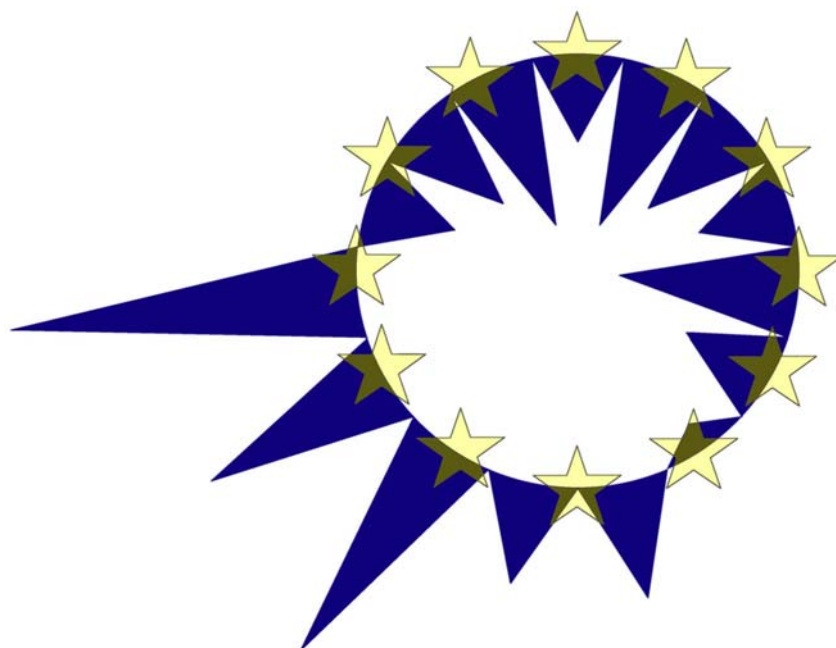


# **EUROMOD**

## **COUNTRY REPORT**



EUROMOD Country Report

**AUSTRIA**  
(2003 TAX-BENEFIT SYSTEM)

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Michael F. Förster and Herwig Immervoll

August 2004

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## **AUSTRIA 2003**

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## **1. The Austrian tax-benefit system: an overview<sup>1</sup>**

The size of the public sector in terms of revenues and expenditures is large in Austria. Despite this fact, there is evidence that its redistributive impact from high to low income classes is limited. On the revenue side, the share of regressive social security contributions and indirect taxes is much higher than the share of progressive income and property taxation. On the expenditure side, the principle of horizontal equity is prevalent and means testing is of hardly any importance.

In Austria, in 2002 the level of taxation (including social insurance contributions) amounts to 44,1 per cent of GDP (Statistik Austria 2003b, 631) and is above the already high EU-15 average. While the high level of taxation in Austria indicates the high capacity of the public sector to affect the economy, the composition of public revenues implies a rather low degree of progressivity. In 2002 taxes on income and profits amount only to 31,5 per cent and taxes on property to 1.3 per cent of total tax revenues, that is, far below the EU and OECD average. On the other hand, social security contributions, taxes on goods and services and payroll taxes, with proportional or even regressive redistributive impact, made up more than two thirds of total revenue (Statistik Austria 2003a, 544).

The level of social expenditure with regard to GDP is in Austria to some extent above EU-average and largely above OECD-average. In 2001 it amounted to 28,5 per cent of GDP (BMSG 2004). In 1998, the lion's share of social expenditures went to outlays related to old-age pensions, namely 36 per cent. This share is much higher than EU or OECD average where it is roughly one third. Also, expenditures on family policy are higher than on international average.

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<sup>1</sup> This section draws heavily on and updates Guger, A. (1997), „Redistribution by the State in Austria“, paper presented to the European Economic Association Conference, Toulouse 1997.

**Table 1. Public sector revenues 2002 and social expenditures 1998 in Austria**

<b>REVENUES 2002</b>	Public sector revenues % of GDP	Direct taxation			Indirect taxation	
		Income and profit taxes	Social security contributions	Property taxes	Payroll taxes	Goods and services taxes
		% of total taxation*				
Austria	44,1	31,5	32,8	1,3	6,0	27,1
OECD**	36,9	36,0	25,1	5,4	0,9	31,3
EU-15	41,0	35,0	27,9	4,9	0,9	30,1
<b>EXPENDITURES 1998</b>	Social expenditures % of GDP	% of total social expenditures				
		Old age+	Disability, Injury, Sickness+	Family	Unemployment++	Health
Austria	27,6	36,0	12,1	11,0	4,9	20,9
OECD	21,5	32,7	11,3	8,3	9,4	26,0
EU	24,9	33,5	9,3	8,7	10,4	23,9

\* Difference to 100%: other taxes \*\* Total revenues 2001, % of total taxation 2002, + without “services for the elderly and disabled” ++ including “active labour market programmes”

Source: Statistik Austria 2003b, 631; Statistik Austria 2003a, 543f; OECD Social Expenditure Data Base (2001)

## 1.1 The revenue side

### 1.1.1 Development

During the past three decades, property revenues have virtually exploded and the share of non-wage income in national income has increased (consequently, the wages share has declined). While the tax-income ratio of non-wage income components has decreased, the tax burden of wage and salary earners has significantly increased. Thus, non-wage income recipients have not only received an increasing share of national income, their tax burden has also declined. Therefore, wage earners have financed an ever increasing part of public sector activities. In 1970, the proportion of income tax paid by wage earners and pensioners amounted to 14.4 percent of direct taxation (including social security contributions) and the share of the income tax on non-wage income and corporate revenues amounted to 17.0 percent. However, by 1994, the proportion of income tax paid by wage earners and pensioners had increased to 24.9 percent of direct taxation while the share of income taxes paid out of non-wage incomes fell to 9.7 percent (Guger 1997).

There are several reasons for this declining tax burden on non-wage income: i) change in the 1970s from household to individual taxation, causing a sudden increase in the participation rate of spouses



of businessmen in smaller businesses and professionals; ii) increase of possibilities of reducing taxable profits; iii) significant change in the composition of non-wage: between 1970 and 1993, profits increased by 270 percent, but revenues from financial assets by 1.044 percent. Taxation of interest revenues could be avoided because of anonymous bank and capital accounts and a negligible amount of capital revenues had been taxed, until 1978. Then, a so-called "source tax" on interest payments of 7.5 percent was introduced, which has been increased to 25 percent (Capital Income Tax/"Kapitalertragsteuer") in the 1990ies. However, in exchange, asset taxes and death duties on financial assets have been abolished altogether.

### *1.1.2 Social security contributions*

The social security system is financed by both employers and employees. For almost 90 percent of employees, their contribution to social security is the highest tax payment. In the private sector, there is a low threshold and a ceiling for social insurance contributions which means that people who earn less than the threshold fall out of the social insurance system<sup>2</sup> and people who earn more than the ceiling pay a constant amount which means in turn a ceiling to pensions and unemployment benefits. About 10 percent of employees are above the ceiling.

From a distributive point of view, the ceiling means that the redistributive impact of these social security contributions is regressive. In addition, social security contributions are tax deductible, thus reducing the degree of progressivity. Therefore, while employees in the lower half of the income distribution earn about 30 percent of total income, they pay nearly 34 percent of all social security contributions. Since 1983, the degree of regressivity of social security contributions has actually increased (Guger 1997).

### *1.1.3 Personal income tax (income tax on wages and pensions)*

Income tax amounts to about one third of all taxes and to about 60 percent of all direct taxes. Apart from profits and capital revenues tax, the income tax on wages, salaries and pensions is the most progressive public revenue in Austria (the asset tax was abolished in 1993).

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<sup>2</sup> Nevertheless there is for example the possibility for opting-in in case of minor occupation ("geringfügige Beschäftigung").

As a result of expansion in tax concessions, the Austrian income tax system had until the late 1980s been characterized by high marginal tax rates and a low and ever decreasing degree of progression. Therefore, a new income tax bill in the late 1980s aimed at lower marginal tax rates but higher taxable income by limiting tax concessions. Consequently, the degree of progressivity increased despite a reduction of the highest marginal tax rate from 62 to 50 per cent.

Nowadays the tax scale has four brackets from 21 percent (starting with an income of 3,640 €/year) to 50 percent, with the highest marginal tax rate applicable for taxable annual incomes above 50,870 €. In addition, a special flat rate of 6 percent applies to bonuses or other remunerations limited to one sixth of current income. Consequently, in Austria, almost every employee receives 14 monthly payments of which two months' payments are called bonuses. This flat rate taxation of some parts of remuneration lowers the highest marginal tax rate to 43.7 percent. On top of that, this flat rate also applies to severance payments which can – for employees in the old system – amount to up to 12 months' earnings.

The degree of progressivity is further substantially reduced by a number of tax concessions: i) social security contributions are a standard deduction; ii) there are a number of work-related tax concessions, such as expenses for further education; iii) there are tax concessions for special perennial expenses, such as premiums of private pension insurance, certain payments for residential housing, or the acquisition of specific bonds, etc.

However, since the tax reform of 1993, the degree of progressivity has been significantly increased: first, tax credits have been extended (but in 2001 partly tapered), and second, a form of negative tax has been introduced, so that if certain tax credits are higher than tax liability the tax office pays the taxpayer the difference. In addition, with the tax reform 2000 the tax rates were slightly lowered.

#### *1.1.4 Indirect taxation: Taxes on goods and services*

Indirect taxation has been a rather large component of the Austrian taxation system. More than one quarter of all public revenues are taxes on goods and services, which is below EU average, but, in addition, there are also payroll taxes of about 6 percent. The most important indirect tax is the value added tax. The normal VAT rate is 20 percent and there is a reduced rate of 10 percent for essentials like food, housing and printed matters like books and newspapers. VAT revenues amount to about two thirds of all indirect taxes. The rest are mainly other taxes on goods and services, duties, fees and user charges.

According to Guger (1997), the redistributive impact of indirect taxes in Austria is clearly regressive. In the lowest decile, indirect taxes amount to about a quarter of gross income, in the fifth decile, to 13.8 percent and in the top decile to 10.2 percent. Since indirect taxation is more or less proportional to expenditures in all income categories, the higher savings ratio in the higher income groups are the main reason for the regressive impact of indirect taxation.

## **1.2 The expenditure side**

The expenditure side of the Austrian welfare state is dominated by the principle of horizontal equity. For most public benefits, entitlements are specified by categorical definitions, such as age, family status or economic status, independent of current income or assets. However, due to the social insurance system which is based on income-related contributions, pensions, unemployment benefit, unemployment assistance and sickness benefits are related to past income levels and social status (white- or blue-collar worker or public servant). Only social assistance, unemployment assistance (“Notstandshilfe”), supplements to the child-care-benefit (“Kinderbetreuungsgeld”) and housing support are means tested. With the exception of pensions, all transfer payments are tax free.

### *1.2.1 Family support*

Family support is rather generous in Austria. Tax credits and family allowances for two children amount to 18.6 percent of the gross income of an average production worker in the mid-1990s (Guger 1997). Only in Iceland, Luxembourg and Belgium are tax credits and family allowances higher than in Austria.

The most important single transfer payment to families is the age-related family allowance (“Familienbeihilfe”). In addition, there are child tax credits paid in cash together with the family allowance (constructed as negative tax and, thus, also granted when the allowee has little or no tax liability).

In addition to the regular maternity benefits and leave for 16 weeks for economically active mothers (“Wochengeld”), since 2002 (almost) all mothers or fathers of new-born children who are below a certain personal income limit are entitled to child-care-benefit (“Kinderbetreuungsgeld”) for two and a half years (an additional half a year is granted, if also the spouse is below the personal income limit in this period). The benefit is paid as a flat rate. There is also special assistance (“Zuschuss zum Kinderbetreuungsgeld”) for single mothers or couples with low income of the spouse. Besides these birth-related benefits there are also schooling-related benefits such as free text books in

primary and secondary education (however, with retained amount) and free transport for pupils and subsidies in this regard for students who are entitled to family allowances.

These family-related benefits are mainly financed through the Family Allowance Fund which is funded by an earmarked payroll tax of 4.5 percent<sup>3</sup> and by income tax revenues.

Guger (1997), confining the analysis to families with children, finds that family support is more or less evenly distributed; while in the lower deciles support per child is higher, in the upper deciles the number of children per family is higher. There are, however, important differences in the distributive impact of the various measures: birth-related benefits are more likely to assist middle- and low-income groups, where more young families are represented.

### *1.2.3 Unemployment insurance*

The Austrian unemployment insurance system is not as generous as family support. In general, unemployment benefit ("Arbeitslosengeld") is granted for 20 weeks and up to 78 weeks for female employees over 55 years and male employees over 60 years of age. When the benefit period runs out, and no job has been found, unemployment assistance ("Notstandshilfe") is available. However, for granting unemployment also the income of the spouse is taken into account.

