated through collective bargaining, can also influence the robustness of trade unions' ties to their membership. And the growth of funded pension accounts (termed defined-contribution pensions in English parlance, *kapitalgedeckte* in German) can have a significant impact on the magnitude of any country's capital markets.

II. Recent changes in Austrian pensions.

Austria has navigated the pressures that bear on all advanced countries through a series of pension reforms. Like those of other Continental welfare states, Austria's pension system relied on a public pay-as-you-go (PAYGO) system for the overwhelming proportion of benefits paid to retirees. Since this proportion reached above nine-tenths of all Austrian pension benefits as late as the early 2000s, any erosion of the pay-as-you-go mechanisms of intergenerational financing posed a major political problem. Not surprisingly, from 1980 through 2000, there were numerous legislative efforts to put the public system on sound finances. Most observers agree that these reforms – which centered on recalibration of benefits or changes to the contribution rates for different classes of beneficiaries – fell short of fundamental change (Schulze and Schludi, 2007, 555-556). One particular challenge, which these reforms addressed only at the margins, was the prevalence of early retirement practices, whereby men were permitted to retire at age 60, women at age 55. In periods of high unemployment, firms widely encouraged early retirement as a way of making room for younger and more recently educated employees to enter the workforce.

The pension reforms of 2000, 2003, and 2004-5, introduced more significant alterations, after a sea change in government in 2000 brought a new coalition between the center-right Austrian People's Party (ÖVP) and the far-right Austrian Freedom Party (FPÖ). The reform of 2000 raised the ages at which early retirement was permitted by 1.5 years. It also aimed at actuarial fairness by imposing reduced accrual rates on early retirees while granting additional credits to people working beyond the statutory retirement age of 65 for men, 60 for women (Schulze and Schludi, 2007; Paster, 2013).

The reform of 2003 altered the underlying parameters of the public pension system by gradually extending the base period for calculating benefits from 15 years to 40 years of an individual's employment history. In addition, the expected replacement rate was lowered by changing the credit per year of work history from 2% to 1.78%. In addition, the special contribution rate for civil servants was abolished. And the accrual penalty for early retirement was increased from 3% per year to 4.2% per year, while the allowable age for early retirement was to be gradually raised. This reform, like that of 2000, was engineered by the center-right coalition against the opposition of the Social Democrats (SPÖ), the trade unions, and the Austrian Chamber of Commerce (Wirtschaftskammer Österreich, WKÖ), which all considered the changes too abrupt or far-reaching (Knell, et. al., 2006; Paster, 2013).

The reform of 2004 consolidated some of the changes from 2003 and introduced others. The accrual pension credits at the rate of 1.78% per year of work was formalized in the 45-65-80 rule, indicating that a retiree at age 65 who had worked 45 years would receive 80% of the average salary over their entire employment history. In addition, the preferential payroll deductions for the self-employed (15% to 17.5%, depending upon sector), farmers (14.5%), and the liberal professions (20%) were harmonized on the same contribution rate of 22.8% for all occupational groups (Schulze and Schludi, 2007: 569; Knell, 2006: 75; Paster 2013: 13). In addition, a small individualized defined benefit within the public system was established for individuals born in 1955 or later years (Knell 2006: 74).

As a result of the more radical reforms introduced by the ÖVP/FPÖ coalition governments, the National Bank estimated that pension expenditures will decline from one of the European Union's highest levels at 13.4% of GDP in 2004 to 12.2% in 2050. While this change should, according to modeling projections, make the public system sustainable, it does so at the cost of decreased retirement income levels for most groups of future pension beneficiaries (Knell, 2006: 72, 76, 91-92).

