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# Swiss set spring debate on cost of autumn years

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**Some Christmas present: last Christmas Eve, the Swiss government issued its 172 pages of analysis and proposals consulting on Switzerland's occupational pensions. Responses are due by March 9. The Swiss pensions industry is Europe's third largest, with around Sfr440bn under management.**

Snowed in: Swiss pensions industry is being buried by the proposed regulations

Although Switzerland's safe-haven status in the euro crisis is assured, pension funds there are facing the same pressures as everyone else – rising life expectancy and investment returns too uninspiring to cover that cost.

Like other European nations it is having to reform its pensions to keep them affordable and solvent. Where the Swiss system differs, however, is that it is less wedded to the mark-to-market accounting measures that are now the subject of debate in other parts of the world.

Critics might say this means Swiss pension funds work to unrealistic targets and assumptions; but it also means that regulators have plenty of levers to correct the situation.

The current reform effort reflects this. Topics up for debate range from the Swiss retirement age, to the parameters governing the conversion rate – an idiosyncratic but central detail of the country's occupational pension system. It is the rate used to convert retiring members' accumulated savings into a monthly income; each scheme can set and vary it for itself, but is subject to a legal minimum.

Graziano Lusenti, founder of Swiss pensions consultancy Lusenti Partners, believes the government is asking too much. Concentrating on the key issues would be preferable. He said: "I think the result will be that this broad menu of topics-to-be-addressed will be reduced to a few."

According to Der Schweizerische Pensionskassenverband, or Asip, an organisation that represents Swiss occupational pension schemes, there are just three issues on which the government should focus: the retirement age; the legal minimum conversion rate; and the savings credit – another peculiarity of the Swiss occupational pension system.

This credit is an amount of annual interest added to members' accumulated pensions savings each year. At the moment, a minimum permissible interest rate is determined by the Swiss federal government.

-- Conversion rate

Most Swiss pension professionals seem to agree that the issue of the conversion rate is the one needing most urgent attention.

The conversion rate is already being reduced in line with a previous round of reforms – it is set to fall to 6.8% by 2014. But even at this reduced level, the minimum now looks unsustainably high.

It is a difficult issue. Inevitably, the Swiss will balk at seeing their retirement income shrink. In fact, they rejected a proposed reduction to 6.4% in a 2010 referendum.

The nearest UK equivalent to the Swiss conversion rate is the market annuity rate of 5.9%.

The latest set of Swiss proposals are again suggesting a reduced rate, and again it is 6.4%. But even this will be more than many schemes can afford to pay, according to Mercer's head of retirement, Willi Thurnherr.

By his calculations – using new mortality tables and a generous measure of schemes' liabilities – in order for Swiss pension schemes to avoid slipping into deficit, the legal minimum conversion rate would have to be brought down to 5.7% by 2017.

Most pension plans have some room for manoeuvre, because they have been using conversion rates that exceed the legal minimum.

Thurnherr said: "Banks, insurance companies and financial services companies have plans above the legal minimum, so [for them] it's not a problem. But for electricians, plumbers and construction workers, most of the plans are very close to the legal minimum."

Adrian Gröbli, head of the personal insurance unit at the Swiss Insurance Association, said the minimum conversion rate would have to be reduced to 6.4% just to keep the occupational pensions system afloat.

He said: "The only questions are over what time frame this will happen, and what measures will accompany the process. From the SIA's perspective, the reduction to 6.4% should follow the current reduction round (to 6.8% by 2014) as seamlessly as possible."

But while Swiss pensions professionals generally believe that the minimum conversion rate must be cut, the public will need persuading. Swiss trade unions and left-wing parties are strongly against any cut.

On the other hand, there is a wider appreciation that changes must be made.

Lusenti said: "People realise the overall environment – economic and demographic – has further deteriorated and steps need to be taken. But, of course, it's never easy to have people vote on what they understand as having something taken from them."

The attempt to persuade people to accept a cut in the minimum conversion rate, and therefore to accept lower pensions when they retire, is most likely to be successful if people are also offered some kind of compensation. There was no such quid pro quo on offer the last time this was put to the vote.

Raising the savings credit rate could, perhaps, provide a way to sweeten the deal. When the current retirement system was set up in 1985, the savings credit rate was 4% but has gradually shrunk and this year was reduced to 1.5%.

Thurnherr said: “If we decrease the conversion rate, we should, perhaps, have an increase in the savings credit, so the pot of money is higher to compensate for the lower conversion rate.”

But an increase in the savings credit rate would come at the expense of the employers that sponsor the pension schemes. They may be unwilling, or even unable, to bear this extra cost.

Sponsors may, however, be more prepared to accept this additional expense if the government gave them some control over it. In place of the government setting the savings credit rate, it could hand this power to sponsors, giving them discretion.

Simon Heim, a consultant at Towers Watson, said: “A suggestion is that it would be up to the foundation or the pension fund itself to take this decision, based on the financial situation of the scheme. This is, perhaps, a more reasonable approach. Now, as an insured person, you have a guarantee of a minimum [saving] credit rate, but if the fund could decide this, there would no longer be a guarantee.”

-- Guarantees

This removal of guarantees echoes pension reform efforts in the Netherlands, and even suggestions made by UK pensions minister Steve Webb. Proponents of “defined ambition” pensions argue they better capture the uncertainty inherent in investing in financial markets over the very long term.

Other options being considered in Switzerland include increasing contributions to the schemes, though this would be likely to increase costs for both members and companies, since they tend to be shared. Members could be asked to start saving for pensions earlier, or be told to retire later.

At present, the Swiss begin making contributions at age 25, and typically take their pensions at age 65 for men and 64 for women.

The Swiss Insurance Association’s Gröbli said: “A higher retirement age would make a key contribution to resolving the issue [of reducing] the minimum conversion rate, but this is something that needs to be tackled via the [state pension system].”