For the 90 percent of employees who earn less than the ceiling of the social security system, the replacement ratio of unemployment benefit – which is not taxed – is 55-60 percent of the last net income (basic amount of unemployment benefit). In addition, there is a family supplement for each dependent family member.<sup>4</sup> The basic amount of unemployment assistance is paid at 92 to 95 percent of the basic amount of unemployment benefit.<sup>5</sup> Again there is a family supplement for persons with dependent family members.

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<sup>3</sup> This payroll tax could be considered as the employees' contribution to finance family benefits since it was taken into account in wage negotiations when it was introduced.

<sup>4</sup> In detail: If the unemployment benefit would be less than €21,45/day, the replacement ratio is increased from 55% up to 60%, if there is entitlement to family supplement up to 80%. The general upper-limit of the unemployment benefit is €36,84/day.

<sup>5</sup> 95% if the unemployment assistance does not exceed €21,45/day; otherwise 92%. In addition there is an upper limit of the unemployment assistance depending on the duration of insurance.

According to Guger (1997), unemployment benefits and unemployment assistance are the most progressive public expenditures. This is linked to the fact that the probability of becoming unemployed is much higher in lower income classes than in the higher.

#### *1.2.4 Education and health*

Despite the fact that a larger proportion of outlays for primary and secondary education is distributed to the upper half of the population, this expenditure is still moderately progressive. However, expenditure at the university level has a regressive impact on the redistributive process. As for health expenditures – increasing as in the OECD area in general – although higher income classes receive a larger part of those expenditures due to the higher household size, health expenditures are clearly progressive (Guger 1997).

### **1.3 The net incidence of the public sector**

In Austria, income and property taxes are low and only moderately progressive; this feature is due to a number of tax concessions which substantially lower the tax rate for high incomes. Indirect taxes and social security contributions, which have a regressive effect on the distribution, make up almost 70 percent of all public revenues. Thus, the degree of progression of public revenues is very moderate. In turn, public expenditures seem to have more of a redistributive impact, although eligibility, and hence the distribution of public expenditures, are dominated by the principle of horizontal equity and means testing is of little importance. Consequently, in absolute money terms, higher income classes in which incidentally the household size is larger receive most public benefits. Only unemployment benefits, unemployment assistance and supplement to child-care-benefit (“Zuschuss zum Kinderbetreuungsgeld”) for single mothers or couples with low income of the spouse are, in absolute terms, distributed to a greater extent to low-income groups. In spite of this, in relation to income, low-income classes receive more public benefits than high-income groups. Thus, the expenditure side seems progressive. In sum, if there is redistribution by the state in Austria, it is by public expenditures rather than by public revenues (Guger 1997).

## 2. Description of the modelled tax-benefit instruments

### 2.1 The scope of the simulation

The Austrian tax-benefit system is a rather complex one. This is mainly due to the complexity of the social insurance legislation, the number of different transfers and the “mix” of relevant administrative responsibility (federal, provincial, local). Due to the limitations of available micro-data, not all instruments lend themselves to simulation. In order to correctly interpret model results, it is therefore essential to clarify the scope of the simulations. In the following table, we will outline what parts are and are not included in the current version of EUROMOD. Of course, the amounts of non-simulated instruments may still play an important role in determining people’s income situations (e.g. pensions). In general, therefore, amounts, which cannot be simulated are taken directly from the data (entry “Data” in the third column). However, in a few cases, information on instruments is neither simulated nor available from the micro-data (“None”).

**Table 2. Tax-/benefit-instruments simulated or taken from data**

<b>Instrument</b>	<b>Comments</b>	<b>Simulated / Data / None</b>	<b>% of GDP*, 2001</b>
<b>1. TAXES</b>			
Income tax (“Einkommensteuer”)	Federal Income Tax.	Simulated	9.28
Capital Income Tax (“KESt”+“KESt auf Zinsen ”)		Simulated	0.97
Church Tax (“Kirchenbeitrag”)	Not actually a tax: paid to and collected by the church.	None	0.19 <sup>2</sup>
Property Tax (“Grundsteuer B”)	Municipal tax on real estate. Based on official values (“Einheitswert”) of real estate.	None	0.20
Value Added Tax (“Umsatzsteuer/MWSt”)	See separate report on indirect taxes.	Simulated	8.14
Other indirect taxes (“Verbrauchsabgaben”)	See separate report on indirect taxes.	Simulated	2.79
Estate and Gift Tax (“Erbschafts- und Schenkungssteuer”)		None	0.08
<b>2. SOCIAL INSURANCE CONTRIBUTIONS</b>			
Non-Civil Servant Employees	Health Insurance	Simulated	3.57 <sup>5</sup>

	Pension Insurance Unemployment Insurance Compulsory Union Contributions ("Kammerumlage") Housing Subsidy ("Wohnbauförderungsbeitrag") Building Worker Vacation- and Severance-Pay-Fund ("Bauarbeiter Urlaubs- u. Abfertigungskasse")	None	7.03 <sup>5</sup> 1.85 <sup>5</sup> 0.10 <sup>2</sup>  0.29 <sup>5</sup>  0.02 <sup>5</sup>
Civil Servants	Health Insurance Pens. Ins. (incl. contr. pensioners) Housing Subsidy ("Wohnbauförderungsbeitrag")	Simulated	0.29 <sup>2,5</sup> 1.03 <sup>5</sup> 0.07 <sup>2,5</sup>
Employers	Health Insurance Pension Insurance Unemployment Insurance Accident Insurance Bankruptcy Fund ("Insolvenzentgeltsicherung" Family Benefits Fund ("Familienlastenausgleichsfonds") Housing Subsidy ("Wohnbauförderungsbeitrag") Nightshift-Heavy Labour ("Nachtschichtschwerarb.Beitr.")	Simulated        None	   0.51 <sup>7</sup> 9  1.54    0.01
Self-Employed	Health Insurance Pension Insurance Accident Insurance	Simulated	0.39 0.57 0.04
<b>3. TRANSFER PAYMENTS (FAMILY)</b>			
Family Benefit ("Familienbeihilfe")	Universal benefit for children	Simulated	1.28 <sup>10</sup>
Pregnancy Benefit ("Wochengeld", "Betriebshilfe")		Data (partly; aggregated with other benefits)	0.15 <sup>13</sup>
Child Care Benefit ("Kinderbetreuungsgeld")		Simulated	0.41 <sup>11</sup>
Supplement to Child-Care-Benefit ("Zuschuss zum Kinderbetreuungsgeld")	Supplement for single Parents (universal) and low income couples (means tested).	Simulated	?
Family Hardship Compensation ("Familienhärteausgleich")	One-time benefit for cases where all other sources of assistance have been exhausted.	None	0.00...
Child Care Benefit for Unemployed ("Kinderbetreuungsbeihilfe")	Short-term benefit paid to enable unemployed people with children to participate in the labour market and/or training courses.	None	0.00...

Provincial Family Bonus ("Familienzuschuss der Bundesländer")	Province specific income tested benefit for low income families with small children.	Simulated	0.03
<i>SUBSIDISED KINDERGARTEN</i>  ( <i>"ÖFFENTL. KINDERGÄRTEN"</i> )		None	0.37 <sup>12</sup>
<b>4. TRANSFER PAYMENTS (EDUCATION)</b>			
Free use of public transport for students and apprentices ("Schüler- und Lehrlingsfreifahrt")	In-kind benefit	None	0.14
Student grants ("Schülerbeihilfe"; "Heimbeihilfe")	Means tested benefit for students who continue school beyond compulsory schooling.	Data (aggregated with other benefits)	0.02
Provision of school books ("Schulbuchaktion")	In-kind benefit	None	0.04
Student grants (Higher Ed.) ("Studienbeihilfe")	Means tested benefit for students in higher education.	Data (aggregated with other benefits)	0.06 <sup>3</sup>
Free accident insurance for students ("Beitragsfreie Unfallversicherung für SchülerInnen und StudentInnen")		None	0.00...
<b>5. TRANSFER PAYMENTS (UNEMPLOYMENT)</b>			
Unemployment Benefit ("Arbeitslosengeld")		Data (will be simulated in future versions of EUROMOD)	0.48
Unemployment Assistance ("Notstandshilfe")		Data (will be simulated in future versions of EUROMOD)	0.25
<b>6. TRANSFER PAYMENTS (SICKNESS, DISABILITY)</b>			
Free Health Insurance for		None	0.80

<sup>6</sup> In 2001 abolished for those who do not or have not raise(d) children.



relatives ("Beitragsfreie Krankenmitversicherung für Angehörige") <sup>6</sup>			
Sickness Benefit ("Krankengeld")		Data	0.18
Prescription fee waiver ("Rezeptgebührenbefreiung")	Income tested	None	0.04
Health service cheque fee waiver ("Krankenscheingebührenbefreiung")	Income tested	None	0.03
Accident pension ("Versehrtenrente")		Data	0.16 <sup>12</sup>
Disability Benefit ("Pflegegeld")		Data (aggregated with other benefits)	0.78
<b>7. TRANSFER PAYMENTS (OLD AGE, SURVIVORS)</b>			
Old Age Pension ("Alterspension"; "Ruhegenuss")		Data (aggregated with other benefits)	6.40 <sup>4</sup>
Early Retirement Pension ("Vorzeitige Alterspension")		Data (aggregated with other benefits)	1.06 <sup>13</sup>
Part-time Retirement Pension ("Gleitpension")		Data (aggregated with other benefits)	0.00 <sup>13</sup>
Disability Pension ("Invaliditätspension")		Data	0.92 <sup>12</sup>
Survivor Pension ("Witwen- und Waisenpension")		Data	1.62 <sup>4</sup>
Minimum Pension Non-Civil Servants ("Ausgleichszulage")		Simulated	0.35
Minimum Pension Civil Servants ("Ergänzungszulage")		Simulated	?
Extra Child Benefit for Pensioner Parents. Non-Civil Servants. ("Kinderzuschuss")		Simulated	0.01
Extra Child Benefit for Pensioner Parents. Civil Servants. ("Kinderzulage")		Simulated	0.00...
<b>8. TRANSFER PAYMENTS</b>			

<b>(HOUSING)</b>			
Social Housing ("Gemeindewohnungen")	Municipal in-kind transfer.	None	?
Subsidised Housing ("Objektförderung: Geförderte Miet,- Genossenschafts- und Eigentumswohnungen")	Responsibility of the provinces.	None	?
Housing Benefit ("Wohnbeihilfe")	Responsibility of the Provinces. Means tested. As a rule only available if living in subsidised housing.	Data	0.06 <sup>2</sup>
Rent Subsidy ("Mietzinsbeihilfe")	Very low income limits - no longer important.	Data	0.00...
<b>9. TRANSFER PAYMENTS (MINIMUM STANDARDS)</b>			
Social Assistance (1) – Cost of Living ("Sozialhilfe – Hilfe zur Sicherung des Lebensunterhaltes")	Province specific. Means tested.	Simulated	0.20 <sup>8</sup>
Social Assistance (2) – Exceptional Circumstances ("Sozialhilfe – Hilfe in besonderen Lebenslagen")	Province specific.	None	?
Exemption from telephone and public broadcasting fees ("Befreiung von Telephon-, Radio- und Fernsehgebühr")		None	?

\* 2001: 212,511 Mio. €(Statistik Austria 2002)

Note 1: Sources: BMSG 2002, Hauptverband der österreichischen Sozialversicherungsträger 2002, Kammer für Arbeiter und Angestellte 2003, Kammer für Arbeiter und Angestellte 2002, Statistik Austria 2002, Statistik Austria, <http://www.statistik.at>.

Note 2: Own estimate

Note 3: Bundesvoranschlag für 2000

Note 4: Sum of components from different years

Note 5: Employer contributions plus employee contributions

Note 6: Excluding civil servants and voluntary contributions

Note 7: Employer contributions plus self-employed contributions

Note 8: Sum of Social Assistance (1) (incl. sickness-help) and Social Assistance (2)

Note 9: reference statistics not available yet

Note 10: without Selbstträger

Note 11: Preliminary for 2003

Note 12: Expenditure for 2000

Note 13: Expenditure for 2002

In the table below, we show those instruments that are simulated by EUROMOD. The order in the table (from top to bottom) represents the order in which the instruments ("policies") are computed in the model (e.g., employee social insurance contributions need to be computed before income taxes because they are tax-deductible). This is the so-called "policy spine" as represented by the EUROMOD parameter file "spine.xls". Note, that in the detailed description of instruments further below we do not follow entirely this sequence. Instead, we arrange the different instruments into three main groups (taxes, contributions and benefits) in order to provide a more intuitive overview of the Austrian system.

