



## *Working Better with Age*

### **SWITZERLAND**

#### *Assessment and main recommendations*

#### **Switzerland is very effective in promoting the employment of under-65s**

Switzerland has one of the highest employment rates for older workers in the OECD. In 2012, 70.5% of Swiss aged 55-64 were in work, behind Iceland (79.2%), New Zealand (73.9%), Sweden (73.1%) and Norway (70.9%), exceeding the OECD average of 54% by almost 17 percentage points.

#### ***More could still be done to give all workers better options and incentives to keep working***

- Switzerland's exceptionally strong performance is mainly attributable to men under 60 and university graduates while employment rates for those aged 60-64, women and non-graduates are much lower.
- When employment rates for men and women are measured on a full-time equivalent (FTE) basis, Switzerland still ranks among the frontrunners for the employment of men aged 55-64, coming fifth after Iceland, Sweden, New Zealand and Norway, but slips from seventh to fifteenth for women of the same age. This is largely attributable to Switzerland having the OECD's highest share of part-time jobs for workers aged 55-64. In 2012, the proportion stood at 16% for men but, at 59%, was almost four times as high for women. Only the Netherlands has a higher rate (66%).
- The employment rate for workers aged 65-69 has scarcely changed since the early 2000s, growing by just 2.7 percentage points between 2002 and 2012 (OECD average: + 3.6). In 2012 this figure stood at 20.3%, placing Switzerland fourteenth among the 34 OECD countries, far behind the best score of 48% for Iceland.

#### ***More long-term unemployed among the over-55s who are out of work***

The global financial crisis has not had much of an impact on unemployment among 55 to 64 year-olds, which was only 3.1% in 2012, or half the OECD average of 6%. In Switzerland and the rest of the OECD, however, the inability of older workers once unemployed to get back into work is a source of

concern. In 2012, over half (58.6%) of unemployed Swiss workers aged 55 and over had been out of work for over a year, which is more than the OECD average of 47.2%. The situation in Switzerland has worsened in the ten years since 2002, when long-term unemployment in this age group was just 40%.

Given the number of different ways in which older workers leave employment – principally (early) retirement, unemployment, disability and inactivity – the unemployment rate for 55 to 64 year-olds, *i.e.* the number of unemployed as a percentage of the labour force in this age group, gives only a partial impression of the nature of their non-activity. A more comprehensive indicator has been estimated for all OECD countries that consists of people who are neither in employment nor completely in retirement. It includes the unemployed, as defined by the International Labour Office, and people who want to work but are classed as disabled, have taken (early) retirement or are inactive for other reasons. These people represent a potential source of labour for the labour market that might be particularly useful for a country like Switzerland, with a labour shortage. This figure stood at 7.9% of the Swiss population of 55 to 64 year-olds in 2012, very close to the OECD average of 7.7%, and has fallen slightly from almost 10% in the early 2000s.

A more detailed analysis and gender breakdown of the subsets of people who fall within the category of those who are neither in employment nor completely in retirement because they wish to work highlights the following trends in Switzerland over the last decade: i) fewer had taken (early) retirement in 2012 than in 2001, especially among women aged 55-59 and men aged 60-64; ii) the percentage remained particularly high in 2012 among men aged 60-64 (7.7% of the age group) and women aged 55-59 and 60-64 (9.2% in both age groups); and iii) the proportion of unemployed, disabled and inactive people wanting to work in these age groups has grown among both men and women (except for women aged 60-64). If recruitment and labour demand do not rise for older workers who are out of work but want to find jobs, there is a risk that these people will become increasingly vulnerable on the labour market.

### **A comprehensive strategy is necessary**

The aim of this report is to provide an overview of the implementation of measures for older workers in 2014 and to identify priorities for new and ongoing action in all three areas suggested in the 2003 report *Ageing and Employment Policies: Switzerland*: i) strengthening incentives to work longer; ii) removing barriers to the recruitment and retention of older workers; and iii) enhancing older workers' employability. According to the OECD's summary assessment of action taken since 2003, Switzerland's excellent performance in terms of the employment of older workers was driven largely by action to promote the first and third of these goals. But much remains to be done to achieve the second goal, which concerns the labour demand from enterprises.

