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Finnish Centre for Pensions
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ABSTRACT

This review analyses the level of pension contributions paid in Switzerland mainly in 2005. The main contribution data have also been compiled into statistics series. The aim of the review is to provide an overview of the total cost of pension financing when taking into account occupational pensions and the government's share of financing in addition to the statutory pension contributions. Pension assets and related investment operations are not included in the analysis.

Pension contributions have been compared in relation to the market and basic (factor) price GDP, as well as the compensation of employees (including also the employer's social security contributions). By using different indicators, we have sought to achieve maximum comparability between the results of different countries. The review also presents examples of employee and employer pension contributions.

All pension contributions in relation to GDP at market prices was 14.05 per cent and in relation to GDP at basic prices 13.98 per cent.

The review is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Finland, the countries compared are Denmark, France, Germany, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries will be published as separate reviews. The overall results of the comparison have been published in the publication *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

ABSTRAKTI

Tässä selvityksessä tarkastellaan Sveitsissä maksettujen eläkevakuutusmaksujen tasoa pääasiassa vuonna 2005. Keskeisimmät maksutiedot on koottu myös tilastosarjoiksi. Katsauksen tavoitteena on antaa kuva eläketurvan aiheuttamasta kokonaismaksurasituksesta, kun huomioon otetaan lakisääteisten eläkemaksujen lisäksi maksut lisäeläkejärjestelmiin sekä valtion osuus rahoituksesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle.

Eläkemaksuja on verrattu suhteessa markkina- ja tuottajahintaiseen bruttokansantuotteeseen sekä työnantajan sosiaaliturvamaksut sisältävään palkansaajakorvaukseen. Eri mittareilla on pyritty mahdollisimman vertailukelpoiseen tulokseen eri maiden välillä. Katsauksessa on lisäksi esitetty esimerkkilaskelmia yksittäisestä palkansaajasta perittävistä eläkemaksuista.

Markkinahintaiseen bruttokansantuotteeseen suhteutettuna kaikkien eläkevakuutusmaksujen osuus oli 14,05 prosenttia ja suhteessa tuottajahintaiseen bruttokansantuotteeseen 13,98 prosenttia.

Selvitys on osa Eläketurvakeskuksessa laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Suomen lisäksi muut tarkastelumaat ovat Alankomaat, Iso-Britannia, Norja, Ranska, Ruotsi, Saksa, Sveitsi ja Tanska. Muita maita koskevat tiedot julkaistaan erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

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1 Introduction

Switzerland has statutory old-age and survivors' pension insurance (AHV) and general disability insurance (IV), which covers everyone who lives or works in the country, also self-employed persons (based on contributions). The pension consists of a flat-rate component, an earnings-based component and possible increments. If the minimum cover provided by pension insurance is in individual cases not sufficient or the person is not entitled to a pension, discretionary supplementing pensions (Ergänzungsleistungen) may be paid out. The mandatory occupational pension scheme (BVG) covers persons who have reached the age of 17 and whose annual earnings exceeded CHF 19,350 (€11,680) in 2005. Self-employed persons may join the BVG scheme on a voluntary basis.

The Swiss pension scheme may be categorised as follows:

- Discretionary supplementing pensions (EL)
- Old-age and survivors' pension scheme (AHV)
- Disability pension scheme (IV)
- Mandatory occupational pension scheme (BVG).

The pensions consist of two components, so that they always include a fixed component and also an earnings-based component. Thus the same pension includes both minimum provision and usually also earnings-related pension provision. Entitlement to a pension presupposes that contributions have been paid for a certain minimum period of time, but this does not make the whole pension based on employment, since contributions are levied from everyone who lives in the country, regardless of whether the person is working or not.

Employer-specific occupational pensions were decreed mandatory through an act of 1985. The act is a framework act, which sets down the minimum level of employer-specific pension provision. The employer may on a voluntary basis arrange occupational pension provision which exceeds this minimum level. Voluntary occupational pension provision has been arranged for the employees of nearly all large international companies which operate in Switzerland, but often also for employees who work in domestic companies. Self-employed persons may join the occupational pension scheme on a voluntary basis. Self-employed persons can also be members of a professional organisation, for the members of which occupational pension provision is mandatory.

2 Pension contribution level in 2005

The following tables describe the total premium income for pensions in relation to the compensation of employees and GDP. In 2005 Swiss GDP at market prices amounted to CHF 455,594 million (€275,000 million¹) and GDP at basic (factor) prices to CHF 459,316 million (€277,240 million). The compensation of employees, which includes the employer's social security contributions, amounted to CHF 284,475 million (€171,710 million)². OECD does not for Switzerland report the wage sum so that it does not include the employer's social security contributions. For this reason, and in contrast to the other countries included in the comparison, the amount of premium income in relation to this wage sum has not been presented.

