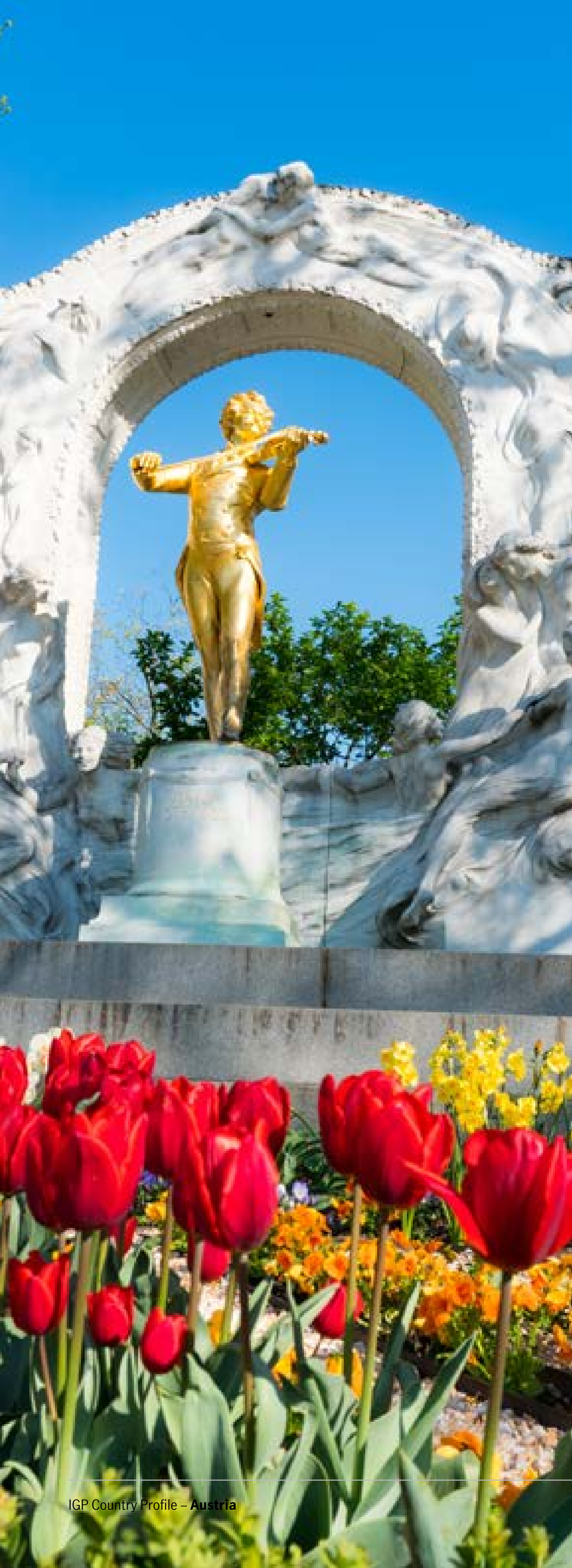
IGP Country Profile

Austria



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Medical benefits

The State sponsors a health program that is generally sufficient for employees. Since the State program only covers third-class hospital ward care, many employees find supplemental health insurance coverage for a higher class of hospital treatment desirable. However, the steeply rising premium rates for supplemental health insurance, which are linked to the sharp increase in medical costs, may have some impact on the fact that only a few companies are providing supplemental health benefits for their employees at their own expense.

Retirement Benefits

Defined Contribution scheme

Contributions are defined as a percentage of a defined salary basis and are paid to an external provider such as a Pensionskasse or an insurance company (direct insurance, Occupational Collective Insurance).

The defined contribution scheme is independent from the granting company, thus no book reserves required.

Examples of defined contributions schemes

- Contributions:
  - 300 EUR per person and year (Direct Insurance)
  - 2 % of creditable salary under the SSCC* and 10 % above the SSCC (up to 10 % of the employees' salary sum are operating expenses for Pensionskasse and Occupational Collective Insurance)
- Benefits:
  - Retirement pension and dependents´ pensions must be provided, disability pensions are an option.

With regard to Pensionskasse and Occupational Collective Insurance lump sum payments are only allowed if the accrued amount is lower than EUR 14,400 (2023).

Defined Benefit scheme

Defined benefit pension plans promise pension benefits in a pre-defined amount. However, those solutions are highly uncommon and have recently only been implemented in case of a transfer of an existing benefit promise to the Pensionskasse.

