

SWITZERLAND

Switzerland: pension system in 2006

The Swiss pension system has three main parts. The public scheme is earnings-related, but has a progressive formula. The other components are a system of mandatory occupational pensions and an income-tested supplementary benefit.

Key indicators

		Switzerland	OECD
Average earnings	CHF	72 400	44 800
	USD	57 800	35 800
Public pension spending	% of GDP	6.8	7.2
Life expectancy	at birth	81.7	78.9
	at age 65	85.3	83.4
Population over age 65	% of working-age population	25.9	23.8

Qualifying conditions

Pensionable age under the public scheme and mandatory occupational pensions is currently 65 for men and 64 for women. A full pension requires contributions for 44 years for men and 43 for women.

Benefit calculation

Earnings-related

The public pension is based on average lifetime earnings. If this figure is less than CHF 38 700, then the entitlement is CHF 9 546 plus 26% of average lifetime earnings. For lifetime earnings above the threshold, the entitlement is a flat CHF 13 416 plus 16% of average lifetime earnings.

There is a minimum pension of CHF 12 900 and a maximum pension of twice that level. These are equivalent to 18 and 36% of average earnings, respectively. The maximum benefit is reached when average lifetime earnings are CHF 77 400, equivalent to 107% of economy-wide average earnings.

Pensions in payment are indexed 50% to prices and 50% to nominal earnings.

Mandatory occupational

The system of mandatory occupational pensions was introduced in 1985. It is built around “defined credits” to an individual’s pension account. These credits vary by sex and age:

	25-34	35-44	45-54	55-64/63
Men and Women of age (from 2005)				
Women, of age (1987-2004)	25-31	32-41	42-51	52-62/63
Credit (% of co-ordinated earnings)	7	10	15	18

The value of accumulated credits at retirement naturally depends on the required interest rate applied to earlier years' contributions. This was, for a long period until the end of 2002, 4%, but was cut to 3.25% in 2003 and to 2.25% in 2004. The interest rate was raised to 2.5% in 2005. If the interest rate is broadly equivalent to the growth rate of earnings, then a full career in the system will give a man at age 65 accumulated credits of 500% of earnings. However, higher (or lower) outcomes are possible if the interest rate exceeds (is less than) growth in earnings. The modelling assumes that the interest rate applied to the credits will be equivalent to earnings over the long term.

The system has a minimum annuity rate of 7.10% for men (65) and 7.2% for women (64) that is applied to this notional capital sum. For men, this gives a full career replacement rate of $500 \times 7.1 = 35.5\%$ (subject to the interest rate being equal to earnings growth). From 2005, the minimum annuity rate falls gradually from 7.10% eventually reaching 6.8% over a ten-year period.

The defined credits (and hence the replacement rate) apply only to "co-ordinated" earnings. This is pay between three-quarters of the maximum pension of the public scheme (CHF 19 350 for 2006) and three times the maximum pension of the public scheme (CHF 77 400 for 2006). These thresholds are equivalent to 27% and 107% of average earnings. The coordination deduction is 7/8 of the maximum pension of public scheme (CHF 22 575 for 2006). Note that the ceiling for pensionable pay is the same in the public scheme and in the mandatory occupational pension sector. There is a minimum for co-ordinated earnings of one eighth of the maximum value. Credits accrue at this minimum level for people with co-ordinated earnings below this level.

Targeted

The amount of the annual benefit is the share of expenditure recognized that exceeds the income determinants. The expenditure on basic needs are provided by law and amounts to CHF 17 640 for single people, equivalent to 24% of average. The supplementary benefit is indexed in the same way as the public old age pensions, *i.e.* to a mixed index of 50% prices and 50% wages. There are discretionary cantonal additions for low-income pensioners; these are disregarded in the model.

Variant careers

Early retirement

Early retirement in the public scheme is possible two years before the standard retirement age, *i.e.* from age 63 for men and 62 for women as of 2005. In case of early retirement, the full value is reduced by 6.8% for each year of early claiming. This is equivalent to an actuarial adjustment, as operated in other countries, of 4.5% (since $1/44 = 2.3\%$ of the adjustment reflects the additional year that the member has contributed).

