A tried-and-tested system – in simple terms

Switzerland's old-age insurance system

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Home Affairs FDHA
Federal Social Insurance Office FSIO

Introduction

Switzerland has a robust, finely meshed social security system that includes old-age pension insurance (OASI) and occupational pension insurance, health insurance, accident insurance, invalidity insurance and unemployment insurance, income compensation allowances in cases of service or maternity, military insurance, and family allowances. Supplementary benefits and social welfare round off this system, stepping in where other forms of social insurance provide inadequate protection or none at all.

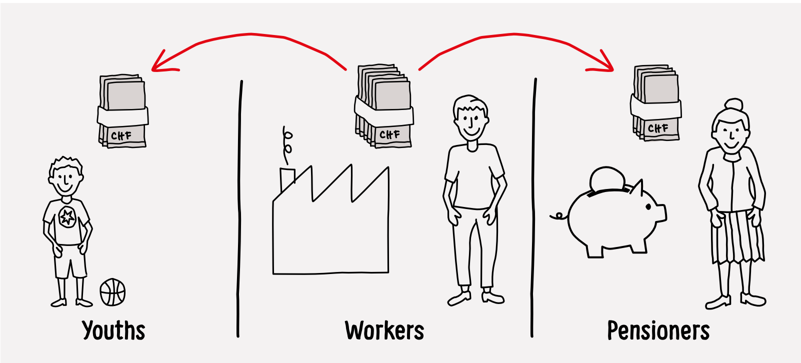
Old-age pension insurance is the central component of this social security system. Its purpose is plain and simple: when income from paid employment ceases after retirement, it ensures that we can continue living a financially independent life.

But the way in which old-age insurance is structured and functions is admittedly rather more complex. It comprises three different components – referred to as "pillars" – which have different tasks, are financed differently and are managed by different institutions.

If you understand the fundamentals of old-age insurance, you will be in a better position to plan your retirement and adopt a more relaxed approach to this phase of your life. This brochure is designed to provide you with basic information on the topic. It focuses on the first pillar, OASI, and on the second, occupational pension insurance, but also provides a brief summary of the third pillar, voluntary private provision. The brochure will tell you about the tasks of the three pillars, how each one works, how they interact with each other and what role supplementary benefits play in the system. The interaction between these components forms the basis for our robust, tried-and-tested system of old-age insurance, which is designed to enable all elderly people to live in dignity.

The purpose of old-age insurance

When income from paid employment ceases after retirement, old-age insurance guarantees that we can continue living a financially independent life.



All of us depend on financial support in certain phases of our lives – that is particularly true in childhood and youth, when we are not yet able to fend for ourselves, but also in old age, when we no longer have income from work.

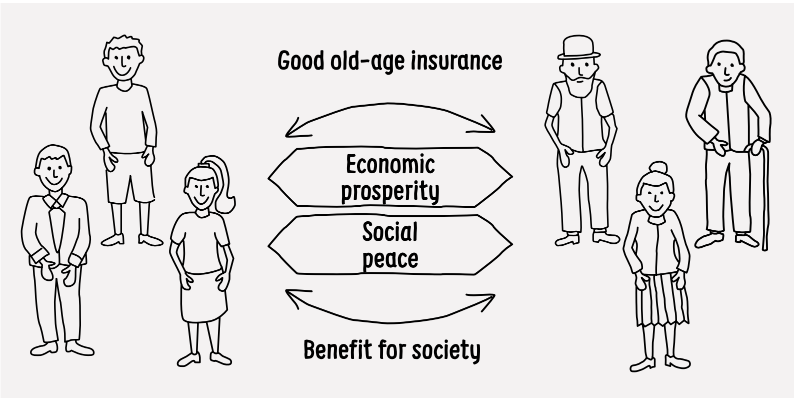
Only a few decades ago, poverty was a widespread phenomenon among the elderly. For many, old age was marked by deprivation and want, as they were no longer fit or strong enough to continue working. That is why, over the course of time, economically developed countries developed old-age pension systems to provide people with financial means in old age.

In Switzerland, the cornerstone for the old-age insurance system was laid on 6 December 1925. The Swiss people and the cantons voted overwhelmingly to add an article to the constitution introducing mandatory old-age, survivors' and invalidity insurance. The system (OASI) was not implemented until 20 years later: in 1947, the electorate approved the corresponding laws and the first old-age and survivors' pensions began being paid out in January 1948. They amounted to between 40 and 125 francs a month.

Today, pension entitlements go far beyond merely securing the bare minimum. The idea now is for the elderly to retain their financial independence during retirement and to be able to take part in social life. The benefits provided today by the OASI system, which has been continually adapted and honed by ten revisions of the law thus far, are supplemented by the occupational pension system (mandatory since 1985), the system of private pension provision (pillar 3a, since 1987) and – in cases where a person's pension income does not cover the minimum cost of living – by supplementary benefits (since 1966).

Benefits of old-age insurance

Making joint provision for old age has benefits for everyone: it provides peace of mind, creates a social balance, and contributes to social stability and economic prosperity.



Old-age insurance gives us the peace of mind that we will be able to enjoy retirement without fear of financial want.

We do not know in advance how long we will live and how much money we will need. Joint efforts to provide for old age dispel this uncertainty and make it easier to plan for retirement. No one need fear that the money they have set aside for this period of life will be insufficient.

Old-age insurance means that the ability to enjoy retirement in self-determination and without economic hardship is no longer merely a privilege of the wealthy. In this way, old-age insurance creates a social balance.

Even those who rear children and care for close relatives are looked after financially in old age. This balance is important for preserving social peace. In combination with the partnership between employers and employee representatives, it creates a sound basis for industrial peace and, for decades now, has contributed to the growth in overall prosperity in Switzerland.

Thanks to old-age insurance, the elderly can take part in social and political life and remain integrated in society. That enhances social cohesion, particularly in an ever more individualised world.

Old-age insurance guarantees senior citizens an income, thus preserving the purchasing power of this important segment of the population – and that is something from which the entire economy benefits.

Solidarity and individuality

Solidarity – between young and old, and rich and poor – is a central element of a properly functioning system of old-age insurance.

Not all people are able to make provision for their needs in old age. They rely instead, either entirely or in part, on help from others. What is more, it is both more efficient and financially more advantageous if individuals do not have to make provision for their old age on their own. That is why the old-age insurance system is organised on a collective basis and is based on the principle of solidarity. Different types of solidarity exist.