A comprehensive strategy is still needed. The role of the public authorities is to encourage the social partners to increase their investment in older workers and to continue to enhance incentives to working longer and improve the employability of this sector of the workforce. Abiding prejudices about these workers' lack of motivation and low employability, which gradually undermine their recruitment, must be tackled. This will not be possible without the social partners, who are ultimately responsible for action on the ground, especially through partnerships at the industry and local levels.

The main message of this report is clear: if we want to meet the *Live Longer, Work Longer* challenge, we have to start *Working Better with Age* by optimising the possibilities for employment throughout people's working lives. Enterprises need to approach age management innovatively to promote quality employment for both men and women during their careers and to help them access new options and opportunities as they approach retirement.

## Strengthening incentives to work longer

Addressing population ageing will require a broad lifecycle perspective of the reforms needed in the pension system and the provision of disability, unemployment and social assistance benefits. After all, income at the point of retirement reflects the employment history and social circumstances throughout the life of each individual.

### *The pension system*

In its *Pensions at a Glance 2013*, the OECD points out that the last decade has seen many countries embark on significant pension reform, raising the retirement age (and, in some cases, indexing it to life expectancy), changing the way in which benefits are calculated, and a raft of other measures (including risk diversification through the promotion of funded schemes alongside the pay-as-you-go scheme) designed to secure the long-term viability of the pension system and to ensure sufficient incomes for pensioners.

Differences between the professional circumstances of men and women in Switzerland affect their retirement income. First, the redistributive role of the first pillar of the system – a pay-as-you-go system known as AVS (*Assurance Vieillesse et Survivants*) – is required to ensure an adequate annuity (pension), especially for elderly women. In 2012, 12.2% of AVS beneficiaries also received additional benefits to cover basic needs, and most of these were women over the age of 85. Women are more likely than men to have taken career breaks and to be in low-paid jobs, and will therefore spend many years on low annuities. In 2012, Swiss women could expect 23.3 years of retirement, compared to 18.1 years for men. Second, the annuity cap for married couples (the sum of the main annuities paid to a married couple may not exceed 150% of the maximum annuity) may deter women from increasing their professional activity. The Swiss tax system, moreover, which raises marginal tax rates on the total income of a married couple more steeply than on the income of the spouses if they were taxed separately (the “marriage tax penalty”), can constitute an additional deterrent, as the OECD points out in its *2013 Economic Survey of Switzerland*.

The second pillar, the funded pension scheme known as the *Prévoyance Professionnelle* (PP), is also used as a human resources management tool for enterprises. Several surveys have shown that enterprises do not want to lose this flexibility. So there exists a wide range of models under the second pillar, and many are more flexible in practice than the minimum legal requirements. By law, contributions increase according to the age of the employee, for example, which could discourage the recruitment of older workers and make it harder for them to keep their jobs, but in practice contributions are less steeply scaled than the minimum legal requirements. Furthermore, on rare occasions, workers who earn less than the legal threshold can be covered by some pension funds. They are mostly women working part-time and/or on low pay. Moreover, it is primarily in the second pillar that there are a variety of early retirement mechanisms, beginning at pensionable age (58) and ranging from mandatory early retirement to very attractive packages for the most successful employees. The social partners are responsible for agreeing on early retirement conditions in collective bargaining agreements and industry branch arrangements, *e.g.* in construction. Last, in the case of early retirement, even though the rates applied to a second-pillar annuity reduction are actuarially neutral by law, enterprises may opt to offset the annuity shortfall.

Since the OECD’s study of Switzerland in 2003, the Swiss pension system, which has been regularly reviewed since it was set up, has changed very little. The eleventh review of the first pillar was postponed twice, first by referendum in 2004 and by Parliament in 2010. There have been targeted reforms of the second pillar, such as the structural reform and the revision of the financing of pension funds of public corporations, but the last comprehensive reform was in 2006, with the third and final part of the first revision of the PP law. It should be noted that some steps had already been taken to extend coverage of the

second pillar in 2005. According to research, lowering the threshold hardly improves the level of the recipients' pensions. This step only has a significant effect on the future pension benefits of people newly covered by mandatory insurance (except the very poorest) if it is combined with a reduction of the "co-ordination deduction", used for the co-ordination of the different social insurance funds in order to prevent double insurance or over-insurance in the case of claims (retirement pensions, disability or death).