Table 1. Total premium income of statutory pension provision, CHF million.

	2004	2005	2006	% of GDP (2005)	% of the wage sum (2005)
Discretionary supplementing pensions	2,847.5	2,981.	3,080.4	0.65%	1.05%
Old-age and survivors' pension scheme	31,771.7	33,333.6	33,970.9	7.32%	11.72%
Disability pension scheme	9,417.1	9,766.0	9,863.1	2.14%	3.43%
Occupational pension schemes (only pension contributions)	33,849.0	35,797.0	38,383.0	7.86%	12.58%
Total	77,885.3	81,878.3	85,297.4	17.97%	28.78%
Other income to the occupational pension schemes	1,6769	2,3584	1,9625	5.18%	8.29%

Source: Statistik Schweiz, Pensionskassenstatistik.

The table above summarises the income flows which are used to finance the pension benefits in question. Part of the old-age and survivors' pension contribution is used for other purposes than directly to finance pensions. The disability pension contributions are also used to finance, for instance, unemployment benefits, re-education and housing benefits. Since these benefits are not directly pensions, the premium income collected for pensions has to be estimated first as a percentage via the expenditure and then multiply the premium income with this percentage. Also as regards the occupational pensions, the part of the premium income which is not used to finance pensions but instead costs related to for instance divorce, migration and similar occurrences is excluded. When calculating in this way, the proportion of the old-age and survivors' pension is about 97 per cent, that of the disability pension about 58 per cent and that of the occupational pensions about 70 per cent of the premium income related to the benefit in question. It should be noted, however, that these figures are very rough estimates, which do not take into account how, for instance, subsidies paid by the State are specifically allocated. It can be assumed that a considerably larger proportion of the employee's and the employer's disability pension contribution can in reality be allocated to pensions and the subsidies paid by the State are to a larger extent used to finance other benefits, for instance income security for the unemployed.

1 1 EUR = 1.6567 CHF (0.6036).

2 National Accounts of OECD Countries: Main Aggregates. Volume 1, 1994–2005.

Table 2. Premium income collected exclusively for pensions in 2005 (estimated), CHF million.

	2005	% of GDP (2005)	% of GDP at basic (factor) prices (2005)	% of the wage sum (2005)
Discretionary supplementing pensions	2,981.7	0.65%	0.65%	1.05%
Old-age and survivors' pension scheme	32,395.9	7.11%	7.05%	11.39%
Disability pension scheme	5,643.4	1.24%	1.23%	1.98%
Occupational pension schemes (only pension contributions)	25,064.3	5.50%	5.46%	8.81%
Total	66,085.3	14.51%	14.39%	23.23%
Other income to the occupational pension schemes	16,513.0	3.62%	3.60%	5.80%

Note: The amount of premium income has been estimated via the actual pension expenditure. First the proportion of pension expenditure related to the relevant pension is calculated in relation to the total pension expenditure, after which this ratio is multiplied with the amount of premium income. The premium income includes capital and other income.

Source: Statistik Schweiz, Pensionskassenstatistik.

Table 3. Contribution levels for pensions (estimated).

Premium incomes for pensions	% of GDP	% of GDP at basic (factor) prices	% of the wage sum
Employer's contributions	5.48	5.45	8.78
Old-age and survivors' pension	2.20	2.19	3.53
Disability	0.22	0.22	0.35
Occupational pension	3.06	3.04	4.90
Employee's contributions	4.86	4.83	7.79
Old-age and survivors' pension	2.20	2.19	3.53
Disability	0.22	0.22	0.35
Occupational pension	2.44	2.42	3.91
Self-employed person's contributions	0.50	0.50	0.79
Old-age and survivors' pension	0.45	0.45	0.72
Disability	0.05	0.05	0.07
Financed by the State	3.21	3.20	5.16
Discretionary supplementing pensions	0.65	0.65	1.05
- to the old-age and survivors' pension	0.37	0.40	0.60
- to the disability pension	0.28	0.30	0.45
Old-age and survivors' pension	1.83	1.82	2.94
Disability pension	0.73	0.73	1.17
Total	14.05	13.98	21.73

Source: Statistik Schweiz, Pensionskassenstatistik.

Capital and other income has been excluded from table 3, since the purpose was to analyse the distribution of the contribution burden between the employee, the employer and the State. For this reason the total amount differs from that in tables 1 and 2.

3 Financing of the statutory pension scheme

The financing of earnings-related pensions is based on the pay-as-you-go principle. The pensions are financed through the insured persons' and the employers' contributions and levies from the cantons as well as state subsidies. In addition, interest-rate yields on the equalisation fund for old-age and survivors' pension insurance are also used in the financing. The employer withholds the contributions from the insured in connection with the wage payment.

