

## Work (dis)incentives

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The given system of taxes and social benefits affects the labour market through its impact on labour costs and incentives to work for different groups. Tax and benefit systems differ widely across the EU-27. What makes work pay? - This question has been highly discussed over the last years.

The paper provides the latest data on indicators addressing work incentives and disincentives in comparison to the EU-27 and reviews expert opinions.

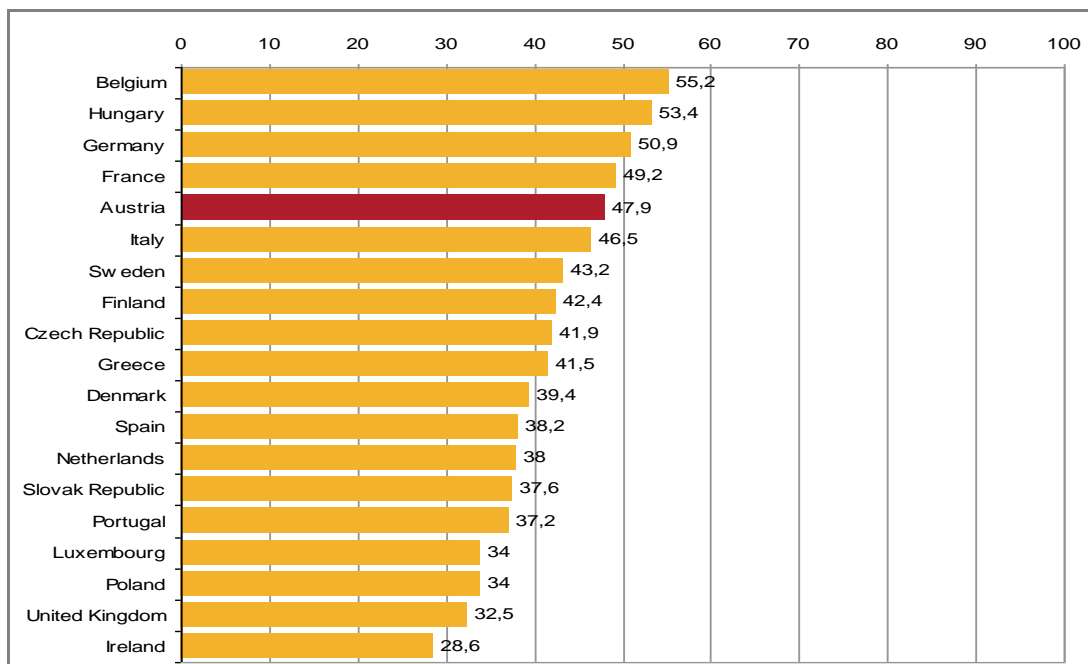
## 1 Tax wedge on labour cost

Compared to other OECD countries, Austria has a relatively high tax and social security burden on labour income. The average tax wedge (the proportional difference between the costs of a worker to the employer (wage and social security contributions, i.e. the total labour cost) and the amount of net earnings that the worker receives (wages minus personal income tax and social security contributions, plus any available family benefits) is more than 5 percentage points higher than the EU average.

In 2009, the tax wedge in Austria for an average earner (100% AW) amounts to 47.9%, in the case of 67% of AW to 43.3%. Compared to 2008, this equates to -1 percentage points (67% AW) and -0.9 percentage points (100% AW) due to a tax reform (see below). Nevertheless, in a mid-term perspective (2001 - 2009), in both cases the tax wedge increased slightly (1 percentage points 100% AW; 0.5 percentage points 67% AW).

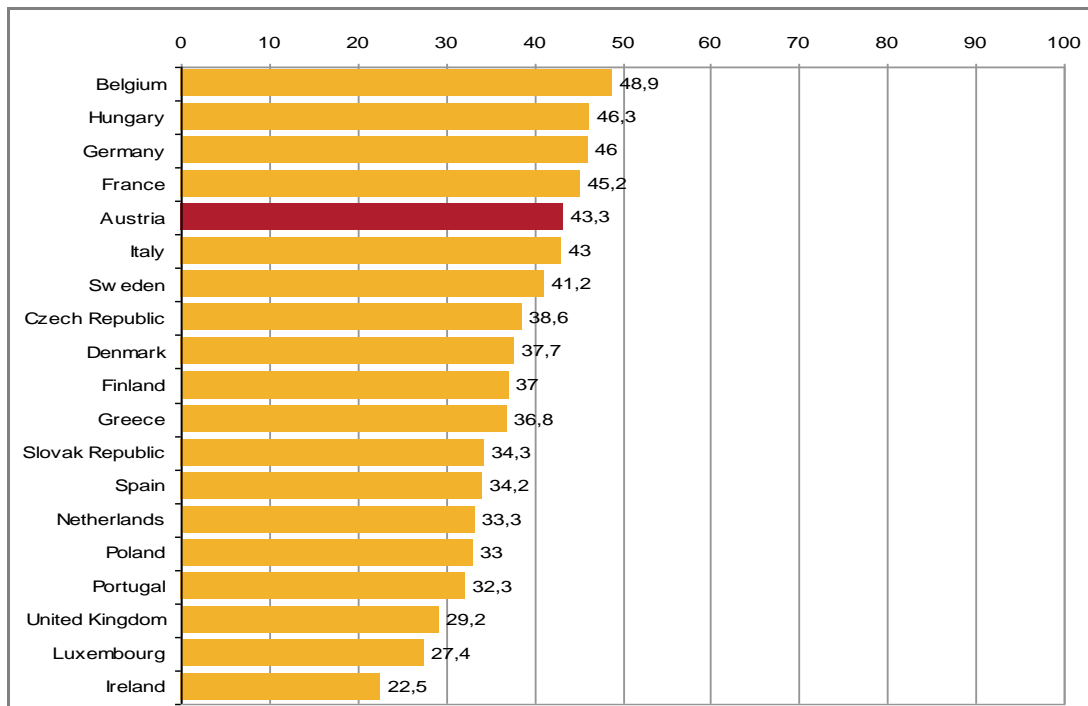
Compared to other EU-countries, especially the Social Security Contributions of Employees are quite high (see Figure 3). This is not true to the same extent in the case of Social Security Contributions of Employers and Personal Income Tax.

**Figure 1: Tax wedge on labour: Single person without children, 100% of AW across countries, 2009**



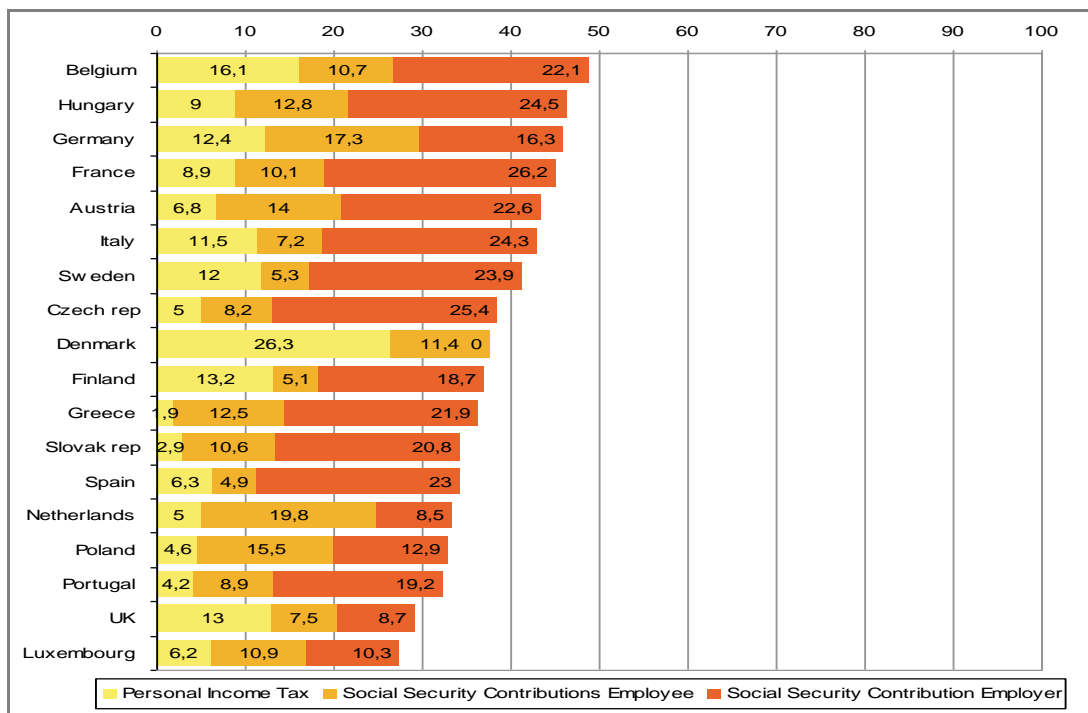
Source: Tax & benefits indicators DATABASE, European Commission, DG Economic and Financial Affairs (ECFIN), DIRECTORATE B; \* missing countries = no data available yet

**Figure 2: Tax wedge on labour: Single person without children, 67% of AW across countries, 2009**



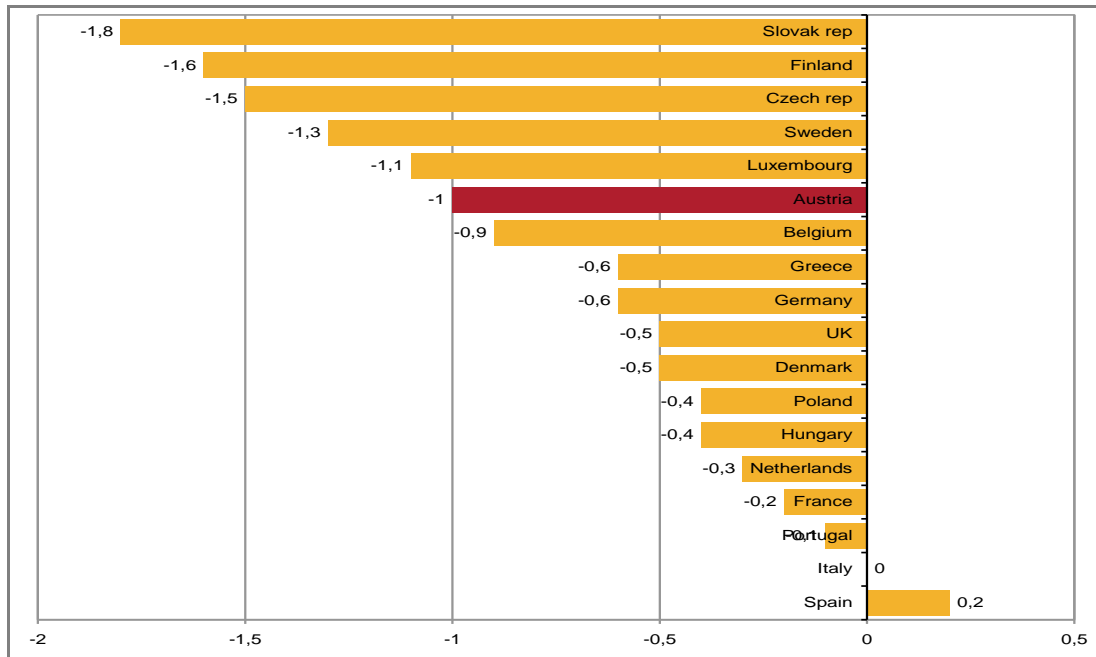
Source: Tax & benefits indicators DATABASE, European Commission, DG Economic and Financial Affairs (ECFIN), DIRECTORATE B; \* missing countries = no data available yet

**Figure 3: Tax wedge on labour for the low-wage worker (67% of AW) and its components, 2009**



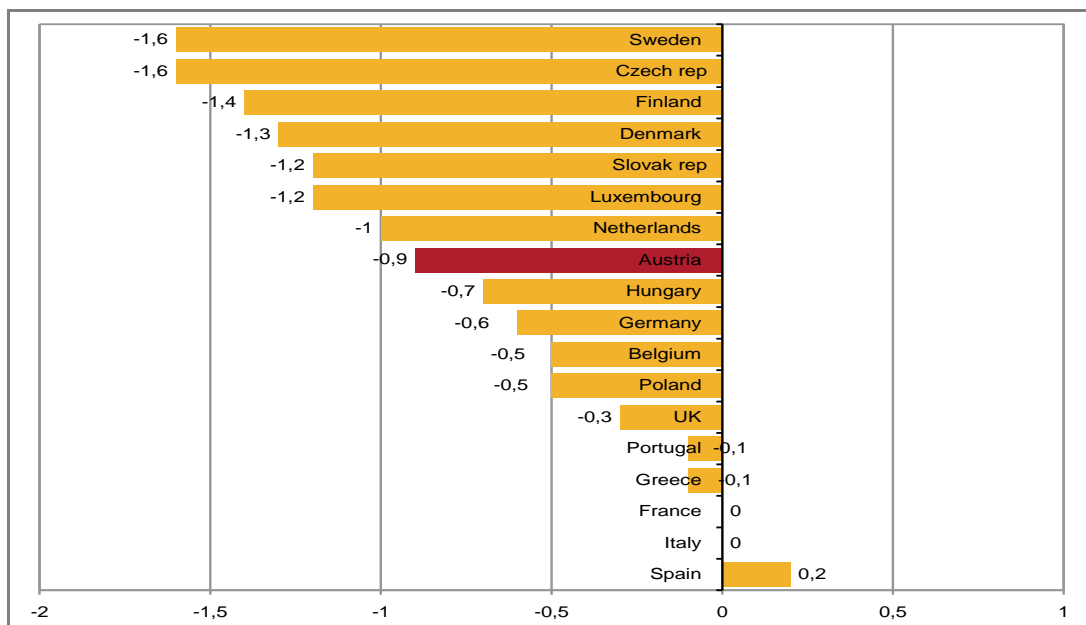
Source: Tax & benefits indicators DATABASE, European Commission, DG Economic and Financial Affairs (ECFIN), DIRECTORATE B; \* missing countries = no data available yet

**Figure 4: Tax wedge on labour for the low-wage worker (67% of AW), Difference 2008 - 2009**



Source: Tax & benefits indicators DATABASE, European Commission, DG Economic and Financial Affairs (ECFIN), DIRECTORATE B; \* missing countries = no data available yet

**Figure 5: Tax wedge on labour for the low-wage worker (100% of AW), Difference 2008 - 2009**



Source: Tax & benefits indicators DATABASE, European Commission, DG Economic and Financial Affairs (ECFIN), DIRECTORATE B; \* missing countries = no data available yet

## Tax Reform 2009

The tax reform 2009 mentioned before leads to a decrease in the tax wedge. In the given context, especially the increase of the zero bracket from EUR 10,000 to EUR 11,000 (*Steuerfreigrenze*) could be highlighted. In addition, a reduction of the income tax rates and an upward shift of the top brackets have been introduced. The reform brought also several measures for families with children as for example the deductibility of child care fees (to a maximum amount of EUR 2,300 per child and year). People, who don't pay income tax (i.e. less than EUR 11,000 per year) cannot benefit from this measure. In contrast, the children tax credit (EUR 58.40 per child and month) can be paid as a negative tax in the case that the respective person does not pay income tax due to low income.