At the end of November 2013 the Swiss Federal Council adopted draft legislation on pension system reform, *Prévoyance vieillesse 2020*, which it put out for a consultation procedure until the end of March 2014. After analysing the results, and before the end of 2014, the Federal Council will submit the message of this reform to Parliament. It is promising that this reform concerns both the first and second pillars and aims to delay the transition from active life to retirement as well as making it more flexible. A number of measures would in fact incentivise people to work longer: i) a higher premium for people working beyond the legal retirement age (65 or reference age); ii) the option to continue paying contributions after reaching the reference age to increase pension entitlements; iii) increasing the age from which people can take early retirement; and iv) aligning the minimum and reference retirement ages in the first and second pillars.

The current system's parameters are to be adjusted in 2020, but this will not amount to far-reaching reform. One reason that is often cited in Switzerland is that systemic reforms are hampered by the country's system of semi-direct democracy. The legal retirement age ("reference age") is therefore likely to rise only for women from 64 to 65, *i.e.* the same level as men, until this date. Furthermore, while this reform may offer greater flexibility in the transition from working life to retirement between the ages of 62 and 70, its long-term financing would be more secure if it also gave people more options to stay at work for longer and to work full-time during their careers. Last, the potential funding shortfall of the second pillar of the pension system could pose a risk, especially if interest rates remain very low.

As a result, a comparison of Switzerland with other OECD countries offers two conclusions. First, in 2012, Switzerland was one of around a dozen OECD countries in which the effective labour force exit age for men (66.1) and women (63.9) was at least as high as the legal age. Second, Switzerland is one of very few OECD countries not to be considering either raising the retirement age from 65 to 67 by 2050 or indexing it to life expectancy.

### ***The disability insurance system***

The disability insurance, or AI (*Assurance Invalidité*), system has changed significantly in the last ten years. The fourth (2004) and fifth (2008) revisions, and the first tranche of the sixth revision (2012) have been implemented, and have boosted measures to activate people with disabilities and enhance their employability. AI measures are targeted at young people, but some of the initiatives in the fifth revision, including early detection and rapid intervention, also help promote the employment of older workers. Progress has been made, but it would seem that the new AI strategy has not yet been fully accepted by workers and enterprises, especially SMEs. The most difficult cases arise for managers whose employees are suffering from mental illness, a problem highlighted in the OECD report *Mental Health and Work: Switzerland*, published in 2014.

Since 2012, AI has intensified its action in re-examining benefit grants and rehabilitating beneficiaries, but this does not affect beneficiaries aged 55 and over or those who have been receiving benefits for more than fifteen years. In many cases, the process of becoming an AI beneficiary takes the form of a gradual exclusion from professional life. A preventive policy therefore has to identify the resultant risks as early in the process as possible and bolster activation. Inter-institutional co-operation between AI bodies and the organisations responsible for unemployment benefits, welfare, vocational

training and migration, which has expanded in Switzerland in recent years, is an important approach for tapping the multidisciplinary know-how of each institution and combating the risks of exclusion, but also of being passed from one support system to another.

### ***Unemployment and social assistance benefits***

Swiss unemployment benefits are generous, but conditions are rather strict by international standards. Claimants must accept any appropriate job offered by the public employment service (PES), unless it pays less than 70% of the previous salary. Switzerland also ranks among the OECD countries that most frequently penalise the unemployed for failing to meet these conditions.

Under Swiss unemployment insurance, older claimants may claim for longer. Since the fourth revision of the Unemployment Insurance Act (LACI) in 2011, the time limit on collecting benefits has been longer for those aged 55 and over (24 months after 22 months of uninterrupted contributions) than for the under-55s (12 months after 12 months of contributions). Women aged 60 and over and men aged 61 and over, *i.e.* those who are four years away from legal retirement age, are entitled to an extra six months of benefits. Six months before reaching legal retirement age, claimants are not required to look for work. The evidence does not suggest, however, that Swiss enterprises and workers use the unemployment system as an alternative form of early retirement. This “tunnel” to retirement has been observed in some OECD countries in the last decades. The current situation in France is an illustrative example: the dramatic rise in unemployment among the over-50s, who can claim unemployment insurance benefits for much longer than those aged under 50, often reflects a kind of early retirement, now that almost all of the many public schemes that used to fund early retirement after the 1980s have been discontinued.

