Key findings

- A reform of the public pension scheme was accepted by referendum in May 2019, enhancing its financing. Further reforms of both public and occupational schemes are needed to improve financial and social sustainability.
- Net future replacement rates from mandatory pensions are projected to be low in international comparison; based on legislated rules, full-career average-wage earners can expect a net replacement rate of 44%, against 59% in the OECD.
- While the normal retirement age is currently slightly above the OECD average, it is not set to increase and will fall below the average in the absence of new reforms. Furthermore, Switzerland is one of only few OECD countries maintaining different retirement ages for men and women.
- Employment rates among people in their early 60s are higher than is most other countries, but employment drops very markedly around the statutory retirement age, with few people working longer.
- Some types of non-standard workers, including the self-employed, are less well protected in terms of mandatory pensions than standard workers in Switzerland, potentially increasing their financial vulnerability at older ages. As the self-employed are not covered by mandatory occupational schemes in Switzerland, their theoretical replacement rate is projected to be equal to half of that of standard workers with equivalent earnings against four-fifths on average in the OECD.

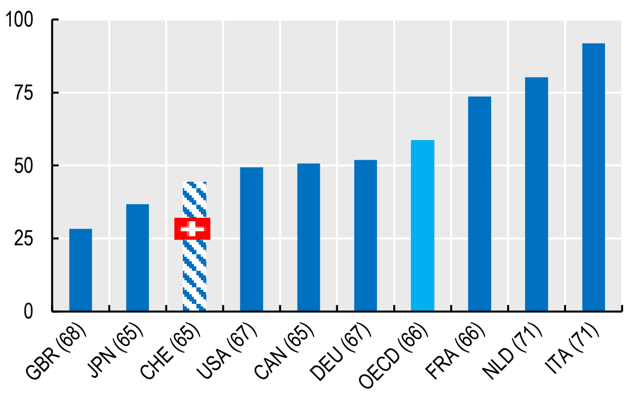
Overview – Replacement rates are low, especially for the self-employed

Like in other OECD countries, ageing in Switzerland has been accelerating. The number of people aged 65 and over for every 100 people of working age will increase from about 30 today to 58 in 2060. This rise is in line with the OECD average, and faster than in countries like the United States and Sweden. These demographic prospects are likely to increase the financial pressure on the Swiss pension system. If no further reforms are passed, the AVS reserve fund, which manages public pension payments, would be depleted in the 2030s.

Pension adequacy may become a topic of major concern in Switzerland. Future net replacement rates from mandatory pensions, which include public pensions (AHV/AVS) and the mandatory part of occupational pensions (BVG/LPP) – are expected to be low compared to other countries. While future net replacement rates for full-career average-wage earners will be 59% under current legislation on average in the OECD, they will amount to 44% in Switzerland, which is one of the lowest replacement rates among OECD countries. The effective pension contribution rate of the average-wage earner is 16.6% in Switzerland, lower than the OECD average of 18.4% and much lower than in countries like France, Italy and the Netherlands where contribution rates are over 25%. The disposable income of the 65+ amounts to only 80% of its equivalent among the total population in Switzerland, against 87% in the OECD, 94% in Austria and 103% in France.

Long-term net replacement rates from mandatory schemes are low

average-wage earners, full career, in %

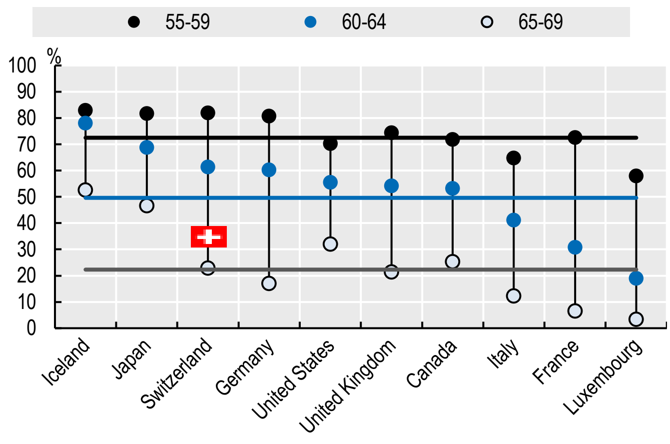


Source: [Figure 5.4]

Note: Values for men; numbers in brackets correspond to the retirement age

Employment rates are high until the statutory retirement age, but fall quickly afterwards

Employment rates by age, 2018 or latest



Source: [Figure 6.6].

Raising employment rates among older people is a key factor in improving or maintaining pension levels in a financially sustainable way given longer lives. Up until age 65, employment rates are high in Switzerland, exceeding the OECD average by far. In 2018, 82% of 55-59 year-olds and 61% of 60-64 year-olds worked, against 73% and 50% in the OECD, respectively. However, employment rates fall sharply after the statutory retirement age – which is 64 years for women and 65 for men – dropping to 23% among 65-69 year-olds.