Already in 2008, the Austrian government decided new rules regarding the unemployment insurance contributions of low wage earners. Employees are exempted from paying insurance contributions if their monthly gross wage is below EUR 1,179. In the case of incomes between EUR 1,180 and EUR 1,447 the insurance contribution rate is reduced.

## 2 Marginal effective tax rates (METRs)

Measuring financial incentives to work are calculated in form of marginal effective tax rates (METRs). METRs show what part of a change in earnings is "taxed away" by the combined operation of taxes, social security contributions (SSC) and any withdrawal of earnings-related social benefits. Benefits included in the indicators are: family benefits, social assistance, housing benefits and unemployment benefits (see for the methodology more detailed e.g.: Carone et al. 2004)

Three different types of METR are commonly used. They are indicators for determining how financially desirable it is for an employee to increase working hours (low wage trap) or for an unemployed (unemployment trap) / inactive person (inactivity trap) to take up employment in the first place. These indicators are calculated for different family types and different earnings levels.

When looking at these indicators one should bear some important limitations in mind:

- METRs provide information's for one particular defined set of specific circumstances.
- Individual decisions of working or not working are probably not determined primarily by the size of benefits and taxes.
  - Benefits recipients (unemployment benefits, social assistance) underlie job search obligations.
  - Furthermore available workplaces, reconciliation of work and family life, the individual health situation etc. are crucial factors in this context.
- The METRs does not show the labour market performance as a whole. As can be seen in the charts in this paper, countries with labour market indicators below EU-average may have comparatively positive METR results. For example, Slovakia and Austria both ranked quite well in the unemployment trap indicator, but the unemployment rate is very different. Austria faces the second lowest unemployment

rate compared to the EU-27 (4.8% in 2009), while Slovakia is fifth to last (12% in 2009).

In the following description of the METR we focus on low-wage earner. A METR value of 100 indicates that an increase in earnings leads to no additional net income. A value bigger than 100 indicates that net earnings decrease as working hours increase. Negative METR occur in such cases where the increase in net incomes exceeds the amount of additional earnings. This is true for example in the context of in-work benefits or in cases, where social security contributions are no longer compulsory once earnings exceed a specific level.

### **The low-wage trap**

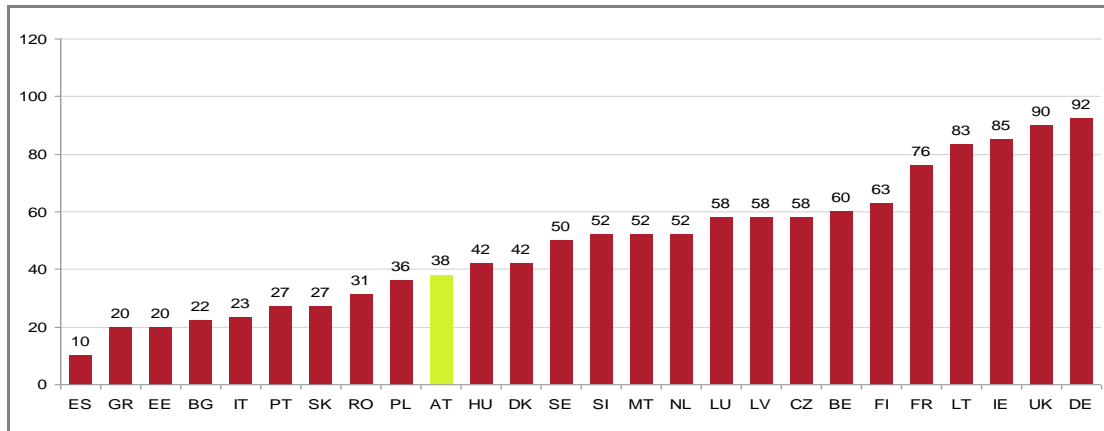
The low-wage trap is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise due to an increase in work productivity. This kind of trap is most likely to occur at relatively low wage levels due to the fact that the withdrawal of social transfers (e.g. social assistance), which are available only to persons with a low income, adds to the marginal rate of income taxes and social security contributions. It refers to a situation where an increase in gross incomes fails to translate into a net income increase. Therefore it measures the financial incentive to improve a household's income situation by increasing earnings (through increasing working hours).

The figures (see below) show for selected household types how much of a given rise in earnings is taken away in the form of higher tax and/or lower welfare benefits. The used assumption is a move from 33% to 67% of the average workers (AW). This could be understood as corresponding to a switch in working hours from 33% to 67% of full-time.

A comparison with the EU-27 has some limitation, on the one hand average data for the EU-27 in total are not published yet, on the other they are generally not published for the wide range of different income and household situations.

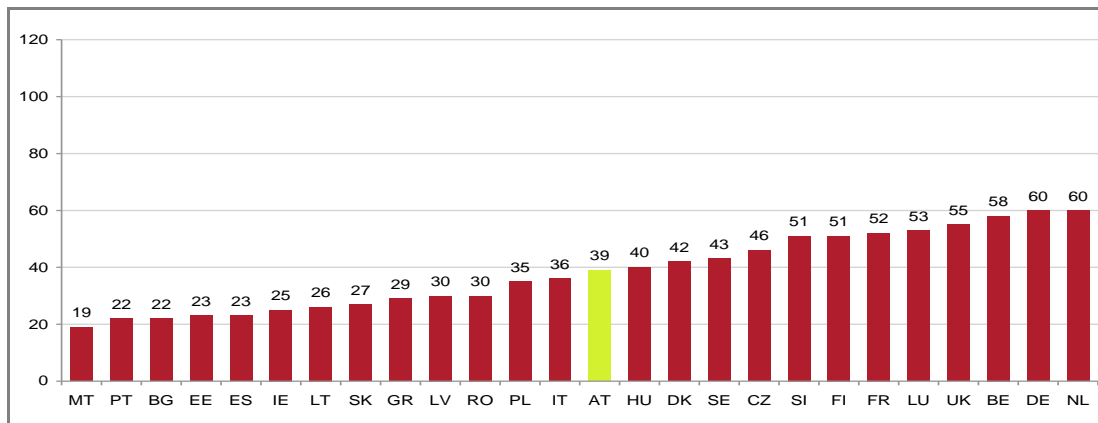
Nevertheless, looking at the other EU countries, on a whole, Austria is mid-ranged for the analysed different family types. An exception shows the calculation for lone parents with 2 children moving from 33% to 67% of AW. The trap for Austria amounts to 38%. This means that 38% of the additional earnings are "taxed away" or lost due to a loss of social benefits. In most member states the amount "taxed away" is higher, so the incentives to increase work productivity are comparable high in Austria.

**Figure 6: Low-wage trap: lone parent with two children moving from 33% to 67% of AW**



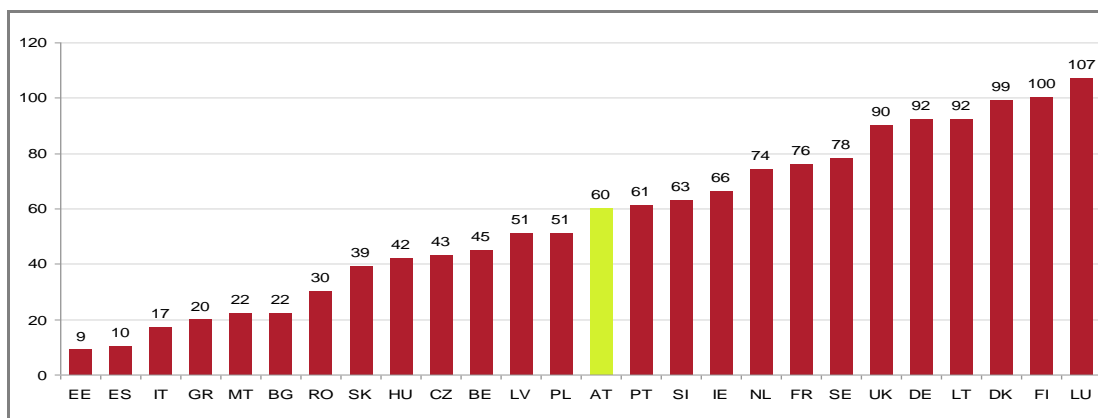
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available;  
 Note: The chart shows how much of a given rise in earnings is taken away in form of higher taxes and lower welfare benefits.

**Figure 7: Low-wage trap: Single Person moving from 33% to 67% of AW**



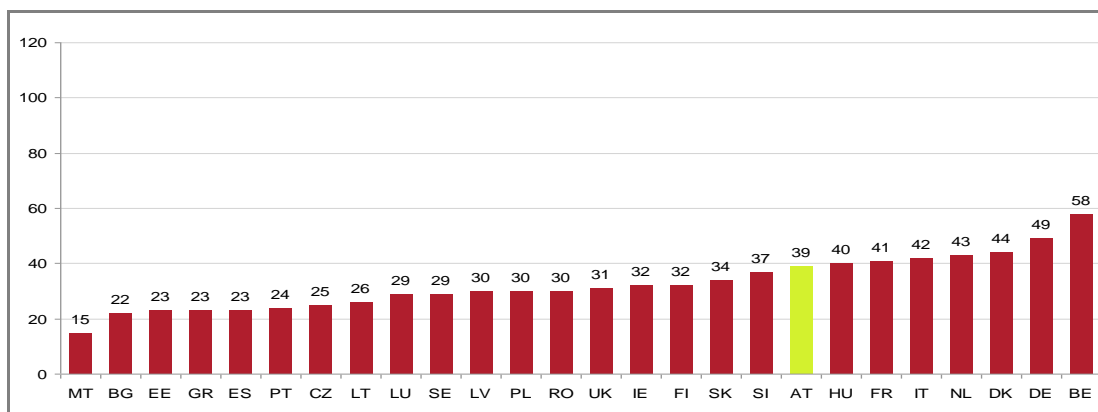
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 8: Low-wage trap: one-earner couple with two children moving from 33% to 67% of AW**



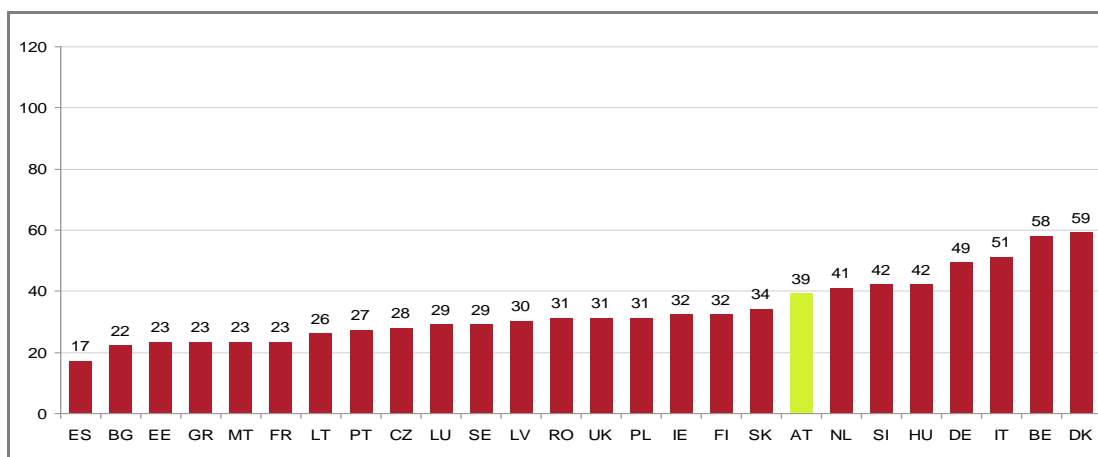
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 9: Low-wage trap: two-earner couple without children moving from 33% to 67%/67% to 67% of AW**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 10: Low-wage trap: two-earner couple with two children moving from 33% to 67%/67% to 67% of AW**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

In the case of moving from 67% to 100% of the average earnings workers (AW) the low-wage-trap in Austria is for all family types 45%. In the other EU-member states the trap differs according to the household situation (see Table 1). In the case of a single person between 57% (Hungary) and 22% (Bulgaria) is taxed away.

