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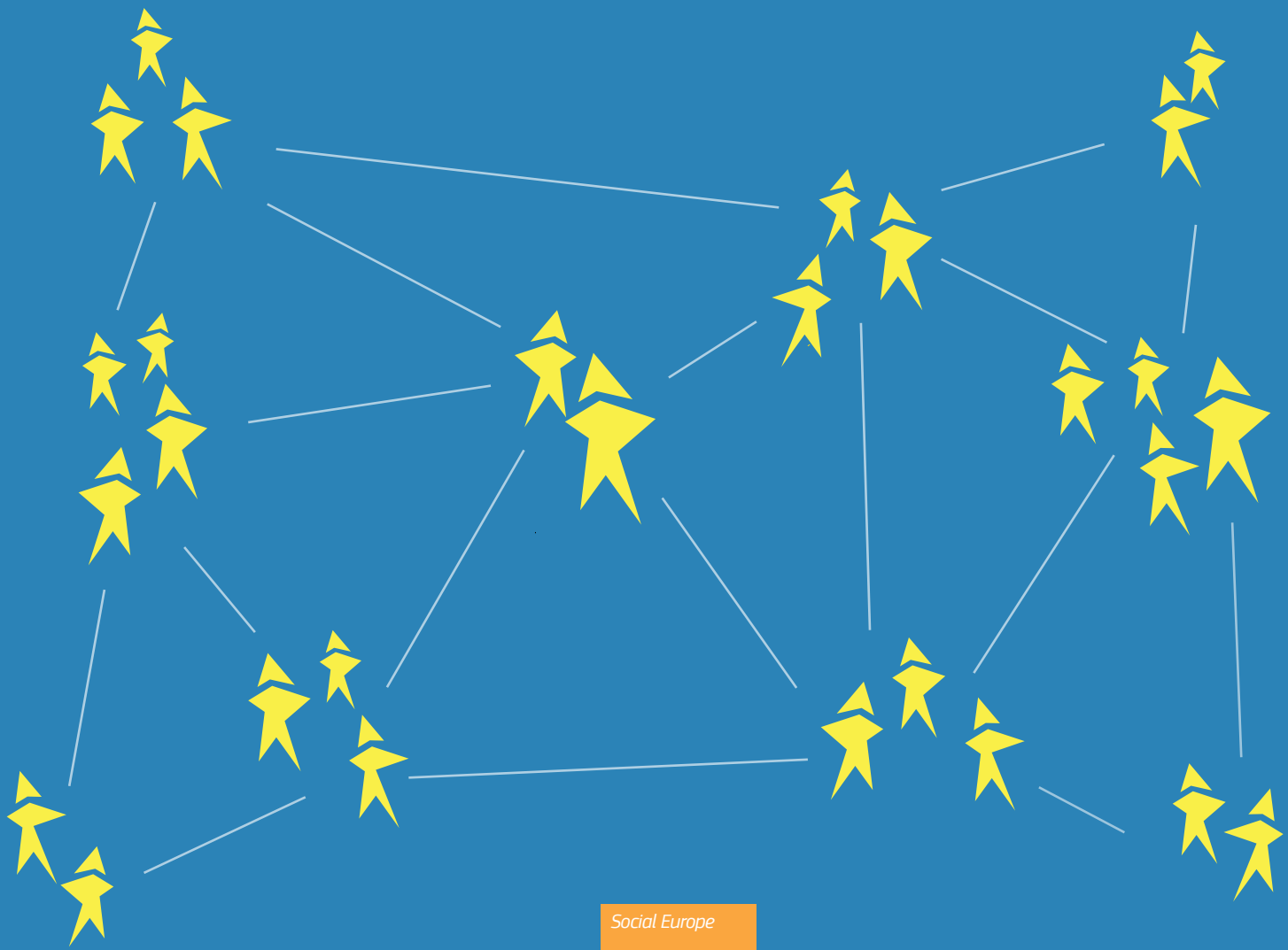
EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

Austria

Marcel Fink
in co-operation with Jan-Michael van-Linthoudt



Social Europe

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European Social Policy Network (ESPN)

ESPN Thematic Report on Financing social protection

Austria

2019

Marcel Fink (in co-operation with Jan-Michael van-Linthoudt)

Directorate-General for Employment, Social Affairs and Inclusion

2019

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Summary

Total gross social protection expenditure as a share of GDP in Austria increased from 28% in 2005 to 30.3% in 2016. The corresponding figures for net social expenditure were 24.5% and 26.7%. When compared with the EU-28 average, both net and (especially) gross social expenditure were comparatively high. The above-average difference between net and gross social expenditure derives from the fact that the effective tax and contribution rate on social protection spending (resulting from taxes and contributions levied on benefit recipients), amounting to around 10%, is higher in Austria than in many other countries.

Between 2005 and 2016 the traditional drivers of social protection expenditure, namely spending on old age and health/sickness, continued to show substantial real growth. Other spending areas with above-average real growth were unemployment and (especially more recently) social exclusion. Overall, it should be stressed that social policy in Austria until recently did not pursue a strategy of explicit welfare retrenchment. Cost-containment applied in the area of pensions by closing exit pathways from the labour market in the form of early-retirement schemes; in the area of health services via soft governance approaches to increasing efficiency; or in the area of family cash benefits in the form of only irregular indexing. On the other hand, in areas such as active labour market policies and institutional childcare, Austria followed more a 'social investment approach'. Overall, this – together with demographic ageing and persistent (by Austrian standards) high unemployment – resulted in an increase in social expenditure, both at constant prices and as a share of GDP.

In Austria around 62% of all financing for gross social protection expenditure derived from social insurance contributions in 2016, 36.6% from general government contributions and 1.3% from other receipts. The share of social (insurance) contributions declined somewhat after 2005, whereas the share of general government contributions increased. Overall from an international comparative point of view, the Austrian system of financing social expenditure rather heavily relied on social contributions. Against the background of the financial and economic crisis, the growth rate of social insurance contributions exhibited a sharp decline in 2009 and general government contributions had to step in to secure overall sufficient receipts. After some economic consolidation and an actual reduction in social expenditure (as a share of GDP and at constant prices) in 2011, the development of real growth in funding from the two main sources showed a 'reversed' pattern: the higher the growth rate for social insurance contributions, the lower the growth rate for general government contributions, and vice versa. This phenomenon might be explained by the fact that general government contributions de facto absorbed costs not financed by social insurance contributions.

Overall, changes in the design of social security contributions have been rather limited over the last 15 years. Rules on floors and caps have remained largely unchanged. Some attempts have been made to slightly reduce specific contribution rates in order to reduce non-wage labour costs, but the system of contribution rates remained largely regressive. Attempts to widen social security coverage, in particular, took place in the 1990s.

