COUNTRY SPOTLIGHT | AUSTRIA

Austria: A new horizon

Austria's strong state pension system is facing growing pressure from demographic change and high public spending. As policymakers seek to strengthen sustainability, attention is turning to occupational pensions – but whether voluntary provision can deliver the scale needed remains uncertain. *Paige Perrin* reports

What makes Austria's pension system attractive, like many other European countries, is its dominant first pillar. Austria's pension system is made up of three pillars – the state pension (first pillar), occupational pension (second pillar) and private pension (third pillar).

Austria's first pillar is a pay-as-you-go system, funded by a 22.8 per cent contribution rate (10.25 per cent employees, 12.55 per cent employers). A minimum of 15 years' insurance is generally required, while 45 years can provide a pension of around 80 per cent of average lifetime contributory earnings.

The strong reliance on the first pillar has helped provide relatively high retirement incomes but has

left the system increasingly vulnerable to demographic change.

The system's sustainability has therefore become a growing concern, with public pension expenditure amounting to 14.8 per cent of GDP – one of the highest levels in the Organisation for Economic Co-operation and Development (OECD), according to the OECD's *Economic Surveys: Austria 2026*.

"Demographic change is leading to a growing number of pensioners, while the ratio of active contributors to retirees is becoming more strained. In addition, Austria's effective retirement age remains relatively low by European standards, and public subsidies to the pension system are already substantial," Mercer Austria principal, Michaela Plank, says.

And as Valida Vorsorge Management member of the executive board, Philipp Mayer, notes, "occupational pension coverage is limited", highlighting that "around €90 out of every €100 in pension benefits are paid by the state system, while occupational pensions account for only about €4 and private provision for around €6."

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"The question is therefore not whether Austria should replace its strong public pension system, but how it can be complemented with a broader second pillar," he argues.

First wave reforms

Against this backdrop, Austria has begun tightening the first pillar while also looking at ways to expand supplementary provision. The first wave of reforms, agreed in 2025 and effective from 1 January 2026, focused on the first pillar.

The measures included tightening the Korridorpension, introducing the Teilpension, reducing subsidies for phased retirement, and establishing a pension sustainability mechanism.

The Korridorpension is being tightened by gradually raising the earliest retirement age from 62 to 63 and increasing the minimum contribution period from 40 to 42 years. The Teilpension allows older workers to draw part of their pension while reducing their working hours by between 25 and 75 per cent.

Subsidies for phased retirement have also been temporarily reduced from 90 per cent to 80 per cent between 2026 and 2028, before returning to 90 per cent in 2029. The sustainability mechanism will assess annually between 2026 and 2030 whether pension expenditure is growing within agreed budgetary limits and whether long-term forecasts indicate emerging problems.

EcoAustria director, Monika Köppl-Turnya, believes that these reforms "fall short of the structural problem" and that "further reform is inevitable".

"A later corridor entry carries smaller actuarial deductions, so most of the savings are compensated away. A sustainability mechanism is foreseen, but it again bites primarily on the corridor pension and only from 2035. The far more effective approach is a rules-based link between the statutory retirement age and life expectancy," Köppl-Turnya says.

Plank adds that as pension-related spending already accounts for around a quarter of Austria's total public budget, "the challenge will be to balance fiscal sustainability with the need to maintain adequate retirement incomes and public confidence in the system".

Second wave reforms

If the first wave is about managing the cost of Austria's existing pension model, the second is aimed at changing the balance between its three pillars.

APK member of the management board, Manfred Brenner, notes that Austria's second-pillar pension system has historically received limited political support, partly due to longstanding scepticism towards capital markets.

"Today, however, policymakers increasingly recognise that the financial pressure on the first pillar will continue to grow, while major cuts to public pensions would be politically difficult to implement," he says.

The latest reform package includes the General Pension Fund Agreement, which would create a standardised pension fund product for employers, increase member investment choice, reduce the tax penalty on retirement savings and allow the automatic consolidation of pension accounts. Under certain conditions, these transfers could be tax-free.

VBV Group CEO, Andreas Zakostelsky, calls the current reform of the second pillar "the most significant reform of occupational pensions in Austria since pension funds were introduced".

He says the planned agreement would, for the first time, give all employees access to an occupational pension regardless of whether their employer already operates a pension scheme.

Adding to this, FMA managing director of the Department of Insurance, Pension and Corporate Provision Companies Supervision, Martina Andexlinger, highlights the potential impact of the reform allowing savers to switch into a dedicated retirement investment pool within the provident funds system.

"Because these contributions remain invested over a longer horizon, they can potentially achieve higher returns, making the provident fund system more attractive as a vehicle for long-term provision," Andexlinger states.

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The reforms also extend to the Abfertigung Neu severance system, under which employers contribute 1.53 per cent of an employee's salary each month into an individual fund. Changes will give employees greater choice over how these savings are invested, including access to a new long-term investment option with higher return potential but without a capital guarantee. The reforms will also allow Abfertigung Neu savings to be transferred into pension funds or life insurance under certain conditions. Zakostelsky says changes could "create new investment options with higher long-term return potential, particularly for younger employees".

However, Plank argues: "The *[second-pillar]* reforms alone are unlikely to be sufficient to drive a material increase in participation. International experience shows that voluntary systems often face challenges in achieving meaningful scale."

For Mayer, the "logical next step" would be stronger default mechanisms, including automatic enrolment into the new Pension Investment Pool with the possibility to opt out.

Austrian Trade Union Federation social security law expert, Martina Lackner, highlights further barriers to occupational pension take-up, including "limited public awareness, comparatively low returns, and the fact that its structure, governance, and investment decisions are difficult for many people to understand".

Plank summarises: "Expanding the second pillar is therefore not only a matter of legal and regulatory design, but also one of trust, financial literacy and institutional simplification."

Future

As WTW Austria senior director retirement, Eva Girsch, suggests, Austria is likely to move gradually towards a stronger multi-pillar pension model, combining sustainable public pensions with a greater role for occupational and private retirement provision.

She also acknowledges the importance of reducing the gender pension gap as part of Austria's pension system reform, which she says "represents one of the key social challenges for the future".

However, Mayer emphasises that the "key reforms" would be automatic enrolment, stronger incentives for employers and employees, and simpler access for self-employed people.

"Austria does not need to abandon its strong public pension system, but it does need to give the second pillar a larger role," he argues.

Plank stresses that "the key will be to ensure that occupational pensions are no longer treated as a niche product for certain sectors or larger employers, but instead as a systemically relevant complement to the state pension".

Lackner takes a different view, suggesting that the priority should be to stabilise the existing system.

"One thing is clear: automatic pension cuts or raising the statutory retirement age will not alleviate the strain on the pension system but will instead exacerbate poverty among the elderly. The existing system must therefore be stabilised rather than fundamentally overhauled," Lackner says.

Austria's challenge, therefore, is not simply to reduce the cost of its first pillar or increase the size of its second. It is to find a sustainable balance between the two. The direction of travel may be clear, but whether the second pillar can become a meaningful complement to the state pension remains an open question.