### The unemployment trap

The unemployment trap – or the implicit tax on returning to work for unemployed persons – measures the part of the additional gross wage that is taxed away in the form of increased taxes and withdrawn benefits such as unemployment benefits, social assistance, housing benefits when a person returns to work from unemployment.

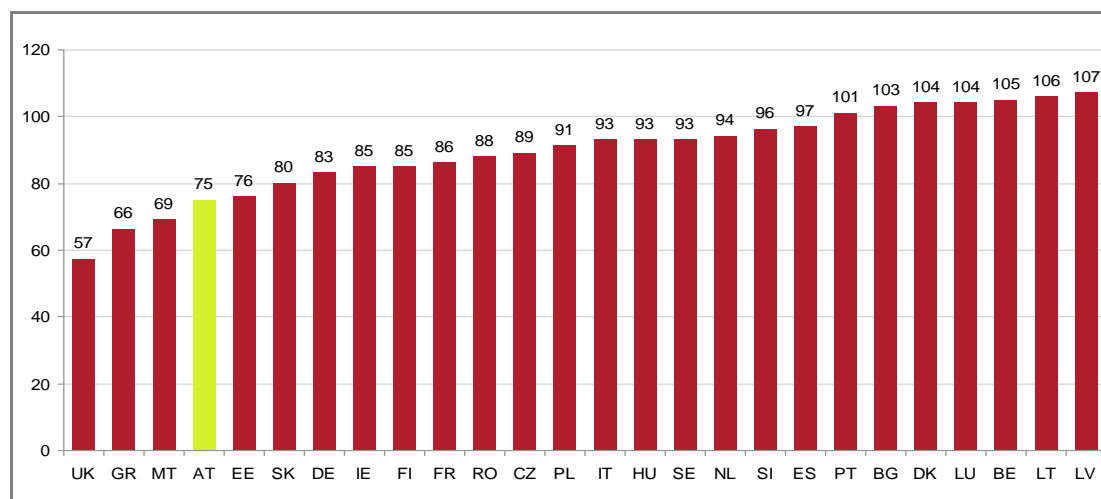
Calculations assume that the previous earnings amounting to 67% of the AW and compute the return to work for different wage levels. As expected, the risk of

unemployment trap is higher when the re-entry wages are lower than those before unemployment. This is shown in the figures (see below) for cases moving back to work from 67% AW (previous earnings) to 50% of AW and moving back from 67% AW (previous earnings) to 100% of AW.

For all family types, Austria has no above average trap. In general, the incentives moving back to work are lower if a person/household taking up a low wage job (from previous 67% to 50% AW).

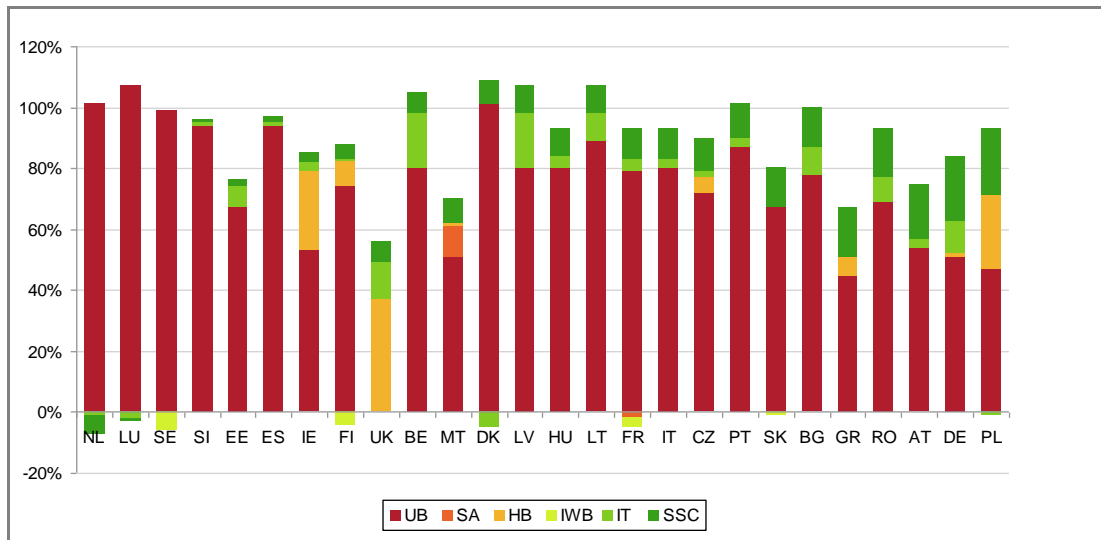
Looking on the different components of the METR (taxes, social security contributions and benefits) for both earning scenarios, it becomes obvious that in Austria an above average amount of earnings is taken away by social security contributions (18%). The share of social security contributions is just higher in Poland (ca. 21%) and Germany (ca. 20%). The effect of the withdrawal of unemployment benefits is in Austria below average (see Figure 12; for more details: Tax & benefits indicators DATABASE).

**Figure 11: Unemployment trap: Single Person moving back to work from 67% AW (previous earnings) to 50% of AW**



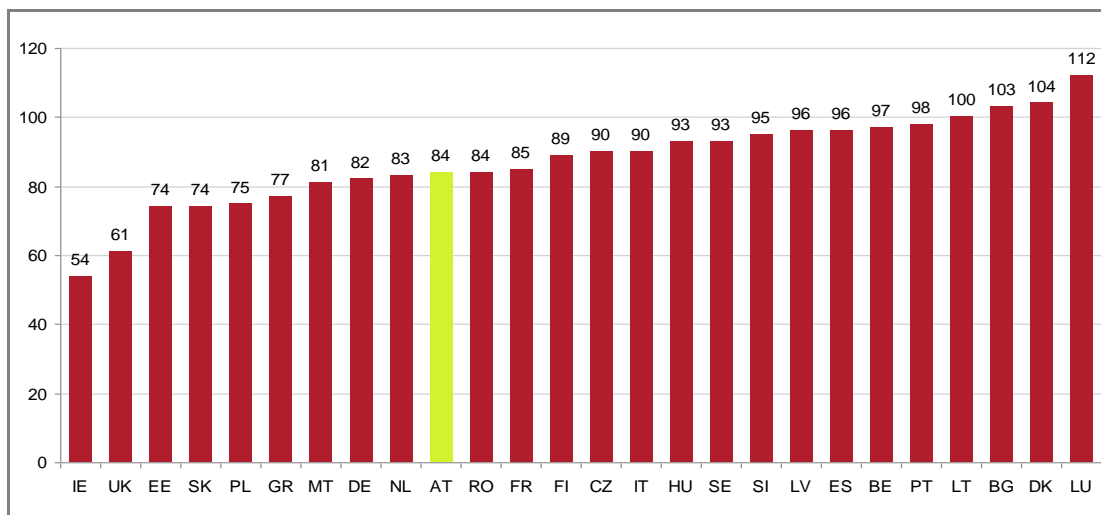
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 12: Unemployment trap: Decomposition of the METR - Single Person moving back to work from 67% AW (previous earnings) to 50% of AW**



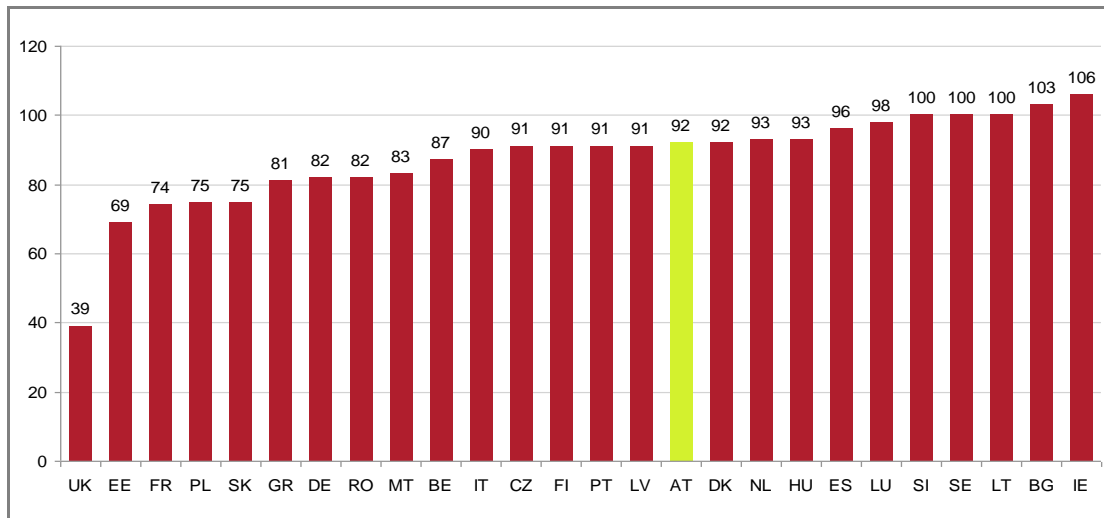
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available;  
 Note: UB - Unemployment Benefits; SA - Social Assistance; HB - Housing Benefits; FB - Family Benefits; IWB - In-work Benefits; IT - Income tax; SSC - social security benefits

**Figure 13: Unemployment trap: lone parent with two children moving back to work from 67% AW (previous earnings) to 50% of AW**



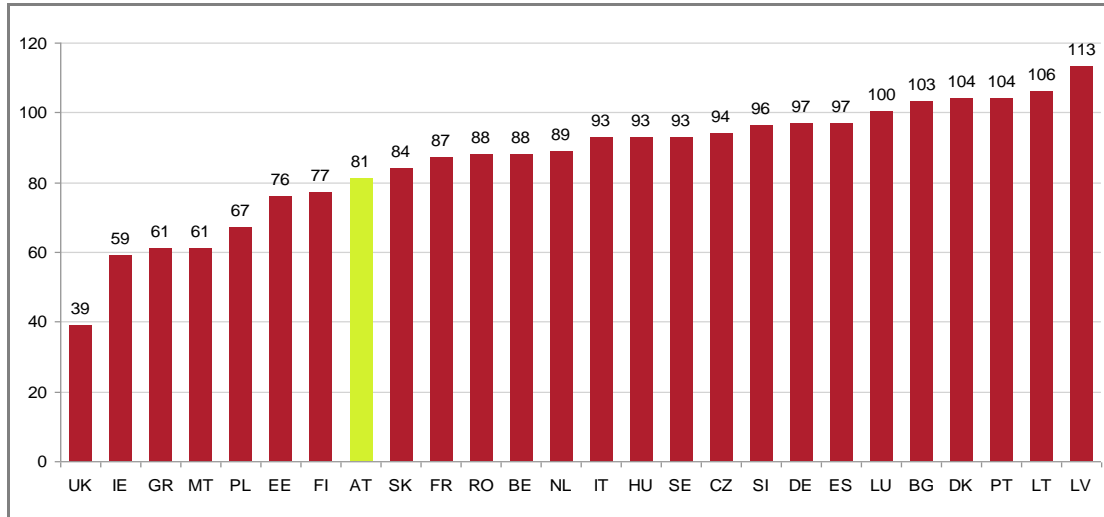
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 14: Unemployment trap: one-earner couple with two children moving back to work from 67% AW (previous earnings) to 50% of AW**



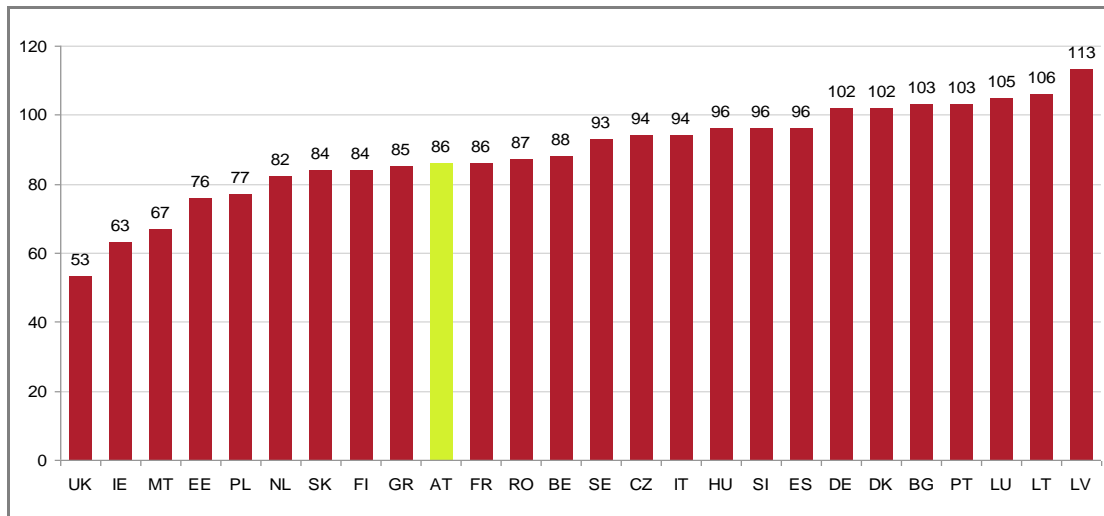
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 15: Unemployment trap: two-earner couple without children moving back to work from 67% AW (previous earnings) to 50% of AW**



