Key findings

- The pace of pension reforms in OECD countries slowed down between 2015 and 2017 compared to previous years.
- Over the last years, Swiss voters rejected all major pension reform proposals, suggesting that reforming the pension system in Switzerland might be even more challenging than in other countries.
- Pension replacement rates from *mandatory* schemes are low in international comparison. For full-career average earners net replacement rates are projected to be 45% of previous earnings against 63% in the OECD.Switzerland is one of very few OECD countries that plan to maintain different retirement ages for men and women.
- The Swiss pension system is comparatively flexible. This flexibility permits pensioners to shape retirement according to their wishes, but also bears risks for income adequacy at old ages.

Recent reforms and flexible retirement: How does Switzerland compare?

Population ageing will be gaining momentum over the next decades in Switzerland, as in other OECD countries. The number of people over 65 for every 100 people of working age (20-64) increased from 21 in 1975 to 29 in 2015 and is projected to reach 55 in 2050. This increase is in line with the OECD average, and faster than in countries like France, the United Kingdom and the United States. Pension spending in Switzerland is comparatively high today; 11% of GDP is spent on public and private pensions, against 9% on average in the OECD. The demographic change will continue to put pressure on pension finances.

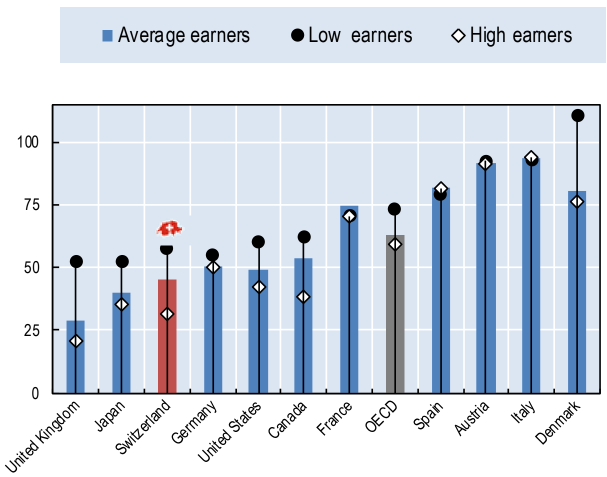
This new edition of *Pensions at a Glance* shows that future replacement rates from mandatory schemes – which include public pensions (AHV/AVS) and the *manadatory* part of occupational pensions (BVG/LPP) in Switzerland - are almost 20 percentage-points lower than on average in the OECD. Average-wage full-career workers entering the labour market today are projected to have a future net replacement rate of 45% of their earnings against 63% in the OECD.

Workers who are in addition covered by voluntary occupational pensions (Überobligatorium/Régime surobligatoire), which is the case for a significant share of workers but is currently not modelled by the OECD due to lack of data, can expect higher net replacement rates. Currently, individuals over 65 have an average income amounting to 82% of the whole population, while the corresponding level is 88% in the OECD.

With the objective of improving future financial balances without undermining retirement income adequacy, a recent pension reform initiative proposed a set of measures including: an increase in the retirement age for women from 64 years to 65 years, aligning it to the male retirement age; an increase in value-added taxes to finance higher public pensions; and, a decrease in the conversion factor that is used to transform mandatory occupational pension savings into streams of annuities. The conversion factor is currently set at 6.8%, which is high given current life expectancy and low interest rates, making annuity payments costly for pension providers. In September 2017, Swiss voters rejected this proposal in a public referendum.

Net replacement rates from mandatory schemes are projected to be low

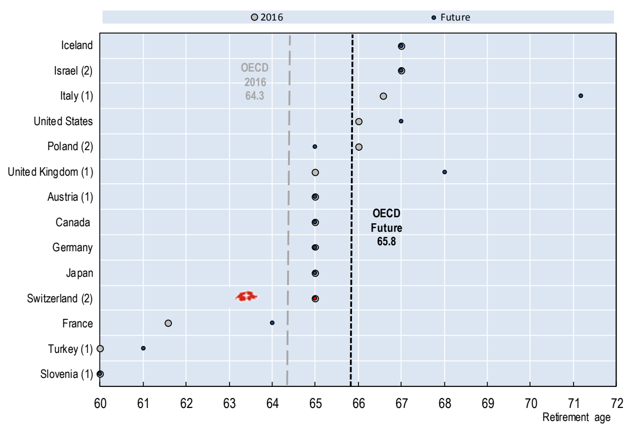
Full career workers entering employment at age 20 in 2016



Source: [Figure 4.9].

The retirement age is currently above the OECD average, but will be below average in the future

Current and future retirement ages for a man with a full career entering the labour market at age 20 in 2016



Source: [Figure 3.10].

Note: *(1): countries in which retirement ages for men and women are currently different, but will converge. (2): countries which will maintain a gender difference.*

This rejection as wells as previously rejected referenda show that reforming the pension system in Switzerland might be politically even more difficult than in other countries. Ensuring the financial sustainability of the pension system without reducing pensions to lower levels will remain a major challenge and remain prominent on the policy agenda.