**Table 3. Name and description of simulated policies**

Policy Name	Policy Description
<b>SBEN_CB_AT</b>	<i>child benefit ("Familienbeihilfe") basic amount</i>
<b>SBEN_CBdis_AT</b>	<i>addition to child benefit for disabled children</i>
<b>IBEN_PenChBon_AT</b>	<i>Child Bonus for Pensioners ("Kinderzuschuss (ASVG)")</i>
<b>IBEN_PenChBonCS_AT</b>	<i>Child Bonus for Civil Service Pensioners ("Kinderzulage (PG)")</i>
<b>EESICui_AT</b>	<i>employee contributions to unemployment insurance</i>
<b>EESIChousing_AT</b>	<i>Employees' Contribution to Housing Subsidy ("Wohnbaufoerderungsbeitrag")</i>
<b>EESICunion_AT</b>	<i>Employees' Compulsory Union Contributions ("Kammerumlage")</i>
<b>SESIChi_AT</b>	<i>self-employed contributions to health insurance</i>
<b>SESICpi_AT</b>	<i>self employed contributions to pensions insurance</i>
<b>SESICdi_AT</b>	<i>self employed contributions to disability (accident) insurance</i>
<b>IBEN_MinPen_AT</b>	<i>Minimum Pension ("Ausgleichszulage")</i>
<b>IBEN_MinPenCS_AT</b>	<i>Minimum Pension for Civil Servants ("Ergaenzungszulage")</i>
<b>EESICpi_AT</b>	<i>employee contributions to pensions insurance</i>
<b>EESIChi_AT</b>	<i>employee contributions to health insurance</i>
<b>ERSICui_AT</b>	<i>employer contributions to unemployment insurance</i>
<b>ERSICpi_AT</b>	<i>employer contributions to pensions insurance</i>
<b>ERSIChi_AT</b>	<i>employer contributions to health insurance</i>
<b>ERSICdi_AT</b>	<i>employer contributions to accident insurance</i>
<b>ERSIChousing_AT</b>	<i>Employers' Contribution to Housing Subsidy ("Wohnbaufoerderungsbeitrag")</i>
<b>ERSICfamben_AT</b>	<i>Employers' Contribution to Family Benefits Fund ("Beitrag zum Familienlastenausgleichsfonds")</i>
<b>ERSICbank_AT</b>	<i>Employers' Contribution to Bankruptcy Fund ("Insolvenzrenteltsicherung", IESG)</i>
<b>IT1_AT</b>	<i>income tax</i>
<b>SBEN_longterm_matben_AT</b>	<i>child-care-benefit ("Kinderbetreuungsgeld")</i>
<b>IBEN_MaterYadd_AT</b>	<i>Supplement to child-care-benefit ("Zuschuss zum Kinderbetreuungsgeld")</i>
<b>SBEN_CBsupp_AT</b>	<i>Child benefit: supplements for 2<sup>nd</sup> and further children</i>
<b>SBEN_FamBonB_AT</b>	<i>Family bonus Burgenland ("Familienbonus des Landes Burgenland")</i>
<b>SBEN_FamBonK_AT</b>	<i>Family bonus Kaernten ("Kaerntner Familienzuschuss")</i>

<b>SBEN_FamBonN_AT</b>	<i>Family bonus Niederoesterreich ("Niederoesterr. Familienhilfe")</i>
<b>SBEN_FamBonO_AT</b>	<i>Family bonus Oberoesterreich ("Familienzuschuss des Landes Oberoesterreich")</i>
<b>SBEN_FamBonS_AT</b>	<i>Family bonus Salzburg ("Salzburger Familienfoerderung")</i>
<b>SBEN_FamBonST_AT</b>	<i>Family Bonus Steiermark ("Kinderzuschuss des Landes Steiermark")</i>
<b>SBEN_FamBonT_AT</b>	<i>Family bonus Tirol ("Schülerstarthilfe des Landes Tirol")</i>
<b>SBEN_FamBonV_AT</b>	<i>Family bonus Vorarlberg ("Familienzuschuss des Landes Vorarlberg")</i>
<b>SBEN_FamBonW_AT</b>	<i>Family bonus Vienna ("Wiener Familienzuschuss")</i>
<b>SBEN_saB_AT</b>	<i>Social Assistance Burgenland ("Sozialhilfe Burgenland: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saK_AT</b>	<i>Social Assistance Kaernten ("Sozialhilfe Kaernten: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saN_AT</b>	<i>Social Assistance Niederoesterreich ("Sozialhilfe Niederoesterr.: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saO_AT</b>	<i>Social Assistance Oberoesterreich ("Sozialhilfe Oberoesterreich: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saS_AT</b>	<i>Social Assistance Salzburg ("Sozialhilfe Salzburg: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saST_AT</b>	<i>Social Assistance Steiermark ("Sozialhilfe Steiermark: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saT_AT</b>	<i>Social Assistance Tirol ("Sozialhilfe Tirol: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saV_AT</b>	<i>Social Assistance Vorarlberg ("Sozialhilfe Vorarlberg: Hilfe zur Sicherung des Lebensunterhaltes")</i>
<b>SBEN_saW_AT</b>	<i>Social Assistance Vienna ("Sozialhilfe Wien: Hilfe zur Sicherung des Lebensunterhaltes")</i>

## 2.2 Income tax (*ITI\_AT*)

### 2.2.1 Cost of earnings deduction ("*Werbungskostenabzug*", *at\_it\_EarnCost\_ded*)

When calculating income tax, the first deduction used is the "cost of earnings" deduction. The amount of deduction from employment income (*empY\_IL=empY*) is €132 annually.

### 2.2.2 Deduction for single earners ("*Alleinverdiener*", *at\_it\_singearn*)

If the annual earnings of the partner does not exceed €2,200 (€4,400 if the couple has child) the person is treated as single earner. For determining relevant partner earnings, the preferentially taxed part of any special earnings (such as 13<sup>th</sup> and 14<sup>th</sup> monthly salaries, parameter *OthEarn\_IL*) are subtracted (up to a maximum of €1,680 per year: parameter *threshold*). The preferentially taxed part of special earnings is one sixth (parameter *annual\_fraction*) of the regular annual earnings (*SingEarner\_IL* minus *OthEarn\_IL*).

2.2.3 Limited expenditure deduction ("*eingeschraenkt abzugsfaehige Sonderausgaben*",  
at\_it\_exp\_ded)

Expenditures ( $expenditure_{IL}=LimitedExp$ ) are deductible from earnings ( $earnings_{IL}=earnings$ ) at a rate of 0.25 up to an annual ceiling of €2,920. An additional ceiling of €2,920/year comes to the regular ceiling if the person is single earner (see above), and €1,460/year is added for persons with more than 3 children. For incomes between €36,400 and 50,900/year the deduction is tapered (at €50,900 it is tapered to 0).

2.2.4 Church tax deduction ("*Kirchensteuerabzug*", at\_it\_ChurchTax\_ded)

A maximum amount of €75/year (ceiling=75) is deductible for church tax. Not in fact simulated because no information on paid church tax in data.

2.2.5 Charitable donations deduction ("*Abzug von Spenden an beguenstigte Institutionen*",  
at\_it\_donations\_ded)

Charitable donations are deductible from earnings up to the limit of 10% of the earnings. Not in fact simulated because no information on donations in data.

2.2.6 Exceptional costs deduction ("*Aussergewoehnliche Belastungen*", at\_it\_ExceptCost\_ded)

Exceptional costs ( $ExceptCost_{IL}=ExceptCost$ , e.g. additional costs of disabled children) are deductible from taxable income (excluding tax credits,  $income_{IL}=taxableY_{ex\_tfa}$ ). However, for some of the exceptional costs the taxpayer has to contribute a retained amount, which increases with higher income (cf. Table 4).

**Table 4. Annual income and retained amount exceptional cost deduction**

Annual income in €	Retained amount
-7,300	6%
7,300-14,600	8%
14,600-36,400	10%
above 36,400	12%

The retained amount is reduced by 1% point for each child and/or if taxpayer is entitled to single earners or lone parent tax credit.

Currently there are no entries in exceptional costs income concept (parameter *ExceptCost\_IL*), since we don't have required variables in the data, consequently the effects of this deduction do not show up in the model.

#### 2.2.7 Disability tax-free allowance ("*Behindertenfreibetrag*", *at\_it\_disab\_tfa*)

Table 5 presents the annual amounts of tax-free allowance depending on the degree of disability.

**Table 5. Degree of disability and annual disability tax free allowance**

Degree of disability	Annual tax-free allowance
25-34%	75
35-44%	99
45-54%	243
55-64%	294
65-74%	363
75-84%	435
85-94%	507
95%-	726

The tax unit in this case is the family (*TAX\_UNIT=CB\_Family*). If the person receives care-benefit ("Pflegegeld"), the tax-free allowance is cut by the amount of the care-benefit.

#### 2.2.8 Self assessment income tax-free allowance ("*Freibetrag fuer zu veranlagende Einkommensarten*", *at\_it\_selfass\_tfa*)

The amount of tax-free allowance is € 730/year. The income concepts for this allowance are *selfassY*, and *taxableY\_ex\_anyded*.

#### 2.2.9 Tax-free allowance for agricultural workers ("*Landarbeiterfreibetrag*", *at\_it\_AgriWorker\_tfa*)

The tax-free allowance amount is €171/year for agricultural workers.

### 2.2.10 Deduction of part of “Other Earnings” (at\_it\_OthEarn\_ded)

“Other Earnings” (“Sonstige Bezuege”) include e.g. 13/14 monthly payments, which are exempt from taxation at the normal rate structure. On other earnings below €620/year no tax is paid, the upper limit of preferential tax rate ( $fixed\_rate=0.06$ ) is 1/6 of annual income excluding other earnings ( $annual\_fraction=1/6$ ). The income concept for other earnings is  $OthEarn\_IL$ , for overall earnings (including other earnings) is  $empY+Pen$ .

### 2.2.11 Common Tax Schedule (co\_it\_schedule)

Table 6 below, includes income brackets and rates for Austria.

**Table 6. Income brackets and tax rates income-tax**

Income brackets (€/year)	Tax rates
-3,640	0%
3,640-7,270	21%
7,270-21,800	31 %
21,800-50,870	41%
50,870-	50%

Temporary income tax (as if unemployment incomes were also taxable) is computed on the base of taxable income and unemployment income ( $TaxableY\_il=taxableY+unempY$ ), which is necessary for the progression adjustment (see module  $at\_it\_progr\_adj$  below). The tax unit here is the individual.

### 2.2.12 General tax credit (“Allgemeiner Absetzbetrag”, at\_it\_gen\_tcred)

The general tax credit amount is €887/year ( $tcred\_amt=887$ ). Depending on if someone receives wage earners/pensioners tax credit and/or single earner/lone parent tax credit there are several tapering rules. The income concept used here is  $taxableY+unempY$ .

### 2.2.13 Single earners' tax credit ("*Alleinverdienerabsetzbetrag*", at\_it\_SingEarn\_tcred)

Single earners have a tax credit of €364/year. The tax unit is individual. If the tax is such low, that the single earner's tax credit does not come into effect, a negative tax up to €364/year is refunded, if the person has a least one child (see at\_it\_tcred\_red).

### 2.2.14 Lone parent tax credit ("*Alleinerzieherabsetzbetrag*", at\_it\_lp\_tcred)

Lone parents (*TAX\_UNIT=lp*) have a tax credit of €364/year. If the tax is such low, that the lone parent tax credit does not come into effect, a negative tax up to €364/year is refunded, if the person has a least one child (see at\_it\_tcred\_red).

### 2.2.15 Wage earners' tax credit ("*Arbeitnehmerabsetzbetrag*", at\_it\_WageEarn\_tcred)

Wage earners tax credit is €54/year<sup>7</sup>, up to 22% of taxable employment income (*taxableEmpY*). The tax unit is the individual. If the tax is such low, that the wage earners' tax credit does not come into effect, a negative tax up to €110 is refunded. However, this refunding is limited with 10% of annual social insurance contributions paid by the concerned person (see at\_it\_tcred\_red).

### 2.2.16 Commuters' tax credit ("*Verkehrsabsetzbetrag*", at\_it\_commut\_tcred)

Commuters have tax credit of €291/year up to 22% of taxable employment income (*taxableEmpY*). The tax unit is the individual.

### 2.2.17 Pensioners' tax credit ("*Pensionistenabsetzbetrag*", at\_it\_pen\_tcred)

Pensioners have tax credit of €400/year up to 22% of taxable employment income (*taxableEmpY*). For pension-incomes between € 16,715 and 21,802/year the deduction is tapered (at 21,802 it is tapered to 0). The tax unit is the individual.