In 2005 the old-age and survivors' pension contribution for both the employer and the employee was 4.2 per cent of the wage. The disability pension contribution totals 1.4 per cent of the wage, and the employer and the employee pay half of the contribution each. The contributions are levied from the whole wage without any upper earnings limit. The contributions were of the same size also in 2008.

The contribution which accrues old-age pension rights in the occupational pension scheme is for the employer and the employee in total 7, 10, 15 or 18 per cent of the wage that the contribution is based on, depending on the employee's age.

The self-employed persons' old-age and survivors' pension contribution is 4.2–7.8 per cent depending on the amount of earnings. If the annual earnings exceed CHF 51,600 (€32,680), the contribution rate is 7.8 per cent. If the annual earnings are below CHF 51,600, the contribution rate is gradually reduced. The disability contribution is a maximum of 1.4 per cent, but the rate varies according to the annual earnings. The disability contribution is 0.754–1.4 per cent. The contribution rate depends on the amount of earnings. Self-employed persons may pay voluntary contributions to the BV occupational pension scheme.

The Swiss mandatory buffer fund had a value of CHF 29.3 billion, i.e. about 6.5 per cent in relation to GDP. In addition a separate equalisation fund is accumulated from the old-age and survivors' pension contributions, and this fund is used to level out the financing deficit of the disability pensions (Ausgleichsfonds AHV/IV). In 2005 the fund amounted to CHF 21,619.1 million, which corresponds to about 4.7 per cent in relation to GDP.

3.1 Discretionary supplementing pensions

Minimum pension provision is, as a rule, based on provision offered by statutory general pension insurance. According to a decree by the Federal Council, the statutory pensions should secure a minimum income. If the minimum cover provided by pension insurance in individual cases is not sufficient or the person is not entitled to such provision, discretionary supplementing pensions (Ergänzungsleistungen) may be paid out.

The discretionary supplementing pensions are financed through levies from the Confederation and the cantons. The annual levies are equal in size to the expenditure to be financed. In 2005 the revenues collected in order to finance discretionary supplementing pensions amounted to approximately CHF 2,982 million (€1,800 million), of which the share of the Confederation was CHF 675 million (22.6%; €407 million). The amount collected to finance discretionary supplementing pensions through the AHV scheme was CHF 1,695.4 million (€1,023 million),

of which the share of the Confederation was CHF 387.6 million (€234 million) and the share of the cantons CHF 1,307.8 million (€789 million). The amount of discretionary supplementing pensions paid through the IV scheme was CHF 1,286.3 million (€776 million), of which the share of the Confederation was CHF 287.6 million (€174 million) and the share of the cantons CHF 998.7 million (€603 million).

Table 4. *Discretionary supplementing pensions: income and expenditure, CHF million.*

	2002	2003	2004	2005	2006
Total income	2,527.8	2,671.3	2,847.5	2,981.7	3,080.3
State subsidy for supplementing pensions payable through the old-age and survivors' pension scheme	1,524.8	1,572.6	1,650.9	1,695.4	1,731.0
Confederation	342.6	355.5	375.0	387.6	382.5
Cantons	1,182.2	1,217.1	1,276.0	1,307.8	1,348.6
State subsidy for supplementing pensions payable through the disability scheme	1,003.0	1,098.6	1,196.5	1,286.3	1,349.3
Confederation	219.8	243.5	265.7	287.6	291.3
Cantons	783.2	855.1	930.8	998.7	1,058.0
Total expenditure	2,527.8	2,671.3	2,847.5	2,981.7	3,080.3
Supplementing pensions payable through the old-age and survivors' pension scheme	1,524.8	1,572.6	1,650.9	1,695.4	1,731.0
Supplementing pensions payable through the disability scheme	1,003.0	1,098.6	1,196.5	1,286.3	1,349.3
Total expenditure in % of total pensions					
Expenditure for supplementing pensions payable through the old-age and survivors' pension scheme in % of total AHV pensions	6.2%	6.2%	6.4%	6.4%	6.4%
Expenditure for supplementing pensions payable through the disability scheme in % of total IV pensions	21.4%	21.6%	22.7%	25.0%	26.7%

Source: Statistik Schweiz, Pensionskassenstatistik.

3.2 Old-age and survivors' pension scheme AHV

In 2005 the Confederation participated in the financing of the AHV scheme with 16.36 per cent and the cantons with 3.64 per cent of the insurance expenditure of the year. For the AHV scheme the State levies taxes of on average 55 per cent on tobacco products and for each litre of pure alcohol CHF 29. Of the VAT collected by the State 17 per cent is used to finance the AHV scheme. The cantons use 83 per cent of the VAT to finance the AHV scheme and 40–80 per cent of the revenues from gambling. The financing obtained through the VAT constitutes nearly one-fourth (CHF 1,973 million) of the total State subsidy to the AHV scheme.