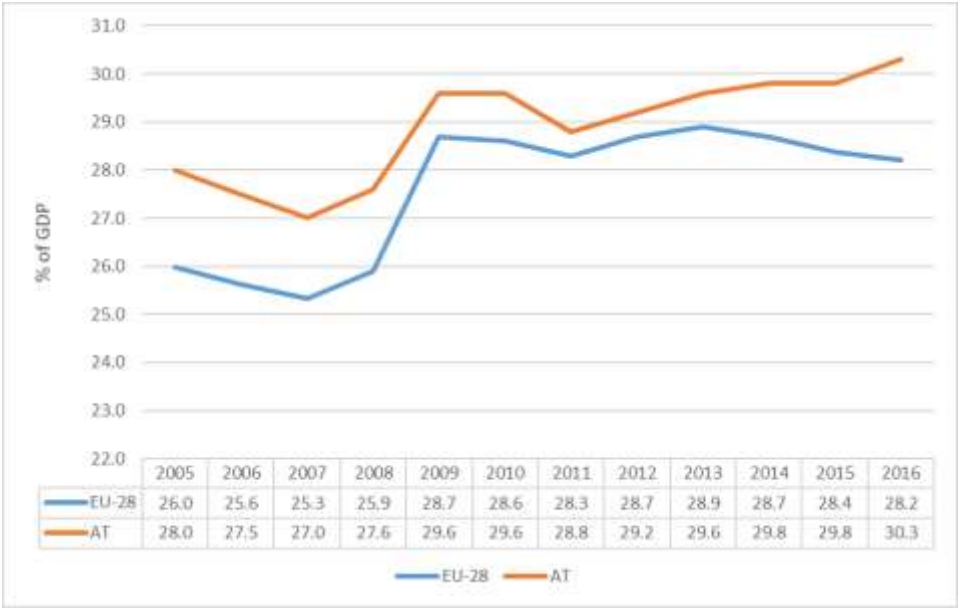
The Austrian system of financing social expenditure comes with a number of problems and challenges. A heavy reliance on income tax and social insurance contributions makes the system vulnerable to demographic ageing and economic swings. Comparatively high overall non-wage labour costs are also likely to curb employment growth and to be problematic in terms of work incentives. Furthermore, the Austrian system of taxes and contributions has only a slightly progressive effect. Reform options could include attempting to transform the systems of social insurance contributions and income tax into one 'integrated tariff'. Such a reform could at the same time reduce the tax wedge on low and medium earned income, increase the overall progressivity of the system and 'broaden the financing base' of social protection (by also integrating rental, leasing and interest income). Other measures to compensate for the likely costs of such a reform,

and to safeguard long-term financial sustainability, would be a reintroduction of taxes on assets/property and attempts to prevent tax evasion, especially by international companies (including European co-ordination on this issue).

1 Current levels and past changes in financing social protection

Total gross **social protection expenditure** as a share of GDP in Austria increased from 28% in 2005 to 30.3% in 2016. The timeline shows a reduction between 2005 and 2007, and increase between 2007 and 2009, then another fall until 2011, before positive growth thereafter (see Chart 1). For most years until 2013 the trend was in the same direction as the EU-28 average. However, after that the EU-28 average showed some decline, whereas gross social protection expenditure as a share of GDP continued to grow in Austria.

Chart 1: Gross expenditure on social protection as % of GDP; Austria and EU-28 2005-2016



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EU-28	26.0	25.6	25.3	25.9	28.7	28.6	28.3	28.7	28.9	28.7	28.4	28.2
AT	28.0	27.5	27.0	27.6	29.6	29.6	28.8	29.2	29.6	29.8	29.8	30.3

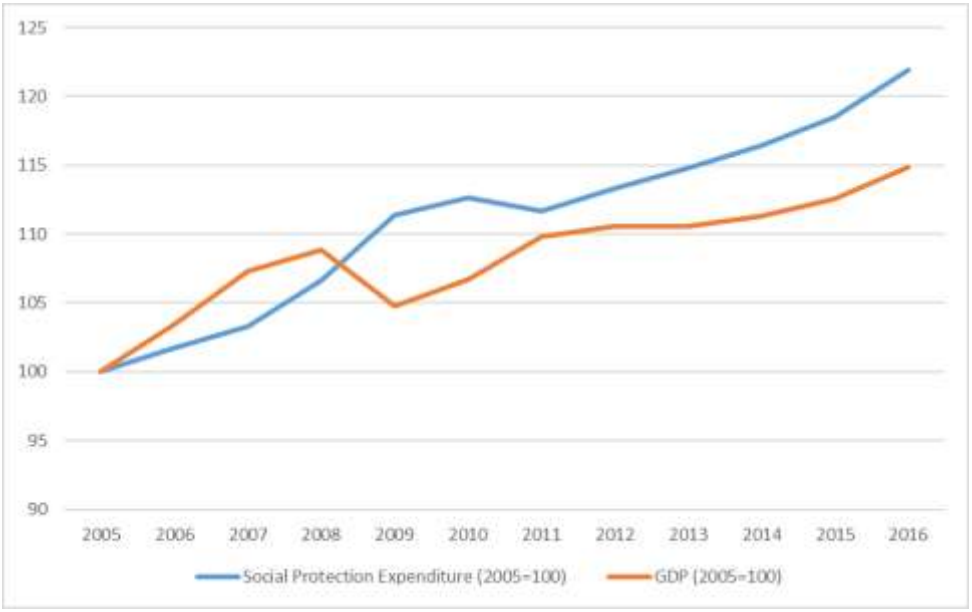
Source: Eurostat, ESSPROS[1] database; indicator [spr_exp_sum].

It is not only the development of social protection expenditure that contributes to changes in this indicator (i.e. social protection expenditure as a share of GDP), but also the development of real GDP. For this reason, both parameters have to be taken into account.

Real GDP showed positive growth in Austria in all years except 2009 and 2013, with an actual recession in 2009 and zero growth in 2013 (see Charts 2 and 3). This implies that the strong growth of gross social protection as a share of GDP in 2009 partly also resulted from a decline in GDP. Overall, between 2005 and 2016 total real GDP growth was around 15%.

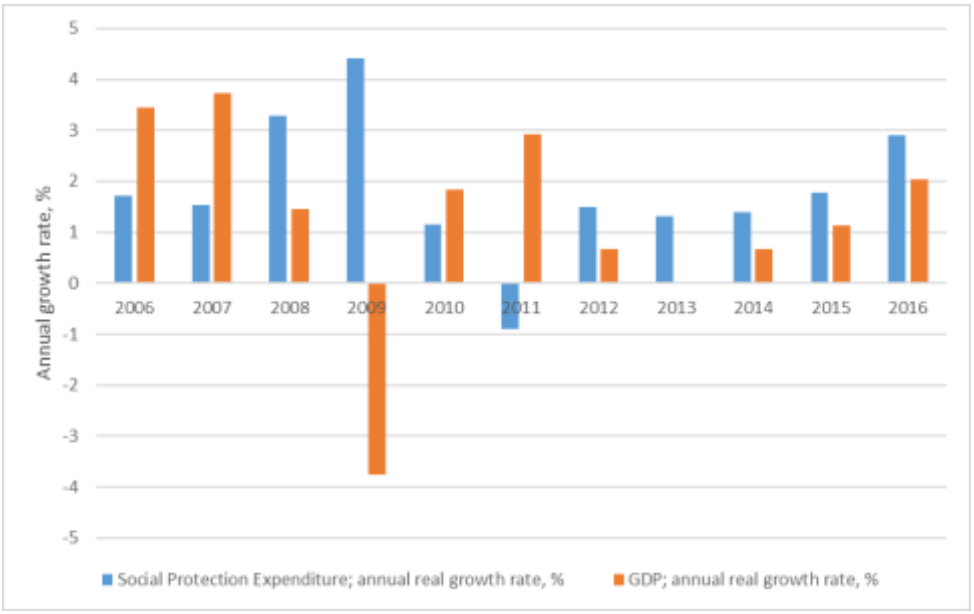
[1] European System of integrated Social PROtection Statistics.

