## Pension benefits shielded from COVID-19

As in most other OECD countries, the impact of COVID-19 on pension income of current and future retirees is likely to be limited due to protective measures. Although Switzerland did not subsidise pension contributions and contributions remained to be paid in full in order to build up pension entitlements, pension contributions of both employees and the self-employed could be deferred without penalty. Beyond this, Switzerland did not pass any pension reforms over the last two years.

Lower retirement age for women

As the debate to close the gender gap in the retirement age is still ongoing, Switzerland for now remains one of the few OECD countries that still have a lower retirement age for women than for men, that will persist based on current legislation. Nine countries currently have different retirement ages for men and women, including Austria, but only five have not yet decided to remove this gender difference in the future: Colombia, Hungary, Israel, Poland and Switzerland. Women can retire one year earlier than men in Switzerland, and although there currently is a proposal to equalise retirement ages for men and women by 2027, it is uncertain whether this proposal will be legislated.

Current and future normal retirement age by gender
Women's normal retirement age indicated if different from men's (w)
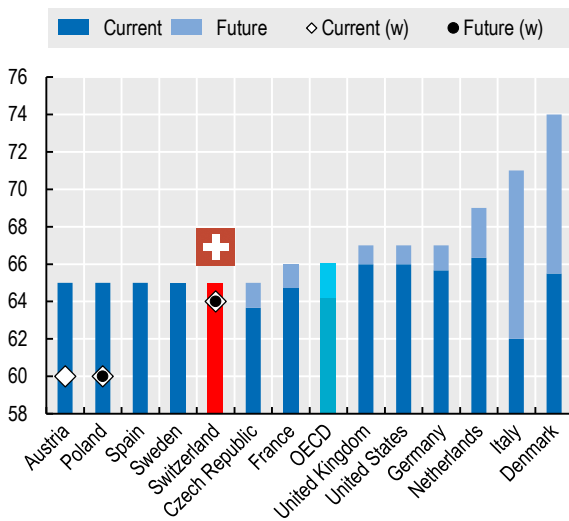
Source: Figure 1.11 and Figure 3.7

## No automatic adjustments to increasing life expectancy

Switzerland currently does not employ any automatic adjustment mechanisms beyond indexing pensions to a mixture of the evolution in prices and wages. The size of the Swiss working age population is expected to remain stable over the next four decades and the increase in life expectancy has slowed down over the last decade in line with the OECD average. Still, life expectancy at age 65 is projected to increase by four years for both men and women and will be one of the highest among OECD countries in 2060. Despite this increase, retirement ages

for both men and women will remain unchanged within the current policy framework. In contrast, countries such as Denmark, Italy and the Netherlands have automatic adjustment mechanisms increasing the retirement age in case life expectancy increases. In Denmark and Italy, a one-year increase in life expectancy results in a one-year increase in the retirement age. The Netherlands recently replaced its one-to-one link with a link increasing the retirement age by two-thirds of the increase in life expectancy, roughly keeping constant the ratio of years spent in retirement compared to years in the labour market.

The impact of future life expectancy increases on pensions can also be offset through benefit adjustments. Annuity conversion factors in NDC schemes as well as the life expectancy coefficient in Finland reduce pension benefits if life expectancy at retirement increases. As Italy and Finland illustrate, benefit and retirement age adjustments to life expectancy can be complementary policies: when benefits are linked to life expectancy, a (partial) retirement age adjustment can avoid erosion of pension adequacy as life expectancy increases. For this reason, Sweden is planning to supplement its annuity conversion factor with a retirement age link. In Switzerland, the conversion rate used to convert pension assets from the mandatory part of the occupational pension scheme (BVG/LPP) into annual pensions could be linked to life expectancy. The conversion rate is currently set at 6.8%, meaning that the annual pension equals 6.8% of the total pension capital at retirement. As this conversion rate is rather high given current longevity and therefore impacts the finances of occupational pension schemes, a commission of the lower chamber of Swiss Parliament is currently preparing a new proposal to reduce the conversion rate from 6.8% to 6.0%. However, similar proposals to reduce the conversion rate have not been approved in the past.