In 2005 the amount collected for old-age and survivors' pensions (AHV) totalled CHF 31,866.3 million (€19,234 million) and including investment returns CHF 33,711.8 million (€20,171 million). The amount collected from the insured and the employers was CHF 23,270.6 million (€14,046 million) and the Confederation subsidised the scheme with CHF 8,595.7 million (€5,188 million). In addition, investment returns and other revenues amounted to CHF 1,845.6 million (€1,114 million).

The contribution is levied from persons who are outside the labour market from the beginning of the year following the person's 20th birthday. The contribution is determined on the basis of the aggregate amount of income and property. Income includes, for instance, pensions and sickness allowance.

In 2005 the old-age and survivors' pension contribution amounted to a minimum of CHF 353 (approx. €224) and a maximum of CHF 8,400 (approx. €5,320) per year, and the disability insurance contribution amounted to a minimum of CHF 59 (approx. €37) and a maximum of CHF 1,400 (approx. €887). The minimum contribution is levied, for instance, from students who do not have any property. Contributions are levied from pension recipients who are working, if their earnings exceed CHF 16,800 per year (approx. €11,461) per employer.

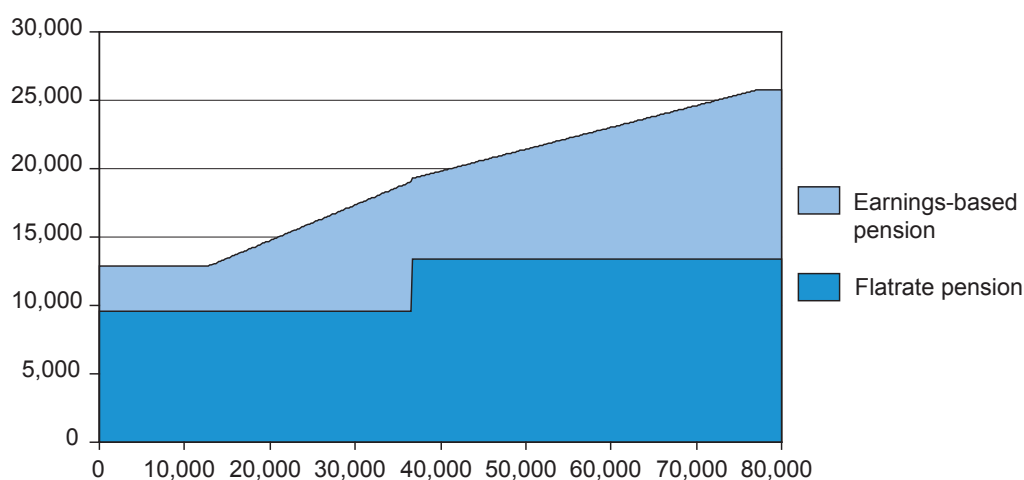
Also the spouse who is not working has to pay contributions. However, the contributions of the spouse who is not working are still considered as having been paid, if the other spouse is working and has paid contributions corresponding to at least double the minimum contribution. This rule applies to both men and women.

The number of old-age pensioners totals 1,684,745, of which 680,282 are men and 1,004,463 women. In addition, there are 138,064 recipients of a survivors' pension. (See table 6.)

3.2.1 Entitlement to old-age pension

The pension consists of a flat-rate component, an earnings-based component and possible increments. The amount used as basis for the pension is the average earnings for the whole period during which it would have been possible to pay contributions. The amount used as the minimum amount for the annual earnings is the minimum contribution. The aforementioned average earnings are increased by a coefficient which is dependent on the year in which the insured person joined the scheme. The coefficient table is adjusted annually on the basis of the average change in prices and wages. In 2005 the maximum amount of the average wage which the pension is based on was CHF 77,400 (approx. €46,700).

Figure 1. Determination of the general old-age pension in 2005, CHF.



If only one of the spouses is entitled to a pension, the pension is determined exclusively on the basis of the pension applicant's own earnings. When both spouses are entitled to an old-age pension or a disability pension, the average income which the pension is based on is determined as follows: the calculation of the average income takes into account each spouse's own earnings before the marriage, and the aggregate income during the marriage, which is divided equally between the spouses, is added to these amounts. However, the aggregate pensions of the spouses must not exceed 150 per cent of the maximum amount of the old-age pension, i.e. CHF 38,700 (approx. €24,510). The increments payable for children and other dependents are also halved.