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<sup>7</sup> As a compensation for the reduction in 2001, the bonus for favoured pension-provision was increased by €54/year. As we have no adequate information from the data, this is not modelled.



### 2.2.18 Preferential tax of other earnings ("*Sonstige Bezuege*", *at\_it\_OthEarn\_tax*)

On other earnings below € 620/year (*OthEarn\_tfa=620*) no tax is paid, the upper limit of preferential tax rate (*fixed\_rate=0.06*) is 1/6 of annual income excluding other earnings (*annual\_fraction=1/6*; cf. 2.2.10). Other earnings above this limit are taxed under regular scheme. If other earnings (before deduction of contributions) are below €1,680/year (*threshold*) then they are not taxable ("Freigrenze"). Tax on other earnings cannot be greater than  $0.3 * \text{other earnings threshold}$  (1,680). The income concept used here is *empY+Pen*.

### 2.2.19 Progression adjustment ('*Progressionsvorbehalt*', *at\_it\_progr\_adj*)

Tax progression is adjusted for recipients of unemployment income. The module computes the average tax rate resulting from all preceding modules (taking as the basis taxable income that includes unemployment benefits) and then applies this average tax rate to the actual taxable income (which excludes unemployment benefits). In reality, the rule for computing the average rate is a bit more complicated: a rate that would prevail if taxable income (*taxableY*) had been received all year. But the result may not exceed tax which would result if actual *taxableY* and *replacmentY* were taxed together. The approach here produces the same result unless *empY+selfempY* is less than replacement income.

### 2.2.20 Child tax credit ("*Kinderabsetzbetrag*"; "*Unterhaltsabsetzbetrag*", *at\_it\_ch\_tcred*)

The amount of child tax credit (for children in the same household) is €50,9/month and child. For children, for whom maintenance payments are made, the amount of credit is €25,5/month for the first child, €38,2 for the second and €50,9/month for each further child. If there are maintenance payments (made to other children) then in the model it is assumed that they are made for one child (but this child doesn't increase the number of children in the household for the purpose of computing the child tax credit). The relevant tax unit here is the family (*TAX\_UNIT=CB\_Family*).

### 2.2.21 Withholding Tax on Investment Income ("*Kapitalertragssteuer*", *co\_schedule*)

The withholding tax rate on investment income (*Base\_IL=invY*) is 25% (*rate1=0.25*).

## 2.3 Social insurance contributions

### 2.3.1 Employers' contribution to disability (accident) insurance (ERSICdi\_AT)

As in most cases of benefits and contributions, different systems exist for civil servants and non-civil servants. The employer of civil servants ( $IsCivSrv=1$ ) pays 0.47% ( $rate1$ ) of the contribution base ( $B-KUVG\_base$ ).

If non-civil servants have special payments such as 13<sup>th</sup> and 14<sup>th</sup> monthly wages) their employers pay 1.4% ( $rate1$ ) of the employees' wages (indifferent whether regular or special payments). The point of difference is that the upper threshold ( $up\_base\_limit$ ) of the contribution base is €3,360 (2001: 3,226.67) /month for the regular payment and €6,720 (2001: 6,453.35) /year for the special payment. If non-civil servants do not have special payment, then their employers pay the same 1.4% on the wages, with an upper limit of €3,920 (2001: 3,764.45) /month for the contribution base. Table 7 below, gives a summary of the contribution rules.

**Table 7. Employers' contribution to disability (accident) insurance**

	Lower base threshold*	Upper base threshold	Contribution (%)
<b>Civil servants</b>	0	-	0.47
<b>Non-civil servants</b>			
<i>Special payments exist</i>			
Regular payment**	0	3,360 (2001: 3,226.67)	1.4
Special payment***	0	6,720 (2001: 6,453.35)	1.4
<i>Special payments do not exist</i>	0	3,920 (2001: 3,764.45)	1.4

\* within the disability (accident) insurance there is no threshold for minor occupation.

\*\* monthly amount.

\*\*\* annual amount.

### 2.3.2 Self-employed contribution to disability insurance (SESICdi\_AT)

Farmers pay rate of 1.9% ( $rate1$ ) of the contribution base ( $selfempY$ ). The lower income threshold is €570.92 (2001: 546.57) /month ( $threshold$ ), the upper limit of the contribution base is €3,920 (2001: 3,764.45) /month ( $up\_base\_lt$ ). Other self-employed pay a fixed annual amount of €81.37 (2001: 77.91) for the disability insurance.

### 2.3.3 Employees' and Pensioners' contributions to health insurance (EESIChi\_AT)

Again, we have to distinguish (1) public- and (2) non-public sector employees.

(1) Public sector employees and pensioners pay a basic rate of 3.7% (*rate*) of the contribution base (*B-KUVG\_base*) and an additional 0.25% surcharge rate (*surcharge\_rt*). For public sector employees and pensioners the lower income threshold is €504 (2001: 484) /month (*threshold*), for regular payments the upper limit of the contribution base is € 3,360 (2001: 3,226.67) /month (*up\_base\_lt*), for special payments the base limit is € 6,720 (2001: 6,453.35) /year (*up\_spec\_pay\_lt*).

(2) To non-public sector blue-collar workers two different rates apply: those covered by the Continuation of Payment Law (Entgeltfortzahlungsgesetz, EFZG) pay a basic rate of 3.7% (*EFZGBluCol\_rt*) of the contribution base; those not covered by EFZG pay a higher contribution, 4.3% (*BluCol\_rt*). Since in the ECHP database there is no possibility to identify EFZG-covered and not covered workers, we assume that all blue-collar workers are covered by EFZG (this assumption is close to reality). Agricultural blue-collar workers' (Landarbeiter) contribution is again 3.7% (*AgriBluCol\_rt*), while white-collar workers pay a lower health insurance contribution: 3.15% (*WhitCol\_rt*). Similarly to public servants, all non-public sector employees face a surcharge rate of 0.25% of their relevant incomes. The lower income threshold is €309.38 (2001: 296.21) /month (*threshold*), on contribution bases under this amount no contribution is paid.<sup>8</sup> The ceiling on base for contributions paid on income excluding special payments – if there are special payments – is € 3,360 (2001: 3,226.67) /month (*up\_base\_lt*), which is 30 times the daily ceiling. The ceiling on the contribution base if there are no special payments is € 3,920 (2001: 3,764.45) /month (*no\_spec\_up\_base\_lt*) that is 35 times the daily ceiling, while the upper limit of the contribution base for the special payment is €6,720 (2001: 6,453.35) /year (*up\_spec\_pay\_lt*). If contributions are payable (i.e., if the regular contribution base excluding special payments is above the threshold) then all special payments up to the *up\_spec\_pay\_lt* limit are subject to contributions.

The health-insurance contribution for non-civil servant pensioners is 3.75% (*rate1*) of their income (*penSICChi\_base*), without any base-limits and upper limits.

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<sup>8</sup> If the threshold is exceeded then the entire base is subject to the relevant rate.

### 2.3.4 Employer contributions to health insurance (ERSIChi\_AT)

Employers of public sector employees and pensioners<sup>9</sup> pay a basic rate of 2.9% (*rate*) on the contribution base (*B-KUVG\_base*) that also includes pensions. In addition to the basic rate, a surcharge rate of 0.65% applies (*surcharge\_rt*). The contribution base includes the regular payments and special payments, as well. The lower income threshold is €504 (2001: 484) /month (*threshold*), the upper limit of the contribution base for public sector wages and pensions is €3,360 (2001: 3,226.67) /month for regular payments (*up\_base\_lt*) and €6,720 (2001: 6,453.35) /year for special payments (*up\_spec\_pay\_lt*).

Again, different rates apply to employers of non-civil servant blue-collar workers accordingly whether the employees are covered by EFZG (“continuation of payment law”) or not. Those covered pay a basic rate of 3.4% (*EFZGBluCol\_rt*) and an additional 0.25% surcharge rate (*surcharge\_rt*), while non-covered face a 4.3% contribution rate (*BluCol\_rt*) and an additional 0.25% surcharge rate (*surcharge\_rt*). As for the employees’ contributions, we assume that all the employees are covered by EFZG. The employers of agricultural blue-collar workers have to pay the same 3.7% (*AgriBluCol\_rt*) plus 0.25% surcharge rate (*surcharge\_rt*) as their employees. The employers of white-collar workers contribute to the health-insurance budget with 3.25% (*WhitCol\_rt*; incl. complement-amount) plus 0.25% surcharge rate (*surcharge\_rt*) of the wages. The lower threshold and the ceilings are the same as for the employees’ contribution bases. While employees only pay voluntary health insurance contribution on “minor wages” (if sum of “minor wages” of employee is under threshold of €309.38 (2001: 296.21) per month) employers have to pay 3.85%<sup>10</sup> (*rate1*; if sum of “minor wages” of all employees exceeds €464.07 (2001: 444.32) per month).

For “employers“ of non-civil servant pensioners, i.e. the social insurance authorities the law specifies different health-insurance contributions, which have to be paid to into the fund of Central Association of Austrian Social Insurance Authorities (Hauptverband der österreichischen Sozialversicherungsträger). The pension insurance institutions for blue-collar workers, for salaried employees and the institution for business people pay a contribution of 7.575% (*rate1*) of the contribution base (*penSIChi\_base*). The Insurance Institution for Austrian Railway within the

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<sup>9</sup> Under the term “employer of pensioners” we understand either the social insurance authority (“Pensionsversicherungsanstalt”, “Bundespensionsamt”) or the enterprise (e.g. Austrian Railways) that pays out the pensions.

<sup>10</sup> Due to a decision of the constitutional court no contributions had to be paid in April and May 2003. Therefore the average contribution rate in 2003 is reduced to 3.21% (3.85\*10/12).

Pension Insurance for Blue-Collar-Workers has to pay 18.15%, while the Insurance Institution for Austrian Miners contributes 14.025% of the pensions paid out. Since we don't have sufficient data to distinguish between the above occupation categories, we assume that all people belong to the first institution. For non-civil servant pensioners no threshold and upper limits exist.

### 2.3.5 Self-employed contributions to health insurance (SESIC<sub>hi</sub>\_AT)

When describing the health insurance contributions for self-employed, we distinguish between farmers and other self-employed. Farmers pay 5.9% basic rate (*rate*) and a surcharge rate of 0.5% (*surcharge\_rt*). They have to contribute on income between € 570.92 (2001: 546,57) /month (*threshold*) and €3,920 (2001: 3,764,45) /month (*up\_base\_lt*).

Non-farmer self-employed people have a basic contribution rate of 8.4% (*rate*) and a surcharge rate of 0.5%<sup>11</sup> (*surcharge\_rt*). The upper base limit of the contribution base (*GSVG\_base*) is €3,920 (2001: 3,764,45) /month (*up\_base\_lt*). The threshold depends on whether the self-employed person is a member of the Austrian Economic Chamber or not. For members the threshold is €551.76 (2001: 1,027.16) /month (*threshold\_wk*), while non-members pay the contribution if the base exceeds €537.78 /month (*threshold\_se*). For the time being we don't have information about the chamber-membership, so we assume that nobody is a member of chamber; in other words we don't use *threshold\_wk*. Another different threshold applies for partly self-employed (*GSVG\_otherY*>0, i.e., if other income available), the lower limit of the contribution base is €309.38 (2001: 296.21) /month (*threshold\_part\_se*). Different to 2001, 40% of contributions (2001: 20%) have also to be paid if other health-insurance contributions (ASVG or B-KUVG) have been paid.

### 2.3.6 Employee contributions to pension insurance (EESIC<sub>pi</sub>\_AT)

Similarly to other contributions, the law makes a distinction between civil servants and non-civil servants. Employees in the public sector who turn 60 years before 30.11.2019 pay 12.55%, those who turn 60 years after 30.11.2019 11.05% (*rateI*) of their wages (*empY*) as pension insurance

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<sup>11</sup> Not including a special contribution for a birth-related benefit ("Betriebshilfe" of 0.4%), which only applies for a particular sub-group which cannot be identified in our data.

contribution, regardless of the amount of income. Civil service pensioners also pay pension insurance contribution: 2.1%<sup>12</sup> (*rate1*) of their pensions (*pubpen*).<sup>13</sup>

The contribution of employees outside the public sector is 9.25% (regardless of the occupation) to which a 1% surcharge rate comes. The threshold for regular payments is €309.38 (2001: 296.21) /month (*threshold*), the ceiling for contribution base excluding special payments – in case the employee has special payments – is €3,360 (2001: 3,226.67) /month (*up\_base\_lt*), the limit of the special payments under which contribution has to be paid is € 6,720 (2001: 6,453,35) /year (*up\_base\_spec\_lt*). Employees without special payments contribute under the monthly amount of € 3,920 (2001: 3,764.45) (*no\_spec\_up\_base\_lt*).