For women born in 1947 or before, the reduction in pension benefits from their full value is 3.4% per year of early retirement.

Early retirement is permitted in occupational schemes. In practice, schemes may allow retirement up to five years before the normal age, although schemes can decide on their own policy. Generally, the statutory annuity rate is reduced from the 7.1% at age 65 (from the 7.2% at age 64 for women), by 0.2 percentage points per year of early retirement. (Note that this conversion rate will fall gradually to 6.8% over the ten years starting in 2005.) The 0.2 point reduction is equivalent to an actuarial adjustment, as conventionally measured, of 2.8-3.1% per year of early retirement (increasing with the extent of early retirement). Including also the loss of contributions and credits as a result of early retirement, the theoretical benefit is 8%-9.4% lower per year of early retirement. The loss increases the earlier the retirement is taken. (The range given is from age 61 to age 65.)

Late retirement

Both public and occupational pensions can be deferred after normal pension age. Pensions are adjusted in the same way as for early retirement. The pension can be deferred for up to five years after the normal pension age. The pension is increased according to the following schedule:

Deferral	1 year	2 years	3 years	4 years	5 years
Adjustment	5.2%	10.8%	17.1%	24.0%	31.5%

It is also possible to claim the public pension at 65 and continue working.

Contributions are not levied on people working after age 65 if earnings are below CHF 16 800 per year. For earnings above that level, contributions are levied when people defer the pension or claim the pension while continuing their work but no additional pension entitlement can be earned.

In the occupational plans, the annuity rate is increased by 0.2 percentage points for each year that retirement is deferred according a recommendation of the Federal Social Insurance Office (pension funds decide freely on the percentage points). The authorities, in practice, allow deferral for up to five years.

In principle, it is possible to combine receipt of the occupational pension with continuing to work. In practice, these are mainly cases of people with incomplete careers or people who have retired early rather than late. Therefore, the modelling assumes that people defer their occupational pension if they continue to work after the normal pension age. People do not continue to contribute after 65 under the public pension scheme.

Childcare

Years of childcare (for children under age 16) are credited in the public scheme as if earnings had amounted to three times the minimum pension of the year in which the caring parent retires. For 2006, this was CHF 38 700, corresponding to 53% of economy-wide average earnings. If the caring parent is married during the caring period, the credits are split equally between the spouses.

Credits for childcare are not required in occupational schemes.

Unemployment

Unemployment benefits are subject to social security contributions and so count towards the public pension just as if they were earnings. Unemployment insurance pays 80% of previous earnings. Persons with no child maintenance, who receive a full daily allowance of more than CHF 140 or who are not disabled receive 70% of the insured salary. The duration of unemployment insurance varies between 260 and 520 days. Once unemployment insurance is exhausted and a former worker is on social assistance, no contributions are payable. If income is very low, then municipal authorities often pay the minimum contribution.

There are no credits for unemployment periods in occupational schemes.

Personal income tax and social security contributions

Taxation of pensioners

Swiss cantons often grant pensioners an additional allowance but there is no extra allowance in the Federal income tax. Note that the modelling assumes a resident of the city of Zurich in the canton of Zurich.