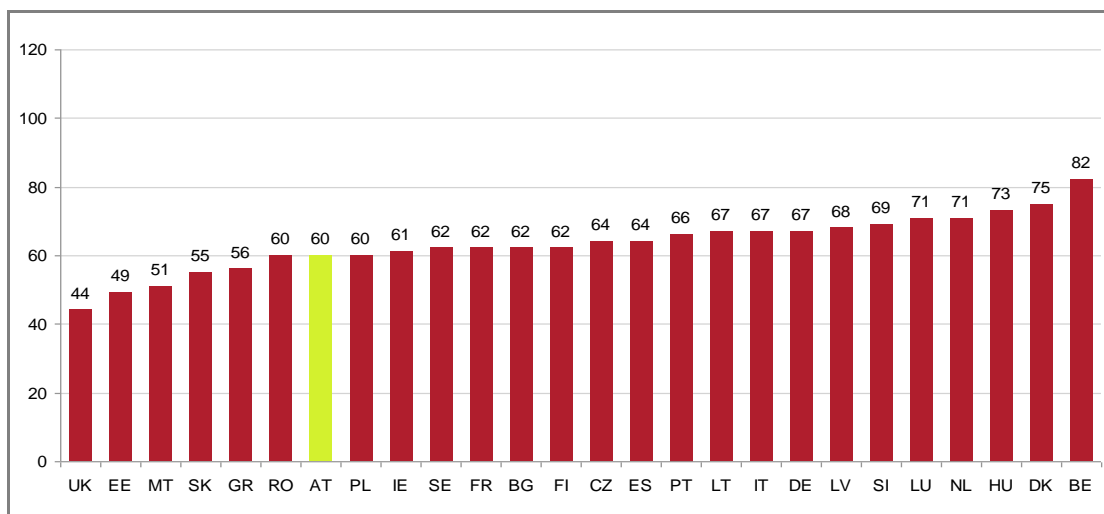
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

**Figure 16: Unemployment trap: two-earner couple with two children moving back to work from 67% AW (previous earnings) to 50% of AW**



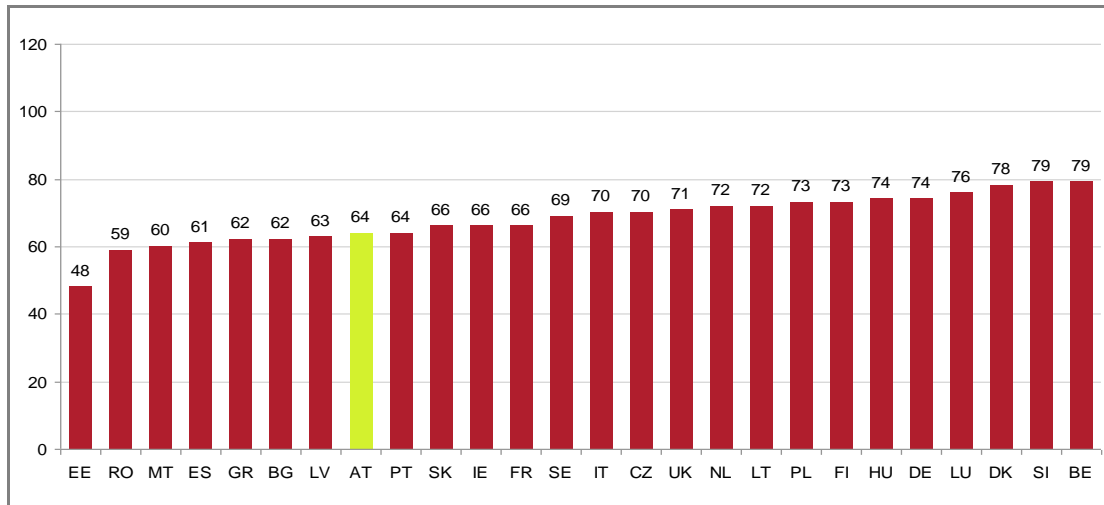
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

**Figure 17: Unemployment trap: Single Person moving back to work from 67% AW (previous earnings) to 100% of AW**



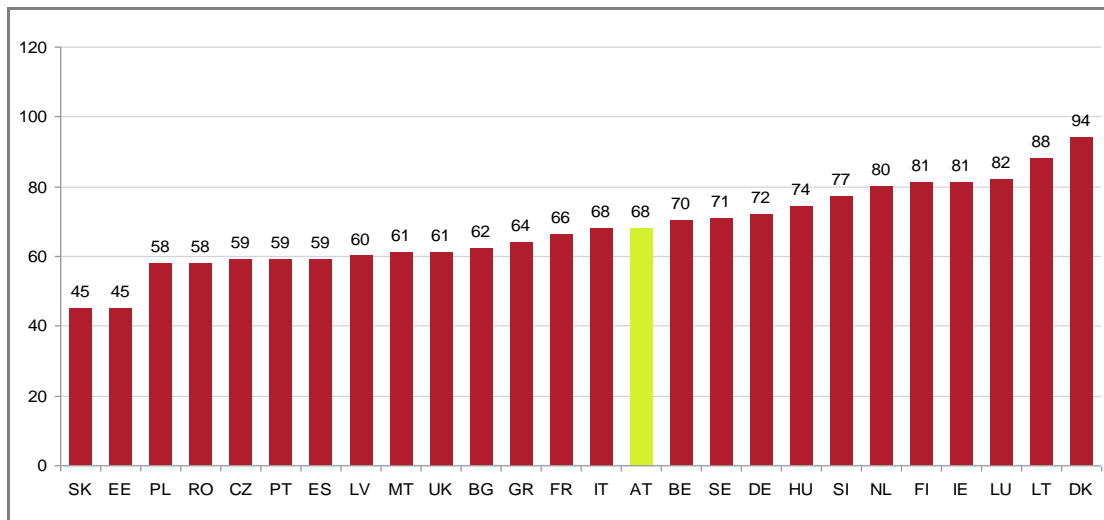
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 18: Unemployment trap: lone parent with two children moving back to work from 67% AW (previous earnings) to 100% of AW**



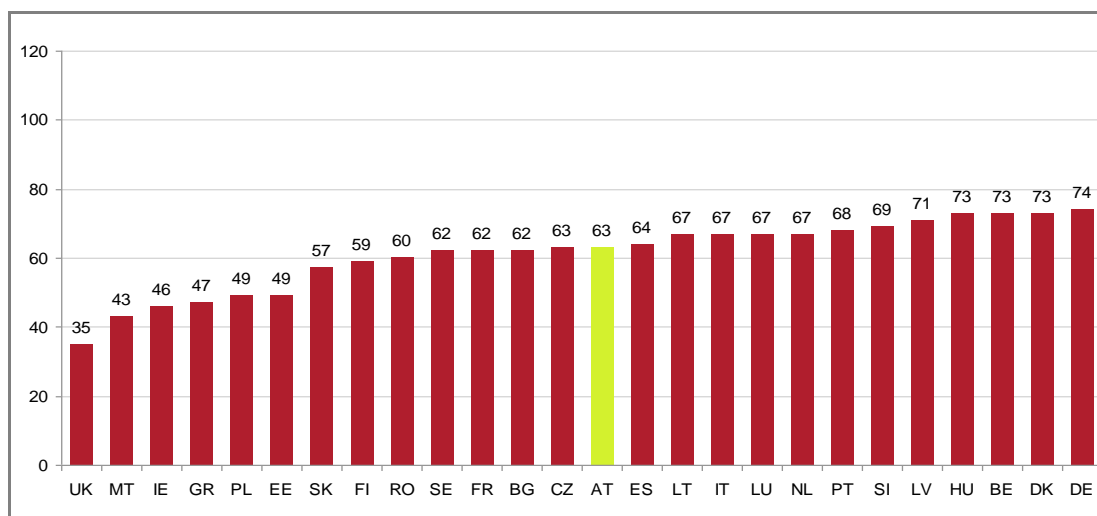
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 19: Unemployment trap: one-earner couple with two children moving back to work from 67% AW (previous earnings) to 100% of AW**



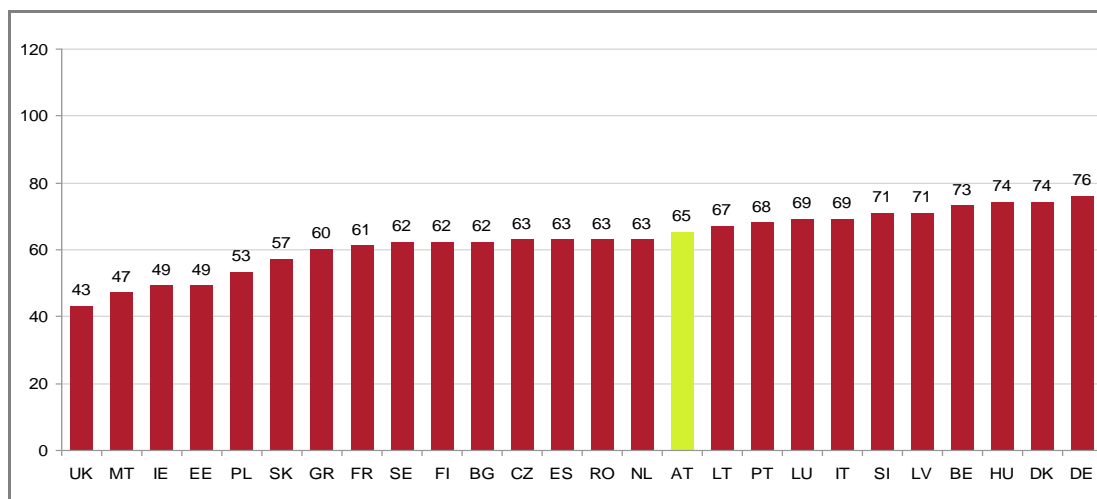
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 20: Unemployment trap: two-earner couple without children moving back to work from 67% AW (previous earnings) to 100% of AW**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

**Figure 21: Unemployment trap: two-earner couple with two children moving back to work from 67% AW (previous earnings) to 100% of AW**

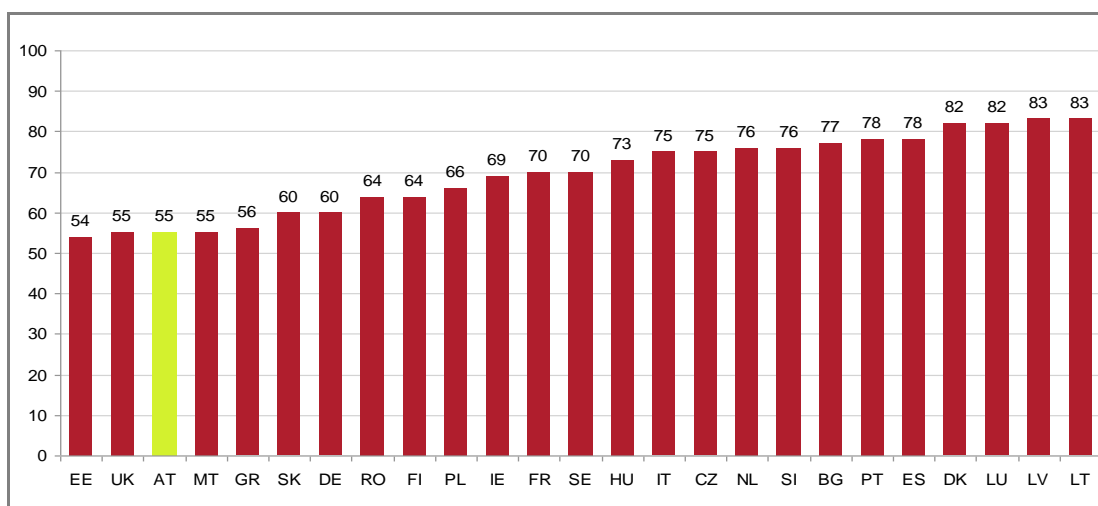


Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

Another indicator in the context of unemployment is the **net replacement rate (NRR)**. NRR is defined as the ratio of net income while out of work (mainly unemployment benefits if unemployed or means-tested benefits if on social assistance) divided by net income while in work. Some experts argue that a lower net replacement rate leads to greater incentives to search for and take up a job when unemployed. As argued at the beginning of the paper, such an indicator does not reflect the general labour market situation and individual conditions. Countries with a high NRR can

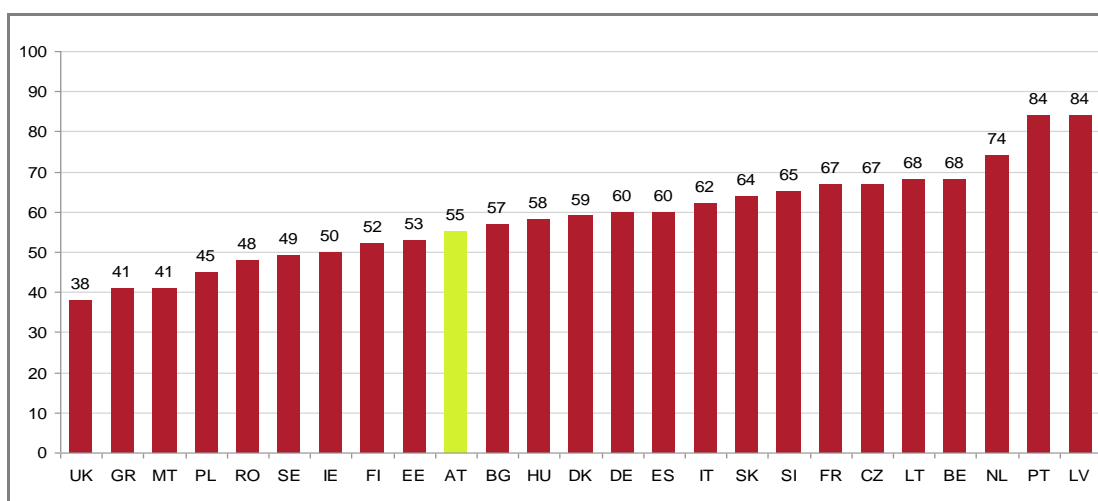
have a low unemployment rate, as its true for example for the Netherlands. Austria has a relatively low NRR, especially in the case of low wage earners (67% AW). This leads, in the case of Austria, to a high poverty risk of unemployed persons.