Over past years, other OECD countries have been more active than Switzerland in reforming their retirement schemes. While the normal retirement age for men is currently higher than on average in the OECD (65 years against 64.3 years), it will fall below the cross-country average based on current legislation. Switzerland is one of very few OECD countries, along with Israel and Poland, that plan to maintain different retirement ages for men and women whereas such differences do not exist in most OECD countries and six other countries plan to eliminate this gender gap.

Increasing employment rates at older ages is key to improving or maintaining pension levels in a financially sustainable way. Employment rates in Switzerland up until age 65 are high and far above the OECD average while they are very close to the cross-country average at higher ages. 82% of 55-59 year-olds, 60% of 60-64 year-olds and 23% of 65-69 year-olds work.

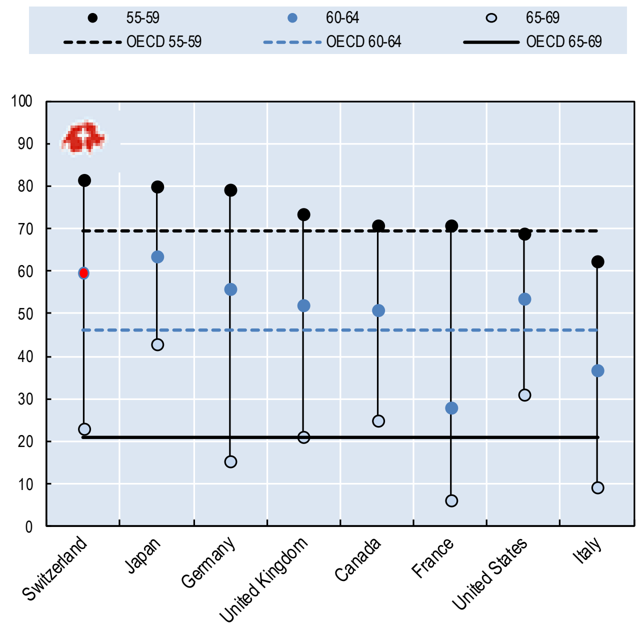
Financial incentives to postpone retirement are a bit lower than in most other OECD countries according to estimations reported in Chapter 2. Working longer and deferring pension by 3 years increases annual pension levels per year of deferral by 6.7% in Switzerland against 7.5% in Italy, 7.7% on average in the OECD, 8% in the United States and even 13.7% in Portugal; in Germany by contrast the increase is only 4.4%

The Swiss pension system is comparatively flexible. Workers can choose to withdraw their occupational pensions as an annuity or (at least partly) as a lump-sum. While lump-sum payments can be advantageous, for instance due to tax reasons or personal preferences, they also bear the risk that pensioners consume large parts of their withdrawals quickly after retirement and are left with low levels of income at older ages. Income poverty among people over 65 – which does not take account of wealth – is much more widespread in Switzerland (19%) than on average in the OECD (13%).

High levels of part-time work among older workers may also be a sign of a high level of flexibility. About 42% of 55-64 year-old workers have a part-time job, compared to 21% on average across countries. Among workers over 64 this share almost doubles to 80% in Switzerland, against about 50% in the OECD. While part-time workers earn lower wages and accrue lower pension entitlements than full-time workers, the option to switch from full-time to part-time work permits older workers to enter retirement more gradually and may allow some of them to stay in the labour market until older ages. A publically regulated phased-retirement scheme, such as the Transition-To-Retirement Pensions scheme in Australia, does not exist; yet workers have the option to claim pensions early and remain in full-time or part-time work. In many cases occupational pension providers also allow full or partial pre-withdrawals of pension savings that can be used to finance smooth retirement entry.

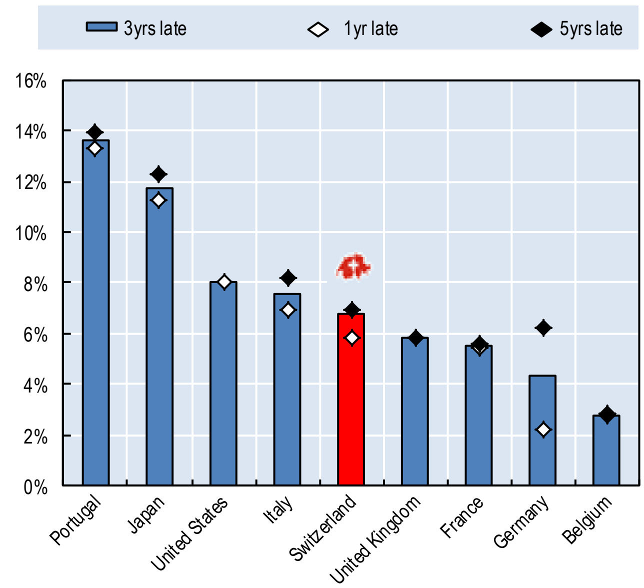
Employment rates of workers aged 55-64 in Switzerland are high

Employment rates by age-group, 2016



Source: [Figure 5.6].

Impact of working longer and deferring pensions after the normal retirement age on total annual benefits



Source: [Figure 2.12].

Contact: Marius Lüske (+33 1 45 24 80 79 ; marius.luske@oecd.org), Hervé Boulhol (+33 1 45 24 84 58 ; herve.boulhol@oecd.org)