In 2005 the basic amount which the pension is based on was CHF 12,900 (approx. €8,170), and if the average income is at the most three times the basic amount, i.e. CHF 38,700 (approx. €24,500), the flat-rate component of the pension is 74 per cent of the basic amount, i.e. CHF 9,546 (approx. €6,040) per year and the earnings-based component 26 per cent of the average earnings. If the average earnings exceed CHF 38,700, the flat-rate component amounts to 1.04 times the basic amount, i.e. CHF 13,416 (approx. €8,495) and the earnings-based component to 16 per cent of the average earnings. The amount of the final old-age pension was at least CHF 12,900 (approx. €8,170) and at the most CHF 25,800 (approx. €16,340) in 2005 (1–2 times the basic amount).

Entitlement to the full earnings-based component presupposes that contributions have been paid for the whole period after the beginning of the year after the person's 20th birthday. If the time of insurance is insufficient, the pension is reduced in proportion to the time that is missing. Insufficient time of insurance may be compensated by insurance periods between the ages of 17 and 20.

3.2.2 Entitlement to survivors' pension

Survivors' pensions are paid in the form of surviving spouse's pensions and orphan's pensions. Surviving spouse's pension may be paid to both widows and widowers. The deceased must have paid contributions for at least one year.

Surviving spouse's pension may be paid to a surviving spouse who has not reached retirement age and who at the time of death of the deceased spouse cared for a child aged under 18, or a surviving spouse who has reached the age of 45 and who had been married with the deceased for at least five years. Surviving spouse's pension may be paid to a widower only if he cares for a child aged under 18. Surviving spouse's pension may also be paid to one or more divorced spouses, if the aforementioned conditions are met and if the marriage had lasted for at least ten years.

Orphan's pension is paid to a child aged under 18 following the death of the father or the mother. If both parents are dead, two orphan's pensions are paid. If the child studies full-time, the pension is paid until the child reaches the age of 25.

Table 5 presents the total income and total expenditure for old-age and survivors' pension insurance. They are not directly comparable with the tables presented at the beginning of the analysis, where the income was estimated through a percentage obtained via the expenditure.

Table 5. *Old-age and survivors' pension insurance: income and expenditure, CHF million.*

	2004	2005	2006
Income in total	31,771.7	33,333.6	33,970.9
National insurance income	22,107.7	22,780.6	23,689.5
- Employer's contributions	10,005.7	10,331.2	10,768.4
- Employee's contributions	10,005.7	10,331.2	10,768.4
- Self-employed person's contributions	2,096.3	2,118.2	2,152.7
State payments	8,299.6	8,595.7	8,814.7
- Confederation	7,192.2	7,455.4	7,661.5
- Cantons	972.1	999.1	1,010.4
- Municipalities	135.3	141.2	142.8
Capital income	1,352.4	1,948.1	1,457.9
Other income	12.0	9.2	8.8
Expenditure in total	30,309.2	31,203.0	31,559.1
Social insurance benefits	30,125.9	31,024.1	31,382.5
- Old-age pension	27,932.3	28,764.8	29,021.9
- Survivors' pension	1,526.3	1,560.4	1,656.7
- Other benefits*	667.3	698.9	703.9
Administrative expenses	101.4	98.6	94.1
Other expenditure	81.9	80.3	82.5
Surplus	1,462.5	2,130.6	2,411.8
Buffer fund	27,008.2	29,392.9	32,100.4
Equalisation fund old-age and survivors' pension / disability pension	20,972.3	21,619.1	22,770.3

* Hilflosentschädigungen, Übrige Leistungen.
Source: Statistik Schweiz, Pensionskassenstatistik.

Table 6. *Pension recipients covered by old-age pension provision.*

	Old-age pensions			Discretionary supplementing pensions	Survivors' pensions
	Men	Women	Total		
2002	601,194	946,736	1,547,930	77,479	130,430
2003	623,330	961,465	1,584,795	74,428	132,014
2004	650,563	981,406	1,631,969	69,515	134,346
2005	680,282	1,004,463	1,684,745	62,481	138,064
2006	710,988	990,082	1,701,070	67,482	145,499
2007	741,779	1,014,048	1,755,827	69,753	148,520

Source: Bundesamt für Sozialversicherungen.

3.3 Disability pension scheme IV

Pensions may be awarded to insured persons who have reached the age of 18. Entitlement to the pension presupposes that contributions have been paid for at least one year. The person has to be covered by the insurance scheme at the time of becoming incapable of work. The work ability must be reduced by at least 40 per cent as a consequence of a long-term illness or disability. In the case of illness, a period of incapacity for work of at least one year is required.