Chart 2: Gross social protection expenditure and GDP (at constant prices; 2005=100), Austria 2005-2016



Source: Eurostat, ESSPROS database; indicator [spr_exp_sum]; Eurostat indicator [nama_10_gdp] & own calculations.

Chart 3: Social protection expenditure and GDP (at constant prices); annual growth rate (%); Austria 2006-2016



Source: Eurostat, ESSPROS database; indicator [spr_exp_sum]; Eurostat indicator [nama_10_gdp] & own calculations.

The data in Charts 2 and 3 also show that gross social protection expenditure in Austria grew throughout the period examined in real terms, with the exception of 2011. Growth was especially distinct in 2008, 2009 and 2016. Regarding the year 2011, it should be noted that *nominal* gross social expenditure increased by around 2% when compared

with 2010.[2] This was the lowest increase in all the years between 2005 and 2016, when the yearly growth rate of nominal spending was always at least around 3% (and in many years substantially higher). What also has to be taken into account in this context is that 2011 was the year with the highest price inflation in Austria (amounting to 3.6%[3]). This, together with a comparatively small increase in nominal social protection expenditure,[4] led to a drop in expenditure at constant prices (i.e in real terms). Overall, between 2005 and 2016 real gross expenditure on social protection increased by 22%.

To get a closer picture of these developments it is useful to analyse the composition of social protection **expenditure by function**, and the changes in spending for each function (see Tables 1 and 2).

Table 1: Composition of gross spending on social protection benefits according to function (%), Austria 2005-2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Old age	40.0	40.8	41.4	41.7	41.9	42.4	43.2	43.8	44.2	44.6	44.4	44.0
Sickness/Healthcare	25.5	25.4	26.0	26.3	25.7	25.3	25.6	25.6	25.3	25.3	25.4	25.6
Family/Children	11.2	10.9	10.6	10.7	10.7	10.8	10.2	9.8	9.7	9.5	9.6	9.5
Disability	8.3	8.0	7.7	7.5	7.4	7.4	7.5	7.4	7.1	6.9	6.6	6.4
Survivors	7.4	7.3	7.1	7.0	6.7	6.6	6.5	6.4	6.3	6.1	6.0	5.8
Unemployment	5.8	5.8	5.3	4.9	5.7	5.6	5.2	5.1	5.5	5.6	5.6	5.8
Social exclusion n.e.c.	1.3	1.3	1.4	1.4	1.3	1.3	1.4	1.5	1.5	1.6	1.9	2.6
Housing	0.4	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Eurostat, ESSPROS database; indicator [spr_exp_sum] & own calculations.

The bulk of Austria's social protection expenditure – as in most other member states – was on **old age**, which made up 44.0 % of the total in 2016 (see Table 1). Spending on this area experienced an upward trend over the period examined, exceeding the real growth of total social protection spending in all years except 2015 and 2016 (see Table 2). For this reason, the share of spending on old age increased by 4 percentage points over the period. Demographic developments meant that the share of people aged 65 years and older increased from 15.9% to 18.4% in the period 2005-2016, while the share of people aged 20-64 remained almost constant at just over 60% (Statistics Austria 2017). Overall, the number of persons receiving at least one old-age pension from statutory pension insurance and/or a civil servants' pension (so-called *Ruhegenuss*) increased from 1.357 million in 2005 to around 1.877 million in 2016, or by around 38%.[5]

The tendency for the growth rate in old-age spending to decline towards the end of the period under review is likely to have been caused by a rise in the effective retirement age. For men, the average effective retirement age rose from 58.5 in 2010 to 60.3 in 2016 regarding all direct pensions financed by statutory old-age insurance (including invalidity pensions and so-called rehabilitation benefit, replacing temporary invalidity benefit as from 2014). The respective ages for women were 57.1 and 58.5. If invalidity pensions and rehabilitation benefit are not taken into account (i.e. focusing on direct old-

[2] Source: Eurostat; ESSPROS, indicator [spr_exp_sum] & own calculations.

[3] Source: Eurostat database, indicator [prc_hicp_aind].

[4] This was – inter alia – caused by the fact that spending on active labour market policies, after a substantial expansion in 2009 and 2010, was substantially cut in 2011.

[5] Source: Statistics Austria and own calculations; http://www.statistik.at/wcm/idc/idcplg?IdcService=GET_NATIVE_FILE&RevisionSelectionMethod=LatestReleased&dDocName=020133.

age pensions only), the rise for men was from 60.5 in 2010 to 63.3 in 2016, and for women from 59.3 to 60.3. Overall, different attempts to progressively close early-exit pathways from the labour market via early-retirement schemes had a short-term cost-containment effect for statutory old-age insurance. In real terms, spending by such schemes fell by 16.4% between 2005 and 2016, and from 8% to 5.5% of total old-age expenditure.[6]

From a more long-term perspective, cost-containment effects will especially result from the old-age pension reforms of 2001 and 2003 (see e.g. Fink 2009 and Knell et al. 2006 for a more detailed assessment), coming into force in stages according to transitional arrangements. Nonetheless, according to projections provided in the European Commissions' 2018 Ageing Report, total public pension expenditure in Austria will rise from 13.8% of GDP in 2016 to 14.9% in 2040, then reaching a level substantially above the EU-27 average in 2040 of 12.7% (see European Commission 2018, 66). For old-age and early pensions alone (i.e. without survivor's pensions and disability pensions) costs are projected to increase from 10.5% of GDP in 2016 to 12.4% of GDP in 2040.