Examples of defined benefit schemes:

- Retirement age pension (old age pension): 0.0% - 0.3% of the salary up to the SSCC1, plus 1.00% - 1.75% of the salary above the SSCC1 for each year creditable under the pension plan, calculated based on final salary or final average salary of the last three, five, or ten years
- Widow's/widower's pension: 60% of projected old age pension. The pension ceases upon remarriage.
- Orphans' pension: For orphans under age 18 (age 27 if student),
  - Half Orphans: 10% - 20% of the projected old age pension
  - Full Orphans: 20% - 40% of the projected old age pension
- Total dependents' pensions limited to 100% of the projected old age pension.

Disability pension

In most cases, 100% of the projected old age pension.

* SSCC = Social Security Contribution Ceiling (set up by the Ministry of Labor, Social Affairs, Health and Consumer Protection and applies to the active period. ("Höchstbeitragsgrundlage"))

Funding of schemes:

Direct Insurance ("Direktversicherung")

The employer, as the policyholder, insures the benefits through a life insurance company. The employee has a direct legal entitlement to the benefits from the insurer. Systematic financing is made by the employer's (or possibly the employee's) insurance premiums. § 3 (1) 15 Income Tax Act stipulates a maximum tax-free contribution of EUR 300 p.a. and per person. Direct insurance has become a very common vehicle for deferred compensation solutions. Direct insurance is only used for simple defined contribution schemes.

Pensionskasse

The employer provides benefits by contributing to a Pensionskasse. Contributions must not exceed 10 % of the participating employees' salary sum. In addition to the employer's contributions the employee may voluntarily pay own contributions. An increasing number of pension plans foresee "matching contributions". This feature encourages employees to pay their own contributions by increasing the employer's contributions by the same amount as the employees' contributions.

The Pensionskasse is a legally autonomous institute, comparable to a life insurance company that insures occupational benefits. A Pensionskasse can be operated for employees of one sponsor-company only, or as an open entity that may be used by several interested companies. The basic requirement for both is that a minimum number of 1,000 employees must be covered in the Pensionskasse. Multi-employer Pensionskassen must have a minimum of 5 million Euro in corporate assets; for single employer Pensionskassen the normal requirement for stock companies is at least 70,000 Euro.

Pensionskassen and their investment practices are closely regulated by the Financial Market Authority. Employees have a direct legal entitlement to the benefits within the Pensionskasse. Pension assets are separated from the company's balance sheet and are secured against the insolvency of the sponsor company.

The benefit promise must include:

- Old age pension
- Widow's/widower's pension
- Orphans' Pension

Disability benefits may be added but are not compulsory.

Administration:

- A contract between the employee representative (workers council) and the employer. If a worker's council does not exist, the employer closes single contracts with the employees, based on a draft contract that must be approved by the employees.
- Contract between the employer and the Pensionskasse.

Non-discrimination:

The general principle of non-discrimination within the Austrian Labor Law has been intensified and specified for Pensionskassen in § 18 of the Company Pension Act. This means that basically all employees of an employer must be given access to the Pensionskasse. Differentiation must not be made in a non-factual and arbitrary way.

Life cycle model:

On one hand, the underlying assumption of the Pensionkasse Act is that all employees and pensioners grouped in one investment and risk group share a common investment strategy. On the other hand, the attitude towards risk differs among active employees and pensioners as well as among employees of different age. In order to meet the need for differentiated investment strategies, BONUS Pensionskassen Aktiengesellschaft implemented the Life Cycle Model as of January 1, 2006.

Each employee may choose the appropriate investment and risk group according to his individual risk tolerance. Consequently, each employee of a company will be administered in one of the three investment and risk groups depending on his individual choice. Each investment and risk group differs in the portfolio's amount of stock. The following three investment and risk groups (VRG) can be distinguished:

- a dynamic VRG with equity share between 34% and 59%,
- a balanced VRG with equity share between 20% and 36% and,
- a defensive VRG with 10% to 18% shares.

The employee has the possibility to switch from one VRG to another. Legal restrictions limit the number of possible switches. Currently, in total 3 changes before retirement are possible.

Occupational Collective Insurance – OCI („Betriebliche Kollektivversicherung“- BKV)

This insurance product is a direct insurance whose features are closely related to the regulations for Pensionskassen. Furthermore, the tax treatment of contributions and benefits are similar to the Pensionskasse. The Occupational Collective Insurance as a defined contribution scheme is based on defined regular employer’s contributions. The Occupational Collective Insurance is also possible within a defined benefit scheme. The employee may contribute as well.

