



- **Equalise the retirement age between men and women, increase the effective wage ceiling for contributions to the mandatory occupational scheme, lower the conversion rate and link it to remaining life expectancy at retirement age.**
- **Develop professional training, up-skilling over the lifecycle and retirement flexibility.**

**The public pension system is highly redistributive.** There are two mandatory earnings-related pension schemes: a PAYG public pillar (AVS) and a funded private occupational pension for people aged 25 and over earning between about 27% and 93% of average earnings (LPP 2a). This is a low ceiling across OECD countries. Beyond that ceiling, the LPP is optional for the employers (LPP 2b). The absence of a contribution ceiling for the AVS combined with a fairly flat benefit structure results in a highly redistributive public scheme. For the mandatory LPP part contributions vary with age, and for ages 45 and over, the rate is more than twice that paid by workers younger than 35. Means-tested supplementary benefits (PC) represent the first layer of protection when earnings-related benefits and other sources of income are insufficient to cover basic living costs.

**Future replacement rates from the mandatory schemes for the average-wage earner are projected to be among the lowest within European members of the OECD.** The AVS and the mandatory LPP are linked (or “coordinated”) with the objective of delivering a replacement rate of 60% to single pensioners. The AVS benefit is worth about 16% to 31% of average earnings. Between these bounds, it depends on both individual earnings and the number of years worked. The mandatory occupational pension plan is in principle defined contribution, but the government sets minimum levels of investment returns and the conversion factor (used to convert the assets into an annuity). People may request to withdraw at least 25% of the accumulated capital as a lump-sum. A greater share can be obtained as a lump-sum if permitted by pension fund rules or when accumulated assets are very low. The future net replacement rate from mandatory schemes for full-career low earners is estimated at 61% against 47% and 32% for average and high earners, respectively. The voluntary part plays a very limited role below the average-wage level. Around one-third of the pension of an average-wage earner would be delivered by the mandatory LPP based on OECD estimates.

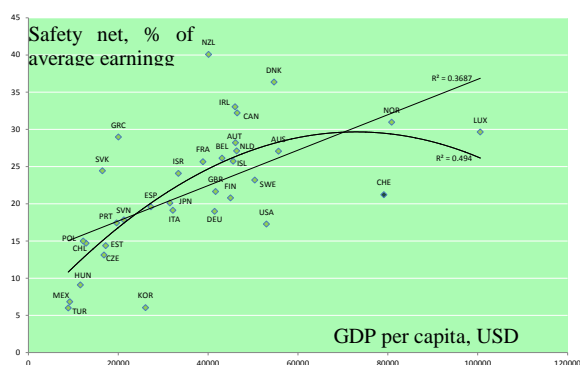
### Key indicators: Switzerland and OECD average

	Mid-1980s	Mid-1990s	Mid-2000s	latest available	latest OECD	long-term	long-term OECD
Pensionable age for a full-time career starting at the age of 20	65.0 (63.0)	65.0 (63.0)	65.0 (64.0)	65.0 (64.0)		65.0	
Retirement age	65.0 (62.0)	65.0 (62.0)	65.0 (63.0)	65.0 (64.0)	62.9 (61.8)	65.0	64.6 (64.4)
Net replacement rate, avg earner						46.9 (46.5)	63.2 (62.7)
Total mandatory contribution rate	22.3	22.3	22.3	22.3	19.1		
Total pension spending, % of GDP	7.9	10.1	11.5	11.8	10.3		
Public pension spending, % of GDP	6.0	6.8	6.8	6.8	8.4		
Public debt, % of GDP	..	48	57	45	115		
Employment rate 55-64, %		79.0 (46.4)	74.9 (55.6)	78.7 (64.4)	66.1 (49.1)		
Labour-market exit age	68.4 (67.0)	66.9 (66.0)	65.2 (64.9)	66.1 (64.5)	64.6 (63.1)		
Old-age poverty rate, %				23.4	12.6		
Life expectancy at 65, years	15.2 (19.3)	16.5 (20.4)	18.5 (21.8)	19.8 (22.8)	18.4 (21.5)	24.2 (27.4)	22.9 (25.9)
Old-age dependency ratio	0.23	0.24	0.25	0.29	0.28	0.57	0.57
Fertility rate	1.5	1.5	1.5	1.6	1.7	1.8	1.8