Table 2: Spending on social protection benefits according to function (at 2010 prices); real annual growth rate (%); Austria 2006-2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total real growth 2005-2016	*Average annual real growth 2005-2016*
Old age	3.9	2.9	4.1	5.1	2.5	0.8	2.8	2.2	2.6	1.4	1.6	34.3	2.7
Sickness/ Healthcare	1.3	3.8	4.5	2.2	-0.2	0.3	1.4	0.3	1.3	2.2	3.5	22.5	1.9
Family/ Children	-0.7	-1.1	3.9	4.7	2.2	-6.8	-2.2	0.1	-0.7	3.0	2.0	4.0	0.4
Disability	-1.7	-2.3	-0.5	3.7	1.6	0.5	-0.7	-1.9	-1.3	-2.6	-1.2	-6.4	-0.6
Survivors	0.3	-0.1	0.6	1.1	-1.1	-2.5	0.6	-0.4	-1.3	0.0	-0.7	-3.6	-0.3
Unemployment	2.4	-7.4	-3.2	21.4	-0.7	-8.6	0.6	7.5	3.8	3.0	5.5	23.2	2.2
Social exclusion n.e.c.	5.7	2.8	3.9	-2.5	4.3	4.4	7.7	6.0	4.2	23.8	37.4	142.8	8.9
Housing	15.5	3.0	15.0	3.6	-1.9	-8.9	-7.5	-12.5	8.8	0.2	-0.3	11.4	1.4
Total	2.0	1.4	3.3	4.6	1.3	-0.9	1.5	1.3	1.5	1.8	2.7	22.4	1.9

Source: Eurostat, ESSPROS database; indicator [spr_exp_sum] & own calculations.

The second biggest area of social protection spending was **healthcare and sickness** benefits, amounting to roughly a quarter of all expenditure, a share that stayed largely constant between 2005 and 2016 (see Table 1). Healthcare/sickness spending grew in real terms in every year except 2010, the most significant increases being in 2007, 2008 and 2016. Total real growth amounted to around 22.5% between 2005 and 2016, whereas real GDP growth amounted to around 15%. According to one of the declared goals of the so-called health reform of 2012-2013, health spending should not grow at a higher rate than GDP, and a number of cost-containment measures (in the first instance aimed at optimising governance and planning) have been decided on for this purpose (see e.g. Hofmarcher 2014). However, the real annual growth rate of healthcare/sickness

[6] Source: Own calculations based on national ESSPROS tables provided by the National Ministry for Labour, Social Affairs, Health and Consumer Protection; https://www.sozialministerium.at/cms/site/attachments/5/4/4/CH3434/CMS1542959477181/essoss_ueberblick stabelle_2_(funktionen)_2.1-2.9.2017.xlsx.

expenditure was somewhat higher than real annual GDP growth in every year after the reform (see Table 2 and Chart 3). This can be explained by, inter alia, demographic ageing and rising costs for high-quality treatments and related infrastructure. Furthermore, for a long time, rising costs for in-patient hospital care (amounting to c.45% of all healthcare/sickness spending in 2016) were one of the main drivers of rising expenditure in Austria. However, since the 2012-2013 reform, related spending has tended to increase at a somewhat slower pace than total healthcare/sickness spending. This was in line with the reform, which was aimed at promoting out-patient/ambulatory care instead of in-patient hospital care. In 2016, around 35% of all healthcare/sickness spending was on out-patient/ambulatory care.[7]

According to projections (AWG[8] reference scenario) provided in the European Commission's 2018 Ageing Report, health spending in Austria will increase from 7% of GDP in 2016 to 7.7% of GDP in 2040 and then further to 8.2% in 2060 (see European Commission 2018, 335). When compared with the EU-27 average, this indicates a rather strong growth trend for Austria (see ibid., 123).

Other spending areas showing an interesting development were, especially, 'family/children', 'unemployment' and 'social exclusion (n.e.c.[9])'.

The share of **family/children** spending in total social protection expenditure fell from 11.2% in 2005 to 9.5% in 2016 (see Table 1). At the same time, several years (namely 2006, 2007, 2011, 2012 and 2014) showed a fall in real spending for this function (see Table 2). This was – inter alia – caused by the fact that important family benefits in Austria were not regularly indexed. Overall, between 2005 and 2016 family/children spending grew by around 4% each year in real terms (see ibid.). Universal family allowance (*Familienbeihilfe*) is the single most important area of family/children spending. Spending on this benefit amounted to around 36% of the total in 2015, but its share had been even higher in 2005 (41%).[10] Spending on it at fixed prices (i.e. in real terms) fell by around 11% between 2005 and 2016. At the same time spending on institutional childcare increased by around 103%, with its share of family/children spending rising from 11% in 2005 to 22% in 2016. The latter was caused by, inter alia, a deliberate strategy to increase the coverage of institutional childcare.

In the period 2005 to 2016, spending on **unemployment** amounted to between 4.9% and 5.8% of total social protection expenditure (see Table 1). Real annual growth in this area showed substantial volatility, with a strong increase in 2009 and also 2013, and substantial falls in 2007 and especially 2011 (see Table 2). This can partly be explained by changes in the unemployment rate, which fell from 5.7% in 2005 to 4.2% in 2008.[11] Against the background of the international economic and financial crisis, unemployment increased to 5.4% in 2009 and then declined again to 4.6% in 2011. After that it went up again, reaching 6.1% in 2016. Real changes in spending on unemployment were largely in line with this, but 2009, when there was a real increase of related spending amounting to over 21%, stands out. This was also caused by a deliberate roll-out of specific policies aimed at preventing unemployment, such as (in particular) increased financing for the short-time work scheme. Overall, spending on active and activating labour market policies as a share of all unemployment spending remained largely stable, amounting to

[7] Source: Own calculations based on national ESSPROS tables provided by the National Ministry for Labour, Social Affairs, Health and Consumer Protection; https://www.sozialministerium.at/cms/site/attachments/5/4/4/CH3434/CMS1542959477181/essoss_ueberblickstabelle_2_(funktionen)_2.1-2.9.2017.xlsx.

[8] Working Group on Ageing Populations.

[9] 'n. e. c.' stands for 'not elsewhere classified'.

[10] Source: Own calculations based on national ESSPROS tables provided by the National Ministry for Labour, Social Affairs, Health and Consumer Protection; https://www.sozialministerium.at/cms/site/attachments/5/4/4/CH3434/CMS1542959477181/essoss_ueberblickstabelle_2_(funktionen)_2.1-2.9.2017.xlsx.

[11] Source: Labour Force Survey; Eurostat database, indicator [lfsa_urgan].

around 38% in both 2005 and 2016.[12] The same holds for expenditure on unemployment benefit (*Arbeitslosengeld*) (c.29% in both years), whereas the share of spending on unemployment assistance[13] (*Notstandshilfe*) increased from 18% to 24%. It was especially after 2009 that spending on unemployment assistance showed real growth, substantially faster than that on unemployment as a whole. This suggests that a rising number of unemployed people failed to re-integrate into employment on an enduring basis. At the same time these developments were not caused by policy reforms, as no *major* structural reforms were decided regarding cash transfers from unemployment insurance.