The financed future benefits are old age pension (payable for lifetime); dependents’ pensions and disability pension (optional). For insurance contracts in 2023, a technical interest rate of 0.0% is guaranteed (plus profit sharing). All employee benefits are vested immediately.

The investment practices are regulated by the Insurance Supervisory Act (VAG). It stipulates a maximum ceiling for the assets invested in common stock of 30%. In addition, an advisory committee consisting of 4 members must be established. This committee consists of 2 representatives of the insured employees and 2 representatives of the insurance company.

The regulations on benefits, administration, taxation, and non-discrimination correspond to those of the “Pensionskasse”.

Due to legal amendments in 2013 a combination of the Occupational Collective Insurance (OCI) and the “Pensionskasse” is possible.

- employees already participating in Pensionskasse may vote for a voluntary individual switch from the “Pensionskasse” to the OCI when reaching age 55 or later, at retirement date at the latest.
- new hires and all newly eligible pension plan participants can decide the preferred pension provider (“Pensionskasse” or OCI) right from the beginning.

In this case any employee can choose his preferred solution:

- the “Pensionskasse” with all risks and chances of a diversified investment on international capital markets and no guarantees or
- the OCI with guaranteed interest rates and mortality tables and limited profit sharing

	Occupational Collective Insurance	« Pensionskasse »
	Insurance product acc. VAG and BPG ; group insurance	Pension Fund solution acc. to PKG and BPG
Benefits	Life-long (early) retirement benefits and dependants’ benefits Optional: disability benefits	
Information	Account statement (yearly), performance reports (quarterly)	
Asset management	According to VAG: Valuation of the assets with their acquisition value.	According to PKG: valuation of the assets with their adjusted historical costs.
Labour Law Regulations	Equality of treatment acc. to BPG required. Conclusion by means of collective contract, company agreement or individual contract acc. to draft contract.	
Vesting	Immediate vesting	vesting period of max. 3 years
Guarantees	No changes of mortality tables. Guaranteed interest rate of 0.0 % (2023). Limited profit share.	Mortality tables change every 8-10 years (new mortality tables as per 2020). No investment guarantee. Profit and losses are fully credited to pension accounts

Direct benefit promise

The direct benefit promise constitutes a commitment of the employer to pay pension benefits to certain employees. Additionally, a lump sum payment, amounting to one to three annual salaries, is often granted.

If the employer has made a benefit promise to his employees, he must build up book reserves corresponding to the incurred liabilities. The value of future benefits is accumulated on the liability side of the balance sheet during the time prior to retirement. It must be emphasized that this financing method does not represent actual funding for the simple reason that no money is set aside. The book reserves only reflect the employer's future liability, while any pensions falling due are paid out of the employer's current portfolio.

If an employee dies or becomes disabled, the book reserves accumulated for him or her until that time must be completed to the full value of either the disability pension or the widow's/widower's pension.

The date at which such pre-retirement benefits fall due is uncertain. Therefore, many companies take out partial or full reinsurance to avoid the risk of premature benefit payments. This funding method is called "Indirect Insurance" ("Rückdeckungsversicherung").

Regulation for all hires as from January 1, 2003

Severance Fund ("Abfertigung Neu"): As of July 1, 2002, the BMSVG introduces a defined contribution scheme for all hires as of that date. From the first day of employment, the employer must pay a fixed contribution of 1.53% of the employee's gross salary. The regulation features the following cornerstones:

- Valid for all employment relationships
- 1.53% of the gross salary shall be paid to a Betriebliche Vorsorgekasse (BVK); company expense for employer, tax-free contribution for employee.
- The accrued capital shall be guaranteed.
- The payments shall be accrued until retirement and be available as a pension (tax-free) or as a lump sum payment (taxed at 6%).
- No book reserves, no company internal coverage (re-insurance, etc.)
- Involvement of works councils and unions in choice of BVK
- Transfers from the old to the new system are permitted, and there are many options to do this. The employer can do a "complete" transfer or "freeze" the old entitlement and make all future contributions to the new fund. However, mutual agreement is required between both - the employer and the employees - before any existing plans can be transferred. Whether such a transfer makes sense should be determined on a case-by-case basis.

The employer contributions are not taxed as income to the employee. The investment earnings are also not taxed while in the employee's account.

"Abfertigung Alt"

Before the implementation of the new severance payment system ("Abfertigung Neu") in 2003, Austria had the "Abfertigung Alt" system, which provided a form of severance payment to employees upon termination of their employment under certain conditions.