In Switzerland, social assistance is governed by cantonal laws and distributed by municipalities, which have significant latitude to set their own policies. The proportion of social assistance claimants declines with age, mainly because most poor pensioners qualify for additional AVS benefits. Among those aged 45 and over, however, social assistance has been rising in recent years. This may be partly due to the latest LACI revision, which increased the rate of the unemployed exhausting their unemployment insurance benefits, especially for claimants who had not contributed for long enough. One cause for concern is the failure of many municipalities to require those aged 55 and over to look for work and to offer sufficient support to get people back into work after the age of 50. While the cost-benefit ratio is certainly high in supporting people who have already received other benefits and those who have received active help on more than one occasion, it is nevertheless time for a cultural shift towards the activation of social assistance claimants aged 50 and over. This would probably require greater co-operation between institutions and the creation of partnerships with socially responsible enterprises prepared to hire these vulnerable people.

The following courses of action are recommended:

- *Implementing the measures designed to keep people in work for longer, as set out in the Prévoyance vieillesse 2020 reform proposal.* In the longer term, the possibility of raising the reference retirement age by indexing it to life expectancy, as in most OECD countries, should be considered.
- *Encouraging the social partners and pension funds to reduce the incentives for early retirement in their second pillar models and to fund them better.* Other measures might be encouraged: ending the case-by-case offsetting of annuity reductions; starting contributions

with the first work contract as in the first pillar or from the age of 20; ending the age-related increase in contributions; and preventing mandatory (early) retirement.

- *Moving AI closer to the work sphere.* This would mean: first, making enterprises and workers more familiar with AI's early detection and rapid intervention; and, second, speeding up decision-making by AI staff to prevent workers at risk of disability being excluded from work.
- *Improving the targeting of social assistance budgets for the older unemployed to help them back into work.* Social assistance claimants should be required to look for work after the age of 55, and they should be offered back-to-work support. Greater co-operation between institutions should be aimed at early, effective intervention, but in addition, closer partnerships should be forged with socially responsible enterprises prepared to hire these vulnerable people.

### **Removing barriers to the recruitment and retention of older workers**

First, it is of some concern that the recruitment rate of over-55s in Switzerland is below the OECD average, even though job protection is relatively weak on the Swiss labour market. Age discrimination is not illegal in Switzerland, and it remains widespread. The lack of any general law against discrimination reflects the position of the Swiss authorities, the National Council having rejected Parliament's initiative to draft an anti-discrimination bill in September 2009. Swiss law therefore contains no provisions that would allow action to be taken against enterprises discriminating on the basis of age, and there exists no institution responsible for defending these cases. Non-discrimination, including age-discrimination, is enshrined only in the Federal Constitution. Enterprises are, however, targeted by information campaigns and other initiatives to raise awareness of different forms of discrimination. The Federal Office for Gender Equality, for example, disseminates best practices on preventing gender discrimination.

Almost all OECD countries have adopted some form of law or directive against age discrimination at work. Switzerland has not followed the recommendations made on the subject by the OECD in its 2003 report. The big question is whether these laws are really effective in increasing the employment of older workers. Recent research in the United States has found a positive impact: laws against age discrimination have helped to improve the effects of pension and welfare reform by supporting the supply-side incentives introduced by these reforms with a lowering on the demand side of barriers both to keeping people in work and to recruitment and professional mobility. As highlighted by the OECD in its 2006 report *Live Longer, Work Longer*, however, to be effective, laws against age discrimination must be supported by information campaigns and guidelines that encourage best age-management practices at work.

Second, the way wages and salaries are linked to age and seniority has not changed much in Switzerland in the last decade. The salary of full-time Swiss workers aged 55-59 as a proportion of that of their compatriots aged 25-29 for a given year remains a little higher than on average across OECD countries, at between 1.4 and 1.5 over the last ten years, compared to the OECD average of 1.3. In order to stimulate occupational mobility opportunities, especially late in people's careers, the pay scales that link part of a worker's pay rise to his or her age should be changed by employers and unions. Pay should be tied more closely to productivity and experience. Internal job mobility could be promoted at all levels of the firm, from the boardroom down.