**Figure 22: Net Replacement Rate for unemployed single persons (67% AW)**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 23: Net Replacement Rate for unemployed single persons (100% AW)**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

### The inactivity trap

The **inactivity trap** - or the implicit tax on returning to work for inactive persons - measures the part of additional gross wage that is taxed away in case an inactive person (not entitled to receive unemployment benefits but eligible for income-tested

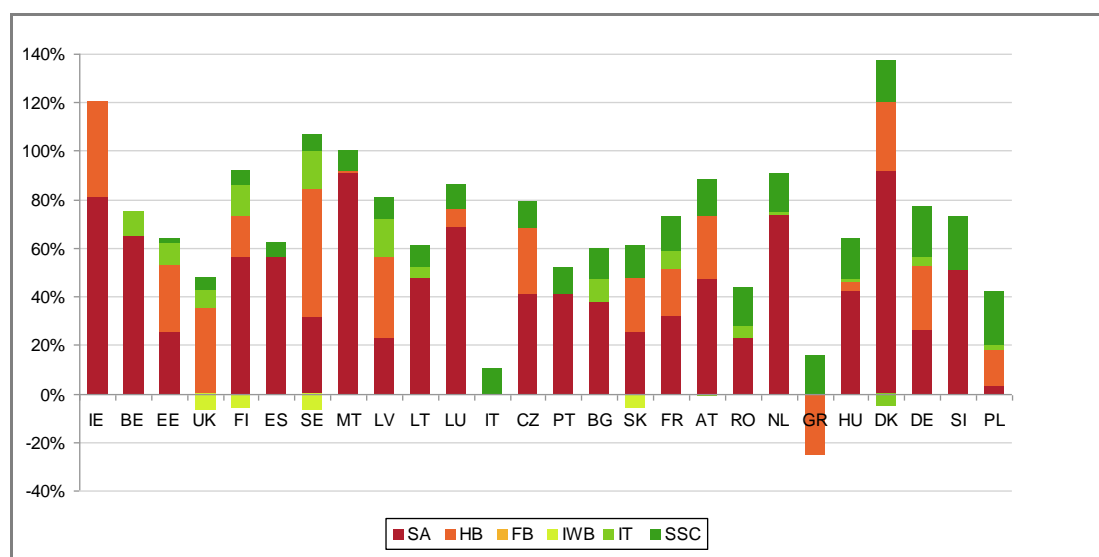
social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity and social assistance to employment.

METR is high in cases where single earners move from inactivity to low wage part time jobs (33% AW). The results show that incentives for take up such a work is low, this is true for Austria as for several other countries. This appears in Austria mainly due to the withdrawal of social assistance benefits and – to a lower part – housing benefits. In the case of a single person the METR is 86% composed of 47% social assistance, 25.5% housing benefits and 15.1% social security contributions (see Figure 24). The income tax is slightly negative due to the calculated low earning (33% AW).

Moving from inactivity to 100% of the average earning workers (AW) leads to a clear lower METR, therefore to higher work incentives. Although the income tax and social security contributions take a larger part of the METR, the effect of benefit withdrawal is much more limited than in the case of moving to a low wage job (see Figure 25).

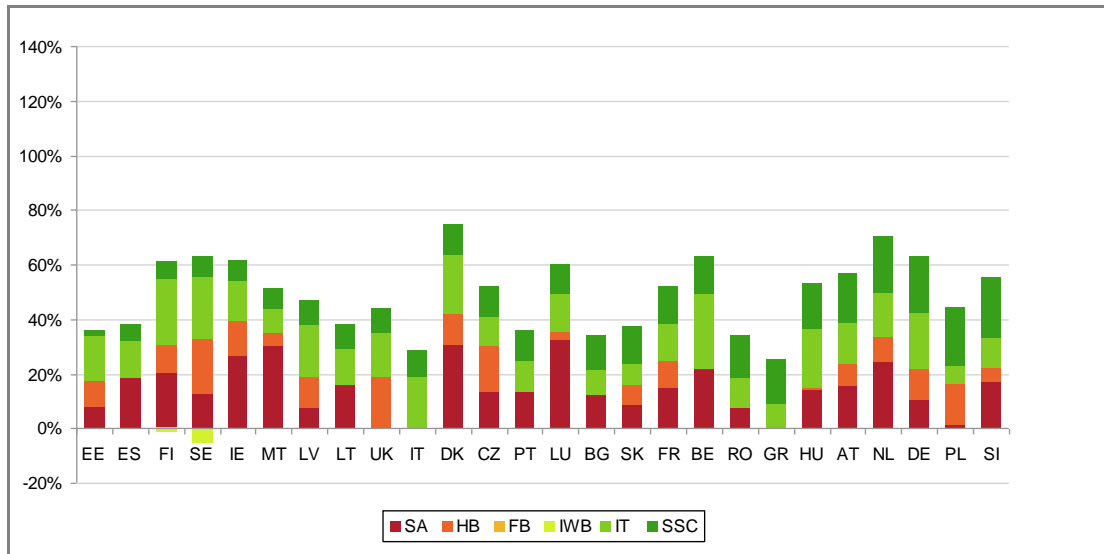
The calculations for households with two earners show the incentives for the second spouse to take up work. In both earning scenarios the incentives for taking up work are higher than in the case of one-earner households, because two-earner households typically receive no social benefits.

**Figure 24: Inactivity trap: Decomposition of the METR - Single Person moving from inactivity to work (33% AW)**



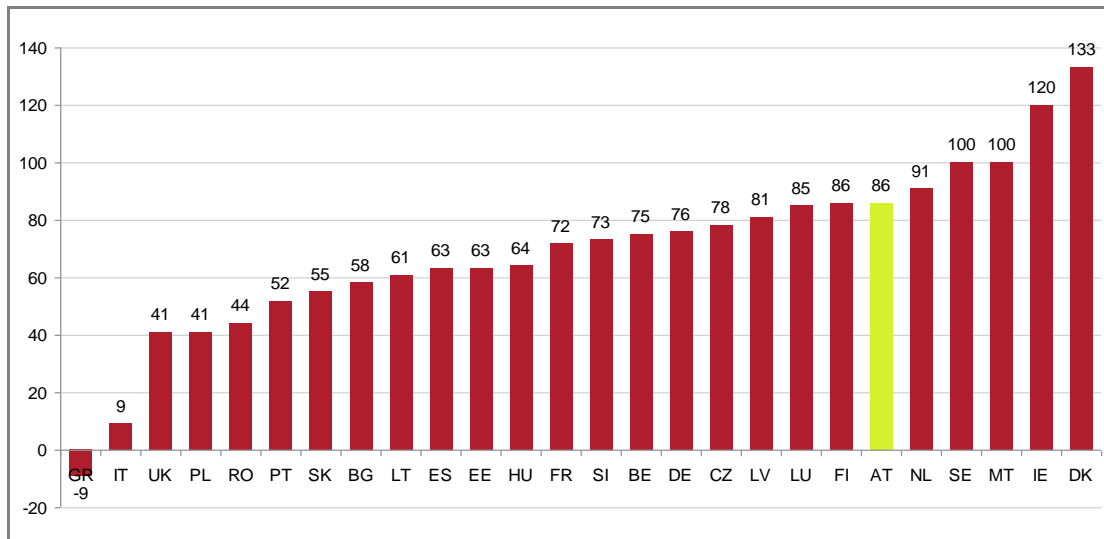
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available;  
 Note: UB - Unemployment Benefits; SA - Social Assistance; HB - Housing Benefits; FB - Family Benefits; IWB - In-work Benefits; IT - Income tax; SSC - social security benefits

**Figure 25: Inactivity trap: Decomposition of the METR - Single Person moving from inactivity to work (100% AW)**



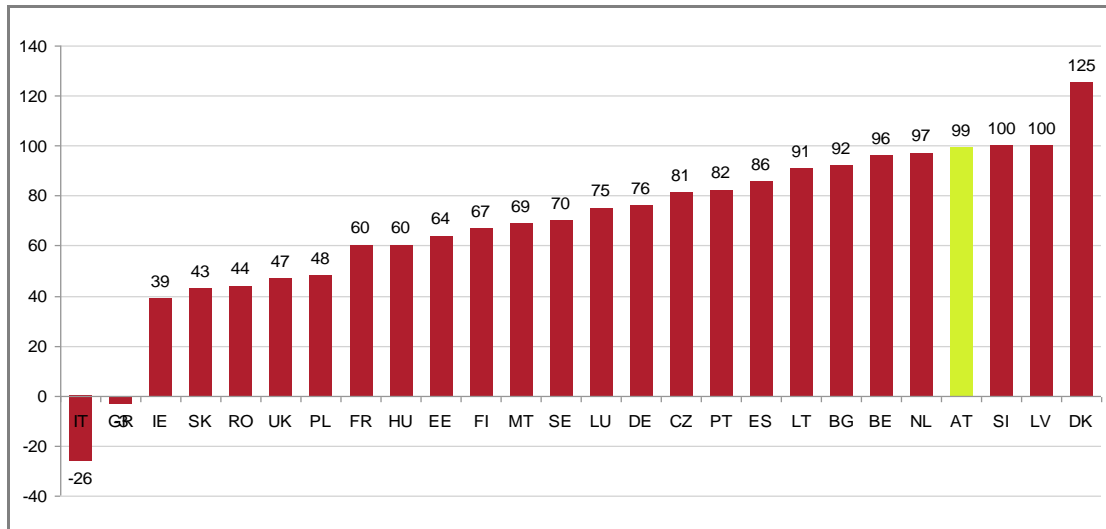
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available;  
 Note: UB - Unemployment Benefits; SA - Social Assistance; HB - Housing Benefits; FB - Family Benefits; IWB - In-work Benefits; IT - Income tax; SSC - social security benefits

**Figure 26: Inactivity trap: Single Person moving from inactivity to work (33% AW)**



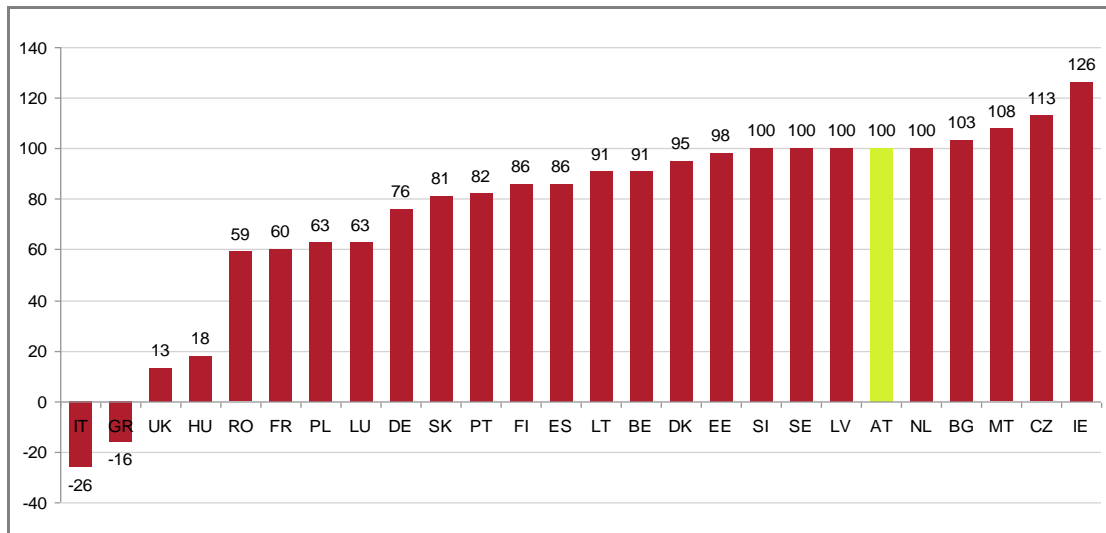
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 27: Inactivity trap: lone parent with two children moving from inactivity to work (33% AW)**



