

INTERVIEW

All change

**PETER DAVY SPEAKS TO SWISS PENSION
FUND ASSOCIATION ASIP'S DR. MICHAEL
LAUENER ABOUT THE AV2020 REFORMS AND
THEIR IMPACT ON SWISS PENSION FUNDS**

The Swiss pension fund association represents over 1,000 occupational pension funds with assets of around CHF 400 billion and 2.5 million members.

What are the key challenges of the Swiss pensions system, and how well does AV2020 [pension reform proposals] address them?

The key challenges for Swiss pensions are increased longevity and the low interest rates. The Swiss pension system faces big challenges. People are living longer, another baby-boom generation will soon be reaching AVS retirement age and investment income has been lagging behind expectations for years. This has tangible consequences for both pension pillars. The AVS's [first pillar] capital reserves will depreciate continuously from around 2020. Minimum statutory pension fund benefits are inadequately financed.

The aim of AV2020 is to ensure the financial sustainability of the system, both the first and second pillars, while guaranteeing the current level of benefits.

AV2020 does this very well by taking a holistic approach to the two pillars. It harmonises the reference age for men and women at 65 years for both pillars; raises the earliest retirement age for occupational benefit plans from 58 to 60; and reduces the conversion rate from 6.8 per cent to 6 per cent to take account of higher life expectancy and the interest rate environment.

How important is it that the reform is passed?

It must not fail. Many see the strength of the Swiss pension system in its combination of the state and private sector. Social security law is public law, but it is implemented through private foundations.

ASIP wants to see the second pillar revived, and thinks it is vital the solution to the pensions crisis does not see the state become overwhelming. It must give occupational pension schemes room to solve their problems through adjustments to their regulations, rather than through central legislation. AV2020 achieves that by basing its solution on both first and second pillars.

What should second pillar schemes be doing?

It's hard to speak for roughly 1,000 pension funds, but a lot have already put in place changes. Many have reduced their conversion rates, for example. That is fairly typical in Switzerland now. On the political level, compensatory measures in the LPP [second pillar] necessary to maintain level of benefits, including for the intermediate generation, will be examined.

How painful are the current interest rates for Swiss pensions?

It hurts. It hurts more or less depending on the situation of each pension fund, but it hurts, and it's persistent. Rates still remain negative. It means there are a lot of old people who gain, and a lot of active members who are paying for it.

Will the AV2020 reform be enough?

It's not enough. Even in terms of the first pillar this is expected to ensure sustainability of the system until 2030. So, even if this reform passes, a new reform will be needed after that date.

Do you see an increase in defined contribution schemes in Switzerland?

DC pensions have increased and are increasing in Switzerland, but individual accounts don't exist in the second pillar because of the collective principle.

With regard to the assets there is an amendment of the law on investing in pension plans (FZG/LFLP), which can waive the minimum return guarantees if the plan member individually chooses the investment strategy. This transfers the burden of investment risk to the plan members, so pension funds and their sponsors can remove liabilities from their balance sheets. However, it can only be offered to those on salaries of more than CHF 126,900.

What other major changes can we expect?

One significant development I see is the consolidation in the number of pension funds. Particularly smaller funds are being driven to merge due to the costs and complexity of running them, or because the employers feel they cannot cope with the stress any longer. But there are still small pension funds that are in a very good shape with regard to their governance and performance. ■