### 2.3.7 Employer contributions to pension insurance (ERSICpi\_AT)

Employers of non-civil-servants pay a pension contribution of 9.25% (*EFZGBluCol\_rt*, *BluCol\_rt*, *AgriBluCol\_rt*, *WhitCol\_rt*) and a surcharge of 3.3% (*surcharge\_rt*), irrespective of the occupation (blue-collar, white collar and agricultural blue-collar workers). The lower income threshold for the contribution base is € 309.38 (2001: 296.21) /month (*threshold*), ceiling for contribution base excluding special payments – in case the employee has special payments – is € 3,360 (2001: 3,226.67) /month (*up\_base\_lt*), the limit of the special payments under which contribution has to be paid is € 6,720 (2001: 6,453,35) /year (*up\_base\_spec\_lt*). Employees without special payments contribute under the monthly amount of €3,920 (2001: 3,764.45) (*no\_spec\_up\_base\_lt*).

If the contribution base is fewer than €309.38 (2001: 296.21) /month (*le\_incl\_lt*) and the sum of minor wages paid exceeds €464.07 (2001: 444.32) /month, employers contribute to the pension insurance budget with 12.55%<sup>14</sup> (*rate1*) of the base.

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<sup>12</sup> Actually 2.3% for those retiring after 31.12.1998 and before 1.1.2003, 2.1% for those retiring before 1.1.1999 and 2,17% for those retiring in 2003 have to be paid. We have no information on that but in 2003 those with 2.1% are the majority.

<sup>13</sup> There are two sections (1a, 1b) in the policy file because we consider people to be civil service pensioners if they report they are OR if they report the receipt of a civil service pension. In the former case, the 2.1% are paid for all pensions, in the latter case only for the civil service pension (*CSpubpen*).

<sup>14</sup> Because of decision of the constitutional court no payments in April and May 2003, so the effective contribution rate in 2003 was 10.46% (12.55\*10/12).

### 2.3.8 Self-Employed contributions to pension insurance (SESICpi\_AT)

Farmers (“Betriebsführer”) pay pension insurance contribution of 14.5% (*rate*) on income between €570.92 (2001: 546.57) /month (*threshold*) and €3,920 (2001: 3,764.45) /month (*up\_base\_lt*).

Professionals (lawyers, doctors, journalists, etc.) have a different contribution rate (20%) and the limits for the contribution base are also different. Only incomes between € 1.072,82 (2001: 1,027,16) /month and €3,920 (2001: 3,764.45) /month are to be considered as contribution base.

As in the case of other contributions, the law makes differences between members and non-members of the Austrian Economic Chamber. For members the income threshold, under which no contribution is paid, is €1.072,82 (2001: 1,027,16) /month (*threshold\_wk*), full time non-members pay the contribution above €537,78 /month (*threshold\_se*), while partly self-employed face a threshold of €309.38 (2001: 296.21) /month (*threshold\_part\_se*). The contribution rate is 15% for members of the Economic Chamber, non-members and part-time self-employed pay also 15% of their contribution base. For the time being we don’t have information about the chamber-membership, so we assume that nobody is a member of chamber; in other words we don’t use *threshold\_wk*. The ceiling on the base for contributions is €3,920 (2001: 3,764.45) /month (*up\_base\_lt*). For the calculations we use the contribution base *GSVG\_base*, and a person is to be considered as a partly self-employed if *GSVG\_otherY* > 0.

### 2.3.9 Employee contributions to unemployment insurance (EESICui\_at)

Employees (non-civil-servants) pay a contribution of 3% on wages between € 309.38 (2001: 296.21) /month (*threshold*) and € 3,360 (2001: 3,226,67) /month (*up\_base\_lt*), if the employee receives extra payments related to employment income. In this case the contribution has to be paid on special payments under the annual amount of €6,720 (2001: 6,453,35) (*up\_base\_spec\_lt*). The ceiling on the contribution base if the person has no special payments, is €3,920 (2001: 3,764.45) /month (*no\_spec\_up\_base\_lt*).

### 2.3.10 Employer contributions to unemployment insurance (ERSICui\_at)

Employers pay the contributions to unemployment insurance exactly according to the same algorithm as employees.

### 2.3.11 Employees' contributions to housing benefit ('Wohnbauförderungsbeitrag',

EESIChousing\_at)

In order to improve the position of (lower income) people on the housing market, *Bundesländer* have a special housing benefit, to which every employee – except agricultural workers (*IsBlueColl*, *IsAgriSec* = -2) – contributes with 0.5% (*rate1*) of his wages between € 309.38 (2001: 296.21) /month (*threshold*) and € 3,360 (2001: 3,226,67) /month (*up\_base\_lt*). On special payments no contribution is paid (*Base\_IL=empY\_exspec\_Pay*).

### 2.3.12 Employers contributions to housing benefit („Wohnbauförderungsbeitrag”,

ERSIChousing\_at)

Employers pay the same amount of contribution, according to the same algorithm, as employees do.

### 2.3.13 Employees' Compulsory Union (or “chamber”) Contributions („Kammerumlage”,

EESICunion\_AT)

In Austria non-agricultural sector employees contribute to employee's chamber's budget on a compulsory base. Agricultural sector employees pay contributions to Agricultural Workers' chamber according to different rules, while civil servants do not pay chamber contributions at all.

Non-agricultural sector employees pay 0.5% (*rate1*) of their wages between € 309.38 (2001: 296.21) /month (*threshold*) and € 3,360 (2001: 3,226,67) /month (*up\_base\_lt*) to Federal Employees' Chamber. Contrary to other types of contributions, special payments do not constitute part of the contribution base (*Base\_IL=empY\_ex\_specPay*).

Agricultural blue-collar employees contribute to Agricultural Workers' Chamber, paying 0.75% (*rate1*) of the contribution base (€ 309.38-3,360 [2001: 296.21-3,226,67]/month). However, agricultural workers in Vienna and Burgenland province pay their contributions – if any – to the Federal Employee's Chamber instead of the Agricultural Workers' Chamber, but we currently do not take it into consideration. Except Kaernten province, special payments are exempted from contribution payments. This exception (the case of Kaernten) is currently disregarded in the model.



### 2.3.14 Employers' Contribution to Family Benefits Fund („Beitrag zum Familienlastenausgleichsfonds”, ERSICfamben\_AT)

The contribution is paid by all employers (except for employers of civil servants, *iscivsrv=-1*) on the sum of all wages paid in the business. If this sum is lower than €1,460 /per month then it is reduced by €1,095.<sup>15</sup> This detail is not taken into account in the model, because we don't know the sum of all wages. The contribution is 4.5% of the wages without upper limit. The income concept used to calculate this contribution is *empY*.

### 2.3.15 Employers' Contribution to Insolvency Fund ("Zuschlag Insolvenzentgeltsicherungsgesetz (IESG)", ERSICbank\_at)

Insolvency Compensation Fund was established in 1978 to protect employees of insolvent companies. The fund takes over the payment of wages and social security contributions for 3 months as soon as insolvency proceedings are instituted. If staff members are dismissed during that time, the fund takes over payments during the period of notice and is also responsible for compensation payments. Contributions to the fund are made by the employers, who pay 0.7% of the total payroll with regard to the contribution base (for all those employees for whom they are liable to pay unemployment insurance contributions). The contribution base limits are the same, as in the case of other contributions. When the employee does not receive any special payments the contribution is payable on wages between €309.38 (2001: 296.21) and €3,920 (2001: 3,764.45) /month; when special payments are received, the threshold is €309.38 (2001: 296.21) for the regular payments, while the ceiling is €3,360 (2001: 3,226.67) monthly. Employers also have to contribute on special payments below €6,720 (2001: 6,453.35) annually.

## 2.4 Benefits

### 2.4.1 Minimum pension (top-up) ("Ausgleichszulage", IBEN\_MinPen\_AT)

Minimum pension is paid in order to provide pensioners a minimum level of income, so people are eligible to this top-up benefit only if they are already entitled to pensions (in that way it is no real minimum-pension). This minimum level is €643.54 (2001: 613.14) /month for single persons

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<sup>15</sup> In addition, enterprises that are founded between 1.5.1999 and 1.1.2003 do not have to contribute in the first twelve months of existence. Since we do not have information on that, it is not taken into account.

(*SingPay*).<sup>16</sup> The considered income (*MinPen\_means*) contains all pensions, maternity allowance supplement, pregnancy benefit, investment income, other irregular lump-sum benefits, maintenance income, maternity payment, other regular primary income, private transfers and other regular cash payments. 13<sup>th</sup> and 14<sup>th</sup> monthly payments are disregarded when computing the means. For married persons in the same household, the minimum pension level is set to 965.53 (2001: 874.76) /month, for each own child in the household, an additional amount of €68.49 (2001: 65.26) is added to the minimum pension level. The child must be under 18, if he/she is older than 18 but under 27, then the child is treated a “child” from the benefit point of view only if he/she is in full time education or disabled and earns less than €240.34 (2001: 288.99) /month.<sup>17</sup> So, in practice a pensioner gets *Ausgleichzulage* (the exact English translation might be “supplementary allowance”) if his/her pension is less than the minimum pension level relevant for the family; the amount he/she receives is the difference of the minimum pension level and his/her actual social security pension plus income from other sources. Minimum pension top-up is paid 14 times a year (*rate1=2/12*). The relevant benefit unit is the family (*TAX\_UNIT=MinPen\_family*).

#### 2.4.2 Minimum pension for civil servants (top-up) ("*Ergänzungszulage*", *IBEN\_MinPenCS\_AT*)

All civil servant pensioners under the minimum pension level are eligible for this means tested benefit (*ge\_inc=2, IsCivSrv=2*). The means (*MinPenCS\_means*) is slightly different from non-civil servant pensioners and contains all pensions, child bonus for pensioners, company shares, unemployment benefits, employment and self-employment income and property income. 13<sup>th</sup> and 14<sup>th</sup> monthly payments are disregarded when computing the means. For the additional child amount, the child must be under 18, if he/she is older than 18 but under 26, then the child is treated a “child” from the benefit point of view only if he/she is in full time education or disabled and earns less than € 309.38 (2001: 296.21) /month. The relevant benefit unit is the family (*TAX\_UNIT=PenChBonCS\_family*). All other rules are the same as for non-civil servants.

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<sup>16</sup> For widow(er) pensions the same amount applies; for orphan pensions there are different amounts depending on age and status single/double orphan

<sup>17</sup> There is a disregard for apprentices of €156.14 (2001: 149.49) /month.

#### 2.4.3 Child Bonus for Pensioners ("Kinderzuschuss (ASVG)", IBEN\_PenChBon\_AT)

All non-civil-servant pensioners with children ( $ge\_inc=2$ ,  $ge\_nch=2$ ,  $ge\_nch\_lt=1$ ), who receive public pension ( $ge\_inc\_lt=1$ ,  $ge\_inc\_IL=pubpen\_ex\_minpen\_ex\_ChBon$ ) are eligible for this benefit. The child must be under 18, if he/she is older than 18 but under 27, then the child is treated a "child" from the benefit point of view only if he/she is in full time education or disabled. The monthly amount of the benefit is €29.07, which is paid 14 times a year, so the actual monthly amount is €33.92 ( $29.07*14/12$ ,  $SingPay=33.92$ ) per child. The relevant benefit unit is the family ( $TAX\_UNIT=PenChBon\_family$ ).

#### 2.4.4 Child Bonus for Civil Servant Pensioners ("Kinderzulage (PG)", IBEN\_PenChBonCS\_AT)

All persons who receive civil-servant-pensions and have children in household (according to  $PenChBonCS\_family$  definition) are eligible for the benefit. ( $ge\_inc\_lt=1$ ,  $ge\_inc\_IL=pubpen\_ex\_minpen\_ex\_ChBon$ ,  $ge\_nch\_lt=1$ ). The monthly amount of the benefit is €14.5, which is paid 14 times a year, so the actual monthly amount is €16.92 ( $14.5*14/12$ ,  $SingPay=16.92$ ). The relevant benefit unit is the family ( $TAX\_UNIT=PenChBonCS\_family$ ).

#### 2.4.5 Child Care Benefit ("Kinderbetreuungsgeld", SBEN\_longterm\_matben\_AT)

(2001: Parental Leave Benefit ["Karenzgeld"; "Teilzeitbeihilfe"] taken from data because depending on if mother/father worked before)

In 2002 the universal child care benefit was introduced and replaced the former parental leave benefit.<sup>18</sup> The main differences are:

- For child care benefit almost every mother/father with a child in a certain age group who does not exceed a certain personal income limit (see below) is eligible<sup>19</sup>; for parental leave benefit only mothers/fathers who were economically active before were eligible.