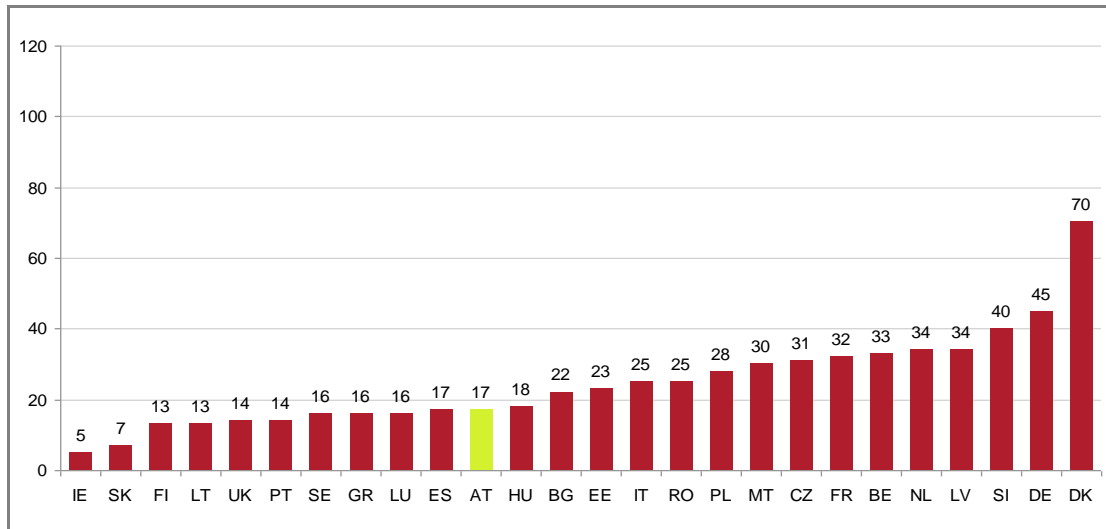
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 28: Inactivity trap: one-earner couple with two children moving from inactivity to work (33% AW)**



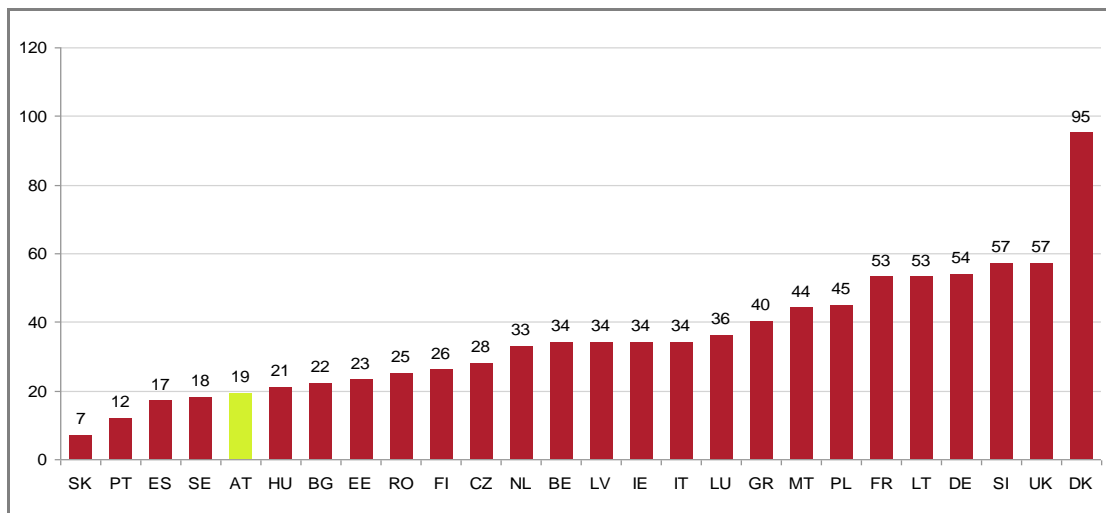
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 29: Inactivity trap: two-earner couple without children moving from inactivity to work (33% AW)**



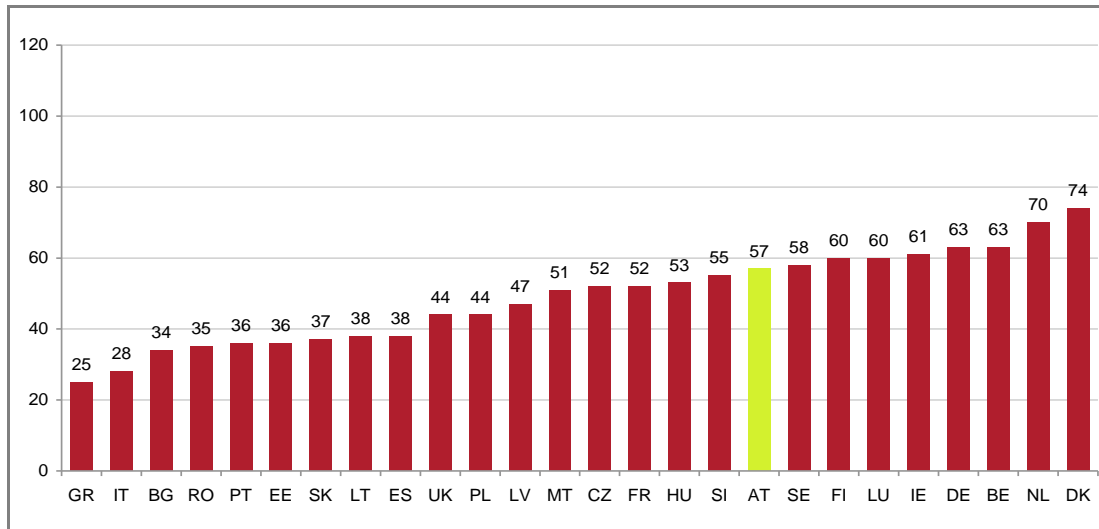
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

**Figure 30: Inactivity trap: two-earner couple with two children moving from inactivity to work (33% AW)**



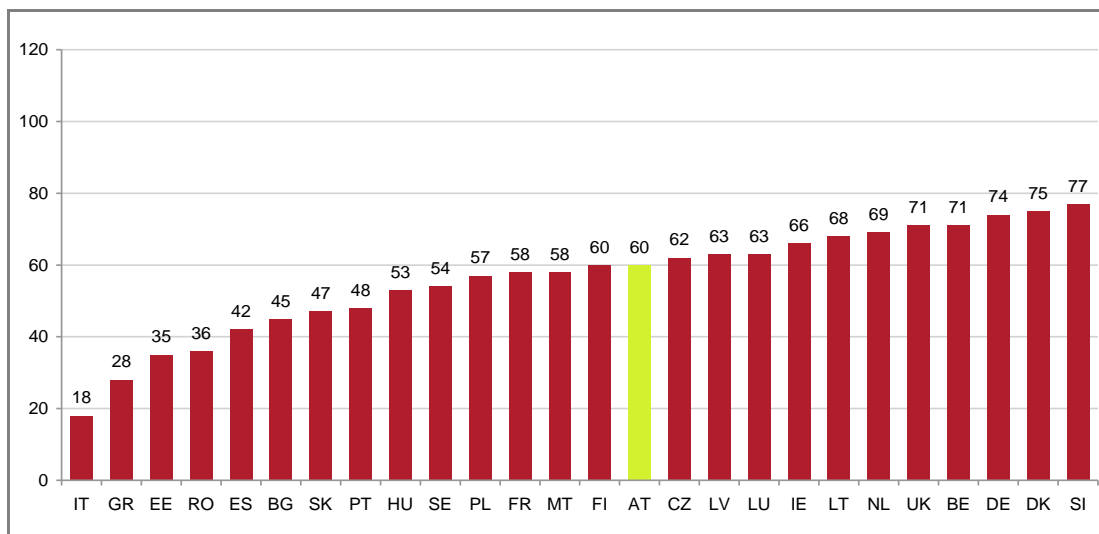
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

**Figure 31: Inactivity trap: Single Person moving from inactivity to work (100% AW)**



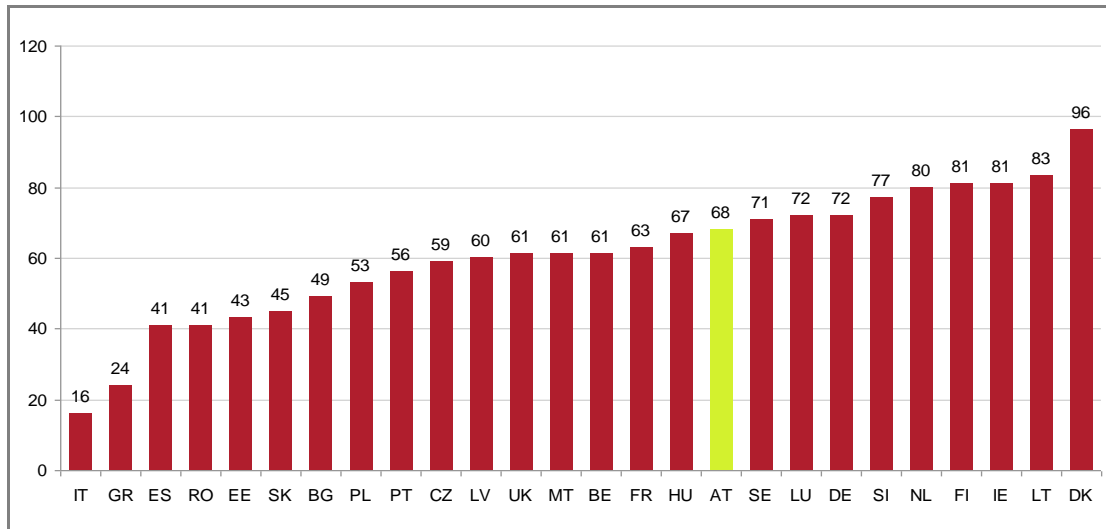
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 32: Inactivity trap: lone parent with two children moving from inactivity to work (100% AW)**



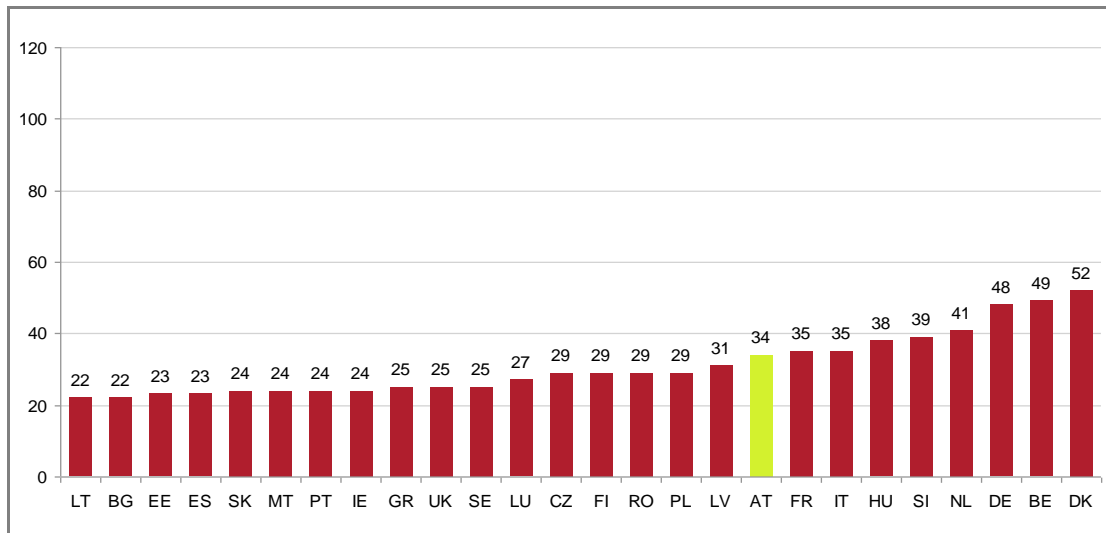
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 33: Inactivity trap: one-earner couple with two children moving from inactivity to work (100% AW)**



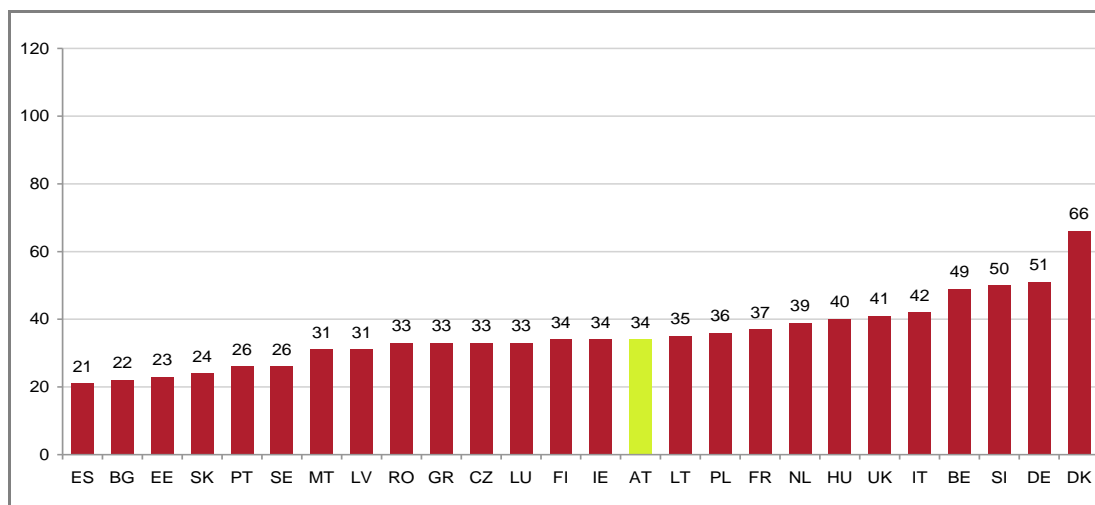
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available

**Figure 34: Inactivity trap: two-earner couple without children moving from inactivity to work (100% AW)**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available;  
Wage level for the first earner is fixed at 67% AW.