Finally, the data in Table 1 show that the share of spending on '**social exclusion n.e.c.**' in all social protection expenditure increased from 1.3% in 2005 to 2.6% in 2016. The real growth rate of spending for this function exceeded that for total expenditure in most years, but the years 2015 and 2016, with growth rates of around 24% and around 37%, stand out. The latter increases were primarily caused by a substantially increased influx of asylum-seekers and refugees in these years. From a more long-term perspective, rising costs for this function are caused by a general rise in the number of benefit recipients: this is probably the result of higher benefit take-up, together with rising demand due to an increasing differentiation of opportunities and risks in the labour market – resulting, for example, in low-income employment, where benefits from minimum-income schemes may be used as a top-up to low earnings from gainful employment.

Overall, it should be stressed that social policy in Austria until recently did not pursue a strategy of explicit welfare retrenchment. Cost-containment applied in the area of pensions in the form of closing exit pathways from the labour market through early-retirement schemes; in the area of health services via soft governance approaches to increasing efficiency; or in the area of family cash benefits through only irregular indexing. On the other hand, in other areas, for example active labour market policies and institutional childcare, Austria followed more a 'social investment approach'. Overall, this – together with demographic ageing and persistent (by Austrian standards) high unemployment – resulted in an increase in social expenditure (both at constant prices and as a share of GDP).

It should be noted that all the data presented above are for ***gross* social spending**. However, social benefits may be subject to income tax and/or social insurance contributions: this is especially true for pension benefits. A contribution rate of 5.1% of the gross pension benefit applies for health insurance, and pensions are also subject to income tax. According to Statistics Austria, in 2014 around 60% of all pensioners actually paid income tax, having income above the yearly minimum income threshold[14] (Statistics Austria 2017a). One other important source of income tax is health/sickness cash benefits, whereas family/children cash benefits and unemployment insurance benefits are generally not subject to income tax or social insurance contributions. ***Net* social spending** is calculated by deducting taxes and social insurance contributions on social benefits from gross social expenditure. The **effective tax and contribution rate on social protection** expenditure amounted to 9.8% in 2007 (2.3% contributions and 7.6% taxes), 9.6% in 2010 (contributions 2.3% and taxes 7.3%) and 10.4% in 2015

[12] Source: Own calculations based on national ESSPROS tables provided by the National Ministry for Labour, Social Affairs, Health and Consumer Protection; https://www.sozialministerium.at/cms/site/attachments/5/4/4/CH3434/CMS1542959477181/essoss_ueberblick stabelle_2_(funktionen)_2.1-2.9.2017.xlsx.

[13] Transfer benefits from unemployment insurance in Austria include unemployment benefit (*Arbeitslosengeld*) and unemployment assistance (*Notstandshilfe*). Unemployed people meeting the eligibility criteria first get unemployment benefit, where the maximum duration (between 20 and 52 weeks) depends on the age of the benefit claimant and their previous employment and insurance record. When the right to receive unemployment benefit has expired, benefit claimants may apply for unemployment assistance, where in principle no maximum period applies.

[14] Currently amounting to €11,000 per year.

(contributions 2.3% and taxes 8.1%). As a result, in Austria net social expenditure is around 10% lower than gross social expenditure. This difference is higher in Austria than in most other EU Member States; but the Netherlands and Denmark, in particular, show an even bigger gap between gross and net social expenditure. Net social expenditure as a share of GDP in Austria amounted to 24.4% in 2007 (gross spending was 27%; see also Chart 1 above), 26.8% in 2010 (gross 29.6%) and 26.7% in 2015 (gross 29.8%). Overall, no major change occurred during the period regarding the tax and contributions treatment of social benefits in Austria, resulting in a largely stable tax and contribution rate.

At the same time, it is worth noting that the share of means-tested social expenditure in total social protection expenditure in Austria was somewhat below the EU average. In 2016 9.7% of all social protection expenditure derived from means-tested measures (EU-28 average: 12.1%). This compared with 7.6% in 2015,[15] the rise being primarily caused by an above-average growth of spending on minimum-income schemes (see above).

When comparing gross social protection expenditure with social protection receipts according to ESSPROS, it becomes evident that the data for Austria regularly indicate a budgetary deficit rather than a surplus (see Table 3). These data are for gross expenditure and receipts without transfers: nonetheless, it is unclear at the time of writing how exactly to interpret the deficits indicated.

[15] Source: Eurostat, ESSPROS database.

Table 3: Gross social protection expenditure and social protection receipts (€m at 2010 prices), Austria 2005-2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total receipts	76,952	78,365	79,391	82,104	84,904	85,870	86,287	87,908	89,011	90,004	91,112	93,545
Total expenditure	77,790	79,126	80,341	82,976	86,646	87,637	86,853	88,160	89,328	90,572	92,189	94,866
Total receipts minus total expenditure	-839	-761	-949	-873	-1,742	-1,767	-567	-253	-317	-567	-1,077	-1,321
Deficit/surplus as % of total expenditure	**-1.1**	**-1.0**	**-1.2**	**-1.1**	**-2.0**	**-2.0**	**-0.7**	**-0.3**	**-0.4**	**-0.6**	**-1.2**	**-1.4**

Source: Eurostat, ESSPROS database; indicators [spr_exp_sum] and [spr_rec_sumt] & own calculations.

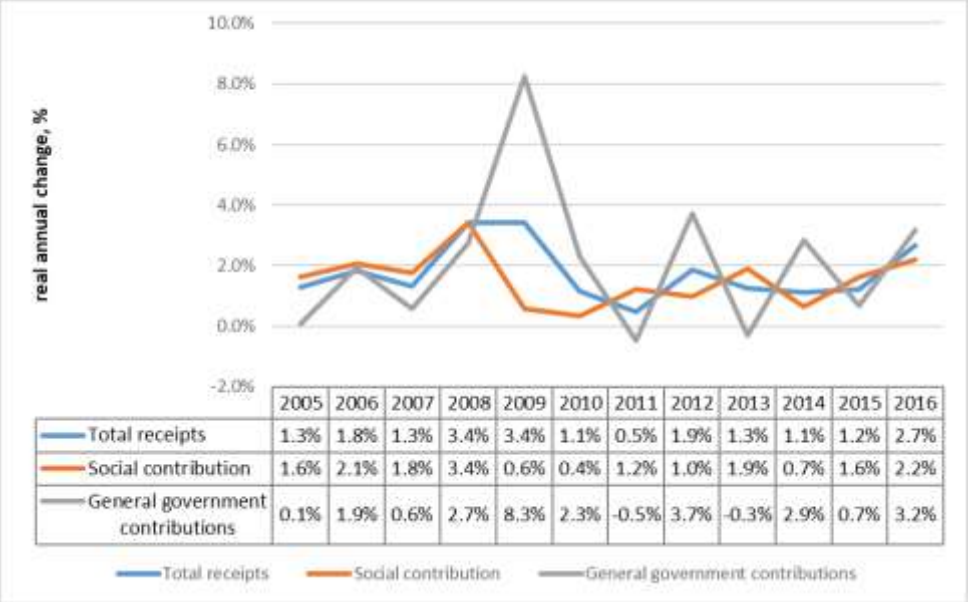
2 Current mix and past changes in the sources of financing for social protection

Turning to the sources of **financing for social protection** expenditure,[16] one can distinguish three main sources: social (insurance) contributions, general government contributions and other receipts.