In the case of state-organised systems such as OASI, solidarity is central both to the benefits paid and to the method of financing: those of working age fund the pensions paid to the current group of pensioners. The money that the young contribute is used to finance current pensions. This gives rise to solidarity between the different generations, which the younger generation itself will profit from down the line.

But the OASI system is also marked by pronounced solidarity between rich and poor. Those who earn a lot pay in more than they will later receive in pension payments. Someone earning one million francs a year pays 84,000 francs in OASI contributions annually (half of which is paid by their employer), but will later receive a pension of no more than 28,440 francs (maximum pension in 2019). Those who are financially less well off benefit from this, receiving more in pension payments than they contributed.

The principle of solidarity also means that the federal government covers almost one-fifth of OASI expenses. It finances this mainly through income from taxes borne predominantly by high earners and the wealthy. Supplementary benefits, which are paid jointly by the federal government and the cantons, are even financed entirely through taxes.

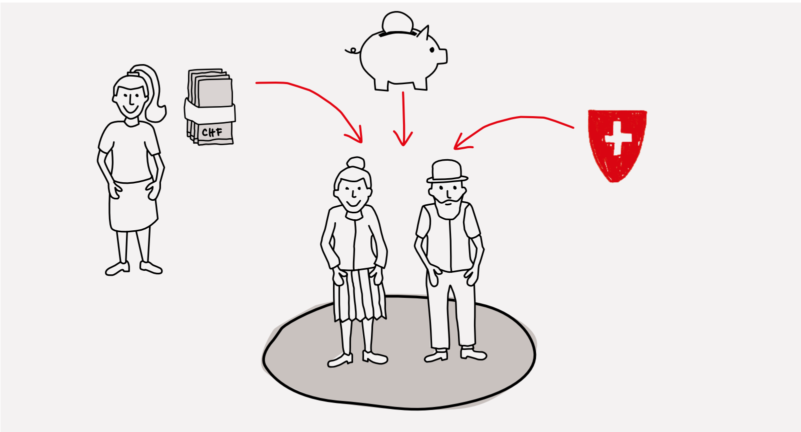
But the principle of solidarity that informs the OASI system also benefits those who are unable to focus on gainful employment. Insured persons receive credits for periods of time spent rearing children or caring for close relatives. After all, people who perform tasks that are important to society should not be forced to suffer financial disadvantage in old age because of that.

The occupational pension system, by contrast, is not intended to achieve a redistribution between generations or between rich and poor. However, it too is organised collectively and based on the principle of solidarity. The employees of a business join forces, contributing to a common pension fund to finance their retirement. That is more worthwhile than if each person were to invest money individually – and the investment risks are borne by the collective.

Finally, all old-age insurance systems exhibit an aspect of solidarity that has to do with life expectancy. Those who do not live as long receive less overall pension income. All those who live longer benefit from the money saved in this way.

Organising principles

There are different ways for organising and financing old-age insurance systems.



Every old-age insurance system is based on the principle of forgoing a portion of one's income while employed in order to receive money at a later date, either in the form of a pension or lump-sum capital. But there are different ways in which this can be organised and financed.

Old-age insurance can be either mandatory or voluntary. The purpose of mandatory insurance is to provide basic cover for everyone or for a particular group of people. In Switzerland, old-age insurance (OASI) is mandatory for the entire population, as well as for a certain group of workers (mandatory occupational pension insurance).

The purpose of voluntary insurance is to preserve a certain standard of living or meet additional needs. In Switzerland, that task is performed, on the one hand, by non-mandatory occupational pension insurance: the pension funds may provide for insurance cover that exceeds the mandatory benefits prescribed by the state, and the majority of employees belong to pension funds of this kind. But it is also performed by linked individual provident measures (pillar 3a). Individuals are free to decide whether or not to take out pillar-3 insurance.

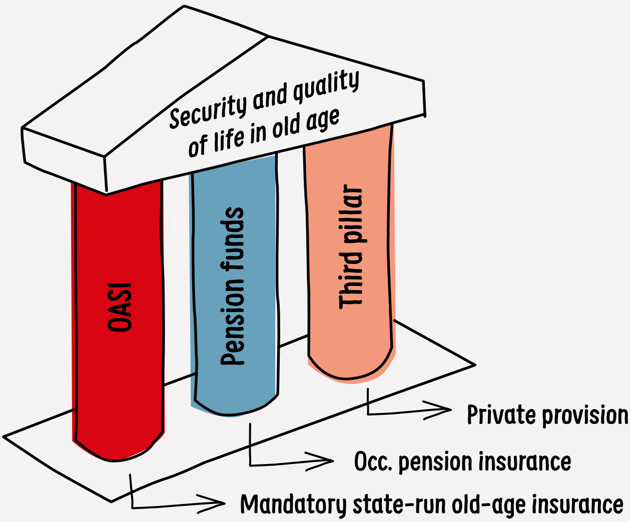
Old-age insurance can be financed by means of contributions or taxes. Depending on the financing method, investment income may also play a role. State-run forms of insurance (like OASI) are usually funded by a mix of contributions and taxes. Occupational pension insurance and linked individual provident measures are funded, for the most part, by contributions. Supplementary benefits are financed exclusively via taxes.

The method of financing old-age insurance may differ as well. In the pay-as-you-go system, the money collected in contributions by the insurer flows straight to the current cohort of pensioners and is not invested. The OASI system is based on this model. Only the financial reserve used to cover shortfalls in times of difficulty is invested and earns interest. In a (fully) funded system, the insurer invests the contributions it receives. The capital saved and the interest earned on it are then used to finance later old-age benefits. The funded system is used, for instance, by pension funds, who organise it on a collective basis: an entire group of insured persons pays contributions to the same pension fund and, in return, receives benefits from that fund on retirement. By contrast, private pension provision is purely individual: every insured person invests money for themselves alone.

