

## 360° Benefits News

# Pension reform – a comparison of the submitted proposals

**Various concepts developed by employer associations, trade unions, federations and organisations beyond the social partners are sparking debate.**

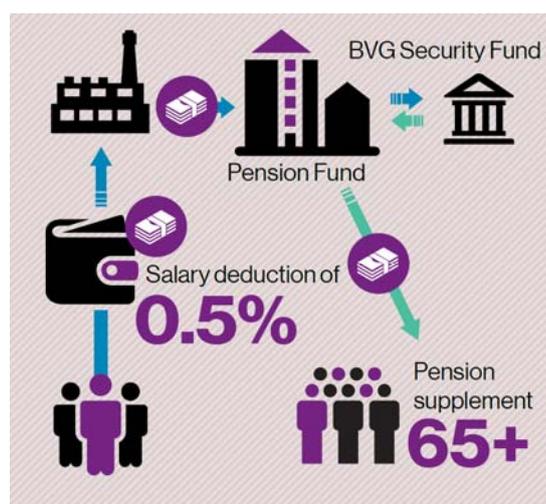
After the “Pension Reform 2020” proposal was rejected by the people and the cantons, the Federal Council decided to settle for revising the first and second pillars separately. To this end, it invited the social partners to submit their proposals and concepts for a pension reform.

The social partners, i.e. the employer’s association, the Swiss Federation of Trade Unions and Travail.Suisse, presented their “results of the social partner negotiations” on pension reform on 2 July 2019. The trade association, which did not support this proposal, presented its own suggested solution to the Federal Council on the same day.

### Compromise proposed by the social partners

There are many indications that the social partners’ proposal will be accepted by the Federal Council. This would mean that the relevant consultation draft could be ready by the end of 2019 and then submitted to Parliament next year. The social partners are essentially proposing the following:

- The main measure that the social partners presented on 2 July 2019 provides for a reduction in the minimum conversion rate provided for in the pension law from 6.8% to 6.0%. However, pensioners will not experience any benefit cuts as the reduction in the conversion rate will be fully compensated for.
- The key changes relate to the compensation for the reduction in the conversion rate to 6.0% (see below, compensation measures 1 and 2).
- **Compensation measure 1: pension supplement in the pay-as-you-go system**  
Once this reform takes effect, every actively insured individual will pay 0.5% of their salary subject to AHV in order to finance the pension supplement for all future pensioners. The respective employers will deduct these amounts directly from their salaries and transfer them to the pension fund. In turn, the pension fund will transfer these amounts to the BVG Security Fund, which will then transfer an amount to the pension fund to be paid to its retirement pension recipients as a pension supplement.

**Table 1: Illustration of compensation measure 1****Deduction of salaries subject to AHV in order to finance the pension supplement**

Pensioners have a life-long entitlement to the pension supplement. The monthly supplement amounts to CHF 200 for the first five year groups eligible for a pension after the reform takes effect, CHF 150 for the next five year groups and CHF 100 for the last five year groups. All subsequent year groups are also entitled to a pension supplement, the amount of which will be determined by the Federal Council.

- **Compensation measure 2: reduction in the coordination deduction**

The coordination deduction will be lowered from CHF 24,885 to CHF 12,443. This means that deductions for retirement pensions will be made from salaries starting at CHF 12,443. By reducing the coordination deduction, part-time employees will benefit from higher retirement credits. The same also applies to individuals with low incomes.

- **Simplification measure: only two contribution rates for retirement credits (Table 2)**

Age	Current total contributions	Social partners' proposal
21 – 24	7%	9%
25 – 34	10%	9%
45 – 54	15%	14%
55 – age of reference	18%	14%

## Proposal of the trade association

The trade association also sees a reduction in the conversion rate as unavoidable. The aim is to implement this reduction without expanding the 2<sup>nd</sup> pillar benefits, but to increase accumulated capital by 13.3% for the compensation. This is to be achieved by adjusting the retirement credits of active insured members.

**Table 3: Pension reform proposal of the trade association**

Measures	Compensation
Reduction in the minimum conversion rate from 6.8% to 6.0%	<ul style="list-style-type: none"> <li>• Adjustment of retirement credits</li> <li>• Compensation for the first 10 up to a max. of 20 year groups eligible for a pension</li> </ul>

For the first year groups eligible for a pension (10 to a max. of 20 years), the increase in retirement credits will not be sufficient to compensate for the reduction in the conversion rate. They will be compensated for benefit reductions similar to Pension Reform 2020 (central solution via BVG Security Fund).