Severance pay outsourcing insurance: also known as "Abfertigungsauslagerungsversicherung" refers to a type of insurance that companies use to manage their severance pay obligations to employees. In Austria, employers are required to provide a severance payment to employees upon termination of their employment. This payment is based on the length of service and other factors.

When a company outsources its severance pay obligations to an insurance provider, it can have several balance sheet impacts:

- Liability reduction: Outsourcing severance pay obligations can result in a reduction of the liability on the company's balance sheet. The accrued severance pay liability is transferred to the insurance provider, which assumes the responsibility of making the future payments to employees.
- Asset allocation: The company may allocate assets, such as cash or investments, to fund the insurance policy. This allocation could impact the composition of the company's assets on the balance sheet.
- Expense recognition: The company will typically incur periodic premiums or contributions to the insurance policy. These payments are recognized as expenses on the income statement, which could affect the company's net income and, consequently, its retained earnings on the balance sheet.

- Disclosure requirements: Companies need to disclose information about their severance pay outsourcing arrangements in the notes to the financial statements. This ensures transparency and helps stakeholders understand the potential future cash outflows related to severance payments.
- Impact on ratios: Depending on the size of the insurance arrangement and the financial metrics being considered, the outsourcing of severance pay obligations could impact various financial ratios, such as the current ratio or the debt-to-equity ratio.

Trends

Due to the shortage on the labour market, there is a greater need for company pension schemes.

Book Reserves (Abfertigung Alt) in the balance sheet can be outsourced to the insurance company.

The pension account information makes people more aware of their lack of old age pensions.

Due to high inflation and resulting salary increases, pressure on companies is increased to attract and retain high potentials. Employee retention and motivation are no longer solely defined by salary. Fringe benefits and employee benefits will become more important in the future.

Typical employee benefits plans and benchmarking

General

- In international companies, there is no differentiation of benefits based on the number of employees.
- Distinguishing between workers and employees is not permissible; the principle of equal treatment as stipulated in § 18 of the Company Pensions Act (BPG) must be observed in any case.
- Due to the increasing rapid pace in the job marked, the waiting period in all industries tended towards zero.
- Direct insurance is appealing in all sectors due to its highly attractive tax advantage. Traditional implementation methods include options such as life insurance or accident insurance.

Finance:

- Banking: 100% penetration, contribution-based pension plan regulated by the collective agreement. Typically, 2.7% of the collective salary.
- Insurance Industry: 100% penetration, direct benefit commitments regulated through the collective agreement, partially funded.
- Other financial sector enterprises: similar to banking provisions.

Pharmaceuticals

Approximately 95% penetration, contribution-based plans with contributions ranging from 1.5% to 2.5% below the SSCC, and contributions from 12% to 15% above the SSCC.

IT

80% penetration, existing pension plans contribute 2% below the SSCC1 and 10% above it. For new plans, the contribution is 1.5% below and 6% above the SSCC1.

Automotive/Engineering

Similar to IT.

FMCG (Fast-Moving Consumer Goods)

Pension plans vary significantly in terms of amounts. Around 50% of companies offer pension plans. Inflation is increasing pressure on companies in any case.

Portfolio information

Group Life Coverage	
Death benefit	100%
Survivor's benefits	69%
Employer contribution only	100%
Disability Coverage	
Long term disability	58%
Short term disability1	0%
Employer contribution only	100%
Retirement Plans	
DC	41%
DC - Employer contribution only	65%
DB	45%
DB - Employer contribution only	98%

Useful links

Demographic information and macro-economic indicators
CIA World Factbook (please select the country to review)
World Bank Group (please select the country to review)

Austrian Social Security Authority
www.sozialversicherung.at

Statistik Austria
www.statistik.at

Austrian National Bank
www.oenb.at

Republic of Austria – Legal Information System
www.ris.bka.gv.at

European Central Bank
www.ecb.int

Austrian Chamber of Commerce
www.wko.at

Austrian Financial Market Authority
www.fma.gv.at

Austrian Federal Ministry of Finance
english.bmf.gv.at

Federation of Austrian Social Insurance Institutions
www.sozialversicherung.at

More information on ERGO Versicherung AG

Your Local Link to IGP in Austria
Go to partner page on www.igpinfo.com

ERGO Versicherung Aktiengesellschaft
www.ergo-versicherung.at

BONUS Pensionskassen Aktiengesellschaft
www.bonusvorsorge.at

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