

KEY POINTS

Guarantees in the current system are unsustainable

The new model would reduce redistribution among generations

Pension funds are ready to play their part to finance the model

Some 14% of those insured are affected by the reform proposal

In August, the social security and health committee of the National Council (SGK-N), surprisingly rejected part of the social partners' compromise to reform the second pillar. The Federal Council had previously invited the parliament to approve the reform of the social partners of the Swiss Employers' Association (SAV), the Swiss Trade Union Confederation (SGB) and Travail.Suisse (another trade union organisation). Instead, the committee turned to an alternative proposal, foreseeing the use of pension funds' reserves to compensate for a reduction of the minimum conversion rate, used to calculate pension payouts, from the current 6.8% to 6.0%.

The social partners also proposed cutting the minimum conversion rate, which applies to the mandatory part of the occupational pensions. However, based on the social partners' proposal, the compensatory measure for the pension cuts should be financed with a contribution of 0.5% on the annual income subject to the AHV first pillar. According to the new model approved by the committee, only part of the compensation for the cuts in pension payouts will be financed through contributions on the annual salary mandatory insured.

The majority of the commission acknowledged that the proposal from the Federal Council, which simply accepted the so-called social partner compromise "unchanged and without reservations" would not lead to the desired outcome, according to Thomas de Courten, a member of the SGK-N and of the Swiss People's Party (SVP). He has put forward an

A middle way to reform the second pillar

PENSION REFORM

LUIGI SERENELLI

A new proposal could win a majority in parliament



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alternative proposal to the committee against the social partners' compromise. Most of the committee wants to stick to the three-pillars concepts of the pension system, according to de Courten.

But with the new model, the compensation for the loss of pension benefits takes place within the second pillar. "The financing takes place largely through the existing

provisions [of the pension funds]. The pensions are secured for the transitional generation. The following generations can improve retirement provision in time and sustainably," he says. The pension fund association ASIP had originally proposed a model called *Mittelweg* (middle way) now partially approved by the committee in parliament. The model would bypass redistribution mechanisms in the social partners' proposal.

"The Federal Council's proposal should be rejected because it does not reduce the redistribution in the second pillar, but increases it," ASIP's managing director Haspeter Konrad says. The *Mittelweg* could find a broad political support in parliament, according to Konrad. The model guarantees "long-term security of pensions" and it would reduce the redistribution from the young to older generation. "The conversion rate is reduced and the level of benefits is maintained through compensations, without unnecessary additional wage deductions," Konrad says.

Many pension funds have set up provisions, CEO of the actuarial consultancy Complementa Heinz Rothacher says. He adds that a centralised financing of compensations "does not make sense". And the proposed compensatory measures of the ASIP model can be absorbed by the pension funds, he says. "You should only intervene where corrections are not possible without envisaging a general "liability of the



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Heinz Rothacher

pension funds," he says.

Pensionskassen's reserves that can be used specifically for compensations "result from the contributions of the insured and the operating results of the pension funds," de Courten says. "Our aim is to avoid misuse, additional insurance contributions and cross-subsidies as far as possible," he says.

According to Konrad, the situation of the insured with lower wages and of the part-time employees, often women, will improve with the

COUNTRY REPORT

SWITZERLAND

alternative way of reforming the second pillar. Under the new model, those earning within, or close to, the salary range for mandatory occupational pensions provision, now at CHF21,510-CHF86,040 (about €20,000 to €80,000) a year, will receive a pension supplement.

The compensation applies to a transitional period of 15 years. A study conducted by C-alm, a specialist consultancy, has calculated that the current statutory minimum conversion rate of 6.8% in the second pillar implies a lifelong guaranteed interest rate of about 4.8%.

"This guarantee is far too high and leads to a redistribution within the second pillar, especially in the case of pension funds that only grant the minimum benefits," says C-alm partner and author of the study, Reto Leibundgut. A reduction overnight of the minimum conversion rate, however, would leave the insured without the possibility of reacting to the change shortly before retirement.

"For this reason, a transitional generation should receive compensation over a period of 10 years," Leibundgut says.

If the conversion rate is reduced gradually, the pension funds can also finance these measures themselves, without cross-financing taking place between pension funds, Leibundgut says. The Mittelweg proposal would reduce the redistribution in the second pillar without introducing a new redistribution mechanism between the pension funds. "The Mittelweg/ASIP proposal benefits all pension funds," he says.

ASIP's proposal targets persons with mandatory insurance, Konrad says. This mainly affects the catering, hotel and construction industries,



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sectors that also support the Mittelweg/ASIP proposal. All other employees insured in pension schemes applying a conversion rate for the mandatory and non-mandatory part of the second pillar are unaffected by the reform.

Under the ASIP model, Rothacher says, the compensation only applies to those insured who are also affected by the reduction in the conversion rate. "According to estimates, this is only 14% of all insured persons. For us it is important that with the reform, the minimum conversion rate is finally lowered," he says.

"It is to be hoped that parliament will propose a reform proposal that will effectively reduce redistribution in the second pillar," Leibundgut says. The model proposed by the Federal Council clearly does not meet this goal, leading to even more redistribution in the second pillar, he says.

De Courten is convinced that the alternative pension model can win a majority in parliament. "Yes, that is a good compromise. It secures pensions, at least for the foreseeable future, without excessively burdening future generations. It strengthens personal responsibility and the pension funds that have done their homework and proactively work for their policyholders," he says.

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