Low future net replacement rates in Switzerland
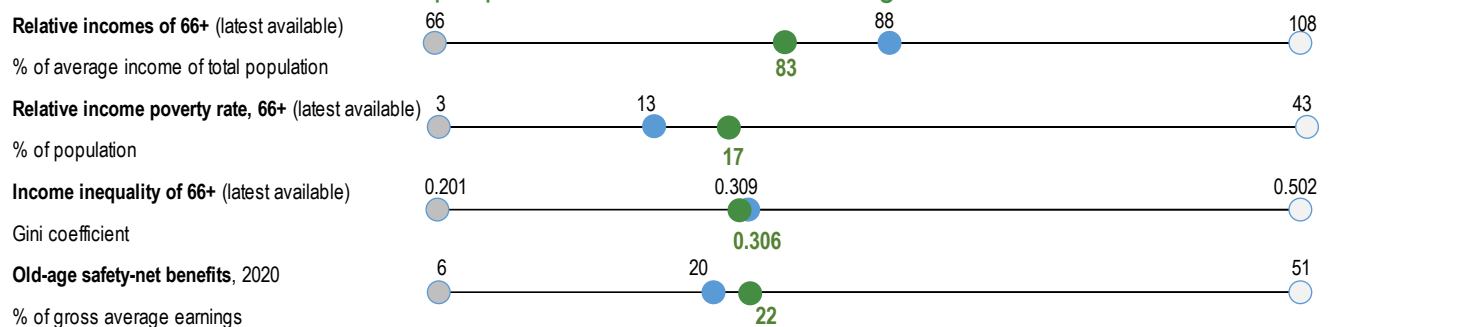In case of a full career starting employment aged 22 in 2020
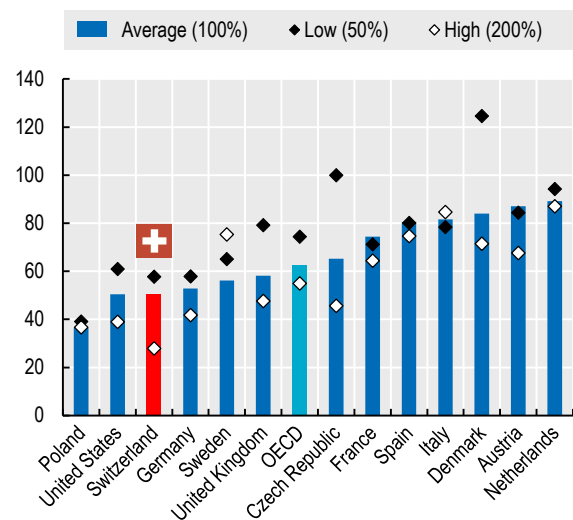
Source: Figure 1.12
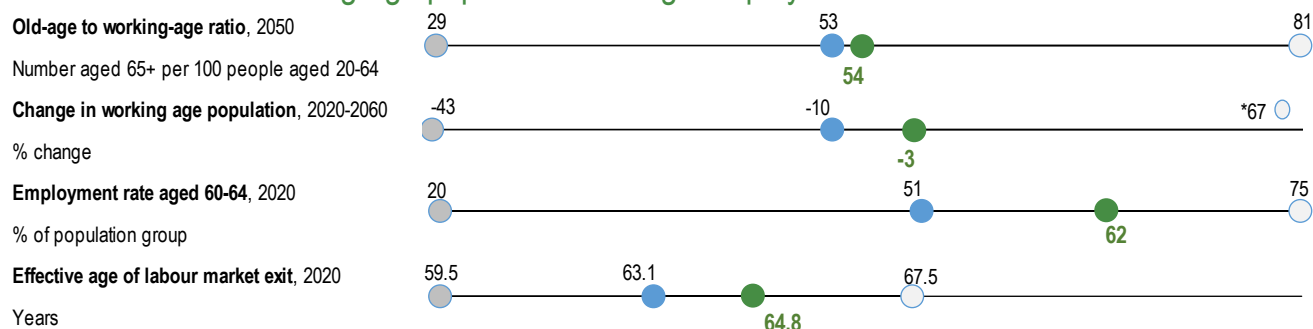
Low future net replacement rates

