Switzerland

Switzerland: Pension system in 2020

The Swiss retirement pension system has three parts. The public scheme is earnings-related and has a progressive formula. In addition, there is an income-tested supplementary benefit. A mandatory occupational pension regime was introduced in 1985 and can be supplemented on a voluntary basis.

Key indicators: Switzerland

		Switzerland	OECD
Average worker earnings (AW)	CHF	87 363	36 784
	USD	93 049	39 178
Public pension spending	% of GDP	6.7	7.7
Life expectancy	at birth	83.5	80.6
	at age 65	21.3	19.7
Population over age 65	% of working- age population	31.3	30.4

Qualifying conditions

The pensionable age in both 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 years for women.

Benefit calculation

Defined benefit

The public earnings-related pension benefit is based on average lifetime earnings. Average lifetime earnings depend on the number of years during which contributions have been made and the person's average income from age 20 until reaching the retirement age. Pension benefits are subject to both upper and lower limits with the benefit calculation redistributing from high towards low incomes. With full contributions, pension benefits are between CHF 14 220 and CHF 28 440. These are equivalent to 16% and 33% of gross average earnings. The maximum benefit is reached when average lifetime earnings are six times the minimum of CHF 14 220, which equals CHF 85 320, equivalent to 98% of economy-wide average earnings. The maximum pension benefit paid to couples may not exceed 150% of the maximum benefit for single persons.

Pension benefits in payment are adjusted every two years, 50% to prices and 50% to nominal earnings.

Mandatory occupational

A mandatory occupational pension insurance system was introduced in 1985. It is built around contributions called "defined credits" to an individual's pension account and applies to people earning an annual income of at least CHF 21 330 per annum. The credits vary by age:

Age	25-34	35-44	45-54	55-64/65
Old-age credits (as % of co-ordinated salary)	7	10	15	18

The old-age credits are calculated each year as a percentage of the co-ordinated salary. The latter is equal to the gross annual income minus the co-ordination deduction (CHF 24 885) but at most CHF 60 435. The employer must pay at least half of these old-age credits, the employee the remainder.

Credits are accumulated to generate pension entitlements. The value of accumulated credits at retirement depends on the required interest applied to earlier years' contributions. The interest rate is currently 1.00%. If the interest rate was equal the real growth rate of the co-ordinated salary, then a full career in the system would give a man at age 65 accumulated credits of 500% of co-ordinated salary. However, higher (or lower) outcomes are possible if the growth rate of the co-ordinated salary is less than (exceeds) the interest rate. The modelling assumes that the interest rate applied to the credits will be equivalent to the growth rate of co-ordinated salary over the long term.

The individual pension account is converted into an annual retirement benefit upon retirement, using a conversion factor rate of 6.80%. The retiree is entitled to receive at least one-quarter of his/her retirement assets as a lump sum.

The mandatory system corresponds to a statutory minimum guaranteed by law. Registered provident institutions (pension funds) are free to provide benefits exceeding the law. Such pension benefits are referred to as “over-obligatory” benefits. Most retired employees enjoy “over-obligatory” benefits of this kind.

Targeted

Supplementary benefits are granted in addition to old-age (AVS) and disability (AI) benefits when an individual does not have sufficient income to cover basic needs. Means-tested supplementary benefits are paid when earnings-related benefits and other sources of income are insufficient to cover basic living costs. The amount of annual benefits paid corresponds to the difference between recognised expenditure and calculated income (benefits, earned income, return on assets, etc.). Recognised expenses for single people include:

Factors in calculating supplementary benefits (PC)	Annual amount (single person living at home)
Coverage of essential needs	CHF 19 450
Maximum gross rent	CHF 13 200
Maximum amount for reimbursement of sickness and invalidity costs	CHF 25 000

The supplementary benefit is indexed in the same way as the public old-age pensions. In addition, there are discretionary cantonal additions for low-income pensioners but these are disregarded in the model.

Social assistance

The right to obtain social assistance in situations of distress is guaranteed by the Federal Constitution. The implementation and financing is done by the cantons.