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<sup>18</sup> It replaced also the former extended parental leave benefit ("Sondernotstandshilfe"), which was granted for an additional year to mothers/fathers eligible to parental leave benefit if they were not able to work because they could not find a care-facility for their child.

<sup>19</sup> Eligible for child care benefit if for this child entitlement to child benefit ("Familienbeihilfe") or if mother/father (theoretically) eligible for the former parental leave benefit. Because of lack of information we assume that every mother/father is eligible for child care benefit.

- The amount of benefit was slightly increased (child-care benefit € 14.53 daily; parental leave benefit €13.67 daily)
- The **personal income limit** was **increased**: in the case of the child care benefit recipients are allowed to have an additional yearly gross income of €14.600 (for employees excl. special payments); in the case of the parental leave benefit €296.21 per month. In both cases the income of the (non-benefit-receiving) spouse is irrelevant.
- The **duration of receipt** was **prolonged**: The child care benefit is granted (beginning with the birth of the child) until the child is 3 years old, if parents share child care duties, and until the child is 2½ years old, if only one parent stays (at the time of his or her potential benefit receipt) within the personal earnings limit. The parental leave benefit was granted until the child is 2 years respectively 1½ years old. Both benefits are linked to the youngest child, i.e. they are granted per family, not per child. However, employed mothers receive maternity benefit (“Wochengeld”) eight weeks before birth of the child and eight weeks after. The maternity benefit is calculated as an average over the net-earnings of the last three months including a pro-rata-supplement for special payments<sup>20</sup>. Therefore in the eight weeks after the birth of the child (part of) the child care benefit is only received if the amount of the maternity benefit does not exceed the amount of the child care benefit.

### **Implementation**

To implement the universal child care benefit introduced in 2002 a number of assumptions were necessary (for reasons of simplicity or due to lack of information in the underlying 1998 data):

- Child care benefit is due to mothers/fathers of children born after 31.12.2001. For mothers/fathers with children born after 30.6.2000 and before 1.1.2002 who are eligible to parental leave benefit, the parameters of the parental leave benefit are adjusted to the parameters of the child care benefit. However, for reasons of simplicity we assume full implementation of the child care benefit which in fact will only be the case at the end of 2004.
- We disregard all eligibility conditions apart from having a small child and fulfilling the income condition.

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<sup>20</sup> Somewhat different rules apply for self-employed, farmers and recipients of unemployment benefits.

- We do not know how mothers/fathers react individually to the prolongation of the duration of receipt of the child care benefit and the higher income limit. In 1998 the parental leave benefit (“Karenzgeld”), which could only be received for 1½ respectively 2 years and under the consideration of the lower personal income limit, was still fully in place. However, it could be that some mothers/fathers being already back at work (1<sup>st</sup> partner) or being still at work (2<sup>nd</sup> partner) according to the 1998 data would in 2003 have chosen to stay at home or work at reduced hours for receiving the universal child care benefit for a longer (1<sup>st</sup> partner) or an additional period (2<sup>nd</sup> partner). We ignore this possibility, assessing the benefit only to those below the earnings limit according to the 1998 data. (On the other hand it could be that some mothers/fathers with no employment income or income only from minor occupation according to the 1998 data [in order not to lose the parental leave benefit] would in 2003 make use of the higher personal income limit and therefore both receive the child care benefit and additional money from work.)
- In the underlying ECHP-data the age is calculated by the formula: current year minus birth year. Therefore we do only know the birth year but not the exact birth date of the child. If a child in the data is zero years old it could be born on 1 January 1998 (updated to 1 January 2003), making its parents eligible for twelve months receipt of child care benefit in 2003 (or ten months if maternity benefit [“Wochengeld”] is received). However, it could as well be born on 31 December 1998 (updated to 31 December 2003), resulting in no child care benefit in 2003. A similar problem arises for three-year-old children. For a child born on 1 January 1995 (updated to 1 January 2000) and having its third birthday on 1 January 2003 no child care benefit would be received in 2003, while for a child reaching the age of three at the 31 December 2003 the benefit could still be received for twelve months (assuming that parents share child care duties). To overcome this, we assume that all children were born on 1 January. To make this assumption consistent we took all mothers of zero year old children “out of the labour force” and put them on receiving child care benefit. To do this we set employment or self-employment income as well as unemployment benefits (earned before the birth of the child) to zero. Women receiving parental leave benefit (“Karenzgeld“) or maternity benefit (“Wochengeld“) in the 1998 data were assumed to be working before the child was born and therefore receiving maternity benefit<sup>21</sup> instead of

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<sup>21</sup> To assess the height of the maternity benefit (“Wochengeld“) we had to split a combined variable in the ECHP dataset containing both parental leave benefit and maternity benefit. The assumptions necessary to do this were based on information in the original ECHP data.

universal child care benefit or in combination with reduced child care benefit for the first two months after the birth of the child.

The following table summarises the approach taken for zero- to three-year-old children:

**Table 8. Implementation of child care benefit**

Child aged (at least one)	Treatment
0	<p><u>assumption:</u> child born on 1 January 2003, mother out of labour force in 2003.</p> <p><u>approach:</u></p> <ul style="list-style-type: none"> <li>- receipt of child care benefit for twelve months, if mother was not working before birth</li> <li>- receipt of maternity benefit (“Wochengeld”) for two months and child care benefit for ten months, if mother was working before birth. If maternity benefit is lower than child care benefit, difference amount is received in the two months.</li> </ul> <p><u>implication:</u> any employment income, self-employment income or unemployment benefits of mother are set to zero</p>
1	<p><u>assumption:</u> taking up work and level of earnings as in 1998</p> <p><u>approach:</u> receipt of child care benefit for twelve months, if earnings of at least one parent are below earnings limit (otherwise no receipt).</p>
2	<p><u>assumption:</u> taking up work and level of earnings as in 1998.</p> <p><u>approach:</u></p>

	<ul style="list-style-type: none"> <li>- receipt of child care benefit for six months, if earnings of (exactly) one parent are below earnings limit</li> <li>- receipt of child care benefit for twelve months, if earnings of both parents are below earnings limit</li> </ul>
3	<p><u>assumption:</u></p> <p>child's third birthday on 1 January 2003.</p> <p><u>approach:</u></p> <p>no receipt of child care benefit</p>

Our approach, to put mothers with children aged 0 out of the labour force (on the average 6 months incl. maternity benefit ["Wochengeld"] before the birth of the child), can be justified by a study showing that women now chose to stay at home on the average 6 months longer (with the child care benefit) than under the former rules (with the parental leave benefit).<sup>22</sup> The child care benefit with the higher personal income limit causes only a small group of women to a quicker re-entry into the labour market. Considerably stronger is the arrestive effect on taking up employment by the prolongation of the of the possible duration of receipt of the benefit. Moreover, the aggregate outcomes of our simulation fit quite well with first official validation figures and estimates (cf. table 16). We therefore indirectly succeeded in considering the behavioural change (longer absence from the labour market) because of the new benefit rules.

#### 2.4.6 Child Care Benefit Supplement ("Zuschuss zum Kinderbetreuungsgeld",

IBEN\_MaterYadd\_AT

(2001: Maternity Allowance Supplement ["Zuschuss zum Karenzgeld oder zur Teilzeitbeihilfe"])

a) No spouse in the household and spouse is not maintaining child

Persons are eligible for this benefit if

- No spouse lives in the same household (*NotIsPartnerInHH1=2*), and

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<sup>22</sup> Out of the first 27 months after the birth of a child with parental leave benefit („Karenzgeld“) on the average there were 15 months benefit receipt without employment, with child care benefit there were 21,5 months without employment (WIFO 2003).

- The other parent does not maintain the child ( $le\_inc=2$ ,  $le\_inc\_IL=maintY$ ).

Persons are not eligible if they do not receive child care benefit ("Kinderbetreuungsgeld") ( $le\_inc1=-1$ ,  $le\_inc1\_IL=maternity\_ben$ ). The relevant benefit unit is the individual ( $TAX\_UNIT=individual$ ). The daily rate of the benefit is €6.06 ( $SingPay=6.06$ ). Receivers of the benefit are not allowed to earn more than € 3,997 per year (2001: € 296.21 per month [same limit as for parental leave benefit]).

#### b) Living with spouse

Persons are eligible for the benefit if they receive child-care-benefit ( $ge\_inc=1$ ,  $ge\_inc\_IL=1$ ), but eligibility is lost if supplement to child care benefit is already greater than zero in this unit ( $Tubenelig=-1$ ,  $TUbenelig\_name=cosim\_polout$ ). Persons are also not eligible if spouse is not living in the same household ( $NotIsPartnerInHH1=-1$ ). The income concept used for calculating means is  $longterm\_matben\_grossY$ . A yearly amount of € 7,200 ( $600*12$ ) (2001 € 426,08 per month) is disregarded for the spouse's income, and an additional €3,600 ( $300*12$ ) /year (2001: € 214,6 per month) for each dependent person in the family ( $disreg\_amt=600$ ;  $depend\_disreg\_amt=300$ ). The amount of the benefit is € 6.06 daily ( $SingPay=6.06$ ), which is suspended according to the same algorithm as in the case of single mothers (see above) if mother is working. Like single mothers, receivers of the benefit are not allowed to earn more than €3,997 per year (2001: €296.21 per month [same limit as for parental leave benefit]).

#### 2.4.7 Social Assistance Vienna ("Sozialhilfe Wien: Hilfe zur Sicherung des Lebensunterhaltes")

SBEN\_saW\_AT)

Social assistance rules are different in all provinces, but the (formal!) differences in the systems are mainly in the amount of means and disregard-values, that is why we describe here only the system of Vienna province (for details of other provinces see Parameter Sheet). Another point that has to be mentioned is that local authorities can exercise significant degrees of discretion in determining eligibility and amounts of social assistance. In the model we do not attempt to take into account these 'discretionary' dimensions.

Children, persons in education and recipients of minimum pension (incl. civil servants' minimum pension) are not eligible for social assistance ( $IsChild1=-1$ ,  $InEd=-1$ ,  $TUbenelig1=-1$ ,  $TUbenelig2=-1$ ,  $TUbenelig1\_name=at\_iben\_minpen$ ,  $TUbenelig2\_name=at\_iben\_minpenCS$ ). The income concept used for calculating means is  $sben\_meansW$  (see details in the Income List). The means is summed up with capital income ( $capital\_il=SBEN\_capital$ ) for which € 390.33



(2001: 365) are disregarded for non-long-term recipients, € 3,036,3 (2001: 2,180) for long-time-recipients living alone and €4,331,90 (2001: 2,906.91) for cohabiting long-time-recipients. Social assistance is €390.33 (2001: 379.35) per month (*SingPay=390.33*) for singles and €380.55 (2001: 369.83) for supported people with family. If there are dependent persons in the family, the benefit is higher by €195,47 2,614 (2001: 189.97) if this person does not receive child benefit, by €117.03 (2001: 113.73) if this person receives child benefit. The benefit unit is the family (*CB\_family*, including dependent adults).

Disabled family heads or family heads in pension-age (males above 65, females above 60) receive a monthly flat amount of €216.93 (2001: 210.82) if the benefit unit contains one person; the amount of the supplement is €290.36 (2001: 282.19) /month in case of a more-person benefit unit. In this cases the benefit is also paid 14 times a year instead of 12 times. However, with these two additional payments the need for rent and heating is covered. Families who receive Social Assistance only 12 times a year and “need” rental and/or heating support, receive additional amounts. The upper-limit of rental support is €242.36 (2001: 235,53) /month for 1-2 persons, € 256.65 (2001: 249.41) /month for 3-4 persons, €279.98 (2001: 272.09) /month for 5-6 persons and €303.31 (2001: 294.76) /month for seven or more persons, the heating support is €38,12 /month (for seven months €65.35/month) (2001: 37.05/month [for seven months 60.17/month]).

2.4.8 *Newborn health check bonus ("Mutter-Kind-Pass-Bonus", SBEN\_CBB\_AT)*: abolished with the introduction of the child-care-benefit (“Kinderbetreuungsgeld”) in 2002.

2.4.9 *Small children benefit ("Kleinkindbeihilfe" SBEN\_SCB\_AT)*: abolished with the introduction of the child-care-benefit (“Kinderbetreuungsgeld”) in 2002.

2.4.10 *Family Bonus - Vienna ("Wiener Familienzuschuss", SBEN\_fambonW\_AT)*

In this section we describe family bonus rules in Vienna province, which (in its logic) is similar to the rules of other provinces, so we do not provide detailed description of other provinces here (for details see Parameter Sheet).

Austrian citizens living in Vienna for at least one year or other persons living more than 3 years in Vienna (*Eq\_Var1=2, Eq\_Var1\_name=atPROVNC, Eq\_Var1\_lt=1*), receive family bonus after children between the age of 1 and 2 (*ge\_chage=1, le\_chage=2*).

