INVESTMENT & PENSIONS EUROPE

Pensions In Switzerland: Make or break

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The referendum in September will decide the fate of the Swiss pension reform package. ***Barbara Ottawa*** *analyses the first stages of the political campaigns leading up to the vote*

At a glance

• Swiss voters can sink the AV2020 reform in the autumn referendum.
• Stakeholders are trying to rally support for the reform.
• The most debated subjects are conversion rates, the retirement age and top-up payments.

The Altersvorsorge 2020 (AV2020), or Prévoyance vieillesse 2020, pension reform package only made it through the National Council – the larger chamber of the Swiss parliament – because the Green Liberal Party (GLP) thought it should be up to the people to decide on the future of their pension system.

So in March the draft law containing amendments to the first and second pillar was voted through the National Council by the narrowest margin possible. As the law contains an increase to the value-added tax (VAT) to finance top-up payments it needed a specific qualified majority to pass.

Increasing VAT, which is 8%, requires a change in the constitution, which has to be approved by a binding referendum.

However, MPs went a step further and decided to put the whole reform package to a vote in September – it is now up to the people to either accept the reform as a whole or send everything back to the start.

If past results of public votes on pension issues are anything to go by, the experience of the last 15 years does not bode well for the upcoming referendum:

• In 2004 two-thirds of the electorate voted against the eleventh revision of the AHV/AVS system – one of the reform proposals was to increase VAT to ensure sustainability of the first pillar;

• In March 2010 a vote on a staggered decrease of the minimum conversion rate from 6.8% to 6.4% failed to get the necessary approval. Analysts said the questions had been too complex and most of the no-votes had in fact been a criticism of opaque insurance contracts;

• In September 2016 the Swiss federation of unions SGB/USS initiated a non-binding referendum on its proposal to introduce a general increase to first-pillar pensions. The people overwhelmingly decided against such a general approach.

Looking back even further reveals that in 1972 Swiss people rejected a trade union initiative for a general 'Volkspension', that is, an unconditional pension. This 'no' paved the way for the three-pillar system to be set out in the constitution.

In a referendum in 1925, 65% voted in favour of introducing the AHV/AVS system for retirement and invalidity provision the basic principles of which are still valid today. And people were not consulted at all when the second pillar was made mandatory in 1985 with the law on occupational pensions, the BVG .

Times have changed but this historical review raises one interesting question: how will people decide on a reform that includes several unpopular measures such as a VAT increase, raising the retirement age for women to match that of men, cutting the conversion rate and a general first-pillar top-up payment for future retirees?

"I think it is very likely the draft will be rejected, given the complexity of the issue and the necessary efforts to reconcile all the different interests related to it," says Peter Zanella, director at Willis Towers Watson Switzerland.

Willi Thurnherr, managing director at Aon Hewitt Switzerland, disagrees: "There is a good chance that people will approve the reform as a whole package."

Heinz Rothacher, managing director at Swiss Complementa, is optimistic: "I think on 24 September the reform will be given the go-ahead, but only by a narrow margin. Because, by now, everyone – including parties, associations and unions – has realised that action is urgently needed."

Rothacher expects resistance against the increase in the retirement age for women and the cut in the conversion rate. "But many will agree to the reform package because of the CHF70 (€65) monthly top-up payment for new retirees and because married couples get a higher joint pension."

Another consultant told IPE that he "hopes it will be rejected" because a general top-up "does not help sustainability of the first pillar".

The fact is that the referendum campaign has already started and the largest unions were among the first to call on their members to vote 'yes' in the referendum. However, particularly in the western, French-speaking part of Switzerland, not all union factions agree. But in a statement, the SGB/USS (the general union federation) called for unity. "Rejecting the AV2020 would only help the employer federation and the centre-right party. They want to sink the reform because the AHV pensions are to be increased. But their actual goal is to get the AHV into financial difficulties to then be able to push through a retirement age of 67 and pension cuts."

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Indeed, the conservative SVP, as well as employer and commercial federations, have vowed to fight the reform, arguing it would increase financial trouble in the first pillar.

However, the social democratic party (SP) is split on the subject. Alain Berset of the SP is the interior minister and the reform is mainly his brainchild, but some women members of the SP have criticised the planned increase to their retirement age and younger members are sceptical about the future of the AHV. One solution for the party would be to hold a vote within its own ranks to bring all members and groups on course.

Long-term pension commentator and editor of the occupational pension blog Vorsorgeforum, Peter Wirth, is not happy. Apart from the general top-up payment he also criticises the change in the formula to co-ordinate payments between the first and second pillar – the Koordinationsabzug. In a first draft of the law this had been completely scrapped, which would have given a lot more part-time/lower income workers cover by occupational pension plans. However, this was deemed too expensive. Instead, exceptions for various types of income, including part-time workers, were introduced.

"Getting rid of the Koordinationsabzug would have cleaned up the currently too-technical BVG-system. This might also have led to a better understanding by the public. But the new formula with its varying discounts according to income makes the calculations extremely complex," noted Wirth in his commentary on the parliamentary decision. And he asked: "Is all that worth it for a drop in the conversion rate from 6.8% to 6%?"

Pension experts agree the cut in the legal minimum conversion rate is purely pro forma and only applies to a few smaller Pensionskassen which do not have assets beyond the mandatory BVG contribution level. All other pension funds have already made use of their above-mandatory asset pools to lower the conversion rate to 5% or less for the overall plan. Only for mandatory assets are they running a shadow calculation at the legally required rate.

But in a statement issued after the parliamentary vote, the Swiss pension association Asip said the amendments to the second pillar should be accepted. "The reform is undoubtedly necessary to sustainably secure retirement provision, as well as the current pension level in general, and in the second pillar in particular. It must not fall prey to ideological conflicts. All stakeholders have to do their part to ensure it is successfully completed."

Zanella thinks the system can survive without the reform. "In my opinion a rejection would not be completely negative for the Pensionskassen either because it would save us from having to implement some of the burdensome elements of the reform."

He mentions the "enormously long" transition period of 20 years for the new parameters during which a double shadow calculation is required. Further, he also criticises the new variable Koordinationsabzug. And he adds that the minimum pension age of 62, which limits some pension funds that had offered their members earlier withdrawals, albeit with penalty payments.

Rothacher mentions a quite different problem altogether. "Most people fail to realise that the life-span of this reform is limited. From 2030 at the latest we will have to take new measures to guarantee financial stability."