Voluntary

Voluntary pension saving is encouraged through tax exemptions of contributions. Contributions can be saved in a bank account or paid into a dedicated insurance policy, from which no withdrawals are permitted. In 2019 the maximum that could be invested amounted to CHF 6 826 for employees and CHF 34 128 for the self-employed. A maximum of five years of extra contributions can be made after the statutory retirement age. Voluntary private pensions cannot be withdrawn until at most five years before the pensionable age. The benefits are subject to income tax.

Variant careers

Early retirement

Early retirement in the public pension’s scheme is possible from age 63 for men and age 62 for women. In cases of early pension benefit withdrawal the full pension benefit value is reduced by 6.8% for each year of early claiming.

Early retirement is possible in the occupational schemes and can be claimed from age 58. It is the pension funds that define the terms of early retirement. As a general rule, the conversion rate applied to the employee's pension assets to obtain the annual pension benefit is reduced by between 0.15 and 0.2 percentage points for each year of early retirement. The 0.2 point reduction is equivalent to an actuarial adjustment, as conventionally measured, of 2.95% 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 6.6% (one year) – 6.0% (five years) lower per year of early retirement. Claiming a pension and continuing employment is possible to some extent.

Late retirement

Both public and occupational pensions can be deferred after the normal pension age. The public pension can be deferred for up to five years. The public 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 %

Contributions are not levied after age 65 for men and age 64 for women if earnings are below CHF 16 800 per year. For earnings above this level contributions are levied but no additional pension entitlement can be earned. Occupational pension benefit can be deferred until age 70. The pension funds themselves define the terms. As a general rule, the conversion rate is increased by 0.2 (66 and 67 years old) or 0.25 (68-70 years old) percentage points for each year of deferral according to a recommendation of the Federal Social Insurance Office. Including the contributions, the theoretical benefit is 7.0% (one year) – 7.7% (five years) higher per year of late retirement. Without the contribution, the theoretical benefit is 3.9% (one year) – 4.2% (five years) higher per year of late retirement. In principle, it is possible to combine pension receipt and work.

Childcare

Childcare years for children under age 16 are credited in the public scheme as if earnings had amounted to three times the minimum pension in the year when the caring parent retires. For 2019, this was equal to CHF 42 660. If the caring parent is married during the caring period, the credits are split equally between the spouses or registered partnership. Credits for childcare are not required in occupational schemes.

Unemployment

Unemployment benefits are subject to social security contributions and count as earnings towards the public pension. The unemployment insurance pays 80% of previous earnings. Individuals with no dependent children and who receive an allowance of more than CHF 140 per day or who are not disabled receive 70% of the insured salary. The duration of unemployment insurance varies between 90 and 640 days. Individuals on social assistance do not pay contributions. If incomes are very low then the municipal authorities often pay the minimum contribution.

Unemployed persons who receive daily unemployment-insurance benefits remain insured on a mandatory basis against the risks of death and invalidity in occupational schemes. There is an obligation to pay contributions towards old-age pensions. The unemployed may pay their old-age pension contributions (only the employee's shares the employer's share pay the AHV-Ausgleichskasse).

Any daily allowances received in the event of sickness/accident are similarly subject to contributions.

Self-employed

The self-employed are covered by the public scheme with the same contribution rate as for employees. Coverage within the occupational pension is voluntary. Contributions are based on taxable income after deducting social security contributions.

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.

