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Austria's pension reform: cautious steps towards a stronger second pillar

Austria's planned occupational pension reform is welcome for a country still heavily reliant on its public pay-as-you-go system. Yet the measures fall short of the structural change needed. Valida Vorsorge Management member of the executive board, *Philipp Mayer*, explores

The Austrian government has agreed on a reform package for the second pillar, with a parliamentary vote expected this autumn. The reform is aimed at broadening access to long-term, capital-funded retirement savings and modernising parts of Austria's occupational pension framework.

The most important changes concern Austria's severance pay system, new transfer options at retirement, tax treatment of personal contributions and the introduction of life-cycle investment models.

Severance pay: a new Pension Investment Pool

Austria's mandatory severance pay system has been in place for more than two decades. Employers contribute 1.53 per cent of employees' gross wages each month to occupational provision funds, which administer and invest these contributions. Employees may generally access the accumulated assets when employment ends, and at the latest upon retirement. Under the reform, these occupational provision funds will be able to offer a new Pension Investment Pool to employees and the self-employed. The product is intended to channel severance-related assets into long-term funded retirement provision. Beneficiaries will be able to opt in voluntarily and choose at retirement between a lump sum and a lifelong supplementary pension.

Pension funds: tax incentives and more modern investment models

Occupational pension provision in Austria is voluntary and remains comparatively limited. Fewer than one in four employees currently benefit from an employer-sponsored occupational pension arrangement, leaving the public pension system to carry most of the retirement income burden.

A) General pension fund agreement

A new general pension fund agreement will primarily target employees and self-employed individuals without access to an employer-sponsored pension fund arrangement. Assets from occupational provision funds may be transferred into such an agreement and converted into a lifelong supplementary pension.

B) Personal contributions

Employees covered by a pension fund contract can generally make additional personal contributions from their net income. In future, supplementary pensions financed by such personal contributions will be fully exempt from tax, improving the attractiveness of voluntary top-ups.

C) Life-stage model

Pension funds will also be permitted to offer life-cycle investment models, allowing investment strategies to reflect beneficiaries' age and investment horizon. This brings Austria closer to international practice in defined contribution pension design.

Assessment

Taken together, the measures represent a modest but positive step towards strengthening Austria's funded second pillar. They improve flexibility, create an additional vehicle for long-term retirement savings and remove some tax disadvantages for personal contributions. However, the reform doesn't amount to a structural shift in Austria's retirement system. It does not introduce mandatory occupational pension coverage, automatic enrolment or broad-based employer contribution requirements. As a result, the impact is likely to be gradual and limited. If Austria wants to relieve pressure on the state pension pillar and expand funded retirement provision materially, more ambitious reforms will be needed. Automatic enrolment into the Pension Investment Pool would be one particularly effective next step.