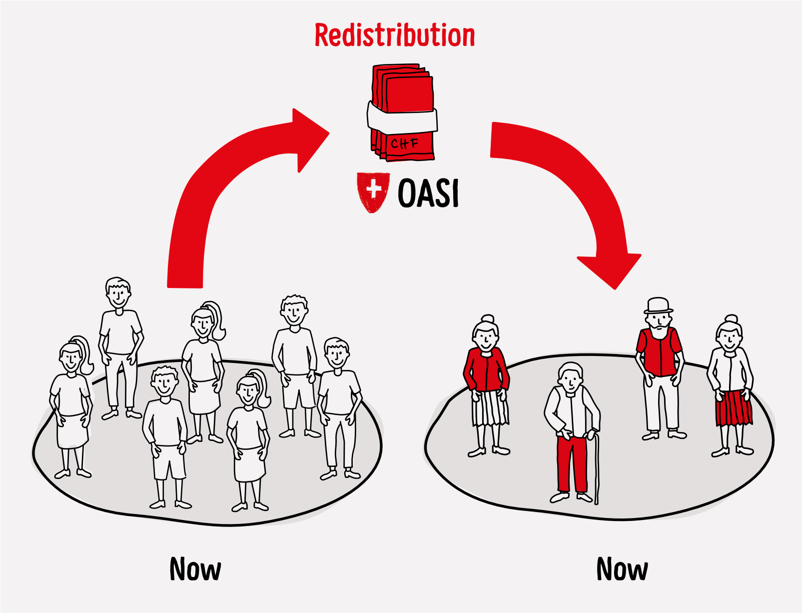
The three-pillar system

Switzerland's three-pillar system enables old-age insurance to be optimally tailored to the needs of different sections of the population and achieves the best possible distribution of financial risks.

The Swiss system of old-age insurance rests on three pillars: state provision, occupational pension insurance and private provision. The three pillars have different tasks and are regulated differently.



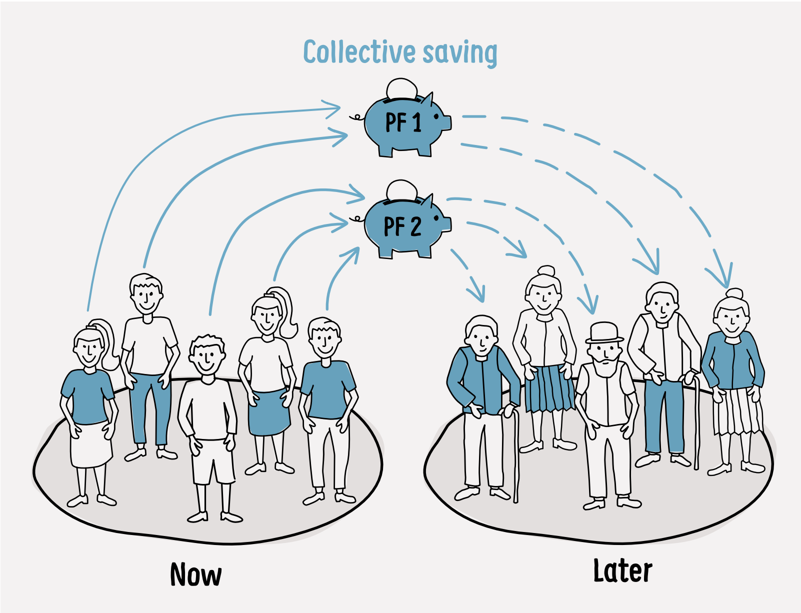
FIRST PILLAR: STATE OLD-AGE INSURANCE



OASI is the state-run system of old-age insurance and covers the basic needs of the entire population. The law prescribes the size of the contributions, what benefits are paid and how they are calculated. If the pension income is insufficient to secure the bare minimum for survival, supplementary benefits can be called on.

State-run old-age insurance is based on the pay-as-you-go system, with the money collected in contributions by OASI flowing straight to the current cohort of pensioners. The funds collected are not invested. The pay-as-you-go system has one big advantage: as the funds collected are spent immediately, interest-rate trends and inflation play a subordinate role. But the system does have drawbacks. If the number of pensioners rises relative to the number of contributors, that may upset the equilibrium between income and expenses. The pay-as-you-go system is also highly dependent on economic growth. If the latter is strong and the total payroll increases, OASI benefits. By contrast, in times of crisis with high unemployment and low wages, contributions drop and the system can slip into deficit.

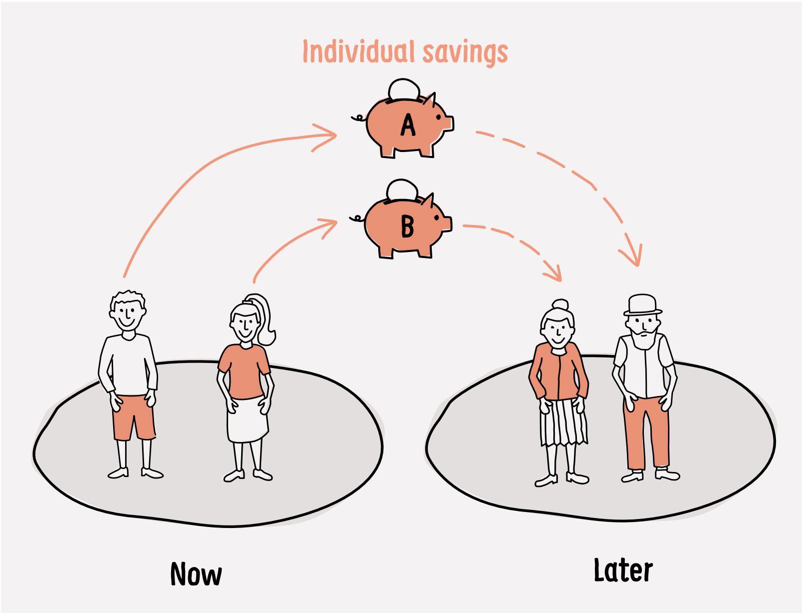
SECOND PILLAR: OCCUPATIONAL PENSION INSURANCE



The idea behind occupational pension insurance is to enable employees to maintain, to an appropriate extent, their accustomed standard of living after retirement. To this end, the employees join a pension fund, either voluntarily or on a compulsory basis. These funds are run by representatives of both the employers and the employees. Together, they determine what benefits the pension fund pays out and how they are financed. In this way, they can cater to the needs of those insured. However, the law prescribes certain minimum requirements.

Occupational pension insurance is financed using the funding system. Those insured by the pension fund pay contributions and the pension fund invests the capital collected. When an insured person retires, the pension fund converts their assets into a pension. The insured person may also opt to have all or part of those assets paid out as a lump sum. The details of lump-sum payments are set out in the rules of each pension fund. So, those insured with a pension fund save money to cover their own personal retirement benefits. It is therefore of no significance if the ratio of pensioners to contributors changes. By contrast, rising life expectancy is of significance to this system because it means that pensions will have to be paid for a longer period. In a funded system, inflation, low interest rates and breaks in employment also lead to lower pensions because they reduce the amount of assets that can be accumulated prior to retirement.