In addition to the below-average future retirement age, one important factor in the debate on whether to offset life expectancy increases through retirement age or conversion rate adjustments, is the drop in income at retirement already being rather large in Switzerland based on the OECD pension model. Net income of a person entering the labour market aged 22 in 2020 and working a full career at average earnings will halve at the moment of retirement if not supplemented with benefits from the voluntary employer pension schemes. For such a person, the net replacement rate from mandatory pension schemes, which include public pensions (AHV/AVS) and the mandatory part of occupational pensions (BVG/LPP), will be 50.7% in Switzerland, compared to 62.4%

in the OECD on average. For low-earners (50% of average earnings), these numbers are 57.8% and 74.4%, respectively. For high-earners (200% of average earnings), the Swiss replacement rate is even almost half the OECD average. One relevant factor in this regard is the low ceiling mandatory pension contributions in Switzerland – Israel is the only other OECD country where this ceiling is below average earnings. The voluntary part of the occupational pension scheme plays a limited role at the average-wage level, but can be important for high-income groups. Finally, as the self-employed pay reduced contributions to mandatory funded schemes, their pensions will be 49% of that of the employee with the same income before taxes, compared to 75% in OECD countries on average. Both employees and the self-employed can further increase pension build-up through voluntary schemes.
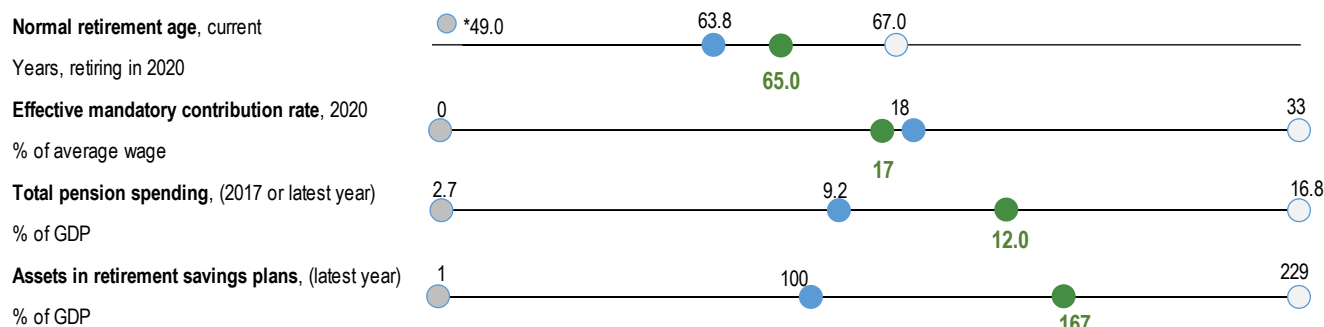
Switzerland ●   OECD ●   Min ●   Max ○

Relative income of Swiss older people is below the OECD average

Relative incomes of 66+ (latest available)
% of average income of total population
66 — 88 — 108 | **83**

Relative income poverty rate, 66+ (latest available)
% of population
3 — 13 — 43 | **17**

Income inequality of 66+ (latest available)
Gini coefficient
0.201 — 0.309 — 0.502 | **0.306**

Old-age safety-net benefits, 2020
% of gross average earnings
6 — 20 — 51 | **22**

Stable size of the working-age population and high employment rate of older workers

Old-age to working-age ratio, 2050
Number aged 65+ per 100 people aged 20-64
29 — 53 — 81 | **54**

Change in working age population, 2020-2060
% change
-43 — -10 — *67 | **-3**

Employment rate aged 60-64, 2020
% of population group
20 — 51 — 75 | **62**

Effective age of labour market exit, 2020
Years
59.5 — 63.1 — 67.5 | **64.8**

Pension financial assets are sizeable in Switzerland

Normal retirement age, current
Years, retiring in 2020
*49.0 — 63.8 — 67.0 | **65.0**

Effective mandatory contribution rate, 2020
% of average wage
0 — 18 — 33 | **17**

Total pension spending, (2017 or latest year)
% of GDP
2.7 — 9.2 — 16.8 | **12.0**

Assets in retirement savings plans, (latest year)
% of GDP
1 — 100 — 229 | **167**

Swiss retirees will have relatively low pension replacement rates from mandatory schemes

Normal retirement age, future
Years, starting career at age 22 in 2020
62.0 — 65.8 — 74.0 | **65.0**

Future net replacement rate, average earner
% of average wage
31 — 62 — 103 | **51**

Pension loss from 5-year unemployment
% of full career pensions, average earner
-12 — -6 — 0 | **-10**

Future net replacement rate, low earner
% of average wage for low earners
39 — 74 — 125 | **58**

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