

Switzerland

The Swiss pension system has three main parts. The public scheme is earnings-related, but has a progressive formula. There is also a system of mandatory occupational pensions and an income-tested supplementary benefit.

Qualifying conditions

Pensionable age under the public scheme and mandatory occupational pensions is currently 65 for men and 63 for women, although the latter will increase to 64 by 2005.

Benefit calculation

Earnings-related

The public pension is based on average lifetime earnings. If this figure is less than CHF 37 080, then the entitlement is CHF 9 146 plus 26% of average lifetime earnings. For lifetime earnings above the threshold, the entitlement is a flat CHF 12 854 plus 16% of average lifetime earnings.

There is a minimum pension of CHF 12 360 and a maximum pension of twice that level. These are equivalent to 20 and 40% of average earnings, respectively. The maximum benefit is reached when earnings are CHF 74 160, equivalent to 115% of economy-wide average earnings.

Pensions in payment are indexed 50% to prices and 50% to nominal earnings.

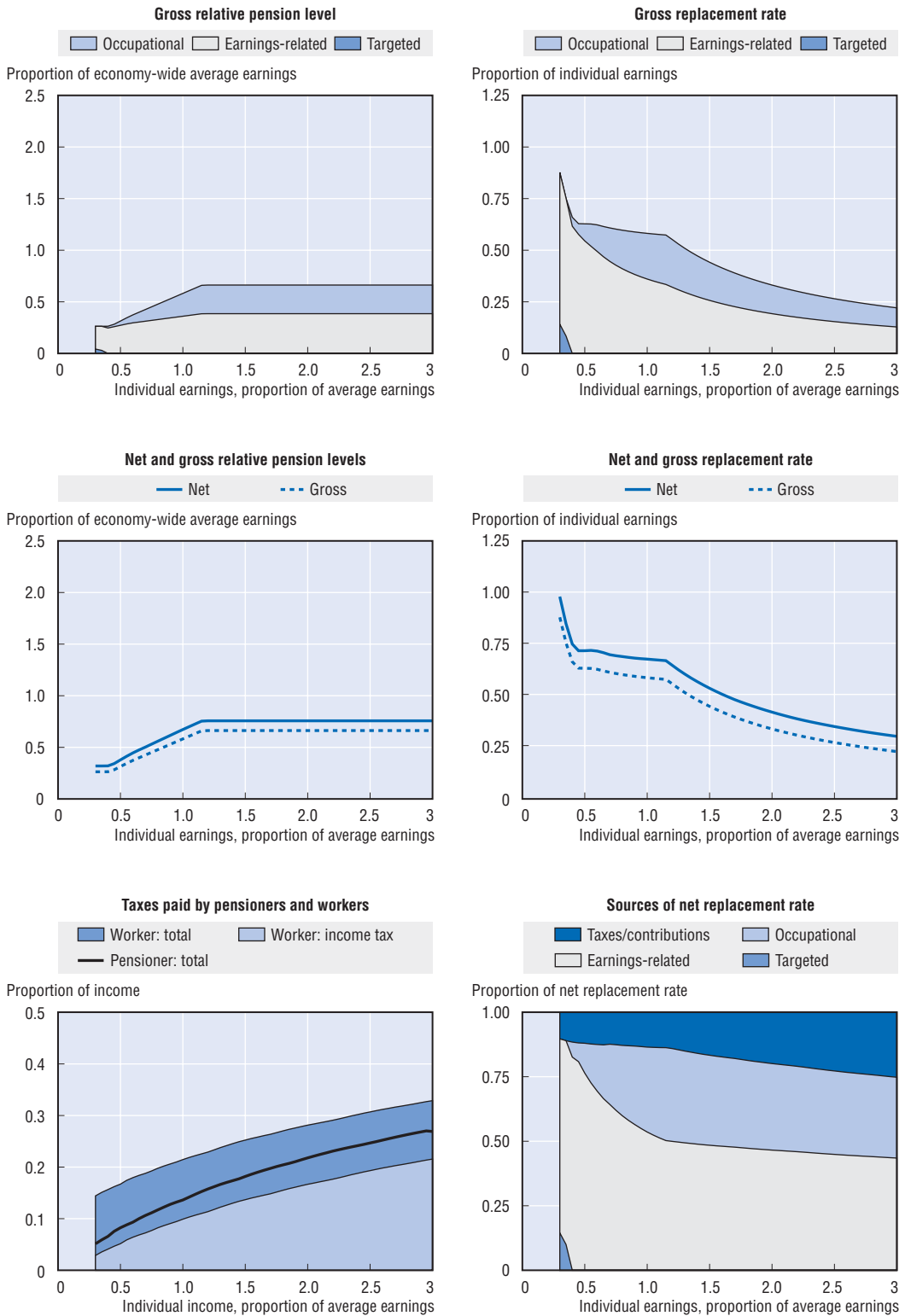
Mandatory occupational

The system of mandatory occupational pensions was introduced in 1985. It is built around “defined credits” to an individual’s pension account. These vary by sex and age:

Men, of age	25-34	35-44	45-54	55-64
Women, of age	25-31	32-41	42-51	52-63
Credit (% of co-ordinated earnings)	7	10	15	18

The value of accumulated credits at retirement naturally depends on the required interest rate applied to earlier years’ contributions. This was, for a long period until the end of 2002, 4% but was cut to 3.25% from 2003 with a further reduction planned. If the interest rate is broadly equivalent to the growth rate of earnings, then a full career in the system will give a man at age 65 accumulated credits of 500% of earnings. However, higher (or lower) outcomes are possible if the interest rate exceeds (is less than) growth in earnings. The modelling assumes that the interest rate applied to the credits will be equivalent to earnings over the long term.

Pension modelling results: Switzerland



Source: OECD, based on information provided by the countries.

The system has a minimum annuity rate of 7.2% that is applied to this notional capital sum. This gives a full career replacement rate of $(500 \times 7.2 =)$ 36% (subject to the interest rate being equal to earnings growth).

The defined credits (and hence the replacement rate) apply only to “co-ordinated” earnings. This is pay between the maximum pension of the public scheme (CHF 24 720) and three times that level (CHF 74 160). These thresholds are equivalent to 38 and 115% of average earnings. Note that the ceiling for pensionable pay is the same in the public scheme and in the mandatory occupational pension sector.

Targeted

The supplementary benefit scheme aims to give a minimum pension income to single people of at least CHF 16 880, equivalent to 26% of average earnings. The supplementary benefit is indexed in the same way as the public old age pensions, i.e. to a mixed index of 50% prices and 50% wages. There are discretionary cantonal additions for low-income pensioners; these are disregarded in the model.

Personal income tax and social security contributions

Taxation of pensioners

Swiss cantons often grant pensioners an additional allowance but there is no extra allowance in the Federal income tax. Note that the modelling assumes a resident of the city of Zurich in the canton of Zurich.

Taxation of pension income

There are no special allowances for pension income.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

Pension modelling results: Switzerland

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level	31.4	45.2	58.2	66.3	66.3	66.3
<i>(% of average earnings)</i>	31.5	45.6	58.8	67.1	67.1	67.1
Net pension level	37.8	53.1	67.3	75.7	75.7	75.7
<i>(% of average net earnings)</i>	38.0	53.6	68.0	76.6	76.6	76.6
Gross replacement rate	62.8	60.2	58.2	44.2	33.1	26.5
<i>(% of individual earnings)</i>	63.0	60.7	58.8	44.7	33.5	26.8
Net replacement rate	71.4	68.9	67.3	53.0	41.4	34.3
<i>(% of individual net earnings)</i>	71.6	69.5	68.0	53.6	41.8	34.7
Gross pension wealth	5.5	7.9	10.1	11.5	11.5	11.5
<i>(multiple of average earnings)</i>	6.7	9.7	12.5	14.2	14.2	14.2
Net pension wealth	6.6	9.3	11.7	13.2	13.2	13.2
<i>(multiple of average net earnings)</i>	8.1	11.4	14.4	16.3	16.3	16.3