THIRD PILLAR: INDIVIDUAL PROVIDENT MEASURES



Individual provident measures are supposed to cover any additional personal needs. The system enables the gainfully employed to pay a certain amount into a bank savings account or life insurance policy. These payments may be deducted from taxable income. With certain exceptions, the money saved cannot be touched until retirement. It is then disbursed and may be used as the individual saver sees fit.

Individual provident measures function in accordance with the savings-bank principle: the money paid in, plus accrued interest, is paid out again on retirement. Private provision presupposes that a person has a relatively high income and is able to set a portion of it aside. The contributions can be tailored to suit a person's particular financial situation. Inflation and low interest rates both have an impact on the savings process and thus on the post-retirement benefits.

A robust system

The different financing systems allow the financial risks to be spread, making the three-pillar system more robust than one relying entirely on a single pillar.

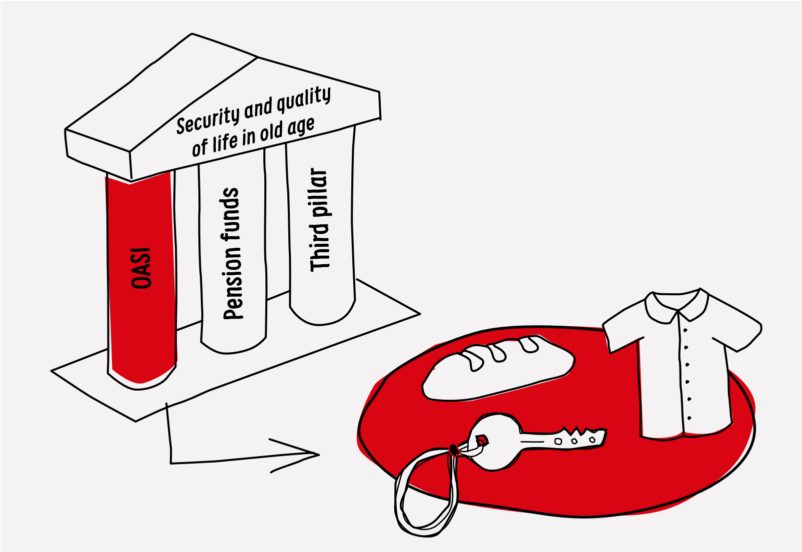
But even in a three-pillar system, factors can upset the equilibrium of one or more of the pillars. It is necessary to keep a close eye on the development not only of OASI, but also of occupational pension insurance.
It is important that measures to restore equilibrium are taken in good time. Problems must not be allowed to become so severe as to threaten the target benefits of the old-age insurance system.

SUPPLEMENTARY BENEFITS – AN IMPORTANT COMPLEMENTARY SOURCE OF INCOME

Old-age insurance benefits may not be sufficient to ensure the bare minimum in old age. That is typically the case with people who did not work or had only a low income, and thus were unable to pay contributions to the second or third pillars. It is also frequently the case with people who require care in old age and who live in a nursing home. The nursing-home costs often exceed such pensioners' financial resources.
In cases like these, the pensioners are entitled to supplementary benefits, which can fill the gap between a person's expenses and their inadequate income.

The first pillar: OASI

OASI covers basic needs. It is mandatory and includes not only the gainfully employed, but non-working members of the resident population.



OASI covers everyone living or working in Switzerland, though treaties with other countries may provide for divergent rules in individual cases.

COMPULSORY CONTRIBUTIONS

The gainfully employed are obliged to pay contributions from the first day of the January after they reach the age of 17; the obligation continues until they stop working. That means that those who are still gainfully employed after reaching retirement age must continue to pay OASI contributions, but only on incomes exceeding 16,800 francs per year (1400 francs per month). Those who are not gainfully employed must begin paying contributions from the first day of the January after they reach the age of 20; the obligation continues until they reach retirement age. The contributions of the gainfully employed are levied on their entire income from paid employment. The contribution for employees equates to 8.4 per cent of the respective salary, with employer and employee each paying half of the total contribution. The contributions paid by the self-employed depend on their income and amount to between 4.2 per cent and a maximum of 7.8 per cent. People who are not gainfully employed pay contributions in relation to their assets and any pension income they may have. Their contribution amounts to at least 482 francs and at most 19,600 francs a year (all figures refer to 2019).

A special rule applies to married couples: if only one spouse is gainfully employed and their OASI contributions amount to at least 964 francs (i.e. twice the minimum contribution), the compulsory contributions of the other, non-gainfully employed, spouse are considered to have been paid.

BENEFITS

OASI pays old-age pensions, survivors' pensions, helplessness allowances and financial assistance, and also covers the cost of auxiliary equipment.

Old-age pensions

Women who have reached the age of 64 and men who have reached the age of 65 (= ordinary retirement age in both cases) are eligible to receive an old-age pension.

Insured persons may begin drawing an OASI old-age pension one to two years before ordinary retirement age. By the same token, the pension may be deferred by up to five years after ordinary retirement age. If the pension is drawn one year early, it is reduced by 6.8 per cent, and by 13.6 per cent if drawn two years early. If deferred, the pension increases by 5.2 per cent after one year, rising to 31.5 per cent after five years.

Persons who have reached ordinary retirement and still have children under the age of 18 are entitled to receive a child's pension. For children who are studying, this entitlement extends until they reach the age of 25.

Survivors' pensions

Widows are entitled to a survivor's pension if they are still caring for children when their spouse dies. The age of the children is immaterial. If they do not have children, widows receive a survivor's pension provided that, when widowed, they are at least 45 years of age and were married for five years. Widowers are entitled to a survivor's pension only if they have children under the age of 18 when their spouse dies.

Divorcees (men and women) are entitled to a survivor's pension after the death of the ex-spouse until such time as their youngest child reaches the age of 18. In certain circumstances, a divorced woman is even entitled to receive a survivor's pension if her children are older than that or she is without children.

Registered partners have the same entitlements as widowers: the surviving partner receives a survivor's pension until his/her children reach the age of 18.

Children who lose their father or mother are entitled to an orphan's pension until the reach the age of 18. If they are still studying, this entitlement continues until age 25.