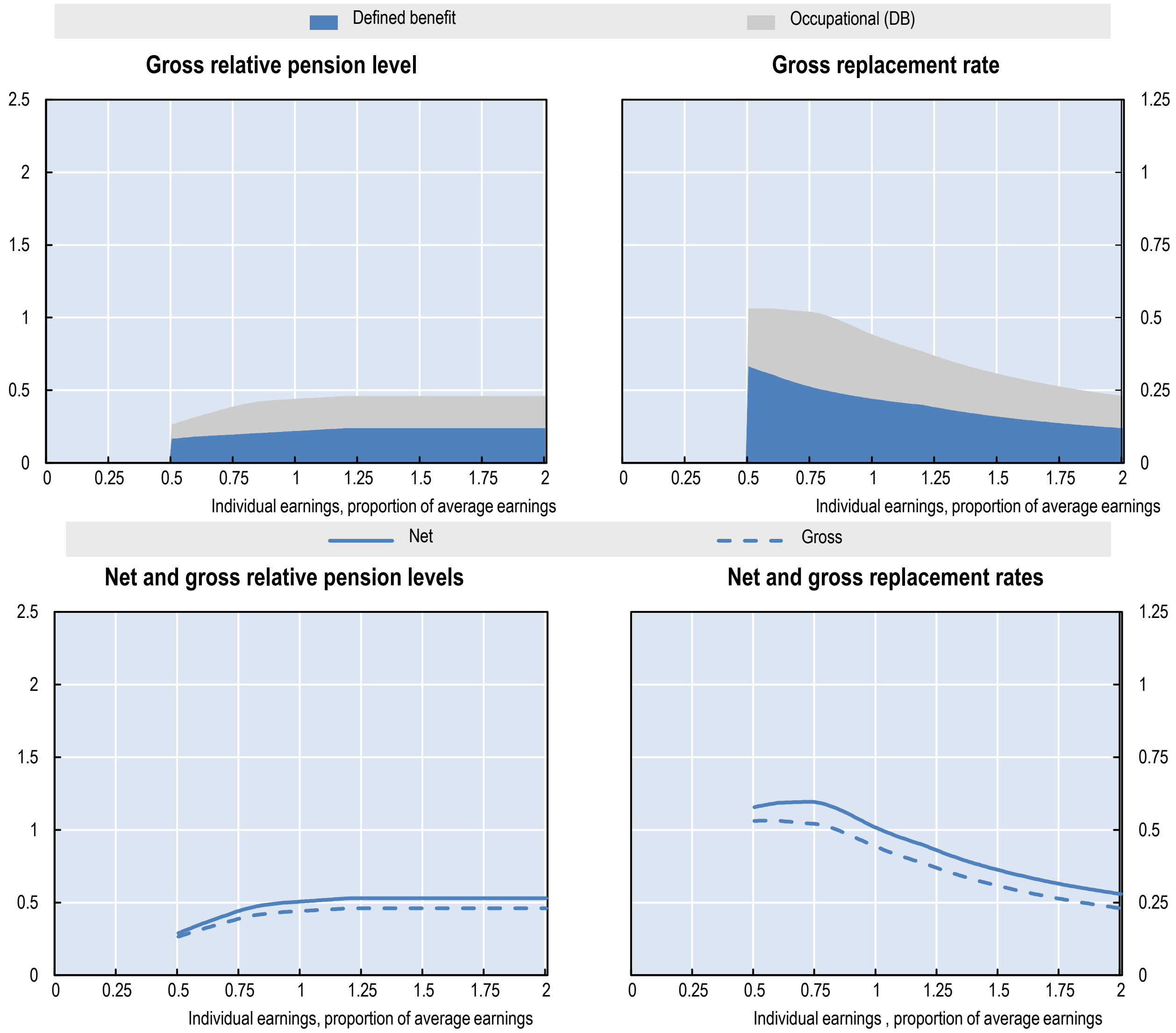
Taxation of pension income

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 in 2063 retirement at age 65 (men)



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	26.5	39.0	44.1	46.0	46.0	46.0
(% average gross earnings)	*26.2*	*38.4*	*43.5*	*45.4*	*45.4*	*45.4*
Net relative pension level	28.9	44.4	50.7	52.9	52.9	52.9
(% net average earnings)	*28.4*	*43.5*	*49.7*	*52.0*	*52.0*	*52.0*
Gross replacement rate	53.1	52.0	44.1	30.7	23.0	15.3
(% individual gross earnings)	*52.5*	*51.1*	*43.5*	*30.2*	*22.7*	*15.1*
Net replacement rate	57.8	59.5	50.7	36.1	27.9	19.6
(% individual net earnings)	*57.0*	*58.3*	*49.7*	*35.5*	*27.4*	*19.3*
Gross pension wealth	10.7	10.4	8.8	6.1	4.6	3.1
(multiple of individual gross earnings)	*12.0*	*11.6*	*9.8*	*6.8*	*5.1*	*3.4*
Net pension wealth	11.7	11.9	10.1	7.2	5.6	3.9
(multiple of individual net earnings)	*13.0*	*13.2*	*11.2*	*8.0*	*6.2*	*4.4*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.