COUNTRY SPOTLIGHT SWITZERLAND

Shadows on the horizon

Despite Switzerland's excellent retirement provision, there are upcoming challenges that may require a restructuring of the pension system, finds Peter Carvill

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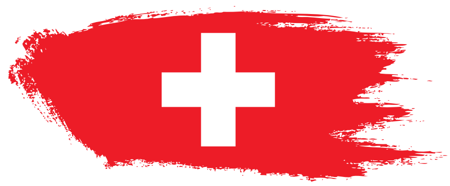
Ranked by Mercer in 2015 as one of the five best places in which to retire, Switzerland has a well-regarded three-part pensions system.

There is an earnings-based public scheme that can be added to by an income-tested supplementary benefit. A mandatory occupational pension regime was introduced 33 years ago and can be supplemented on a voluntary basis. The country maintains separate retirement ages for men and women of 65 years and 64, with full pensions requiring contributions of 44 years for the former and 43 for the latter.

But like many other countries with generous and comprehensive pension benefits, there is a shadow on the horizon. OECD figures show pension spending is relatively high at 11 per cent of GDP, against an OECD average of 9 per cent. This comes against the backdrop of a rapidly-ageing population: those over the age of 65 for every 100 people of working age (aged 20-64) increased from 21 in 1975 to 29 in 2015. Beyond, that number is predicted to hit 55 by 2050.

Stan Hlad is head of State Street Global Advisors in Switzerland. He says that there are two main issues facing the pensions industry. "Firstly," he says, "the demographical evolution is a challenge for the pension system which has to be dealt with. It cannot be ignored and new ways how to structure the pension plan system efficiently have to be found."



Hlad suggests a number of measures, stating the first and second pillars of the pensions industry need to reform. To strengthen the first pillar, an increase in the retirement age for women, alongside an increase in VAT, should be considered, even if controversial. He also believes that conversations around the introduction of a flexible retirement start have some substance, along with incentives around retirement payments and contributions in the first pillar system.

The second problem, he says, is, "the low interest rate environment is putting additional pressure on the sector as the financing has to be secured and yields have to be earned. For the latter, most pension plans have found answers and taken measures to improve their profitability. One measure was to increase the weight of alternatives in their asset allocation and also reduce their overall cost by introducing more indexed solutions, especially in their core allocation".

In regards to the first issue, there is little appetite in Swiss society for large-scale reform. In September, a public referendum was held on whether to bring in new measures to alleviate a future pensions burden. These included increasing the female retirement age from 64 to 65 and aligning it with its male counterpart, increasing VAT to finance pensions, and decreasing the conversion rate used to transform occupational pension savings into annuities from 6.8 per cent. Voters rejected the proposal.

Hlad says that he wishes the government would take more responsibility when it comes to pensions reform, adding: "They need to reach out to the nation better and make their position crystal clear by putting all the cards on the table and outlining all the pros and cons in terms of the reforms. Full transparency and highlighting the advantages and disadvantages of a reform must be evident and understood. Also, it is important to take the fear of a reform into account."

He remains hopeful. "In the foreseeable future, I believe other reform proposals will be prepared and discussed. I cannot predict the future but once the pressure to reform our system is big enough and the pain points are very evident I'm confident we will find a consensus and most voters will agree on a reform. When this will happen, I do not know, but given the demographical evolution and the financial state of the two-pillar system in Switzerland, it will." ■