Helplessness allowances

People who live in Switzerland and are entitled to an OASI old-age pension or supplementary benefits can also receive a helplessness allowance from OASI if they have a severe, medium or slight degree of helplessness. Someone is considered to be helpless if they require assistance from another person on a permanent basis to perform certain activities of daily life, such as getting dressed, performing acts of personal hygiene, eating, etc. If a person has been classified as having a slight degree of helplessness, they are entitled to an allowance only if they live at home.

Monthly benefits (for 2019)

PENSIONS

Complete OASI pensions (if full contribution period completed)	Minimum, in CHF	Maximum, in CHF
Old-age pension	1 185	2 370
Child's pension (40% of old-age pension)	474	948
Widow's/widower's pension (80% of old-age pension)	948	1 896
Orphan's pension (40% of old-age pension)	474	948

HELPLESSNESS ALLOWANCE

Degree of helplessness	Slight	Medium	Severe
Amount	237	593	948

If both spouses are drawing an old-age pension, the aggregate pension is capped and amounts to 150 per cent of the maximum pension, i.e. 3555 francs (amount for 2019). If the sum of the two pensions exceeds this amount, both are reduced proportionately. This reduction is discontinued if one of the spouses dies. A widow's/widower's supplement of 20 per cent is also paid. However, the supplement is paid only up to the amount of the maximum old-age pension.
As a general rule, the Federal Council adjusts OASI pensions every two

years in line with inflation and salary growth. Adjustments are carried out using what is known as the “hybrid index”, which represents the average of the salary index and the price index. If inflation exceeds four per cent in a year, pensions are adjusted annually.

Auxiliary equipment and financial assistance

OASI pays a share of the cost of certain auxiliary equipment for people who are drawing an old-age pension or supplementary benefits and who live in Switzerland. The equipment in question includes, for example, magnifying glasses, speech aids, orthopaedic shoes, wheelchairs and hearing aids. Private non-profit institutions, such as Pro Senectute, can receive financial assistance from OASI if they provide particular services to senior citizens.

CALCULATION OF PENSIONS

The amount of the OASI pension depends on a person's income and how long they paid contributions.

The amount of a person's OASI pension depends on how long they paid OASI contributions and how high their average annual income was.

Contribution period

Those who achieve the maximum contribution period are entitled to a complete pension. This is the case if a person is insured without interruption from age 20 until retirement age and has met all their payment obligations, meaning 44 years of paid contributions. If a person paid contributions prior to reaching the age of 20, they can use these to make up for missing years of contributions in the period after 20.

Insured persons can meet their obligation to pay contributions through:
→ the payment of the insured person's own contributions;
→ contributions of their spouse, provided they amount to at least twice the minimum contribution. Twice the minimum contribution is 964 francs a year (in 2019);
→ parental credits and care credits.

Parental credits are granted for every year spent looking after children under the age of 16. As care is the deciding factor, parental credits are also granted to those looking after stepchildren and adopted children. Care credits are granted for years spent caring for close relatives with a medium or severe degree of helplessness.

Insured persons with gaps in their contribution history are entitled to a partial pension only. For every missing year of contributions, the pension is reduced by 1/44 (= 2.27 per cent). Gaps in contributions can arise in particular if a person leaves Switzerland for any length of time. However, a finely meshed network of treaties with other countries ensures that, in such cases, the person in question can generally draw old-age benefits from the other country.

Average income

The average annual income comprises, for the most part, income from gainful employment. The total income is first revalued using the average salary and price index and subsequently divided by the number of years of contributions. The average of the parental and care credits – equal to three times the annual minimum pension at the time the pension is claimed (42,660 francs in 2019) – is added to this amount.

This results in the average annual income used to calculate the pension. If this figure is 14,220 francs or less, the complete pension amounts to 1185 francs a month or 14,220 francs a year. That is the minimum pension. If the average annual income is 85,320 francs or more, the complete pension amounts to 2370 francs a month or 28,440 francs a year (figures for 2019). That is the maximum pension. For all incomes between these limits, the OASI pension is calculated using a mathematical formula. According to that formula, the OASI pension is structured such that, at the lower end of the salary scale, it replaces the insured person's entire income. With higher salaries, by contrast, the OASI pension replaces only part of the insured person's income.

When calculating the pensions of married persons, all income earned during the marriage is added up and credited in equal portions to each spouse. This is called splitting. Parental and care credits are also divided up.

FINANCING

OASI is funded by means of contributions and taxes.

OASI is financed mainly through the contributions of the insured persons and their employers, which account for almost three-quarters of all OASI income. The remaining quarter is funded from other sources:

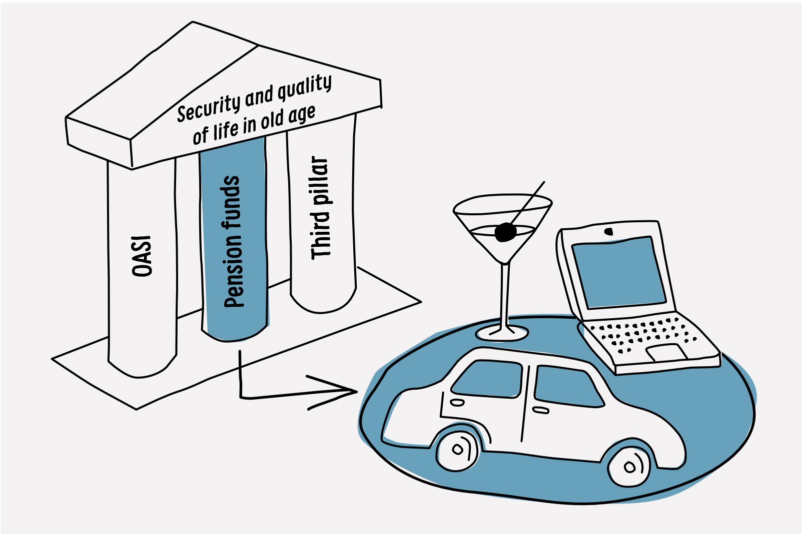
→ Federal subsidy: This covers a fixed amount of 19.55 per cent of OASI expenses. The federal government funds this amount through proceeds from alcohol and tobacco taxes and from VAT as well as with other general funds.

→ Value added tax: VAT was raised by one percentage point in 1999. OASI receives 83 per cent of this percentage-point increase, while the federal government gets 17 per cent.

→ Tax on gambling clubs: This goes in full to OASI.

The second pillar: occupational pension insurance

Occupational pension insurance enables employees to maintain, to an appropriate extent, their accustomed standard of living after retirement. This type of insurance is mandatory for part of the working population.