Bibliography

- Aldrich, J. (1982), "The Earnings Replacement Rate of Old-age Benefits in Twelve Countries: 1969-1980", *Social Security Bulletin*, Vol. 45, No. 11, pp. 3-11.
- Blanchard, O.J. (1993), "The Vanishing Equity Premium", in R. O'Brien (ed.), *Finance and the International Economy* 7, Oxford University Press.
- Bodie, Z. (1995), "On the Risk of Stocks in the Long Run", *Financial Analysts' Journal*, May-June, pp. 18-22.
- Casey, B., H. Oxley, E.R. Whitehouse, P. Antolín, R. Duval and W. Leibfritz (2003), "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", Economics Department Working Paper No. 369, OECD, Paris.
- Cichon, M. (1999), "Notional Defined-contribution Schemes: Old Wine in new Bottles?", *International Social Security Review*, Vol. 52, No. 4, pp. 87-105.
- Constantinides, G., J. Donaldson and R. Mehra (1998), "Junior Can't Borrow' A New Perspective on the Equity Premium Puzzle", Working Paper No. 6617, National Bureau of Economic Research, Cambridge.
- Dang, T.T., P. Antolín and H. Oxley (2001), "Fiscal Implications of Ageing: Projections of Age-related Spending", Working Paper No. 305, Economics Department, OECD, Paris.
- Diamond, P.A. (1997), "Insulation of Pensions from Political Risk", in S. Valdés-Prieto (ed.), *The Economics of Pensions: Principles, Policies and International Experience*, Cambridge University Press.
- Disney, R.F. (1999), "Notional Accounts as a Pension Reform Strategy: an Evaluation", Pension Reform Primer Series, Social Protection Discussion Paper No. 9928, World Bank, Washington, D.C.
- Disney, R.F. and P.G. Johnson (eds.) (2001), *Pension Systems and Retirement Incomes Across OECD Countries*, Edward Elgar, Aldershot.
- Disney, R.F. and Whitehouse, E.R. (1994), "Choice of Private Pension and Pension Benefits in Britain", Working Paper No. 94/2, Institute for Fiscal Studies, London.
- Disney, R.F. and E.R. Whitehouse (1996), "What are Pension Plan Entitlements Worth in Britain?", *Economica*, Vol. 63, pp. 213-238.
- Disney, R.F. and E.R. Whitehouse (1999), "Pension Plans and Retirement Incentives", Pension Reform Primer Series, Social Protection Discussion Paper No. 9924, World Bank, Washington, D.C.
- Disney, R.F. and E.R. Whitehouse (2001), *Cross-Country Comparisons of Pensioners' Incomes*, Report Series No. 142, Department for Work and Pensions, London.
- Eurostat (1993), *Old Age Replacement Ratios*, Vol. 1, *Relation between Pensions and Income from Employment at the Moment of Retirement*, Statistical Office of the European Communities, Luxembourg.
- Finkelstein, A. and J. Poterba (2002), "Selection Effects in the United Kingdom Individual Annuities Market", *Economic Journal*, Vol. 112, No. 476, pp. 28-50.
- Finkelstein, A. and J. Poterba (2004), "Adverse Selection in Insurance Markets: Policyholder Evidence from the UK Annuity Market", *Journal of Political Economy*, Vol. 112, No. 1, pp. 183-208.
- Förster, M.F. and M. Mira d'Ercole (2005), "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s", Social, Employment and Migration Working Paper, No. 22, OECD, Paris.
- Hernanz, V., F. Malherbert and M. Pellizzari (2004), "Take-up of Welfare Benefits in OECD Countries: a Review of the Evidence", Social, Employment and Migration Working Paper No. 17, OECD, Paris.
- Ippolito, R. (1991), "Encouraging Long Tenure: Wage Tilt or Pensions", *Industrial and Labor Relations Review*, Vol. 44, No. 3.