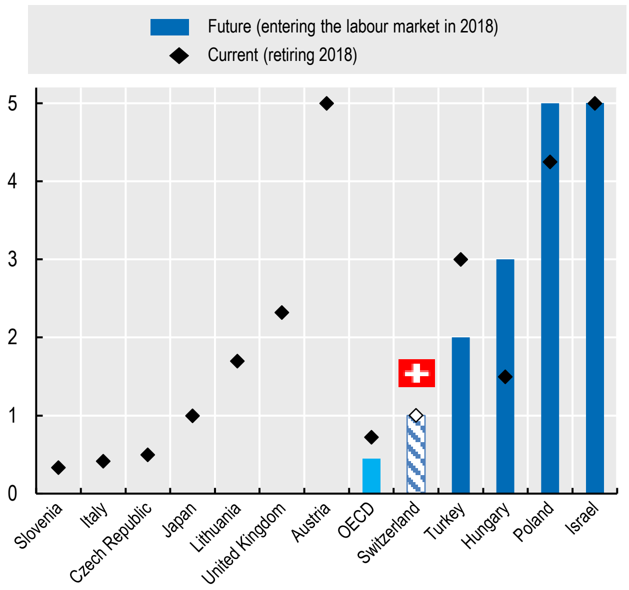
While the normal retirement age is slightly above the OECD average today, it will remain stable based on current legislation, and hence fall below the future average of 66.1 years. Switzerland is one of only few OECD countries that have different statutory retirement ages for men and women and have not adopted legislation to remove this difference. In total, there are only 5 OECD countries which plan to maintain such a difference. Raising the statutory retirement age, linking it to life expectancy and equalising it between men and women would lead to an increase in labour market exit ages, thereby enhancing retirement incomes and/or financial sustainability.

In May 2019, Swiss voters accepted a reform of public pensions. The reform increases social security contributions by 0.3 percentage points, raises the share of VAT revenue assigned to the AVS scheme and increases the government's contribution to the AVS scheme from 19.6% to 20.2% of AVS revenues. The acceptance of this reform follows a series of reform rejections over the last years. In 2017, for instance, a major policy reform (AV2020) proposing a set of modifications, including an equalisation of the statutory retirement age for men and women and the reduction of the conversion factor in the mandatory occupational scheme from 6.8% to 6%, was rejected by referendum. This rejection, along with previous rejections, highlights that reforming pensions in Switzerland is politically difficult. Due to economic and demographic pressure, however, future reforms will be necessary. The government is currently working on new measures.

Some types of non-standard workers are less well protected by pensions than standard workers in Switzerland. Self-employed workers, for instance, are not mandatorily covered by occupational pensions. Although the public pension component includes non-standard workers and has redistributive features, the lack of an occupational pension can lead to low old-age income, thereby increasing the risk of old-age vulnerability. In the case of self-employed workers earning the average wage over their entire career, their pensions from mandatory schemes would only be about half of that of dependent employees with an equivalent earnings history. An alignment of pension rules between non-standard and standard workers would imply that occupational pensions become mandatory for all workers, including the self-employed. Furthermore, forms of non-standard employment that involve a higher risk of unemployment, such as temporary employment, can have consequences for pensions. The impact of time spent in unemployment on pension levels is comparatively strong. An employee earning the average wage who spends 5 years in unemployment will face a pension reduction of about 10% compared to a worker without such an employment spell. This compares to 8% in Germany and 6% on average in the OECD.

Switzerland is one of few countries which will maintain different retirement ages for men and women

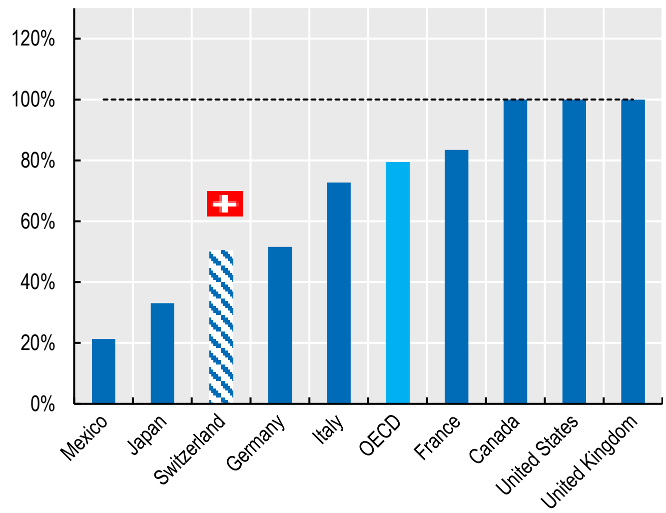
Differences in years based on a full career from age 22



Source: [Figure 4.5].

The self-employed will have low pensions from mandatory schemes

Theoretical pension of a self-employed worker relative to an employee having both a taxable income equal to the net average wage, full career from age 22



Source: [Figure 2.13].

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