The goal of occupational pension insurance is to supplement OASI pensions in such a way that the insured persons can maintain their accustomed standard of living to an appropriate extent. Occupational pension insurance is mandatory for employees earning at least 21,330 francs with one employer, an amount referred to as the entry threshold.

The mandatory insurance covers annual incomes of up to 85,320 francs. However, pension funds can also insure salaries that are higher than 85,320 francs or lower than 21,330 francs (figures for 2019). Such cases are referred to as non-mandatory occupational pension insurance.

Employees who have an annual income of at least 21,330 francs, but not with a single employer, may take out voluntary insurance: either with the pension fund of one of their employers (provided the pension fund regulations permit) or with the National Substitute Pension Plan Foundation (Stiftung Auffangeinrichtung BVG). The self-employed are also free to join a pension fund: either that of their professional association or that of their employees if they have any (alternatively with the National Substitute Pension Plan Foundation).

Occupational pension insurance is managed by the pension funds, which are under the dual control of employees and employers. That means the pension fund board must be made up of equal numbers of employee and employer representatives.

The law places detailed demands on pension funds as regards mandatory occupational pension insurance. In particular, it determines the minimum benefits to which the insured persons are entitled. While the pension funds have more freedom when it comes to non-mandatory occupational pension insurance, the minimum benefits they offer must not be less than those stipulated by law for mandatory insurance.

INSURED SALARY ("COORDINATED" SALARY)

As the second pillar of old-age insurance, occupational pension insurance builds on the benefits of OASI, the first pillar. For this reason, occupational pension insurance covers only a part of a person's total income – namely that remaining after application of the "coordination deduction", which amounts to 24,885 francs. The insured salary thus corresponds to the annual income less the coordination deduction, but must amount to at least 3555 francs. This is referred to as the "coordinated" salary. The highest insured salary under mandatory occupational pension insurance amounts to 60,435 francs, i.e. 85,320 francs less 24,885 francs (figures for 2019).

In practice, many pension funds also insure lower salaries. They do so either by applying a lower coordination deduction, adapting it to the person's degree of employment or forgoing it altogether.

FINANCING AND CONTRIBUTIONS

Occupational pension insurance is financed using the funding method: the insured persons accumulate capital with the pension fund, which is later used to finance their benefits. This capital mainly consists of the contributions made and the interest earned. It is also possible to make voluntary contributions and one-off payments (purchases).

The pension fund sets the amount of the contributions. By law, employers must pay at least half the contribution amount set for their employees, though many employers pay a higher proportion.

BENEFITS

On retirement, the pension fund benefits are usually disbursed in the form of a life-long pension, though in some cases they are paid out as a lump sum. Combinations of these two forms of disbursement are also possible. Although the benefits must comply with the required statutory minimum, the regulations of individual pension funds may provide for higher benefits.

Insured persons beginning work with a different employer generally transfer to the new employer's pension fund. In such cases, their existing assets (also called "departure benefit") must be transferred to the new pension fund. If a new job is not started immediately, these assets must be deposited with a vested-benefits institution until the person is either employed again or retires.

The entire departure benefit, or part thereof, may be drawn before retirement in the following cases:
→ to purchase owner-occupied housing;
→ on commencement of self-employment;
→ if the insured person leaves Switzerland for good – unless he/she moves to a Member State of the European Union (EU) or the European Free Trade Association (EFTA), in which case only the assets related to non-mandatory insurance are paid out.

CALCULATING OLD-AGE PENSIONS

In occupational pension insurance, retirement assets are accrued over the course of a person's working life. The main components of these assets are:
→ retirement assets transferred on a change of employer;
→ annual old-age credits;
→ higher contributions / one-off payments made voluntarily (purchases);
→ interest on old-age credits, retirement assets, voluntary contributions and purchases.

The law states that a certain percentage of the coordinated salary must be credited to every insured person once a year. This is referred to as an old-age credit. The amount of this credit depends on the insured person's age.

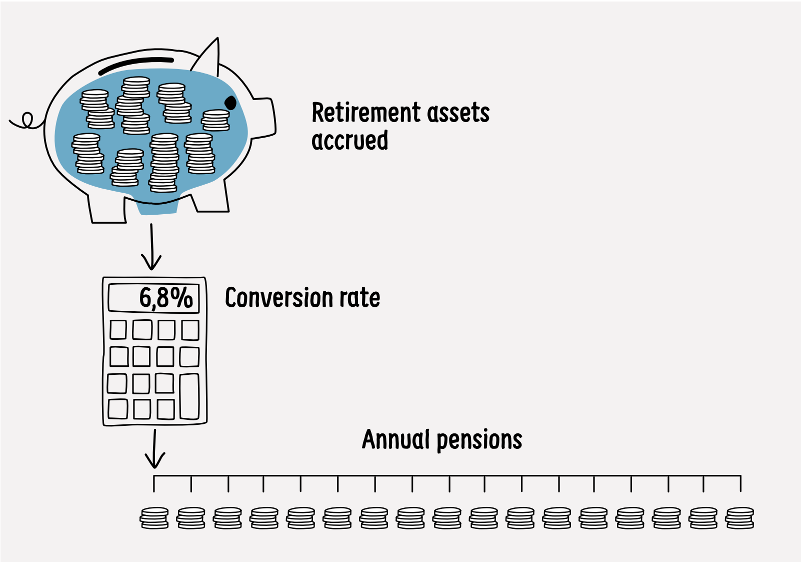
Age	Old-age credit in % of coordinated salary
25–34	7
35–44	10
45–54	15
55–65	18

The regulations of individual pension funds may provide for higher old-age credits.

Insured persons may improve their future entitlements by making voluntary contributions and one-off payments (purchases). As a rule, more than one purchase is possible.

Under mandatory occupational pension insurance, the interest earned on old-age credits must not be lower than the minimum interest rate set by the Federal Council – currently (2019) one per cent. Pension funds may apply other interest rates with non-mandatory occupational pension insurance.

Conversion rate



On retirement, the retirement assets are converted into a life-long pension – unless they are paid out as a lump sum. This is accomplished using the conversion rate, which specifies what percentage of the retirement assets equates to the annual pension provided by the fund.

In mandatory occupational pension insurance, the conversion rate is fixed by law. The pension funds are not allowed to apply a lower conversion rate. That is why it is referred to as the minimum conversion rate. It amounts to 6.8 per cent (figure for 2019), which means the annual pension paid by the fund amounts to 6.8 per cent of the retirement assets. Thus, for every 100,000 francs in retirement assets, the pension fund must pay an annual pension of at least 6800 francs.