In Austria, around 62% of all financing for social protection derived from social insurance contributions in 2016, 36.6% from general government contributions and about 1.3% from other receipts (see Table 4). The share of social (insurance) contributions fell somewhat over the period examined, whereas the share of general government contributions increased.

Chart 4 shows the real annual growth rate of total social protection receipts and of those from the two main components, social (insurance) contributions and general government contributions. It is evident that the growth of social insurance contributions slowed sharply in 2009 and that general government contributions had to step in to compensate. After some economic consolidation and an actual reduction of social expenditure (as a share of GDP and at constant prices) in 2011 (see Chart 1 and Chart 2 above), the development of real growth in funding from the two main sources show a 'reversed' pattern: the higher the growth rate for social insurance contributions the lower the growth rate for general government contributions, and vice versa. This phenomenon might be explained by the fact that general government contributions de facto absorb costs not financed by social (insurance) contributions.

Chart 4: Real annual change in social protection receipts by main source (%), Austria 2005-2016



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total receipts	1.3%	1.8%	1.3%	3.4%	3.4%	1.1%	0.5%	1.9%	1.3%	1.1%	1.2%	2.7%
Social contribution	1.6%	2.1%	1.8%	3.4%	0.6%	0.4%	1.2%	1.0%	1.9%	0.7%	1.6%	2.2%
General government contributions	0.1%	1.9%	0.6%	2.7%	8.3%	2.3%	-0.5%	3.7%	-0.3%	2.9%	0.7%	3.2%

Source: Eurostat, ESSPROS database; indicator [spr_rec_sumt] & own calculations.

[16] Time series on deficits/surpluses according to spending area are not readily available from national ESSPROS data provided by Statistics Austria and/or the Federal Ministry for Social Affairs.

Table 4: Division of financing for social protection by main source (%), Austria 2005-2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Social contributions	63.9	64.0	64.3	64.3	62.5	62.1	62.5	62.0	62.4	62.1	62.3	62.0
General government contributions	34.7	34.7	34.5	34.3	35.9	36.3	35.9	36.6	36.0	36.6	36.5	36.6
Other receipts	1.4	1.2	1.2	1.4	1.6	1.7	1.5	1.5	1.6	1.3	1.2	1.3
Total receipts	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Eurostat, ESSPROS database; indicator [spr_rec_sumt] & own calculations.

Table 5: Social contributions by employers, employees, self-employed and benefit recipients (% total social protection receipts), Austria 2005-2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employers	37.0	37.2	37.5	37.6	36.5	36.3	36.6	36.2	36.4	36.1	36.2	36.0
Employees	21.7	21.7	21.6	21.6	20.9	20.7	20.8	20.6	20.8	20.7	20.8	20.7
Self-employed	2.9	2.9	2.9	2.8	2.8	2.7	2.8	2.8	2.8	2.9	3.0	3.0
Benefit recipients	2.3	2.3	2.3	2.3	2.3	2.4	2.3	2.3	2.4	2.4	2.4	2.3
Total social contributions	**63.9**	**64.0**	**64.3**	**64.3**	**62.5**	**62.1**	**62.5**	**62.0**	**62.4**	**62.1**	**62.3**	**62.0**

Source: Eurostat, ESSPROS database; indicator [spr_rec_sumt] & own calculations.

Social insurance contributions can be further differentiated between contributions by employers, by employees, by self-employed people and by benefit recipients. The data in Table 5 show that the share of these different sources in total social protection receipts remained largely stable over the period. Around 36-37% of all receipts derived from social contributions by employers, and around 21-22% from those by employees. Social contributions by self-employed people accounted for 3% of all receipts in 2016, after rising slightly since 2010. The share of contributions by benefit recipients remained largely stable at around 2.3%.

In the same way as the components of social expenditure showed little relative change over the period examined, their sources of financing also showed only limited change in most cases (see Table 6).

Old-age spending showed a small reduction in financing from social contributions and some increase in government revenue and from other receipts. Nonetheless, social contributions continued to dominate.

The latter was even more true for spending on survivors, though some increase in other receipts was evident.

Financing for healthcare/sickness did not show much change over time. But some reduction in the share coming from social contributions was evident, and some relative increase in that of government revenue. 'Other receipts' in this case primarily comprised transfers from other systems, namely from unemployment insurance (for unemployed persons receiving unemployment insurance benefits), from the so-called Family Benefits Equalisation Fund (*Familienlastenausgleichsfonds*, FLAG) for parents receiving childcare allowance (*Kinderbetreuungsgeld*), and from occupational accident insurance.

Table 6: Division of financing for social protection by main source and function (% total financing of the function), Austria 2005-2016

Function	Social contributions				Government revenue				Other receipts			
	2005	2008	2010	2015	2005	2008	2010	2015	2005	2008	2010	2015
Old age	60.4	60.7	57.8	57.7	34.9	34.6	36.5	36.5	4.7	4.7	5.8	5.8
Survivors	65.5	65.8	63.1	63.9	30.6	30.3	31.7	30.7	3.9	4.0	5.2	5.4
Healthcare/sickness	48.2	48.0	46.7	46.9	19.0	19.4	20.1	20.0	32.7	32.6	33.3	33.2
Disability	53.1	50.7	46.1	44.5	38.4	40.3	43.4	44.3	8.5	9.0	10.5	11.2
Family/children	49.7	52.6	51.0	52.0	45.8	43.0	43.9	43.0	4.4	4.4	5.1	5.0
Unemployment	90.9	97.5	97.2	95.5	8.2	1.5	2.1	2.5	1.0	1.0	0.7	2.0
Housing	0.0	0.0	0.0	0.0	96.0	96.6	96.4	95.9	4.0	3.4	3.6	4.1
Social exclusion n.e.c.	0.6	0.4	0.3	0.1	79.4	80.2	80.6	81.9	20.0	19.4	19.1	18.0

Source: Eurostat, ESSPROS database.

For disability spending, a substantial increase in the share of government revenues was evident, and some fall in social contributions. This appeared to be caused by a substantial increase in spending by federal provinces and municipalities on 'assistance for disabled people' (*Behindertenhilfe*), which is financed from general taxes. 'Other receipts' primarily comprised transfers from other schemes.

Regarding family/children spending, not much change was evident after 2008, but the share of social contributions showed an increase between 2005 and 2008, whereas that of general government revenues fell during the same period.

The financing structure for housing spending was largely stable, with more than 95% of all finances coming from the tax yield.

Social exclusion n.e.c. was also dominated by tax financing. Furthermore, about one fifth of spending was covered by 'other receipts'. These were primarily transfers between the federal provinces and the municipalities, with most of the related funds de facto financed from taxes.

Overall, the **Austrian system of financing social expenditure relies rather heavily on social contributions** from an international comparative point of view. The above-mentioned 62% of all social protection receipts coming from social contributions in 2016 substantially surpassed the EU-28 average (54.5%). A comparable situation applied to financing of net social protection expenditure (see above Section 1). In Austria in 2015 67% of all receipts financing net social protection expenditure were derived from social insurance contributions, whereas the EU-28 average was 55.3%.