The amount of contributions collected for disability pensions was CHF 9,766 million (€5,895 million). The amount collected from the insured and the employers was CHF 3,847 million (€2,322 million). Public financing totalled CHF 5,781 million (€3,489 million), of which CHF 4,336 million (€2,617 million) from the Confederation and CHF 1,445 million (€872 million) from the cantons and the municipalities. The financing deficit of the disability pension is covered by transfer payments from the old-age and survivors' pension scheme.

Table 7. Disability pension insurance: income and expenditure, CHF million.

	2004	2005	2006
Income in total	9,417.1	9,766.0	9,863.1
National insurance income	3,732.0	3,847.1	3,998.2
- Employer's contributions	1,687.5	1,742.8	1,815.8
- Employee's contributions	1,687.5	1,742.8	1,815.8
- Self-employed person's contributions	357.0	361.5	366.6
State payments	5,548.3	5,780.7	5,730.0
- Confederation	4,161.2	4,335.5	4,297.5
- Cantons	1,228.6	1,280.3	1,282.5
- Municipalities	158.5	164.9	150.0
Other income	136.8	138.2	134.9
Expenditure in total	10,928.4	11,384.7	11,292.4
Social insurance benefits	10,285.7	10,758.4	10,543.4
Expenditure related to the pension scheme	6,386.5	6,578.8	6,382.9
- Other benefits*	3,899.2	4,179.6	4,160.5
Implementation costs	408.9	381.2	401.0
Other expenditure	233.8	245.1	348.0
Surplus	-1,511.3	-1,618.7	-1,429.4
Capital account	-6,035.9	-7,773.8	-9,330.1

* Taggelder, Wiedereingliederung, Dauernde Unterbringung, Hilfsmittel und Reisekosten, Medizinische Massnahmen, Hilflosenentschädigungen und Fürsorgeleistungen für Schweizer im Ausland.

Source: Statistik Schweiz, Pensionskassenstatistik.

4 Financing of the occupational pension scheme

The act concerning mandatory occupational pension provision (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge, BVG) took effect in 1985. The act is a framework act, which determines the minimum conditions for occupational pension provision arranged by the employer. The employers may still freely arrange pension provision of a higher level than the minimum level required by law.

Employer-specific occupational pension schemes have been common in Switzerland for decades. Already before the BVG act took effect the schemes covered an estimated two-thirds of the wage earners. As regards the schemes which were in operation in 1985, the act thus often meant only some adjustments to the scheme. However, some of the occupational pension schemes were abolished or were left as schemes offering voluntary occupational pension provision and they were replaced by a scheme which met the criteria of the BVG act. The BVG act was reformed in 2005, and in this connection, for instance, the minimum annual earnings limit which entitles to mandatory occupational pension provision was lowered. In addition, the contribution was changed so that it is now of the same size for both men and women.

According to the BVG act, membership in the occupational pension scheme is mandatory for all over 17-year-old employees who are covered by the social security system and whose annual earnings in 2005 exceeded CHF 19,350. Occupational pension provision should cover earnings up to at least CHF 77,400 per year. Disability and survivors' pension provision has to be arranged for persons who have reached the age of 17. Coverage by old-age pension provision starts from 1 January after reaching the age of 24. Fixed-term employment contracts of less than three months are not covered by insurance, however.

Statutory occupational pensions are defined contribution pensions. The level of minimum contributions has been determined, so that the target level of the mandatory occupational pension and the general old-age pension together is approximately 60 per cent of the pensionable wage. The size of the pension depends on the paid pension contributions and the interest on them.

At the end of each year the annual interest (2.5%) and the pension contributions of the current year are added to the pension savings of the previous year. On retirement, the savings and interests, i.e. pension capital, of the whole working career are converted to an old-age pension, to which a surviving spouse's pension of 60 per cent is connected. In 2006 the annual pension for men was 7.1 per cent of the pension capital at the age of 65 and for women 7.2 per cent at the age of 64. By 2014 the accrual level of the annual pension will be gradually reduced to 6.8 per cent. An increment is paid for dependent children, amounting to 20 per cent of the pension for each child. If the employee becomes disabled before reaching retirement age, the payment of pension contributions is continued on the basis of the last earnings until the general retirement age.