III. Occupational pensions in Austria

The combination of increased sustainability for the system and predictably lower levels of anticipated benefits for individual households is the key reason that policymakers have tried so consistently in recent decades to find additional means of broadening household income for retirees. Given the predominant role of the public pension system in Austria, both occupational and individual pension accounts have long been left to the realm of voluntary choice by firms as well as individuals. The relatively high replacement rates provided by the public system -- up to 80% of average compensation for most workers – has over time generated little demand for occupational and individual pensions. Public officials have accordingly taken the initiative, while recalibrating the pubic pension system through the reforms outlined above, to introduce changes to the legal framework for occupational as well as private pensions.

In 1990, a new law on occupational pensions and pension funds (*Pensionskassengesetz*, PKG) established a new option for occupational pensions that could be serviced and invested through external financial firms. This plan was intended to encourage firms to offer occupational pensions more frequently than through the traditional modalities of company reserves or group insurance policies, which had been used with declining frequency in the 1980s. A new portability feature also fitted with an increase in labor market mobility because individuals could take their pension funds with them if they switched jobs (BmASK, 2011, 23-24).

Occupational pensions grew further in prevalence in 2002, when a new framework for severance pay came into force. This new framework required employers to set aside 1.53% of the gross monthly compensation for all employees, who could then choose between a lump-sum or an annuitized pension when they retired (Knell, et. al., 2006, 70-71).

With these changes, three main organizational schemes (*Durchführungswege*) were available to firms that wanted to offer occupational pensions in Austria: pension funds, group life insurance arrangements, and direct pension commitments paid by employers. Though starting from a comparatively low level, occupational pensions in Austria grew noticeably more prevalent after 2000 as indicated by the number of eligible employees, the number of current retirees, or the number of firms offering such pensions. These indicators – tracked in a series of studies by Thomas Url – are briefly enumerated here.

In the year 2000, approximately 12% of the potential workforce was entitled to some kind of occupational. By 2008, this figure had grown to approximately 22% of the working age population, including over 30% of the actually employed workforce in the non-agricultural economy (Url, 2010: 30, 34 for a range of estimates).

The number of retirees receiving occupational pension payments totaled only about 135,000 in the year 2007. This number included roughly 60,000 beneficiaries of pension funds, another 13,500 with group life insurance annuities, and approximately 60,000 receiving direct company pensions (Url, 2010: 31). These numbers climbed rapidly in the next two years, owing partly to more favorable tax treatment of group life insurance schemes and a rapid increase in the number of institutions in public service, education, and health that provided such retirement schemes (Url, 2010: 30, and see also BmASK, 2011: 26, 30, 33, for increasing numbers of retirees, 2007-2009).

According to surveys conducted by WIFO (the Austrian Institute for Economic Research), the number or firms across all sectors that offer occupational pensions has also grown conspicuously in recent decades. From an estimated 6.1% of firms in 1993, the number of firms with occupational pensions schemes grew to 12.6% in 2000, and 19.2% in 2007, with some estimates exceeding 20% for subsequent years (Url, 2010: 30-31). While these numbers establish a clear pattern of rapid diffusion of occupational pension schemes, they conceal significant variation across sectors. In 2007, occupational pensions were offered by more than 90% of the employers in three sectors: finance; education; and health. Slightly more than 50% of the employers in two other sectors offered such benefits: public administration and utilities. Meanwhile occupational pensions were available from less than 25% of the employers in major branches of the industrial economy: mining; manufacturing; and commercial trade in goods, both wholesale and retail. Meanwhile, fewer than 10% of the employers in two other sectors offered occupational pension schemes: construction and the hospitality industry, including both hotel and restaurant (Url, 2010: 31).

Despite this recent growth in the availability of occupational pensions, pension benefits in Austria will for the foreseeable future continue to come primarily from the public PAYGO system. This tendency is particularly clear, for example, by comparison to other Central European countries. In Germany, for example, recent surveys show that over 70% of employers offer some kind of occupational pension (Blank and Wiecek, 2012: Figure 3, page 8) – more than twice the incidence of Austrian firms. As a result, such pension schemes are available much more evenly across the public sector and private industry, with as many as two-thirds of the firms in the metalworking industries (industrial and consumer goods) offering occupational pension schemes in Germany (Blank and W, Figure 2, page 6), while in Austria fewer than one fourth of the firms in the manufacturing sector offer such schemes.