Third, businesses need to take action to boost productivity in Switzerland, especially among older workers. According to the OECD's *2013 Economic Survey of Switzerland*, GDP growth in recent decades

has been driven by immigration and, since the beginning of this century, by the inflow of skilled workers from the European Union. Productivity growth has fallen sharply in Switzerland compared to the rest of the OECD, and the country now trails far behind the leading countries in this metric. As the population ages and immigration slows (especially since the referendum *Against Mass Immigration*), economic policy will have to sharpen its focus on measures to increase productivity and tap available labour reserves. The Federal Council took one step in this direction in November 2013, with the adoption of an initiative to combat the shortage of skilled workers. This four-year programme will implement a raft of measures to harness more fully the potential of “indigenous” labour, especially older workers and women.

Last, enterprises, particularly SMEs, need to adapt to an ageing population and implement age management policies, and all relevant parties need to step up their efforts to inform and advise employers. The Swiss employers’ association (*Union Patronale Suisse*) could update its 2006 guide on older workers with its new drive, a job market platform for the over-45s (*Plateforme Marché du travail 45plus*) – launched in November 2013. The unions could re-examine their list of prerequisites for promoting the employment of older workers. And the State Secretariat for Economic Affairs (SECO) could play the role of moderator by hosting discussions on business practices in end-of-career management. Switzerland could follow Norway’s example of a tripartite body, the Centre for Senior Policy, responsible for raising public awareness, especially among employers, on the issue of older workers.

The key drivers for change in enterprises are the following:

- *Combating age discrimination.* Information campaigns are needed to tackle negative attitudes to older people in the workplace. Switzerland also needs anti-discrimination laws or directives like those in force in other OECD countries.
- *Encouraging the social partners to link pay more to experience than to age.* The practice of tying pay scales to age, especially long-service awards and the calculation of salary according to age and seniority, should be abandoned in favour of a system based on experience, which helps to support productivity, especially when workers have acquired new skills.
- *Involving enterprises as early as possible in the implementation of the Initiative to combat the shortage of skilled workers.* If the Confederation decides to lead by example with its own employees, both private and public firms should be involved in the process from the first year of implementation.
- *Stepping up action to inform and advise employers about age management.* Managers, unions, chambers of commerce, industry and services, and business associations could join forces to share best practices, with SECO acting as moderator. Switzerland could look to Norway’s Centre for Senior Policy as an example of how to raise awareness of the issue of older workers among all parties.

### **Enhancing older workers’ employability**

First, it is important to continue to promote access to vocational training for all workers. Swiss workers aged 55-64 have an especially high rate of participation in work-related training compared to other OECD countries. But while Switzerland ranks first for training highly-educated older workers, it falls far behind for older workers with no qualifications, whose participation in work-related training is one seventh the rate of their highly qualified peers, rising to one fifth for women. This indicator of inequality is particularly high in Switzerland, running at twice the European average. Targeted action for poorly

educated workers could encourage enterprises to offer more vocational training to these people. Similarly, to promote professional mobility among older workers and to help counteract labour shortages, the costs of investing in human capital should be shared more fairly between enterprises and workers, with State support centred on those out of work and in need of vocational retraining.

Second, Switzerland has made further progress in encouraging the innovative action of Regional Placement Offices (ORPs) in helping older jobseekers back to work, especially the long-term unemployed. This consists mainly of personal follow-up and early, intensive guidance. Some ORPs have also launched high-profile campaigns to raise public awareness of the benefits of older jobseekers' extra experience. The long-term unemployment of older workers still represents a challenge for Switzerland, however. It could do more to offer poorly qualified jobseekers access to qualifications and refresher courses. Now that working life is being extended until the age of at least 65, it makes sense to retrain and take longer courses after the age of 55. Rather than encouraging those over 50 to take early retirement, the systematic use of skills assessments could help them start a second career. Promoting the validation of work experience would also help people to highlight this kind of asset and present it on certificates recognised by employers. Experience acquired informally, in a non-professional context, especially by women, should also be listed on people's CVs.