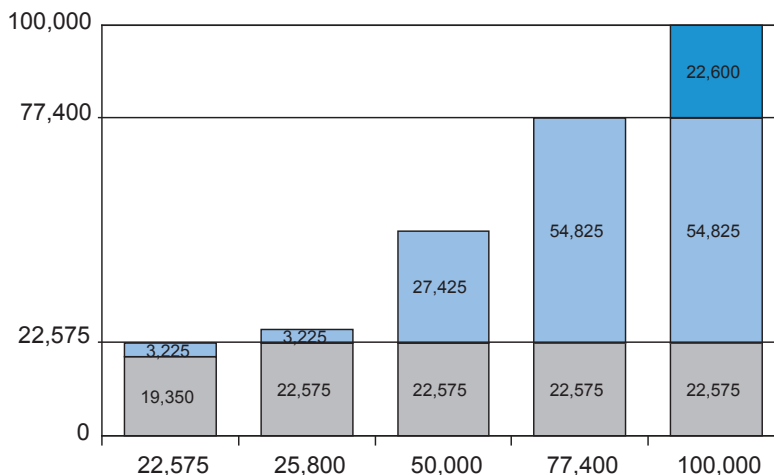
The Federal Council may on request by the professional organisation decree that joining the occupational pension scheme is mandatory also for all independent professionals who are members of the organisation. In other cases, self-employed persons may join the BVG scheme

on a voluntary basis. Foreigners who work temporarily in Switzerland may be exempted from membership in the BVG scheme, if they are covered by a pension scheme in another country which offers comparable provision.

Voluntary occupational pension provision arranged by the employer usually constitutes a whole together with mandatory occupational pension provision, since most employers already had a voluntary occupational pension scheme before the BVG act concerning the minimum level took effect in 1985. As the act came into force the schemes were reformed as necessary to correspond to the provisions of the act. However, often the voluntary arrangements offered more generous benefits than the required minimum level. More generous benefits than required by the BVG rules were especially provided by defined benefit schemes, which for this reason have been able to continue their operations even though the minimum benefits according to the BVG act were determined for a defined contribution scheme. From the beginning of 2006 a wage ceiling of CHF 774,000 (€486,460) per year was introduced also in the voluntary occupational pension schemes as part of the BVG act. The pension benefits are usually linked to the basic annual wage.

The occupational pension schemes are funded. The pensions are financed through funded employer's and employee's contributions and returns on the funds. The schemes have a common guarantee fund to secure their solvency. Refunds are paid from the guarantee fund to pension providers where the age structure of the insured is unfavourable. The guarantee fund is maintained through levies from the pension providers. The fund also guarantees statutory benefits, if the relevant pension funds, for instance, go bankrupt. However, the guarantee covers the benefits only up to a maximum of 1.5 times the amount of the upper insurance limit, i.e. at the most CHF 119,340. According to the BVG act, the employer's proportion of the pension contribution has to be at least equal in size to that of the employee, but it may also be larger. Insurance is mandatory for over 24-year-old persons whose annual earnings amount to at least CHF 19,350.

Figure 2. Earnings limits for the AHV and the BVG old-age pension in 2005.



The insurance obligation only concerns part of the employee's income. The employer withholds the contributions in connection with the payment of the wage from the so-called salary for insurance purposes, which in 2005–2006 amounted to at the most three times the full AHV old-age pension (CHF 77,400 per year) and at least 7/8 of the full AHV old-age pension (CHF 22,575). A so-called integration amount is deducted from the annual earnings, and this amount equals the maximum amount of the annual full AHV pension (CHF 25,800). If the integrated wage calculated in this way is smaller than 1/8 of the integration amount (CHF 3,225), the sum is rounded off to CHF 22,575. In other words, if the employee's annual wage amounts to at least CHF 19,350, the employee receives so-called coordinated earnings (Koordinationsabzug) of CHF 3,225. On the other hand, if the annual earnings exceed the limit of CHF 22,575 by less than CHF 3,225, CHF 3,225 is insured as minimum earnings. Annual earnings exceeding CHF 77,400 are not covered by mandatory insurance.

The pension contribution which accrues old-age pension is for the employer and the employee together 7, 10, 15 or 18 per cent of the wage which the contribution is based on, depending on the employee's age. The contributions to the occupational pension scheme were on average 17.10 per cent in 2008. The employee's contributions amount to 4–11 per cent and the employer's contributions usually to 4–14 per cent or even more. Previously the size of the contribution also depended on the person's gender. To finance disability and survivors' pensions an amount of at least 2.0 per cent of the pensionable wage is also levied.

In 2005 the contributions levied for employer-specific pensions totalled CHF 35.8 billion. In addition, returns on investments and other items amounted to CHF 14.9 billion. The occupational pension funds contained CHF 545.3 billion (€338 billion) at the end of 2005 and the increase compared to 2004 was 9.7 per cent.

The occupational pension schemes constitute a significant part of the country's pension wealth. In 2005 the value of the funds was approximately CHF 545 billion (€329 billion), i.e. about 120 per cent in relation to GDP, according to statistics of the Pensionskassenstatistik.

Table 8. Occupational pension scheme: income and expenditure, CHF million.