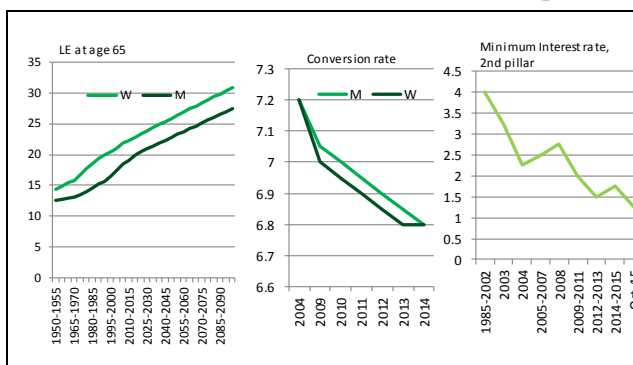
Note. The figures for women appear in parenthesis where they differ from those for men. Long-term: Around 2060 based on all legislated reforms up to mid-2015.

**Economic and demographic conditions put pressure on the Swiss pension system.** The increase in the old-age dependency ratio is a challenge for the AVS. At the same time, historically low levels of both interest rates and financial returns (in part related to the strengthened Swiss Franc) strain the occupational pension schemes on top of life expectancy gains. These developments question the ability of the pension system to deliver adequate benefits down the road. Despite a highly redistributive public pension scheme and its good integration into the private scheme, old-age income poverty (which does not account for accumulated wealth) is high at 23.4% compared to 12.6% on average in the OECD. The level of safety nets is much lower than in other countries with a comparable level of GDP per capita, and the minimum pension is also low. The conversion rate in the mandatory part of the LPP is high (6.8% since 2014), which makes annuities actuarially costly. This strengthens the attractiveness of lump-sum withdrawals for pension providers and leads to redistribution from current contributors to retirees.

### Safety-net benefits compared to GDP per capita



### Life-expectancy at age 65, conversion rate and minimum interest rate in the second pillar



Source: OECD Pensions at a Glance 2015; and OFAS, 2015

**The financial sustainability of both public and private pension plans is not ensured.** The Swiss Federal Council sent a thorough reform proposal (AV2020) to the Parliament in November 2014 which is still under review. The proposed pension reform intends to enhance financial sustainability without worsening pension adequacy. The increase of the normal retirement age of women to 65 years, the introduction of a retirement window between ages 62 and 70 with benefit adjustments, the reduction of the conversion rate to 6% and a unique contribution rate for those older than 45 are some of the proposed measures. To limit the occupational pension cuts that would result from a lower conversion factor, the proposal also foresees the lowering of the minimum insured salary in the mandatory LPP, and the increase in maximum threshold through the elimination of the coordination deduction.

**The proposed measures go in the right direction.** In particular, the retirement age of men and women should be equalised and the conversion factor reduced. Beyond one-off adjustment, the latter at least should be linked to remaining life expectancy at the retirement age. Increasing the effective wage ceiling for the contributions to the mandatory part of the LPP would raise replacement rates. However, a large uncertainty weighs on the reform as 50,000 citizens' signatures are sufficient to request a referendum — knowing that all the referendums related to old-age pension issues were rejected over the last 15 years. Moreover, further measures are needed to ensure pensions will be more sustainable and adequate. The employment rate at age 60 is relatively high for men on average, but it is low for older workers with low educational attainment and the gender employment gap is high. Older unemployed people are rarely able to go back to work. Professional training, up-skilling over the lifecycle, policies increasing flexibility in late careers are essential to reduce labour market barriers.

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