The central objective of activation strategies for all those who are unemployed is to secure long-term reintegration into the workplace. There are two ways of helping achieve this for older jobseekers: permanent contact between ORP advisors and employers to stimulate recruitment of hard-to-employ people, and co-operation between the institutions involved in welfare and employment in order to provide the best support for the long-term unemployed, especially those who have exhausted their benefits. Activation is particularly important after the age of 60, and must provide access to the most effective labour market measures.

Third, the way in which disability is treated in the workplace has been successfully revamped in Switzerland over the last ten years. The range of measures for early intervention and rapid activation has been expanded to promote the social and professional integration of people affected by disability, who now have access to advice and ongoing support after their return to work. Some AI cantonal offices do not fully exploit their potential, however, and there seems to be a considerable gap between cantons in the implementation of the new tools of the fifth AI revision in 2008.

SUVA, the main accident insurance body, focuses first and foremost on the prevention of accidents in the workplace. But it also has several remediation programmes, including vocational rehabilitation, and finances professional mobility. One good practice is the "professional reintegration" initiative for people who lose their jobs after an accident and are not entitled to disability benefits. These programmes are implemented in co-operation with the AI in enterprises that are prepared to offer jobs to rehabilitated participants. This approach has promise in that it is supported by enterprises, but it needs to gain ground in SMEs.

Health insurance includes a mandatory component for healthcare and an optional component for daily benefits, insofar as daily sickness benefits vary considerably between companies. It is normally the employer that chooses the health insurance fund or a private insurer, as well as the type of insurance. Under the current system, older workers can struggle to get jobs that offer protection against loss of earnings, especially after a period of illness or rehabilitation. A more generous system with better coverage of health risks could lessen resistance to the hiring of older workers. And mandatory insurance against earnings loss in the case of illness for all gainfully occupied workers would make the job market more flexible and improve the co-ordination of early detection with the AI.

Enterprises are particularly concerned by the improvement of working conditions. Switzerland is known for having good working conditions, but according to the Fifth European Working Conditions Survey, they deteriorated between 2005 and 2010. The total proportion of workers exposed to strenuous and stressful conditions grew faster than the European average, especially when compared to Germany and Austria, where the proportion fell. This finding could justify the financing of early retirement by employers and workers in sectors with the harshest working conditions, such as construction. Most urgent, however, is the implementation by employers, at a very early stage, of measures to improve working conditions for everybody. In this, Switzerland could look to follow the Dutch model of sustainable employability – a networking approach developed by the employment authority in volunteer enterprises to improve working conditions and productivity for all workers.

Last, if women are to be more productive in the workplace and their work better valued, there needs to be greater employment diversity than just part-time work. The high level of part-time workers among married women is mainly attributable to the Swiss tax system (see the “marriage tax penalty” above). Public and private spending on care for children and elderly parents needs to be increased to help women balance their work and family responsibilities. They could also be offered better-quality jobs, closer to full-time employment, to encourage them to work more hours, for longer, to gain access to sufficient income on retirement. Doing more to exploit the potential of women, who comprise a significant reservoir of skilled labour, could help Switzerland to be better prepared for the many challenges of an ageing population.

The main drivers of change will be the following:

- *Making training more attractive to low-skilled workers and encouraging enterprises to keep training them until the end of their careers.* Formally and informally acquired experience, whether work-related or not, needs to be validated, and low-skilled workers need opportunities for long-term ongoing vocational training to bolster their skills and allow them to be redeployed.
- *Supporting the action of ORPs in helping older workers find stable jobs.* Activation after the age of 60 is particularly important, with wider access to the best labour market support.
- *Halting the deterioration of working conditions in enterprises.* The Swiss authorities could follow the Dutch example of sustainable employability developed by the employment authority in volunteer enterprises to improve working conditions and productivity for all workers.
- *Better harnessing women’s labour potential by promoting their employability throughout their careers.* The range of options open to women on the labour market needs to be expanded. More investment is required in social infrastructure for the care of children and elderly dependents, and the marriage tax penalty must be removed at the federal level by, for example, replacing the system of joint taxation with individual taxation,.