	2004	2005	2006
Income	50,618	59,381	58,008
National contributions and savings	33,849	35,797	38,383
- Employer's contributions	19,384	19,926	21,513
- Employee's contributions	14,465	15,871	16,870
Other income*	16,769	23,584	19,625
Expenditure	35,429	36,215	38,300
Social insurance benefits	30,511	30,566	31,728
- Old-age pension	14,400	15,296	15,961
- Survivors' pension	2,851	2,998	3,116
- Disability pension	2,430	2,471	2,508
- Other benefits**	10,830	9,801	10,143
Administrative expenses	1,016	1,375	3,087
Costs for the administration of the assets	1,525	1,668	1,729
Interest expenses	453	426	414
Other costs	1,924	2,180	1,342

* Kapitalertrag brutto und realisierte Kapitalwertsteigerungen.

** Scheidungsfälle, Wegzug ins Ausland usw. Saldo der ausbezahlten und einbezahlten Freizügigkeitsleistungen.

Source: Statistik Schweiz, Pensionskassenstatistik.

Table 9. Benefits paid from employer-specific pension plans in 2004–2006, number of persons and average annual income.

	2004	2005	2006
	Benefit recipients (incl. recipients of several different benefits, thousand persons)		
Old-age pension benefits	473.6	488.2	507.3
Survivors' pension	161	163.6	166.1
Orphan's pension	71	74.1	72
Disability benefits	131.7	133.4	134.8
Other benefits*	43.6	40.1	49.7
	Average annual income, CHF thousand		
Old-age pension benefits	29.44	30.34	30.52
Survivors' pension	17.13	17.56	17.9
Orphan's pension	4.06	4.27	4.26
Disability benefits	16.66	16.76	16.68
Other benefits*	142.45	158.33	151.79

* Other statutory and private supplementary benefits, benefits withdrawn from the funds and lump-sum statutory and private supplementing income transfers.

Source: Statistik Schweiz, Pensionskassenstatistik.

5 Examples

The following is an analysis of the total contribution level for statutory and employer-specific occupational pensions. In the statutory old-age pension scheme the contributions are paid on the whole wage. In the statutory occupational pension scheme the pension contributions which accrue old-age pension is for the employee and the employer together 7, 10, 15 or 18 per cent of the wage which the contribution is based on, depending on the employee's age. In addition, a disability pension contribution of 2 per cent is assumed.

The contributions are analysed at two income levels, for a middle-income wage earner and for a wage earner with an income of double the average wage. The average wage used in the calculations is the average wage according to the OECD Economic Outlook database, which in 2005 was approximately CHF 5,970 per month (CHF 71,638 per year). When calculating the contributions, the wage limits for which contributions are levied are taken into account. As regards the occupational pension, the calculations only include the estimated proportions which go to finance pensions (70%) and the contributions are levied on earnings between CHF 25,800 and CHF 77,400. In the occupational pension scheme contributions do not have to be paid on annual earnings exceeding CHF 77,400, and therefore the examples only take into account the mandatory contribution component.

Table 10. Pension contributions for a middle-income employee and an employee with an income of double the average wage, when the contribution ceiling is taken into account.

	Earnings per year CHF 71,638		Earnings per year CHF 143,276 (earnings taken into account up to CHF 77,400)	
	Employer	Employee	Employer	Employee
Old-age pension	4.20%	4.20%	4.20%	4.20%
Disability pension	0.70%	0.70%	0.70%	0.70%
Occupational pension				
Age 25–34	2.30%	1.73%	1.29%	0.98%
Age 34–44	3.06%	2.31%	1.72%	1.30%
Age 45–54	4.34%	3.27%	2.44%	1.84%
Age 55–65	5.11%	3.85%	2.87%	2.17%
Total				
Age 25–34	7.20%	6.63%	6.19%	5.88%
Age 34–44	7.96%	7.21%	6.62%	6.20%
Age 45–54	9.24%	8.17%	7.34%	6.74%
Age 55–65	10.01%	8.75%	7.77%	7.07%

The following table assumes that occupational pension contributions are paid on the whole wage without taking into account the ceiling for mandatory occupational pension contributions, because payment of voluntary occupational pensions is common due to the relatively low wage ceiling.

Table 11. Pension contributions of an employee with an income of double the average wage, when the contribution ceiling is not taken into account.

	Earnings per year CHF 143,276	
	Employer	Employee
Old-age pension	4.20%	4.20%
Disability pension	0.70%	0.70%
Occupational pension		
Age 25–34	2.94%	2.22%
Age 34–44	3.93%	2.96%
Age 45–54	5.56%	4.20%
Age 55–65	6.54%	4.94%
Total		
Age 25–34	7.84%	7.12%
Age 34–44	8.83%	7.86%
Age 45–54	10.46%	9.10%
Age 55–65	11.44%	9.84%

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