- Jagannathan, R. and N. Kocherlakota (1996), "Why Should Older People Invest Less in Stocks than Younger People?", *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 20, No. 3, Summer.
- Johnson, P.G. (1998), *Older Getting Wiser*, Institute of Chartered Accountants in Australia.
- Keenay, G. and E.R. Whitehouse (2002a), "Taxing Pensioners", in *Taxing Wages*, OECD, Paris.
- Keenay, G. and E.R. Whitehouse (2002b), "The Role of the Personal Tax System in Old-age Support: a Survey of 15 Countries", Discussion Paper No. 02/07, Centre for Pensions and Superannuation, University of New South Wales, Sydney.
- Keenay, G. and E.R. Whitehouse (2003a), "Financial Resources and Retirement in Nine OECD Countries: the Role of the Tax System", Social, Employment and Migration Working Paper No. 8, OECD, Paris.
- Keenay, G. and E.R. Whitehouse (2003b), "The Role of the Personal Tax System in Old-age Support: a Survey of 15 Countries", *Fiscal Studies*, Vol. 24, No. 1, pp. 1-21.
- Lazear, E. (1981), "Agency, Earnings Profiles, Productivity and Hours Restrictions", *American Economic Review*, Vol. 71, pp. 606-620.
- Lazear, E. (1985), "Incentive Effects of Pensions", in D. Wise (ed.), *Pensions, Labor and Individual Choice*, University of Chicago Press for National Bureau of Economic Research.
- McHale, J. (1999), "The Risk of Social Security Benefit Rule Changes: Some International Evidence", Working Paper No. 7031, National Bureau of Economic Research, Cambridge, Mass.
- Mehra, R. and E.C. Prescott (1985), "The Equity Premium: a puzzle", *Journal of Monetary Economics*, Vol. 15, pp. 145-161.
- Mitchell, O.S. and E.L. Dykes (2000), "New Trends in Pension Benefit and Retirement Provisions", Working Paper No. 2000-1, Pension Research Council, Wharton School, University of Pennsylvania, Philadelphia.
- OECD (1995), *Private Pensions in OECD Countries: Canada*, Social Policy Studies No. 15, Paris.
- OECD (2001), *Ageing and Income. Financial Resources and Retirement in Nine OECD Countries*, Paris.
- OECD (2003), *Taxing Wages*, Paris.
- OECD (2004), *OECD Classification and Glossary of Private Pensions*, Paris.
- OECD (2005), *Taxing Wages*, Paris.
- Palacios, R.J. and E.R. Whitehouse (2000), "Guarantees: Counting the Cost of Guaranteeing Defined Contribution Pensions", Pension Reform Primer briefing note, World Bank, Washington, D.C.
- Palacios, R.J. and E.R. Whitehouse (2005), "Civil-service Pension Schemes Around the World", Pension Reform Primer series, Social Protection Discussion Paper, World Bank, Washington, D.C., forthcoming.
- Pennachi, G.G. (1998), "Government Guarantees on Funded Pension Returns", Pension Reform Primer series, Social Protection Discussion Paper No. 9806, World Bank.
- Turner, J.A. and D.M. Rajnes (2000), "Limiting Worker Financial Risk Through Risk Sharing: Minimum Rate of Return Guarantees for Mandatory Defined Contribution Plans", International Labour Organisation, Geneva.
- United Kingdom, Department of Work and Pensions (2003), "Income Related Benefits Estimates of Take-up – 2000-2001", London.
- United Kingdom, Government Actuary's Department (2003), *Occupational Pension Schemes in 2000: Eleventh Survey by the Government Actuary*.
- United States, Department of Labor (1999), *Private Pension Plan Bulletin: Abstract of 1996 Form 5 500 Annual Reports*, Pension and Welfare Benefits Administration, Washington, D.C.
- Viscusi, W.K. (1985), "The Structure of Uncertainty and the Use of Pensions as a Mobility-reduction Device", in D. Wise (ed.), *Pensions, Labor and Individual Choice*, University of Chicago Press for National Bureau of Economic Research.
- Vordring, H. and Goudswaard, K. (1997), "Indexation of Public Pension Benefits on a Legal Basis: Some Experiences in European Countries", *International Social Security Review*, Vol. 50, No. 3, pp. 31-44.
- Weaver, R.K. (1988), *Automatic Government: The Politics of Indexation*, Brookings Institution, Washington, D.C.
- Whiteford, P. (1995), "The Use of Replacement Rates in International Comparisons of Benefit Systems", *International Social Security Review*, Vol. 48, No. 2.

- Whitehouse, E.R. (1998), "Pension Reform in Britain", Pension Reform primer series, Social Protection Discussion Paper No. 9810, World Bank, Washington, D.C.
- Whitehouse, E.R. (2000), "Administrative Charges for Funded Pensions: Measurement Concepts, International Comparison and Assessment", *Journal of Applied Social Science Studies*, Vol. 120, No. 3, pp. 311-361.
- Whitehouse, E.R. (2001), "Administrative Charges for Funded Pensions: Comparison and Assessment of 13 Countries", in *Private Pension Systems: Administrative Costs and Reforms, Private Pensions Series*, Vol. 3, OECD, Paris.
- Whitehouse, E.R. (2002), "Pension Systems in 15 Countries Compared: the Value of Entitlements", Discussion Paper No. 02/04, Centre for Pensions and Superannuation, University of New South Wales, Sydney.
- Whitehouse, E.R. (2005a), "Pension Policy Around the World: Vol. 1, High-income OECD Countries", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. (2005b), "Pension Policy Around the World: Vol. 2, Eastern Europe and Central Asia", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. (2005c), "Pension Policy Around the World: Vol. 3, Latin American and Caribbean", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. and R.J. Palacios (2005), "Pension Policy Around the World: Vol. 5, South Asian Civil-service Schemes", Social Protection Discussion Paper, World Bank, Washington, D.C.
- Whitehouse, E.R. and D. Robalino (2005), "Pension Policy Around the World: Vol. 4, Middle East and North Africa", Social Protection Discussion Paper, World Bank, Washington, D.C.
- World Bank (1994), *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford University Press.