Table 7 gives an overview of **social insurance contribution rates** for the most important branches of compulsory insurance within the private sector for different types of employment, and of the so-called **marginal earnings threshold** and **maximum contribution basis**. Forms of employment covered in the table are 'standard' employees, self-employed crafts- and tradespeople registered with the Economic Chamber and two types of so-called non-standard employment, namely 'freelance/independent contractors' (*Freie Dienstnehmer*) and 'new self-employed' (not registered with the Economic Chamber) (for more details see Fink/Nagl 2018 and Fink 2017).[17] It is worth noting that freelance contractors and new self-employed were not covered by statutory insurance until the middle of the 1990s, with statutory insurance for these groups only introduced in 1996. The declared goal of the latter reforms was to prevent people from evading compulsory insurance and to integrate all types of earned income from employment into social security (Tálos 1999, 276).

The basic features of insurance rules for these groups have remained largely the same over the last 15 years, with some changes only regarding contribution rates (see below).

[17] Somewhat different rules apply to other groups, e.g. farmers, civil servants and parts of the so-called liberal professions.

Table 7: Compulsory social insurance contribution rates by employment type; Austria 2019

	Standard employees	Freelance/in dependent contractors	Self-employed: crafts-and tradespeople[1]	New self-employed[2]
Marginal earnings threshold[3]/Minimum contribution basis[4] €/month	446.81	446.81	Health insurance: 446.81.[8] Pension insurance: 654.25.	446.81
Maximum contribution basis €/month	5,220[5]	No special payments[6] agreed: 6,090. Special payments agreed: 5,220.	6,090	6,090
Contribution rate				
Health insurance	7.65% (Employer: 3.78%; Jobholder: 3.87%)	7.65% (Employer: 3.78%; Jobholder: 3.87%)	7.65%[7]	7.65%
Accident insurance	Employer: 1.2%	Employer: 1.2%	Flat rate €9.79/month	Flat rate €9.79/month
Pension insurance	22.8% (Employer: 12.55%; Jobholder: 10.25%)	22.8% (Employer: 12.55%; Jobholder: 10.25%)	18.5%	18.5%
Unemployment insurance	6.0% (Employer: 3.0%; Jobholder: 3.0%)	6.0% (Employer: 3.0%; Jobholder: 3.0%)	No compulsory insurance	No compulsory insurance
Insolvency remuneration fund[8]	Employer: 0.35%	Employer: 0.35%	-	-
Occupational pension fund[7]	Employer: 1.53%	Employer: 1.53%	1.53%	1.53%

[1] Tradespeople registered with the Economic Chamber.
[2] New self-employed not registered with the Economic Chamber.
[3] The marginal earnings threshold (gross earnings/month) applies to standard workers and independent contractors. See text in this Section for more details.
[4] The minimum contribution basis applies to self-employed tradespeople and new self-employed. Tradespeople have to pay insurance contributions according to the minimum contribution basis even if actual earnings turn out to be lower than it. For new self-employed the minimum contribution basis also serves as a yearly marginal earnings threshold (€446.81 x 12 = €5,361.72), with no compulsory insurance in case of income from this type of employment below this level.
[5,6] Standard workers get two months of special payments per year. These are also subject to social insurance contributions, up to the normal maximum monthly contribution basis (Höchtbeitragsgrundlage). Independent contractors may or may not be granted special payments, depending on agreement with their employer. If no special payment is agreed, a higher maximum monthly contribution basis of €6,090 applies (€5,220 x 14/12). The same maximum contribution basis also applies to tradespeople and for new self-employed.
[7] For tradespeople newly registered with the Economic Chamber and starting a new business, a flat-rate insurance contribution applies for health insurance during the first two years. It amounts to 7.65% of the minimum contribution basis (€446.81, i.e. €34.18 per month).
[8] This fund pays displaced workers any wages owed and other claims not covered by the insolvent firm's assets.
Source: Main Association of Austrian Social Insurance Providers.

Standard employment contracts and independent contracts with a gross monthly income below the marginal earnings threshold (*Geringfügigkeitsgrenze*) of €446.81 in 2019[18] are – with the exception of accident insurance – not subject to statutory social insurance. This is called *marginal part-time employment*. However, workers reaching the marginal earnings threshold for compulsory health or pension insurance through a combination of several marginal part-time contracts or a combination with other insured income from gainful employment are liable for the same (employee) social insurance contributions as standard employees for health and pension insurance of 14.12% (3.87% plus 10.25% – see Table 7).[19] Companies employing several people on marginal part-time employment contracts have to pay a general social insurance contribution to health and pension insurance if the total wage bill for those people in marginal part-time employment exceeds 1.5 times the marginal earnings threshold.[20] This general social insurance contribution paid by the employer amounts to 16.4% of the contribution base. These rules were introduced in the late 1990s to reduce fiscal incentives for marginal part-time employment. Nonetheless, insurance contributions for marginal part-time employment remain lower than for contracts with income above the marginal earnings threshold, as no unemployment insurance applies.

Insurance contributions have to be paid on income up to the maximum contribution basis (*Höchstbeitragsgrundlage*), in 2019 amounting to €5,220 per month for standard employees. As standard employees in Austria receive 14 salaries per year, the maximum yearly contribution basis amounts to €73,080 (i.e. €5,220 x 14). As with the marginal earnings threshold, the maximum contribution basis is subject to annual indexing according to wage growth.

All active registered crafts- and tradespeople have to pay insurance contributions on a contribution base of at least €466.81 per month for health insurance, and of at least €654.25 per month for pension insurance, regardless of their actual income. This means that for tradespeople, the rules on marginal part-time employment do not apply. Their maximum contribution base is the same as that for employees and independent contractors. For the new self-employed, compulsory insurance begins once annual income from this type of self-employment exceeds the marginal earnings threshold of (currently) €5,361.72.[21] Insurance contributions again only have to be paid on income up to the maximum contribution basis. It is worth noting that the yearly maximum contribution basis of (currently) €73,080 also applies to a combination of earned income from different sources (such as from a combination of self-employment and dependent employment).

The basic rules sketched out above have remained largely unchanged over the last 15 years. However, some minor changes applied to contribution rates.

For employees, the total health insurance contribution amounted to 6.9% in 2003 and was increased to 7.4% in 2004 and then further to 7.5% in 2005 and 7.65% in 2008. Since then, it has remained unchanged.[22] The contribution rate to the insolvency remuneration fund was reduced from 0.7% to 0.55% in 2008 and then further to 0.45%

[18] The figure is subject to annual indexation according to preceding wage growth.

[19] Since the late 1990s, persons in marginal part-time employment may also opt in to health insurance and pension insurance if no compulsory insurance applies. The monthly costs of opting in to health and pension insurance is currently (2019) €63.07 per month. In effect, this option creates a very low-cost opportunity to obtain health insurance and contribution periods for pension insurance.