Recipients get different amount depending on the per capita equivalised net income of the family (the income concept *fambonW\_netY* is used, for details see Income List). The equivalence scale is the following: 1 for the first adult, 0.8 for other adults, 0.5 for each child, an additional weight of 0.35 is used if the head of unit (*CB\_Family*) is a lone parent. Table 9 below, gives the per capita upper limits for the net income and the amount of family bonus received.

**Table 9. Per capita upper limits for net income and received family bonus Vienna**

Per capita upper limit for net income (€month)	Amount of family bonus (per family)
334.30	152.61
341.56	142.44
356.10	132.26
370.63	122.09
385.17	111.92
399.70	101.74
414.24	91.57
428.77	81.39
443.30	71.22
457.84	61.05
508.71	50.87

#### 2.4.11 Child benefit ("*Familienbeihilfe*", *SBEN\_CB\_AT*)

Families receive child benefit for each child in the family (child must be under 18, if he/she is older than 18 but under 26, then must be in full time education or disabled, *TAX\_UNIT=CB\_Family\_age25hl*). The amount of child benefit is € 105.40 /month until children's age of 2; from 3 to 9 the benefit is € 112.70 (2001: children 0-9 € 105.38) from 10 to 18 the benefit is € 130.90 (2001: 123.54), and families with children between 19 and 25 receive a monthly amount of € 152.70 (2001: 145.35). For every 2<sup>nd</sup> child, a supplement of € 12.8/month, for every 3<sup>rd</sup> and further child an additional of € 25.5/month is added to the benefit. There is also a means-tested More-Children-Supplement: if the taxable income of the family is less than € 39,240 (2001: 37,673.6) /year, the family receives for every 3<sup>rd</sup> and further child a supplement of € 36.4 (2001: 29.07) /month. Finally, if the children is disabled, an additional € 138.3 (2001: 130.81) /month is added to the benefit.

### **3. Data**

#### **3.1 General description**

The dataset used for EUROMOD is the Austrian version of the European Community Household Panel (Production Version), provided by the Interdisciplinary Centre for Comparative Research in the Social Sciences (IFS/ICCR), Vienna.

The Austrian panel was started in 1995 after the country entered the European Union (it is the only household panel in the country). The sample was designed by Statistics Austria (STATA), while the fieldwork was done by two public opinion research institutes, IFES and FESSEL (Giorgi 1996).

For EUROMOD, we use the fifth Austrian wave (1999) containing income information pertaining to 1998 (uprated to 2003; see below). The dataset contains comprehensive information about labour market situation, living- and income condition of Austrian households. The panel follows about 3-4.000 households with 8-9.000 individuals. The questions regarding to labour market information and income situation are asked from the household members aged 16 or over.

#### **3.2 Sample selection, weighting**

As mentioned above, the sampling was designed and drawn by STATA: it is a multistage stratified random sample. The data were collected between October 1999 and February 2000 and contain information about 7,386 individuals in 2,677 households. The detailed description of EUROMOD variables and their source variables from ECHP can be found in Annexes A and B.

The weighting was done by EUROSTAT following the Iterative Proportional Fitting Method of Demming (Giorgi 1996) in four stages. First the design weights were computed to correct the differences in selection probabilities, then non-response weights were added. During the third stage the households weights were calculated, using the following classification variables: household type and size, type of community, tenure, number of economically active persons, distribution of economically active population aged 16 or more. Finally the individual correctional weights were associated with the previous weights to adjust the distribution of the population at the individual level according to age, gender, education and occupational level.

### 3.3 Net to gross conversion

For calculating gross values from net income data, we followed different approaches for different income components. A description of the ‘grossing-up’ methods can be found in Annex A.

### 3.4 Uprating factors 1998-2003

Table 10 presents the income components and the corresponding uprating factors used:

- consumer price index 1998-2003: used for gross private pension benefit payments (coPRVPEN) and as default uprating factor
- employment income index (development of median of unstandardised gross income of employees [white collar workers, blue collar workers, public contractors and civil servants]) 1998-2002; development 2002-2003 assumed like development 2001-2002: used for employment income (coEMPY), maintenance income (coMAINTY), other private transfers received (coPRVTRN), lump sum income (coLUMPY), other regular primary income (coOTHERY), pension contributions (coPENCON), other earnings („Sonstige Bezüge; atOTHEAR), redundancy payments (atREDUND), sickness benefit (atSICBEN), maternity payments (coMATERY/atPREGNC) and atWOCHENGELD<sup>23</sup>
- self employment income index (development of median of income from business enterprises and self-employed-work 1998-2000<sup>24</sup> times development of median of unstandardised gross income of employees 2000-2003 [see above]): used for self employment income (coSLFEMY)
- investment income index (development of secondary market rate of return [“Sekundärmarktrendite”]) 1998-2003: used for investment income (coINVY)
- rent index (development of accomodation-cost per square meter) 1998-2002, development 2002-2003 assumed like development 2001-2002: used for property income (coPROPY),

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<sup>23</sup> The variables coMATERY and atPREGNC consist both of pregnancy benefit (“Wochengeld”) and allowance for parental leave (“Karenzgeld”). In 2003, because of the simulated child care benefit, only pregnancy benefit is relevant. To assess the height of the pregnancy benefit we had to split the combined variables. The assumptions necessary to do this were based on information in the original ECHP data.

<sup>24</sup> Only data for 2000 available yet.

- rent (coRENT), compulsory service charges (coSVCHRG), other housing costs (coOHCOST), and imputed rent (coIMPRNT)
- dividend rate of return index (average dividend rate of return) 1998-2003: used for income from company shares received (atCOMP)
  - unemployment income index (development of median of unemployment benefit [“Arbeitslosengeld”]) 1998-2003: used for unemployment benefit (atUNEMPY)
  - unemployment assistance index (development of median of unemployment assistance [“Notstandshilfe”]) 1998-2003: used for unemployment assistance (atUNEMPB)
  - pension index (average adjustment of pensions) 1998-2003: used for social insurance pensions (atSIBPEN), civil servant’s pensions (atCIVPEN), early retirement pensions (atEARPEN), other old age related schemes or benefits (atSPCPEN), invalidity pensions (atINVPEN) and survivor pensions (atSURPEN)<sup>25</sup>
  - caring benefit („Pflegegeld“; atCARE) has not been increased between 1998 and 2003, so a factor of 1 is used.
  - mortgage interest index (average interest rate on mortgage loans) 1998-2002, development 2002-2003 assumed like development 2001-2002: used for mortgage interests (coMORINT)

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<sup>25</sup> For supplementary pensions („Ausgleichszulage“/“Ergänzungszulage“; atWELPEN), 13./14minimum pension payments (atOTHWEL), special pension payments (atOTHPEN), and survivors means tested pension scheme („Ausgleichszulage“/“Ergänzungszulage“ Hinterbliebene; atWELWID) and uprating factor of 1 is „used“ due to the fact that uprating is not necessary because those benefits are either simulated or calculated with other variables.

**Table 10. Uprating factors 1998-2003**

default	all	1,090 Consumer Price Index
coEMPY	pers	1,084 Employment Income Index (98-02; development 02-03 assumed like development 01-02)
coSLFEMY	pers	1,076 Self-Employment Income Index 98-00 * Employment Income Index 00-03
coINVY	pers	1,241 Investment Income Index
coPROPY	pers	1,109 Rent Index (98-02; development 02-03 assumed like development 01-02)
coMAINTY	pers	1,084 Employment Income Index
coPRVTRN	pers	1,084 Employment Income Index
coLUMPY	pers	1,084 Employment Income Index
coOTHERY	pers	1,084 Employment Income Index
coPRVPEN	pers	1,090 Consumer Price Index
coPENCON	pers	1,084 Employment Income Index
atOTHEAR	pers	1,084 Employment Income Index
atCOMP	pers	1,119 Dividend Rate of Return Index
atREDUND	pers	1,084 Employment Income Index
atUNEMPY	pers	1,028 Unemployment Benefit Index
atUNEMPB	pers	1,019 Unemployment Assistance Index
atSIBPEN	pers	1,051 Pension Index
atCIVPEN	pers	1,051 Pension Index
atWELPEN	pers	1 don't update
atOTHWEL	pers	1 don't update
atEARPEN	pers	1,051 Pension Index
atOTHPEN	pers	1 don't update
atSPCPEN	pers	1,051 Pension Index

atINVPEN	pers	1,051 Pension Index
atWELWID	pers	1 don't update
atSURPEN	pers	1,051 Pension Index
atSICBEN	pers	1,084 Employment Income Index
atCARE	pers	1 Caring Benefit Index
coMATERY	pers	1,084 Employment Income Index
coRENT	hh	1,109 Rent Index
coSVCHRG	hh	1,109 Rent Index
coOHCOST	hh	1,109 Rent Index
coIMPRNT	hh	1,109 Rent Index
atPREGNC	pers	1,084 Employment Income Index
atWOCHEN- GELD	pers	1,084 Employment Income Index
coMORINT	hh	1,305 Mortgage Interest Index (98-02; development 02-03 assumed like development 01-02)

## 4. Validation

The output was produced with EUROMOD version 24A.

### 4.1 Aggregate validation

#### 4.1.1 Distribution of employment income

Since employment income is a main source for the simulation we present here two tables (11 and 12) that allow us to make comparisons with official income statistics<sup>26</sup>. In the EUROMOD database mean of gross employment income is €2,482 /month for males, €1,448 for females and €2,056 for both genders.<sup>27</sup> Reference values are not available yet.

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<sup>26</sup> In the Data Requirement Document we present the descriptive statistics of variables used in EUROMOD database. For the EUROMOD-income variables, the figures in the tables are the values from the ECHP for 1998 updated to 2003.

<sup>27</sup> 1/12 of the annual employment income.

#### 4.1.2 Distribution of pension income

Table 14 shows the distribution of pensioners' yearly gross income by gender. Reference statistics are not available yet.

#### 4.1.3 Distribution of household income

As many benefits are means-tested and depend on the (equivalised) household-income, table 13 shows the net-household-incomes by number of children in household generated by EUROMOD. Reference statistics are not available yet.

#### 4.1.4 Validation of simulated tax/benefit components

Since for Austria, EUROMOD is the first microsimulation model we can compare our simulated components only to reference sources, namely to available official statistics. In some cases the reference statistics are accessible yet, in some cases it will be in the near future (with the exception of a few components). The results of our simulation and the number of tax/social insurance contribution-payers respective benefit receivers are shown in tables 15 and 16.

For *unemployment insurance contributions* (only non-civil servants and their employers pay this contributions) we estimate 91% of the real sum of contributions paid.

For *pension insurance contributions for employees* (excl. civil servants and voluntary contributions) in EUROMOD we simulate 85% of the contributions paid. This ratio is based on the sum of employees' and employers' contributions. The reference statistics include contributions from "Ausgleichsfonds" which are not fully funded by pension insurance contributions.

For *health insurance contributions for employees* (incl. civil servants), *unemployed and pensioners* the ratio of simulated and actual sum of contributions is 110%. The reference statistics exclude funds from "Ausgleichsfonds" which are partly funded by health insurance contributions. A further explanation for the gap might be the over-estimated number of people on minor wages and the resulting overestimation of employer-contributions on minor wages, which is 3.85%.

For the simulated results of *self-employed contributions to pension insurance* (69% of real contributions) the usual under-reporting problem of self-employment has to be considered. Also, the reference statistics include contributions from "Ausgleichsfonds" which are not fully funded by pension insurance contributions. Further reasons for the under-estimation might be due to the fact



that we cannot identify whether someone is a member of the Austrian Economic Chamber (a higher threshold would apply for members, see for details the system description). In addition we assumed every farmer as “Betriebsführer”, for whom both threshold and upper limit are much higher. In the other direction go the facts, that we do not take into account “Weiterversicherung” in BSVG, GSVG and FSVG and that we assume all self-employed people not to pay a special contribution for a birth-related benefit (“Betriebshilfe” 0.05%), which in reality applies for a particular subgroup.

The *contributions of self-employed to health insurance* are also under-estimated (62%), mainly explained by the fact that we underestimate the number of contribution payers by more than 40%.<sup>28</sup>

*Contributions to disability insurance* (paid by employers and self-employed) are underestimated by approximately 3%.

The *employers’ contributions to family benefit funds* (only paid by employers of non-civil servants) are underestimated by 13%.

Concerning validation of benefits, the results are as follows:

The model results for *child benefit* (“Familienbeihilfe”) are satisfactory: the over-estimation is a bit more than 3%.<sup>29</sup> This result, together with the number of recipients suggests that the number of children is close to reality in the EUROMOD data.