### Further proposed revisions

#### ▪ ASIP

The Swiss Pension Fund Association (ASIP) also submitted a reform proposal for the 2<sup>nd</sup> pillar in May 2019. Its reform measure consists of reducing the conversion rate to 5.8%. The benefit reduction is to be compensated for by increasing individual retirement savings. In order to achieve this, the ASIP suggests reducing the age at which to start saving for retirement from the current age of 25 to 20. It also proposes adjusting the coordination deduction and retirement credits to this end. Moreover, the first ten year groups eligible for a pension will also benefit from compensation measures.

#### ▪ Association for “Fair Pension Provision”

Meanwhile, the association for “Fair Pension Provision” sees completely different solutions for the future of the 2<sup>nd</sup> pillar, which it has summarised in its “Reform proposal for the compulsory component of the 2<sup>nd</sup> pillar” of July 2019. Abandoning the current one-time choice between pension and capital and the related minimum conversion rate is only one aspect of its proposal. Under the proposal, insured individuals would acquire the ability to choose between a pension and capital every five years from the retirement date, based on their life situation and in view of the respective applicable actuarial conversion rate. As a result, capital could also be freely inherited under civil law. The abandonment of survivors’ pensions is another element that differs significantly from the current system. As a result of a pension compensation, similar to the process applied for a divorce, a spouse is intended to benefit from their own pension. The current system, which provides for a minimum guaranteed interest rate, would be replaced by a system with variable dividends on retirement capital. Instead of a guaranteed interest rate, insured and retired individuals would receive an annual variable net dividend. The aim of the proposal is also to make occupational pension provision simpler and more transparent for insured individuals. Accordingly, the entire salary subject to AHV would now be insured minus the coordination deduction and with a very low entry threshold compared to today, while retirement credits would be the same across all age groups. These and other measures are intended to fundamentally modernise the 2<sup>nd</sup> pillar.

## Comparison of current reform proposals

	Current rules	Social partners' proposal	Trade association's proposal	"Fair Pension Provision" proposal
Admission threshold	21,330	21,330	21,330	2,300
Coordination deduction	24,885	12,443	24,885	Eliminated
Minimum CR	6.8%	6.0%	6.0%	-
Retirement credits				
18/21 - 24 years	-	-	-	12%
25 - 34 years	7%	9%	9%	12%
35 - 44 years	10%	9%	14%	12%
45 - 54 years	15%	14%	16%	12%
55 years – ref. age	18%	14%	18%	12%
Benefit adjustments		Pension supplement for pensioners		Elimination of survivors' benefits, instead equivalent individual pensions from retirement
		CHF 200/month (1st - 5th yr. grp.)		
		CHF 150/month (6th - 10th yr. grp.)		
		CHF 100/month (11th - 15th yr. grp.)		
		Unlimited thereafter, amount determined by Federal Council		
Transitional generation	-	15 year groups	10 – max. of 20 year groups	-
Financing	-	0.5% on income subject to AHV, reduction of coordination deduction	Increased retirement credits	No coordination deduction, joining age of 18, low entry threshold
Premium to finance preservation of benefits in case of restructuring	No	Yes	Possible	-

## Outlook

At the least, it is questionable whether the social partners' compromise proposal will permanently solve the future problems of occupational pension provision. The financing of pension supplements by employees would only exacerbate the redistribution problems in the 2<sup>nd</sup> pillar. The proposals of the trade association and the Swiss Pension Fund Association (ASIP) seem somewhat more moderate in comparison. In view of the proposals mentioned as well as the blocked situation with regard to the retirement age, the question must be asked whether it is indeed possible to sustainably reform the 2<sup>nd</sup> pillar by conventional means. Indeed, the proposal of the association for "Fair Pension Provision" represents an interesting solution that is not based solely on the potential known parameters (conversion rate, coordination deduction, joining age, retirement credits, etc.) of occupational pension benefits but includes the requirement of fundamentally simplifying the system. In this regard, transparency and flexibility are two further key elements for designing an individual retirement pension.

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