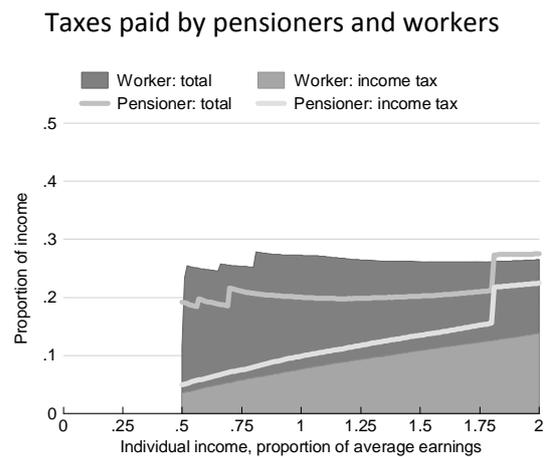
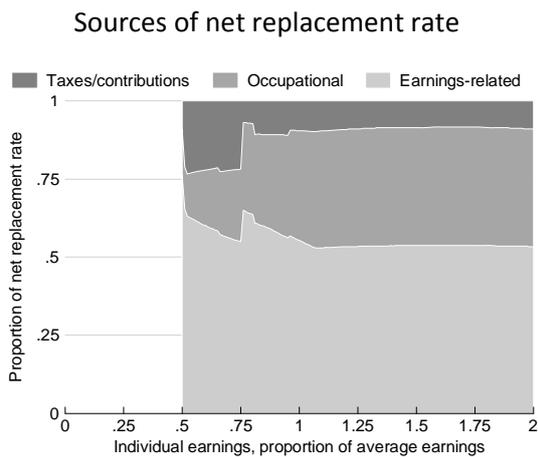
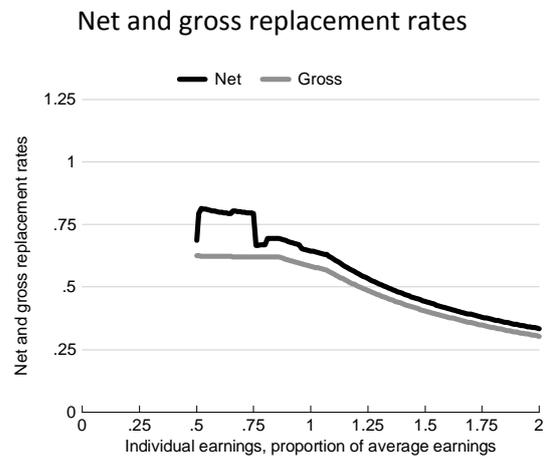
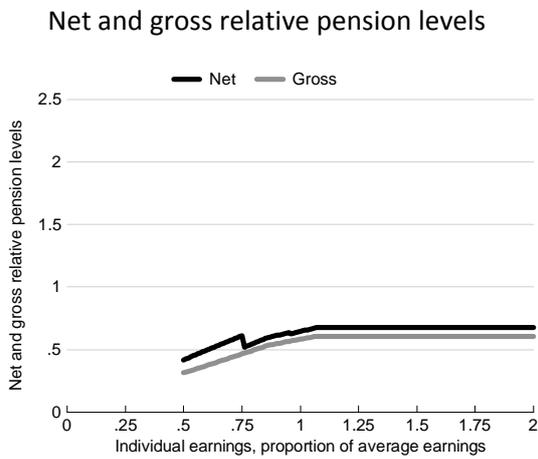
Taxation of pension income

There is no special relief for pension income.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income but pensioners pay premiums for the mandatory health insurance scheme.

Pension modelling results: Switzerland



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	52.7	31.2	46.6	58.3	60.8	60.8
(% average gross earnings)	53.2	31.4	47.0	59.0	61.5	61.5
Net relative pension level	58.8	41.8	61.1	64.5	67.5	67.5
(% net average earnings)	59.4	42.0	51.8	65.3	68.3	68.3
Gross replacement rate	62.0	62.5	62.1	58.3	40.5	30.4
(% individual gross earnings)	62.6	62.8	62.6	59.0	41.0	30.7
Net replacement rate	69.5	68.8	79.4	64.5	44.3	33.4
(% individual net earnings)	70.2	69.1	67.3	65.3	44.9	33.8
Gross pension wealth	10.5	10.7	10.5	9.8	6.8	5.1
(multiple of average gross earnings)	12.8	13.1	12.9	12.0	8.3	6.2
Net pension wealth	8.5	10.4	10.0	7.9	5.5	4.1
(multiple of average net earnings)	10.4	12.7	10.3	9.6	6.7	5.0