For *child bonus for non-civil servant pensioners* (“Kinderzuschuss” ASVG), EUROMOD over-estimates expenditure by large (42%). This benefit is tied to receipt of pension.

Expenditure on *minimum pension top-up for non-civil servants* (“Ausgleichszulage”) is over-estimated in EUROMOD by 51%, but the number of recipients is 80% more, than in reality. This may suggest, that in EUROMOD data there are more pensioners with pensions around the minimum pension level.<sup>30</sup>

For the in 2002 introduced *child care benefit* (“Kinderbetreuungsgeld”) we simulate 80% of real costs in 2003. However, it is possible that the reference statistics include also the supplement to

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<sup>28</sup> From 1998 to 2001, the number of contribution-payers of health insurance for self-employed increased substantially from 287,000 to 417,000.

<sup>29</sup> For reference figures on expenditure we have only data excl. federal and regional authorities (Gebietskörperschaften/Selbstträger).

<sup>30</sup> There exists a serious data problem in the ECHP, as is not really identifiable what is pension and what is minimum pension top up.

child care benefit. The number of recipients fits quite well. As we assume full implementation of the child care benefit we have in any case to wait for reference statistics of the end of 2004.

Due to the fact, that in our data there is no civil servant pensioner eligible for *child bonus for civil servant pensioners* (“Kinderzulage” PG) or *minimum pension for civil servants* (“Ergänzungszulage”), we could not simulate those benefits.

**Table 11. Summary statistics of employment income 2003 in EUROMOD database\* in €**

	Males	Females	All
Mean	2,482	1,448	2,056
Median	2,226	1,309	1,867
Std.			
Deviation	1,562	970	1,443
Minimum	16	12	12
Maximum	14,908	5,311	14,908
Skewness			
Kurtosis			

**Table 12. Deciles values of gross employment income in EUROMOD database and reference statistics for 2003\* in €**

Decile points	EUROMOD - males	Reference - males	EUROMOD - females	Reference - females	EUROMOD - all	Reference - all
1 <sup>st</sup>	679		276		449	
2 <sup>nd</sup>	1,371		580		843	
3 <sup>rd</sup>	1,743		832		1,197	
4 <sup>th</sup>	1,978		1,060		1,610	
5 <sup>th</sup>	2,226		1,309		1,867	
6 <sup>th</sup>	2,537		1,586		2,130	
7 <sup>th</sup>	2,885		1,820		2,499	
8 <sup>th</sup>	3,527		2,275		2,910	
9 <sup>th</sup>	4,398		2,759		3,844	

\* 1/12 of annual income. Incl. apprentices and minor wages. Euromod: updated values from 1998 to 2003. Reference statistics not available yet.

**Table 13. Net-household-income (€ annual divided by twelve) by number of children in household in EUROMOD database and reference statistics for 2003**

	All households		0 children* in household		1 child in household		2 children in household		3 children in household	
	Reference '03	Euromod '03	Reference '03	Euromod '03	Reference '03	Euromod '03	Reference '03	Euromod '03	Reference '03	Euromod '03
<b>Unequivalised</b>										
N		3,238,520		2,195,260		471,417		432,773		139,070
Quartile Point 1		1,380		1,190		1,876		2,223		2,518
Median		2,157		1,767		2,684		2,797		3,105
Quartile Point 3		3,078		2,775		3,617		3,587		3,811
Mean		2,468		2,185		2,954		3,060		3,439
<b>Equivalised ("modified" OECD: 1/0.5/0.3)</b>										
N		3,238,520		2,195,260		471,417		432,773		139,070
Quartile Point 1		1,033		1,013		1,083		1,057		944
Median		1,354		1,375		1,392		1,261		1,174
Quartile Point 3		1,778		1,828		1,735		1,578		1,371
Mean		1,359		1,534		1,498		1,360		1,246

\* Child definition according to child benefit: persons under 18 and pupils, students and apprentices  
Reference statistics not available yet

**Table 14. Pensioners' Gross income received by residents in Austria (€year) in  
EUROMOD database and reference statistics 2003**

	<b>Reference '03</b>	<b>EUROMOD '03</b>
<b>All</b>		
N		1,756,144
Quartile Point 1		9,253
Median		13,713
Quartile Point 3		21,095
Mean		17,466
<b>Men</b>		
N		779,022
Quartile Point 1		13,693
Median		17,997
Quartile Point 3		26,173
Mean		22,851
<b>Women</b>		
N		977,122
Quartile Point 1		8,762
Median		9,443
Quartile Point 3		15,238
Mean		13,173

Sources: EUROMOD  
Reference statistics not available yet.

**Table 15. Comparison of simulated taxes/contributions with external sources 2003**

Taxes and contributions simulated (€million/year)	EUROMOD (a)	External source* (b)	Ratio (a)/(b)	EUROMOD N (1,000) (d)	External source N (e)	Ratio (d)/(e)
Unemployment insurance contributions	3,702	4,052 (1)	0.91	2,496		
Pension insurance employees (excl. civil servants and voluntary contributions)	13,873	16,286 (2)	0.85	2,494	2,741	0.91
Pension insurance self-employed	1,010	1,469 (3)	0.69	286	477 (4)	0.60
Health insurance employees (excl. voluntary contributions)	8,737	7,955 (5)	1.10	4,643	5,388 (6)	0.86
Health insurance self-employed	535	868 (7)	0.62	248	417	0.59
Housing subsidy contributions	641			2,917		
Employees' compulsory union contributions	236			2,224		
Contribution to disability (accident) insurance	1,055	1,093 (8)	0.97	3,489	4,412 (9)	0.79
Employers' contribution to family benefits fund	2,954	3,386	0.87	2,815		
Employers' contribution to bankruptcy fund	426			2,496		
Income tax	17,071			3,681		
Tax on investments	132			937		

(1) Contributions from employees and employers; inkl. BMLV (Ministry for National Defense) and assurance contributions ("Sicherungsbeiträge"); without border crossers ("Rückersätze AIV-Abkommen Grenzgänger), refunding EWR-treaty ("Erstattungen EWR-Vertrag")

(2) Contributions from employees and employers, incl. €3,560 Mio. contributions from Ausgleichsfonds

(3) Contributions from self employed, tradesmen, farmers and notaries incl. €149 Mio. contributions from Ausgleichsfonds

(4) Self employed, tradesmen, farmers and notaries

(5) Contributions from employees and employers, excl. funds from Ausgleichsfonds

(6) Incl. unemployed, receivers of child care benefit ("sonstige Versicherte" together 288,473) and pensioners

(7) Contributions from self employed, tradesmen and farmers; excl. funds from Ausgleichsfonds

(8) Contributions from employers and self employed

(9) Employees and self employed; without students, pupils

Sources: Hauptverband der österreichischen Sozialversicherungsträger 2004a, Hauptverband der österreichischen Sozialversicherungsträger 2004b, AMS 2004, Kammer für Arbeiter und Angestellte 2004

**Table 16. Comparison of simulated benefits with external sources 2003**

Benefits simulated (€million/year)	EUROMOD (a)	External source * (b)	Ratio (a)/(b)	EUROMOD N (1,000) (d)	External source N (e)	Ratio (d)/(e)
Child benefit	2,963	2,887 (1)	1.03	1,100	1,094 (2)	1.01
Child bonus for pensioners (non-civil servants)	34	24	1.42	62		
Child bonus for pensioners (civil servants)	0			0		
Child care benefit	732	915 (3)	0.80	140	154 (4)	0.91
Supplement to child care benefit	62			28	14	2.00
Family bonus	22			15		
Minimum pension top-up (non-civil servants)	1,192	792	1.51	411	228 (5)	1.80
Minimum pension top-up (civil servants)	0			0		
Social assistance	445			126		

(1) Excl. federal and regional authorities (Gebietskörperschaften/Selbstträger)

(2) Receivers incl. federal and regional authorities (Gebietskörperschaften/Selbstträger); Children incl. Selbstträger: 1,832

(3) Incl. adjusted parental leave benefit and allowance for re-entry into labour market; possibly incl. supplement to child care benefit; as we assume full implementation of the child care benefit, figures should be compared to reference statistics for the end of 2004.

(4) January 2004: Receivers of child care benefit and adjusted parental leave benefit; as we assume full implementation of the child care benefit, figures should be compared to reference statistics for the end of 2004.

(5) incl. widows, orphans.

\* Sources: Hauptverband der österreichischen Sozialversicherungsträger 2004a, Kammer für Arbeiter und Angestellte 2004

The number of civil servants in the EUROMOD database might also play an initial role in how simulated contributions fit to the real figures. To explain the differences in the number of civil servants between our database and the reality, we have to clarify what we mean under the term ‘civil servant’. In the EUROMOD dataset we use the following definition of civil servants: all persons who were employed in the public sector in the year 1998 and all other persons (including students, inactive and pensioners population), who ever had been civil servants. This definition is necessary in order to simulate benefits and some contributions paid by for former civil servants. Table 17 shows the distribution of civil servants in the EUROMOD database according to employment status. We can see that approximately 470,000 persons are employed as civil servants; the remaining almost 10,000 people belong to other employment statuses. The number of currently employed civil servants seems to be too high in comparison to the official statistics, where the reference figure is 363,597 (Hauptverband der österreichischen Sozialversicherungsträger 1999, 22). This over-estimation of the number of civil servants means that we underestimate non-civil servant employees, and as a result we might over- or underestimate contributions where civil- and non-civil servants pay according to different rules.

**Table 17. Distribution of civil servants in EUROMOD database according to employment status 1998**

	Non-civil servant	Civil servant	Total
Pre-school	556,947	0	556,947
Farmer	162,612	0	162,612
Employer or self-employed	206,629	0	206,629
Employee	2,636,433	467,729	3,104,162
Pensioner	1,674,133	4,516	1,678,649
Unemployed	127,671	0	127,671
Student, Pupil	1,258,846	1,917	1,260,763
Inactive	672,916	3,055	675,971
Sick/Disable	14,994	0	14,994
Other	151,183	419	151,602
<b>Total</b>	<b>7,462,364</b>	<b>477,636</b>	<b>7,940,000</b>



## 4.2 Income distribution and poverty estimates

The EUROMOD estimates will be compared with other calculations based on EU-SILC as soon they are available.

**Table 18. Income distribution and poverty comparisons 2003**

	EUROMOD <sup>31</sup>	Ref. Stat.
<b>Overall population</b>		
Gini-coefficients of EDI	0.22	
<b>“Poor” population<sup>32</sup></b>		
Gini-coefficients of EDI	0.09	
<b>Overall population</b>		
Decile points (equ. €month; 1/12)		
1 <sup>st</sup>	11,476	
2 <sup>nd</sup>	13,782	
3 <sup>rd</sup>	15,436	
4 <sup>th</sup>	17,131	
5 <sup>th</sup>	18,729	
6 <sup>th</sup>	20,552	
7 <sup>th</sup>	22,846	
8 <sup>th</sup>	25,826	
9 <sup>th</sup>	31,457	
<b>Overall population</b>		
Poverty line (60% of the median)	11,238	
Below 60% of median	9.5%	
Poverty deficit <sup>33</sup> (bn €year)	12,51	
Poverty line (50% of the median)	9,365	
Below 50% of median	3.4%	
Poverty line (70% of the median)	13,111	
Below 70% of median	17.0%	

<sup>31</sup> EUROMOD simulations are based on 1998 income data from ECHP, updated to 2003. Household disposable income is equivalised using modified OECD scale (1-0.5-0.3). Poverty rates refer to individuals.

<sup>32</sup> “Poor” households have per-capita household disposable income below 60% of the median.

<sup>33</sup> Poverty deficit is the mean difference of disposable income of poor from the poverty line multiplied with persons concerned.

**Table 19. Poverty headcounts by age and gender 2003**

	EUROMOD <sup>34</sup>		Ref. Stat.	
	Men	Women	Men	Women
<b>Age 0-19</b>				
Below 50% of median	3.7%	3.9%		
Below 60% of median	7.7%	9.9%		
Below 70% of median	17.1%	19.4%		
<b>Age 20-59</b>				
Below 50% of median	3.4%	3.2%		
Below 60% of median	5.9%	7.6%		
Below 70% of median	11.1%	14.3%		
<b>Age 60+</b>				
Below 50% of median	2.4%	3.6%		
Below 60% of median	14.1%	20.7%		
Below 70% of median	22.8%	30.7%		

<sup>34</sup> EUROMOD simulations are based on 1998 income data from ECHP, updated to 2003. Household disposable income is equalised using modified OECD scale (1-0.5-0.3). Poverty rates refer to individuals.

**Annex A : Database Documentation, Data Requirements for EUROMOD**

**Annex B : EUROMOD Database Robustness Assessment Exercise (DRAE)**

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