In non-mandatory occupational pension insurance, the pension funds are free to set their own conversion rates. In doing so, they take life expectancy into account: the higher the insured persons' life expectancy, the lower the conversion rate – given that the capital has to last for a person's entire life. The conversion rate also depends on the return the pension fund can expect to make on the remaining capital. If the return is low, the conversion rate must be lower than if higher returns were expected. Owing to rising life expectancy and low interest rates, many pension funds have lowered their conversion rates for non-mandatory occupational pension insurance in recent years

BENEFIT PLANS

Some pension funds offer only the minimum benefits required by law, while others provide only non-mandatory occupational pension insurance. However, the majority of pension funds offer both mandatory and non-mandatory occupational pension insurance.

There are two ways in which they can do this. They can either combine everything in a single comprehensive benefit plan – in this case we speak of "enveloped" funds. In terms of the minimum interest rate and conversion rate, such funds may deviate from what is required by law provided their benefits remain above what is prescribed for mandatory occupational pension insurance. Alternatively, they can have separate benefit plans, in which case we talk of "split" pension funds. Their benefit plans for mandatory occupational pension insurance must comply with the statutory minimum, but they are free to depart from that in their voluntary benefit plans.

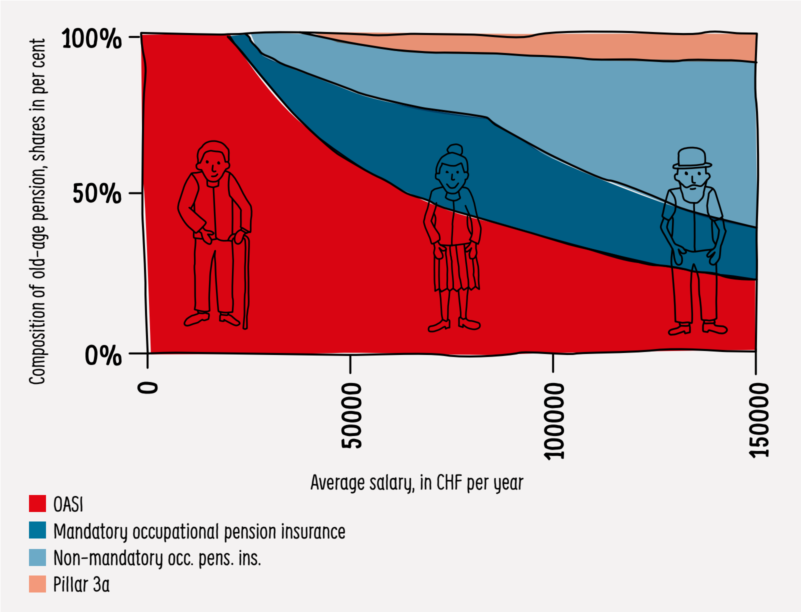
How the three pillars interact

The three pillars of the old-age insurance system build on each other, and their goals and benefits are coordinated.

OASI forms the foundation of the old-age insurance system for the whole resident population. It covers basic needs – where necessary, in combination with supplementary benefits. The term "basic needs" is understood to mean more than just the bare minimum for survival. Basic needs include what is required so that the elderly can live simply, but in dignity. That includes the ability to maintain social contacts and satisfy cultural needs, but also the means to stay for as long as possible in their accustomed environment.

Occupational pension insurance builds on OASI. Its purpose is to enable retired workers to maintain, to an appropriate extent, their accustomed standard of living. Taken together, the benefits paid by OASI and mandatory occupational pension insurance are supposed to replace around 60 per cent of a person's pre-retirement income. As mandatory occupational pension insurance covers annual incomes of up to around 85,000 francs, the total target benefit for the two forms of mandatory insurance extends to around 50,000 francs. The majority of those insured with a pension fund also have non-mandatory occupational insurance, which enables them to enjoy considerably higher benefits.

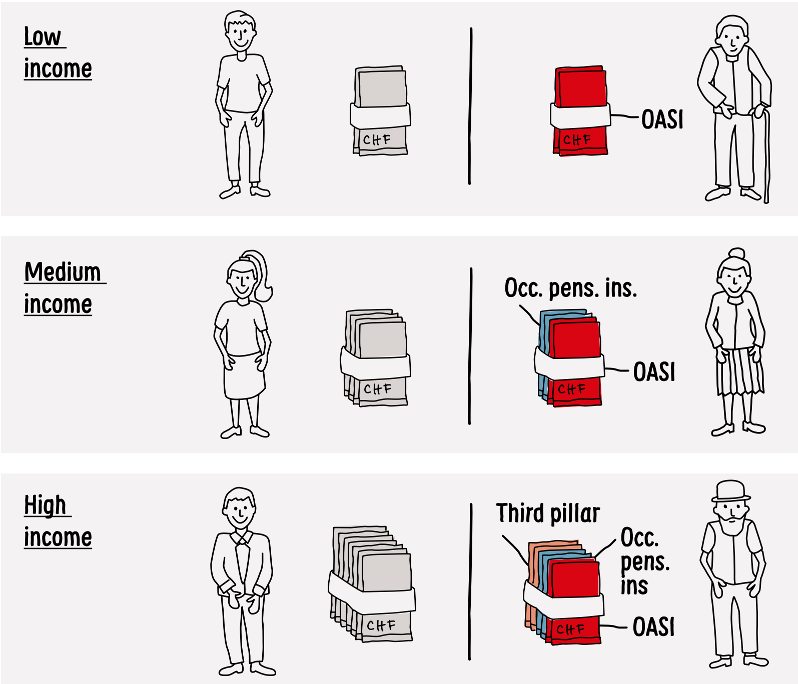
In addition to OASI and occupational pension insurance, the gainfully employed are free to build up a third pillar. Employees with second-pillar insurance can set aside a tax-deductible maximum of 6826 francs per year. Self-employed persons with no second-pillar insurance can set aside a tax-deductible amount of up to 34,128 francs (figures for 2019).



Many retirees receive only OASI. In 2015, this was the case for 24.8% of people who had reached statutory retirement age during the previous five years. All other insured persons receive both an OASI and an occupational pension ; in some cases, they also receive money from the 3rd pillar.