**Figure 35: Inactivity trap: two-earner couple with two children moving from inactivity to work (100% AW)**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010; CY no data available; Wage level for the first earner is fixed at 67% AW.

### Net increase in disposable income (NIDI)

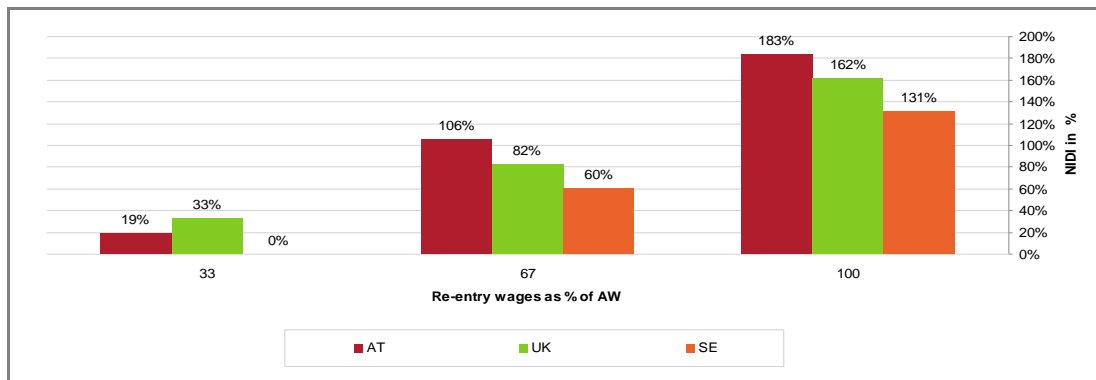
The NIDI is an indicator used to characterise the income consequences of labour market transitions. It shows the percentage increase in disposable income when returning to work. The lower the previous income was, the higher the increase. The highest increase is therefore given for those moving from inactivity to work.

The following figures demonstrate different calculations. In the case of moving from inactivity to a job, the NIDI differs in Austria between 19% (33% AW) and 183% (100% AW). Compared to two countries, the liberal welfare model of UK, with a clear lower tax wedge than Austria, and the social democratic welfare model of Sweden, which has a slightly lower tax wedge, calculations show in the case of taking up a job of 67% AW and 100% AW the highest NIDI for Austria.

Moving from unemployment benefit (67%) to a job, the net increase in income amounts for Austria between 5% (in the case of taking up a low wage job of 33% AW) and increases to 82% (67% AW) and 150% (100% AW). In the case of the latter, calculation results for Austria are quit similar as for UK. In Sweden, the NIDI is clearly lower.

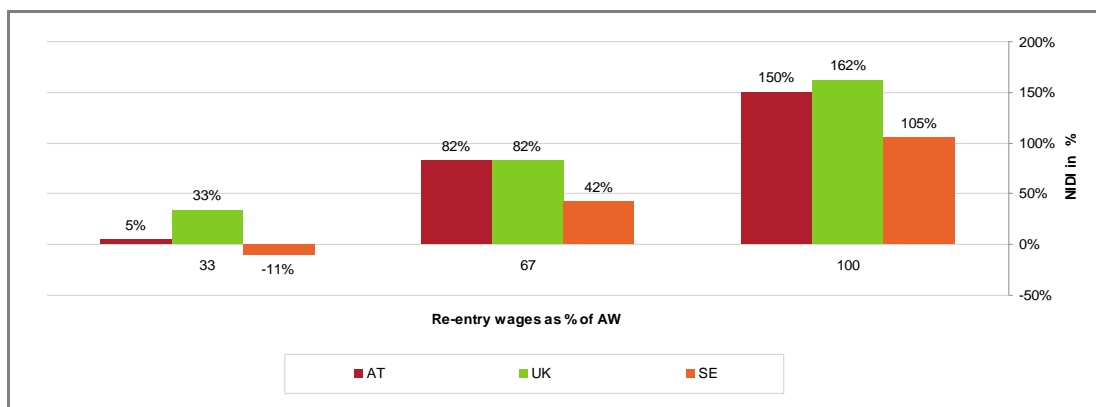
The NIDI can be negative in cases people take up a job with lower earnings as before. This can be seen in Figure 38. In the case of Austria and to a less extent in Sweden, the increase in disposable income is negative when moving from unemployment benefit (100%) to a low wage job (33% of AW). When moving to a 67% of AW job, the NIDI is positive.

**Figure 36: NET INCREASE in DISPOSABLE INCOME when moving from Inactivity to job (at different AW levels), Single Person, AT – UK –SE, 2009**



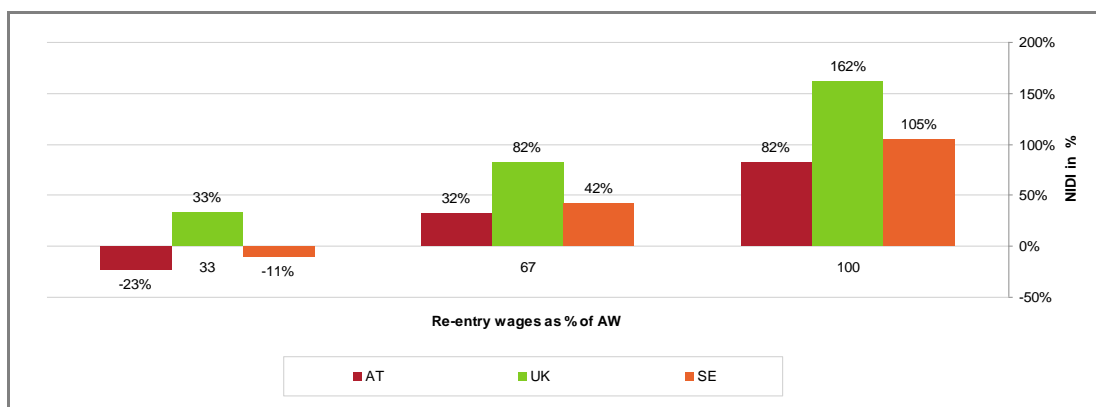
Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010

**Figure 37: NET INCREASE in DISPOSABLE INCOME when moving from unemployment benefit (67%) to job (at different AW levels), Single Person, AT – UK –SE, 2009**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010

**Figure 38: NET INCREASE in DISPOSABLE INCOME when moving from unemployment benefit (100%) to job (at different AW levels), Single Person, AT – UK –SE, 2009**



Source: European Commission, Tax & benefits indicators DATABASE; 19.11.2010

## Recapitulation

Marginal effective tax rates (METRs) as indicators measuring financial incentives to work underlie some important limitations, as mentioned at the beginning of the paper. Nevertheless, calculations do not indicate that this is a bottleneck in Austria, especially in comparison to other EU-countries. On the whole, according to the shown results Austria can be classified as mid-ranged.

METRs try to analyse how much of additional earnings are “taxed away” or lost due to a loss of social benefits. This has to be distinguished – regardless the interdependence – from the tax wedge, the proportional difference between the costs of a worker to their employer and the amount of net earnings that the worker receives. This is compared to other EU-countries relatively high, even after the last tax reform which brought a slight decrease of the tax wedge.

Some experts (Aiginger 2008; Aiginger et.al. 2008) refer to this relatively high tax burden - especially to the high tax burden on labour and recommend a relief of the factor labour. In this respect, the following measures and options were discussed:

- the reduction of the tax burden on low wages,
- the reduction of social security contributions up to the median income,
- the reduction of the tax rates in all tax brackets plus a reduction of social security contribution in the lowest tax bracket,
- the upward-shift of the thresholds of the tax brackets (to compensate cold tax progression due to inflation)
- the introduction of an additional tax bracket.

Such a tax reform would lead to a relief of the tax burden, but requires a counter financing by other tax forms. A possibility would be the increase of environmental taxes.

## 3 Disincentives for older workers/pensioners to work longer

Due to the complex pension calculation scheme, only approximate and rough calculations could be made for case examples by using a pension calculator<sup>1</sup>. Assuming that a male worker with a present gross monthly income of EUR 4,200 and an entitlement to pension in 2014 (at the age of 62) at the earliest, decides to retire only at the age of 65 in the year 2017, the total increase of the net pension amounts to 8.2%. In the very example, the absolute amount of the additional net pension is at EUR 170. Bearing in mind that the calculation is very rough, the fact remains that staying longer in employment shows only limited increase in net pensions.

A longer employment period may be attractive for older unemployed people who reach the retirement age within the next 3.5 years, but need an additional period of contribution payments. These older unemployed workers about to enter retirement and having no formal job prospects may remain within SÖBs until retirement under certain conditions. A precondition is that placement activities have failed. In 2009, 5,091 older workers (50+) were employed in socio-economic enterprises and non-

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<sup>1</sup> [https://onlineservices.bawag.com/kapdion/cl0011/ca0056\\_Vorsorge/input.jsp](https://onlineservices.bawag.com/kapdion/cl0011/ca0056_Vorsorge/input.jsp)

profit employment projects. This accounts for 9.8% of all unemployed at the age of 50+ (2009).

Irrespective of the steps in pension reforms taken since 2001 (cf. Fink 2010), different forms of early retirement still play a major role in the context of labour market integration of older workers. Especially invalidity pension and early retirement due to very long insurance records (Hacklerregelung) are still an option for early retirement. In other pension forms, a deduction for drawing a pension before the regular retirement age and thus a reduction in disposable income may cause older workers to stay longer in employment. Also the reform of the part-time allowance for older workers may contribute to a longer labour market integration of older workers (but on a part-time basis).

Pensioners drawing a pension before the regular retirement age face little incentives for working:

- The early retirement pension, the corridor pension and the heavy labour pension (claimed before the retirement age 65/60) are no longer paid from that day the monthly income from work (pre-tax) exceeds the marginal earnings threshold (year 2011: EUR 374.02). This regulation was decided in order to protect the labour market from additional labour supply, especially in the period of economic downturn.
- If a person entitled to disability insurance earns more than the minimum monthly income, in a particular month, the benefit will be changed into a prorated benefit for that particular calendar month. But there is a risk that the pension is being cut, when the Social Security Administration assumes that health conditions have improved substantially.

Also pensioners who have reached the regular retirement age do not face incentives for an extension of their working life. One year of additional employment after having reached the retirement age, leads to an increase in the pension claims of only 4.2%. Whereas in Sweden the increase amounts to 9 %.

Experts propose:

- The introduction of a partial pension (*Teilpension*) (Zaidi et.al. 2006; Famira-Mühlberger et. al. 2010).
- The increase of annual growth rates of pensions when working life is extended beyond the retirement age. This is a main feature of the incentive model of the Seniorenbund (Österreichischer Seniorenbund 2010)

The discussion shows, that more measures are needed to encourage part-time retirement before a complete withdrawal from the labour force. This will help to combat population decline and at the same time increase taxable capacity in the economy as well as raising the retirement income of future pensioners.

#### **4 Labour market participation of women**

The decision on the duration of parental leave, point in time of labour market return and the extent of weekly working time does not only determine the current income

situation but also the lifetime income situation (including pension income). The income situation also depends on the industry women are working in.

A model calculation shows that the life income ranges from 1.66 M€ for a woman working permanently (woman without children with permanent employment) in a clerical job to EUR 473,000 for a woman working atypical (Woman with fulltime job until the birth of her child (at the age of 25), followed by two years of parental leave and ten years of job pause with subsequent part-time employment until retirement age) in a hotel and catering job.

Women in trade occupations who are permanently employed may expect EUR 1,315 monthly gross pension, women with two years of parental leave and 10 years of part-time work may expect EUR 1,200 and women with 10 years of job pause and part-time employment until retirement may expect EUR 570. One year less in employment reduces monthly pension entitlements between EUR 40 and EUR 80.

An important factor for an increased labour market participation of mothers is the quantity and quality of child care offers. The issue of work incentives also include adequate child care offers. Austria has one of the lowest child care rates for children younger than 3 years. In 2008, the free of charge child care for children younger than 6 years has been decided. But the implementation shows severe bottlenecks. Most of the provinces failed to provide adequate child care facilities or took back the exempt from charges. Only in Vienna the child care until the age of 6 is free of charge. In other provinces only part-time care is free or only for certain age groups

In general, childcare cost can use up a considerable amount of the household budget, especially in cases of part time work and/or low wage jobs. According to OECD (2007: 139) in the average of 26 countries childcare fees for full-time centre based care use up 35% of the gross earnings of a low wage second earner (defined as transition from inactivity to a full-time low wage job to 67% of AW) and 26% in the case of lone parent. For Austria the corresponding figures amounts 29% (second earner) and 9% (lone parents). This means that childcare fees for full-time centre based care are relatively lower. However the total increase in effective tax burden is in Austria above the average due to an above average increase in social contributions and decrease in benefits. This is especially true for second earner: 17% of gross earnings are left for consumption in Austria compared to 39% in average. In the case of lone parents the calculations indicates are quite similar result - 19% in the case of Austria and 22% in average.