IV. Analysis and Conclusions.

These findings indicate that Austria faces of number of challenges, while possessing a range of strengths as it prepares to provide for its retired population.

The central challenge stems from the large number of employers that do not offer an occupational scheme for complementing the public system already available to their employees for old-age security. With well under half of Austrian firms offering occupational retirement schemes, there is much room for growth in this type of pension savings (Rauscher-Weber, 2013).

This challenge is more than a matter of numbers. The current distribution of occupational schemes for old-age security in Austria is heavily skewed toward non-export sectors: public administration, education, health services, and business services. This pattern suggests that end-of-career security is not being enhanced in proportion to the need for the highly-qualified workforce on which countries like Austria have customarily depended. According to the insights of comparative institutional analysis, highly organized economies such as Austria's depend on mutually reinforcing vocational and social policies. The adaptability of vocational training depends largely today on university-level training in applied pursuits, or what is often called tertiary vocational training. Studies indicate that the growth of this type of advanced vocational education has occurred far less quickly in Austria than comparable Central European countries, for example, Switzerland (Culpepper, 2007).

The same mutually reinforcing effects of different policies that present a challenge to Austrian policymakers, however, also point to the country's inherited strengths in responding to changing demographic and competitive conditions. Comparative institutional analysis shows clearly that unrestrained flexibility across the entire economy does not provide a solid foundation for competitive adjustment strategies at the level of individual firms or employees. Precisely because the more organized or coordinated market economies depend upon mutually complementary institutions, inherited arrangements should be viewed as potential resources. More specifically, in the Austrian case, two underlying institutions provide essential elements of adaptability.

The public pension system itself, even as it is altered through legislative reform, provides an invaluable mechanism for spreading the risk of old-age poverty. In particular, the public pension system supplies a basic financial foundation at the household level for all retired Austrians. The value of the public PAYGO system has been vividly revealed by the financial turbulence of the last five years. The financial crisis and stock market declines of 2008 severely undercut the balance of all equity-based accounts and thereby undermined public confidence in funded or defined-contribution pension schemes. Since then, the low interest rates adopted by central banks around the world have weakened the financing of insurance-based pension schemes and in many cases reduced annuity-based benefits.

In these circumstances, the indispensability of the public PAYGO system has emerged more clearly than ever. As a result, it is easy to see that occupational pensions do not represent a panacea. If they can be effectively layered on top of the public system, however, occupational pensions can provide a tool for particular firms and industry groups that are bringing their old-age security frameworks into line with their competitive needs. In particular, this form of firm- and industry-level decision can provide an element of flexibility in matching old-age security guarantees to the other kinds of inputs, particularly human capital in the form of early-career vocational training, that firms need to maintain in order to address their specific competitive environments effectively.

Precisely because the capabilities of competitive firms rest jointly on their own firm-internal resources and resources provided from public sources, a second institutional resource of great importance for Austria's economic adjustment strategies is the chamber system of business organization and the Austrian Federal Economic Chamber (WKÖ) in particular. The peak-level chamber in Vienna plays an aggregating role that few other national business associations can play. Because membership is legally required, and because the WKÖ includes small firms as well as large enterprises across all sectors, the WKÖ is uniquely able to integrate widely varying preferences into its positions. This organizational breadth is crucial because it gives Austrian policymakers a single organization that can bring the needs of firms in widely varying sectors and business circumstances to bear on national policy decisions (Paster, 2013). It is precisely the articulation of highly diverse strategies at the firm-level with economy-wide public policies that can produce the most advantageous circumstances for firms as they seek to respond to the rapidly changing conditions of the contemporary international economy.

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