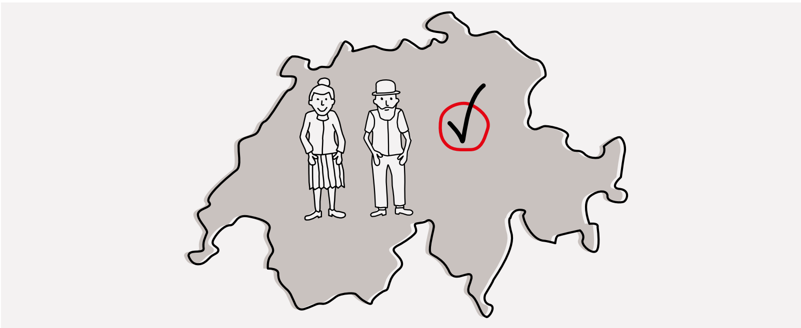
Individuals who are not gainfully employed, work part-time or have had career breaks often have no or only a small 2nd pillar. Though they are free to make voluntary contributions, their employers are not obliged to bear a share. That is why this avenue is open only to those with the corresponding financial means. Under OASI, by contrast, contributions continue to be paid when there is a gap in employment, e.g. through unemployment. Those bringing up children or caring for close relatives also receive credits for the service they provide.

The lower a person's income, the greater the significance of the OASI pension. Conversely, the occupational pension increases in importance with rising income. That is particularly the case for those with non-mandatory occupational pension insurance cover.



A balanced system

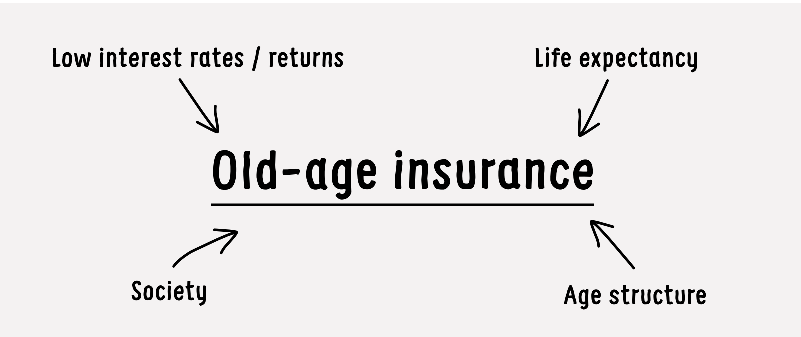
Switzerland's system of providing for old age is both sound and balanced – and, given that these qualities are key to the country's success, that's how it should stay.



Switzerland is among the ten most affluent countries in the world in terms of per-head GDP. This material affluence is also attributable to our strong institutions, especially our sound system of providing for old age. This system is balanced, in tune with the times and securely financed. For one thing, it combines two different financing models, that of OASI and that of occupational pension insurance. For another, it has been repeatedly adapted to reflect changing social needs and financial parameters. That's what makes it such a sound system and capable of offering good benefits. It also explains its solid reputation and high levels of acceptance with the population.

External factors and challenges

The system of providing for old age is influenced by a variety of external factors, including the demographic trend, economic growth and social developments.



Old-age insurance does not develop in isolation, but is influenced by constant changes in life expectancy, economic growth and society. More and more people are living longer and drawing their pensions for longer periods. In 1948, a 65-year-old man could expected to live for just under 12 years on average, and a woman of the same age for more than 13. Today, life expectancy for the same cohort of men is 19.8 years and 22.7 for women.

Over the same period, the birth rate has fallen. In 1948 there were 19.2 live births per 1000 residents, while the figure today is 10.5. In 1948, a woman had an average of 2.54 children; today, the corresponding figure is 1.54.

In the 1950s and 1960s Switzerland experienced strong population growth. In the ten years from 1954 to 1964, the number of live births rose from around 84,000 to almost 113,000; after that the figure declined, reaching 84,000 again in 1974. The babies born in this period are the baby-boomer generation, and they are now reaching retirement age. In none of the following years was the number of births as high as it was in during the baby boom.

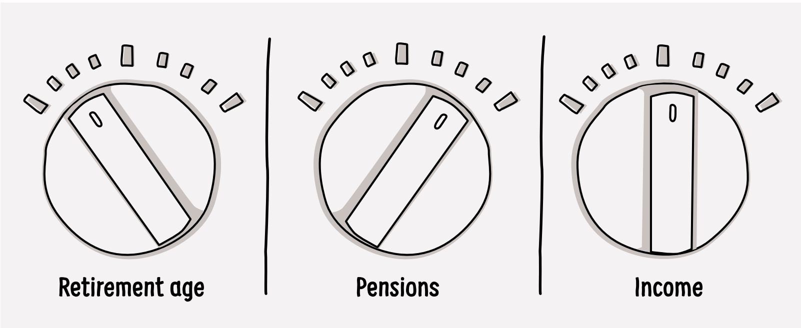
As a result, the number of pensioners is growing faster than the number of workers. Although recent immigration has slowed this unfavourable demographic trend, it has not stopped it altogether. Sixty years ago, there was an average of six workers per pensioner. Today, there are only 3.4 and, in future, there will be even fewer. This trend is jeopardising the financing of old-age pensions.

As old-age insurance (OASI) is financed primarily by means of salary contributions and taxes, it is highly dependent on economic growth. Economic growth also has an impact on investment income, which is of prime importance, in particular, for occupational pension insurance. A weak economy has a negative impact on provision for old age.

Changes in society and the working world are another major influencing factor. For example, more and more people want to work part-time or to determine themselves the time at which they leave the workforce. The number of working women is also on the rise. The old-age insurance system must keep pace with such developments.

Possible modifications

There are many different options for keeping the old-age insurance system on an even keel. Measures can be taken on either the income side or the expenses side – the important thing is that they find popular acceptance.



The three main ways of managing the old-age insurance system and keeping it on track are well known:

Firstly, we can influence the period during which the pension is drawn by making working life more attractive for potential retirees, making the transition to a pension more flexible or raising the statutory retirement age.

Secondly, we can change the benefits, for instance by adjusting the amount of the pension or modifying the prerequisites for drawing one. In occupational pension insurance, the conversion rate is the chief determinant of the size of the pension.

It must factor in life expectancy and anticipated investment income to ensure that the pensions are properly financed.

Thirdly, we can increase income into the system, predominantly by raising VAT, salary contributions or the federal subsidy.

Which measures are ultimately adopted will have to be negotiated and determined in a democratic decision-making process.

Publication details
This brochure provides a general overview of the topic. A conclusive assessment of each individual case is possible only on the basis of the relevant legislation.

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