Table 1: Low wage trap

Average of marginal effective tax rate at different wage levels																											
Household Earnings		BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CZ	EE	HU	LT	LV	MT	PL	SK	SI	BG	RO
as % of AW																											
<b>Single</b>																											
From :33%	TO: 67%	58	42	60	29	23	52	25	36	53	60	39	22	51	43	55	46	23	40	26	30	19	35	27	51	22	30
From :67%	TO: 100%	56	50	53	37	30	32	36	39	41	45	45	35	43	30	31	31	23	57	27	30	30	30	30	39	22	32
From :100%	TO: 133%	58	64	52	31	33	40	51	45	47	48	48	36	47	48	32	31	23	56	27	30	31	30	30	43	22	32
From :133%	TO: 167%	59	63	51	34	34	42	51	49	47	54	40	45	47	54	41	31	23	53	26	30	35	30	29	51	22	32
<b>1 earner couple</b>																											
From :33%	TO: 67%	47	99	67	29	13	62	13	32	100	73	46	26	84	65	71	38	20	42	43	30	9	38	30	52	22	31
From :67%	TO: 100%	49	62	47	37	29	40	29	44	25	50	45	23	43	30	31	24	23	57	27	30	26	30	13	46	22	33
From :100%	TO: 133%	56	59	42	31	32	32	42	45	31	49	48	32	47	48	32	31	23	56	27	30	18	30	28	43	22	33
From :133%	TO: 167%	59	57	40	34	31	30	51	49	38	54	40	34	47	54	41	31	23	53	26	30	25	30	29	45	22	33
<b>2 earners couple</b>																											
From :67%+33%	TO: 67%+67%	58	44	49	23	23	41	32	42	29	43	39	24	32	29	31	25	23	40	26	30	15	30	34	37	22	30
From :67% +67	TO: 67%+100%	55	43	52	37	30	32	30	39	36	45	45	35	43	30	31	31	23	57	27	30	27	30	30	39	22	32
From :67+100%	TO: 67+133%	58	57	47	31	33	31	41	43	42	48	48	35	47	48	32	31	23	56	27	30	31	30	30	43	22	32
From :67+133%	TO: 67+167%	58	63	46	34	34	38	51	49	47	54	40	34	47	54	41	31	23	53	26	30	35	30	29	51	22	32
<b>Lone parent, 2 children</b>																											
From :33%	TO: 67%	60	42	92	20	10	76	85	23	58	52	38	27	63	50	90	58	20	42	83	58	52	36	27	52	22	31
From :67%	TO: 100%	56	59	52	39	28	36	53	53	53	51	45	35	50	42	69	34	23	59	27	30	42	31	33	60	22	33
From :100%	TO: 133%	58	76	47	31	33	31	50	55	47	50	48	38	47	48	32	31	23	58	27	30	26	26	30	40	22	36
From :133%	TO: 167%	59	63	47	34	31	30	51	50	47	54	40	47	47	54	45	31	23	53	29	30	25	30	29	45	22	33
<b>1 earner couple with 2 children</b>																											
From :33%	TO: 67%	45	99	92	20	10	76	66	17	107	74	60	61	100	78	90	43	9	42	92	51	22	51	39	63	22	30
From :67%	TO: 100%	49	93	55	39	24	51	46	53	43	56	45	21	56	32	73	21	23	59	66	30	42	36	13	61	22	34
From :100%	TO: 133%	56	71	42	31	32	22	42	56	31	51	48	34	47	48	32	34	23	56	27	30	26	34	28	40	22	34
From :133%	TO: 167%	59	57	40	34	31	33	51	51	38	54	40	36	47	54	45	31	23	55	26	30	25	30	29	44	22	37
<b>2 earners couple with 2 children</b>																											
From :67%+33%	TO: 67%+67%	58	59	49	23	17	23	32	51	29	41	39	27	32	29	31	28	23	42	26	30	23	31	34	42	22	31
From :67% +67	TO: 67%+100%	55	43	51	37	30	35	30	40	36	45	45	36	43	30	35	31	23	57	27	30	27	30	30	37	22	34
From :67+100%	TO: 67+133%	58	58	46	31	33	30	43	47	43	49	48	34	47	48	35	31	23	55	27	30	32	30	30	41	22	32
From :67+133%	TO: 67+167%	58	63	42	35	34	30	51	52	47	54	37	34	47	55	41	31	23	53	29	30	35	30	29	46	22	32

Source: European Commission, Tax &amp; benefits indicators DATABASE; 19.11.2010

**Table 2: Unemployment trap (previous work= 67% of the AW wage level)**

Family Type	% of AW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CZ	EE	HU	LT	LV	MT	PL	SK	SI	BG	RO
Single	50%	105	104	83	66	97	86	85	93	104	94	75	101	85	93	57	89	76	93	106	107	69	91	80	96	103	88
	67%	94	88	75	65	81	78	74	81	86	84	67	81	72	77	50	80	62	81	86	87	58	75	67	83	82	73
	100%	82	75	67	56	64	62	61	67	71	71	60	66	62	62	44	64	49	73	67	68	51	60	55	69	62	60
	150%	74	71	63	47	54	55	58	60	63	64	55	57	57	57	41	53	40	67	53	56	45	50	46	61	49	50
1 earner couple	50%	91	90	84	70	96	78	127	90	99	93	83	98	91	100	46	92	74	93	106	101	83	73	80	95	103	86
	67%	83	92	72	68	77	72	101	81	98	91	73	78	86	83	50	78	61	83	86	83	65	76	63	87	82	72
	100%	72	83	64	58	61	61	77	69	74	77	63	60	71	66	44	60	48	74	67	66	55	61	47	73	62	59
2 earners couple *	50%	67	75	56	49	51	51	66	62	60	68	58	51	63	60	41	51	40	68	53	54	44	51	41	63	49	50
	67%	88	104	97	61	97	87	59	93	100	89	81	104	77	93	39	94	76	93	106	113	61	67	84	96	103	88
	100%	82	88	85	52	81	77	55	81	83	78	71	84	67	77	37	78	62	81	86	92	51	58	71	83	82	73
(with 2 children)	50%	73	73	74	47	64	62	46	67	67	67	63	68	59	62	35	63	49	73	67	71	43	49	57	69	62	60
	67%	68	68	65	42	54	52	46	60	59	61	57	57	55	57	35	52	40	67	53	58	40	43	48	61	49	50
	150%																										
Single parent, 2 children	50%	97	104	82	77	96	85	54	90	112	83	84	98	89	93	61	90	74	93	100	96	81	75	74	95	103	84
	67%	90	88	85	62	77	81	63	78	87	82	73	79	84	82	71	82	61	82	94	79	66	87	63	80	82	71
	100%	79	78	74	62	61	66	66	70	76	72	64	64	73	69	71	70	48	74	72	63	60	73	66	79	62	59
	150%	72	76	65	51	51	54	61	65	67	65	58	57	64	62	59	57	40	68	57	52	49	58	54	69	49	53
1 earner couple with 2 children	50%	87	92	82	81	96	74	106	90	98	93	92	91	91	100	39	91	69	93	100	91	83	75	75	100	103	82
	67%	80	94	81	65	77	73	96	74	100	92	80	78	93	90	54	77	55	81	98	75	66	64	60	84	82	70
	100%	70	94	72	64	59	66	81	68	82	80	68	59	81	71	61	59	45	74	88	60	61	58	45	77	62	58
2 earners couple with 2 children*	50%	66	85	62	53	50	53	69	64	66	71	61	51	69	63	52	53	37	68	68	50	49	50	39	68	49	52
	67%	88	102	102	85	96	86	63	94	105	82	86	103	84	93	53	94	76	96	106	113	67	77	84	96	103	87
	100%	82	90	88	71	79	74	58	84	86	72	75	83	72	77	47	78	62	83	86	92	57	64	71	87	82	73
150%	73	74	76	60	63	61	49	69	69	69	63	65	68	62	43	63	49	74	67	71	47	53	57	71	62	63	
	68	69	66	50	53	51	47	62	61	59	59	59	57	57	57	41	52	40	68	57	58	42	45	48	62	49	53

Source: L&amp;R Datafile 'Datafilename', 2006

Table 3: Inactivity trap

Family Type	% of AW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CZ	EE	HU	LT	LV	MT	PL	SK	SI	BG	RO
Single	33%	75	133	76	-9	63	72	120	9	85	91	86	52	86	100	41	78	63	64	61	81	100	41	55	73	58	44
	50%	68	102	74	5	45	66	85	16	83	92	69	41	80	85	57	66	49	54	49	64	70	58	44	68	46	39
	67%	67	87	68	19	42	62	74	23	69	82	62	36	68	71	50	62	43	51	44	55	59	51	41	63	40	37
	100%	63	74	63	25	38	52	61	28	60	70	57	36	60	58	44	52	36	53	38	47	51	44	37	55	34	35
	150%	62	71	60	27	36	48	58	35	56	63	53	37	56	55	41	45	31	54	34	41	45	40	35	52	30	34
1 earner couple	33%	87	91	76	-9	79	67	186	3	69	100	100	82	86	100	24	109	74	102	91	81	110	59	77	100	78	59
	50%	69	94	84	5	55	68	127	5	82	92	83	65	91	100	46	85	55	79	81	64	75	51	66	80	59	49
	67%	66	95	72	19	46	64	101	18	86	90	73	54	86	83	50	73	46	72	67	55	59	60	53	75	50	45
	100%	61	85	64	25	40	56	77	27	66	77	63	44	71	66	44	57	39	67	54	47	51	50	40	66	41	41
	150%	59	76	56	27	37	48	66	34	55	68	58	40	63	60	41	48	33	63	45	41	44	36	58	35	38	
2 earners couple*	33%	33	70	45	16	17	32	5	25	16	34	17	14	13	16	14	31	23	18	13	34	30	28	7	40	22	25
	50%	40	62	46	16	15	34	15	30	20	35	23	17	18	20	20	27	23	24	17	33	23	29	17	36	22	27
	67%	46	57	47	19	20	37	22	34	23	38	28	19	23	23	22	28	23	29	20	32	23	29	21	39	22	28
	100%	49	52	48	25	23	35	24	35	27	41	34	24	29	25	25	29	23	38	22	31	24	29	24	39	22	29
	150%	52	54	48	27	26	34	31	39	32	44	38	28	35	33	29	30	23	44	24	31	27	30	26	41	22	30
(with 2 children)	% of AW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CZ	EE	HU	LT	LV	MT	PL	SK	SI	BG	RO
Single parent, 2 children	33%	96	125	76	-3	86	60	39	-26	75	97	99	82	67	70	47	81	64	60	91	100	69	48	43	100	92	44
	50%	81	97	82	11	59	68	54	-14	86	77	76	65	64	63	61	73	48	52	91	96	77	43	36	92	68	39
	67%	79	83	85	13	49	68	63	0	67	78	68	54	65	60	71	70	42	51	88	79	62	64	34	78	57	37
	100%	71	75	74	28	42	58	66	18	63	69	60	48	60	54	71	62	35	53	68	63	58	57	47	77	45	36
	150%	67	74	65	29	39	49	61	30	58	63	56	46	56	52	59	52	31	54	54	52	47	47	41	68	38	38
1 earner couple with 2 children	33%	91	95	76	-16	86	60	126	-26	63	100	100	82	86	100	13	113	98	18	91	100	108	63	81	100	103	59
	50%	70	96	82	3	59	68	106	-14	78	92	92	84	91	100	39	92	65	79	91	91	83	66	75	100	75	48
	67%	67	97	81	6	49	68	96	-4	86	91	80	73	93	90	54	78	53	70	92	75	67	58	60	84	62	44
	100%	61	96	72	24	41	63	81	16	72	80	68	56	81	71	61	59	43	67	83	60	61	53	45	77	49	41
	150%	60	86	62	27	38	50	69	29	59	70	61	49	69	63	52	53	36	64	65	50	49	47	39	68	40	41
2 earners couple with 2 children*	33%	34	95	54	40	17	53	34	34	36	33	19	12	26	18	57	28	23	21	53	34	44	45	7	57	22	25
	50%	40	85	52	32	14	38	34	40	33	34	24	19	27	22	48	35	23	28	44	33	35	44	17	54	22	27
	67%	46	77	51	31	17	38	36	43	32	37	29	20	29	24	44	34	23	32	40	32	33	39	21	56	22	28
	100%	49	66	51	33	21	37	34	42	33	39	34	26	34	26	41	33	23	40	35	31	31	36	24	50	22	33
	150%	52	63	49	32	25	35	37	44	37	43	38	29	38	34	39	32	23	45	36	31	32	34	26	49	22	32

Source: L&amp;R Datafile 'Datafilename', 2006

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