[20] The threshold is 1.5 x €446.81 = €670.22.

[21] This income limit is equal to the monthly marginal earnings threshold for standard workers and independent contractors (€446.81) multiplied by 12 (months).[22] These numbers deal with white-collar employees (*Angestellte*). Insurance contributions for blue-collar workers (*Arbeiter*) were slightly different until 2016 and got then aligned to the ones of white-collar employees.

[22] These numbers deal with white-collar employees (*Angestellte*). Insurance contributions for blue-collar workers (*Arbeiter*) were slightly different until 2016 and got then aligned to the ones of white-collar employees.

in 2015 and to 0.35% in 2016. Regarding accident insurance, the contribution rate was reduced from 1.4% to 1.3% in 2015, and then further to 1.2% in 2019. Regarding unemployment insurance, a reform modifying contribution rates for earners of low income came into force from 2009. Under this reform, employee insurance contribution rates were made somewhat progressive. In 2019 no insurance contribution has to be paid by employees with a gross monthly income below €1,681; for income between €1,681 and €1,834 the contribution rate is 1%; for an income between €1,835 and €1,987, 2%; and for income exceeding €1,987, the normal 3% (see Table 7).

For employees, there were no changes in contribution rates for pension insurance.

Some changes also occurred for self-employed people. When compared with 2005, the most important revisions were the raising of their contribution rate for pension insurance from 15% to 18.5%, and the reduction of their contribution rate for health insurance from 9.1% to 7.65%. These changes were part of an attempt to more closely harmonise social insurance contributions for different types of employment.

Overall, changes in the design of social security contributions have been rather limited over the last 15 years. Rules on floors and caps have remained largely unchanged. Some attempts have been made to slightly reduce specific contribution rates in order to reduce non-wage labour costs. The system of contribution rates has remained largely regressive, with the exception of the unemployment insurance scheme, where partial progressivity was introduced for employees and freelance contractors with comparatively low earned income.

Attempts to widen social security coverage, in particular, took place in the 1990s. The only point worth mentioning in this context is that freelance contracts were also made subject to statutory unemployment insurance in 2008 and that self-employed people were able to opt in to unemployment insurance from 2009 (see Fink/Nagel 2018).

Given the limited changes in the area of social insurance, general taxes became, as described above, somewhat more important in financing social expenditure. However, it appears to be fair to say that this development is not presented as a ‘deliberate’ strategy by the relevant political actors.

3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing – national debate on the topic

The rather high reliance on social contributions over the last two decades caused some political and scientific debate on this issue (see e.g. Leoni 2017; Guger et al. 2008).

Demographic ageing and economic swings are evidently a challenge for social protection systems strongly relying on social insurance contributions. One point repeatedly made in this context is that demographic ageing will cause problems for the financial sustainability of social protection in Austria, as the overall share of people not actively contributing to most branches of social insurance will rise. The relevant parameter in this context is the development of earned income, which is subject to social insurance contributions. To reduce the dependence on this source of financing a '*broadening of the financing base*' would be an option; for example, by re-introducing direct taxes on assets/property – on which, however, political positions are very diverse. One other option would be to eradicate the maximum contribution basis (*Höchstbeitragsgrundlage*) for insurance contributions, but without increasing maximum benefits. The latter would increase the progressivity of the system of insurance contributions and funds from this source. Both options do not appear to be on the political agenda of the current centre-right coalition government of the Austrian People's Party (ÖVP) and the Austrian Freedom Party (FPÖ). On the contrary, the government has announced that it will not introduce any new taxes and that it plans to reduce total receipts from taxes and contributions from around 42.4% of GDP in 2017 to 40% (see Regierungsprogramm 2017, 125).

One important point is that the Austrian system of taxes and contributions has only a *slightly progressive effect* (see Rocha-Akis et al. 2016 for more details). The progressive effect of the income tax system, which increased with the tax reform of 2008-2010, is largely offset by the regressive effect of social insurance contributions and indirect taxes. To increase progressivity in the tax and contributions system, progressivity of direct taxes (i.e. income tax) and especially of social contributions would have to be strengthened. The national government announced that it would present details for a reform of social insurance contributions and of income tax in April 2019. The declared goal is to reduce the tax and contributions burden on low and medium incomes. However, the concrete details of the reform are still awaited at the time of writing.

One other issue repeatedly addressed in scientific and political debates in Austria is that the rather strong reliance on social insurance contributions causes substantial *non-wage labour costs*, which might be an obstacle to *international competitiveness* and might curb additional *employment*. In this context it is worth mentioning that the so-called tax wedge on labour costs (i.e. the total tax rate on low-wage earners) is one of the highest of all EU Member States, amounting to 45.1% in 2016 (EU-28 average: 38.4%).[23] Furthermore, the tax wedge has been rising continuously in Austria since 2009 (when it was 43.2%). The high tax and contributions rate may not only come with adverse effects regarding employment growth, but also concerning individual *work incentives*.

Strong attempts have been made in Austria to make 'all types of earned income from employment'[24] subject to statutory insurance and social contributions. However, no valid data are available on the incidence of undeclared work. Evidently, high tax and contribution rates on earned income, as they exist in Austria, come with the risk of evasion, but empirical evidence on this issue is very limited.

According to official data, administrative costs and collection costs are rather low in the Austrian social insurance system (see Hauptverband 2018), In 2016, they amounted to

[23] Source: Eurostat database, indicator [earn_nt_taxwedge].

[24] Up to the maximum contribution basis (*Höchstbeitragsgrundlage*); see above Section 2.

2.7% of all statutory health insurance spending, and 1.5% of statutory pension insurance spending (ibid.).

Evidently, current and future financing of social protection in Austria comes with a number of substantial challenges. Up to now, it appears that 'incremental adaptation' has often been the guiding principle in this policy area, with strong signs of 'path dependency', preventing a more structural change.

Recommendations for a more structural change should, in our view, comprise the following points.

- Social insurance contribution rates on low and medium earned income should be reduced, thereby increasing the progressivity of the system and promoting employment.
- Reduced contribution rates on low and medium earned income should be compensated for by:
    - re-introducing taxes on assets/property;
    - preventing tax evasion by international companies (including European co-ordination on this issue); and
    - abolishing the maximum contribution basis (*Höchstbeitragsgrundlage*) – in a first instance, for health insurance.[25]
- An even more all-encompassing, and at the same time reasonable, reform of the system of income taxes and social insurance contributions would involve changing it to an 'integrated tariff' with only one system of taxes/contributions on earned income. This would improve transparency and further reduce administrative and collection costs, and would allow for a clear-cut design regarding progressivity. Such a system could not only address income from employment, but also rental, leasing and interest income, which would further help 'broadening the financing base' of social protection (for details see Aiginger et al. 2008).

[25] The abolition of the maximum contribution basis could come with issues of constitutionality and would for this reason probably have to be decided as a constitutional law.

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