Table of Contents

Preface: Why Pensions at a Glance?	9
Introduction	11
Executive Summary	15

Part I

Monitoring Pension Policies

Chapter 1. Pension-system Typology	21
1. First-tier, redistributive pensions	22
2. Second-tier, mandatory, insurance pensions	24
Notes	25
Chapter 2. Comparing Pension-system Parameters	27
1. First-tier, redistributive schemes	28
2. Second-tier, earnings-related schemes	28
3. Earnings measures and valorisation in earnings-related schemes	31
4. Defined-contribution schemes	33
5. Ceilings on pensionable earnings	33
6. Pension eligibility ages	34
7. Indexation of pensions in payment	34
8. Taxes and social security contributions	34
Notes	37
Chapter 3. Modelling Pension Entitlements	39
1. Future entitlements under today's parameters and rules	40
2. Coverage	40
3. Economic variables	41
4. Average earnings data	42
5. Taxes and social security contributions	42
6. Indicators and results	42
Notes	45
Chapter 4. Replacement Rates	47
1. Gross replacement rates	48
2. Net replacement rates	51
Notes	53

Chapter 5. Relative Pension Levels	55
Chapter 6. Pension Wealth	59
Notes	63
Chapter 7. Key Indicators	65
1. Weighted averages and the earnings distribution	66
2. Weighted average pension levels and pension wealth	67
3. Structure of the potential resource transfer to pensioners	68
Notes	70
Annex I.1. Differences between Defined-benefit, Points and Notional-accounts Pension Systems	71
Annex I.2. Sensitivity Analyses	73
Annex I.3. Progressivity of Pension Benefit Formulae	81
Bibliography	84

Part II

Country Studies

Introduction	89
Australia	91
Austria	95
Belgium	98
Canada	102
Czech Republic	105
Denmark	108
Finland	112
France	116
Germany	120
Greece	123
Hungary	127
Iceland	130
Ireland	133
Italy	136
Japan	140
Korea	143
Luxembourg	146
Mexico	149
Netherlands	152
New Zealand	155
Norway	158
Poland	161
Portugal	164
Slovak Republic	167
Spain	170
Sweden	173

Switzerland	177
Turkey	180
United Kingdom	183
United States	187
VOLUNTARY, OCCUPATIONAL PENSIONS	191
Canada	193
Denmark	196
United Kingdom	198
United States	200

List of Box

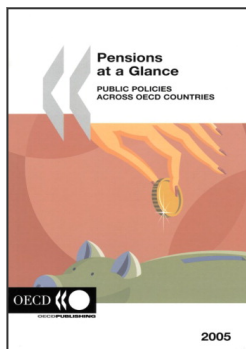
3.1. Modelling pensions	44
-----------------------------------	----

List of Tables

1.1. Structure of pension systems in OECD countries	23
2.1. Summary of pension system parameters	29
2.2. Earnings measure and valorisation: earnings-related schemes	32
2.3. Procedures for adjustment of pensions in payment by country and scheme	35
2.4. Categories of concession available to pensioners	37
3.1. Earnings of the average production worker, 2002	43
4.1. Gross replacement rates by earnings level, mandatory pension programmes, men	49
4.2. Net replacement rates by earnings level, mandatory pension programmes, men	52
6.1. Total life expectancy at age 65, 2040 projected mortality rates	61
6.2. Gross pension wealth by earnings level, mandatory pension programmes, men	63
7.1. Weighted average pension level and pension wealth	67
7.2. Contribution of different components of pension systems to total pension promise	69
I.3.1. Indicators of the progressivity of pension benefit formulae	82

List of Figures

4.1. Gross replacement rates at different earnings levels	50
4.2. Net replacement rates at different earnings levels	51
5.1. The link between pre-retirement earnings and pension entitlements	57
7.1. Distribution of earnings, average of 16 OECD countries	66
I.2.1. Total gross replacement rates for low, average and high earners by rate of return on defined-contribution pensions	74
I.2.2. Total gross replacement rates for low, average and high earners by rate of growth of economy-wide average earnings	77
I.2.3. Total gross replacement rates for low, average and high earners by rate of growth of individual earnings relative to average earnings	78
I.2.4. Total gross replacement rates for low, average and high earners by the number of jobs over the career	80



From:
OECD Pensions at a Glance 2005
Public Policies across OECD Countries

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2005-en

Please cite this chapter as:

OECD (2006), "Switzerland", in *OECD Pensions at a Glance 2005: Public Policies across OECD Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2005-40-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.