Willis Towers Watson

Hot Topics

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UVG revision– what are the implications for pension funds?

The revised Accident Insurance Act (UVG) came into effect on 1 January 2017. This revision also included new occupational pension provisions that have to be observed by pension funds.

Focus of the UVG revision

Prior to the revised provisions coming into force on 1 January 2017, individuals who were disabled as a result of an accident received a lifelong disability pension with a fixed value from mandatory accident insurance. A lifelong disability pension was granted as compensation for the reduction in the individual's future pension generally brought about by the accident due to their receipt of a lower salary after the accident.

If an insured person had an accident shortly before reaching retirement age, he/she had generally accrued sufficient occupational pension provision after their many years spent in gainful employment. In such cases, the UVG pension combined with occupational pension retirement benefits often resulted in their receiving excess compensation upon reaching retirement age. In the past, this accumulation resulted in a marked improvement in an individual's financial circumstances after an accident when compared with a person who had not sustained an accident.

The main goal of this UVG revision is to, as far as possible, prevent those who have been rendered disabled after an accident from receiving excess compensation as outlined above. This excess compensation issue is now being addressed by the introduction of two measures. The first is that those who are still employed after reaching retirement age and sustain an accident are no longer entitled to UVG pension benefits. The second is that, subject to specific conditions, insured persons who sustain an accident prior to reaching retirement age will now receive a reduced lifelong UVG - disability pension after reaching retirement age. The closer the time of the accident is to retirement, the greater this reduction will be. For each full year that the insured person had exceeded the age of 45 at the time of the accident, in the case of a degree of disability of at least 40%, their disability pension will be reduced by 2%, but by no more than 40%. This newly introduced reduction to pension payments is now being applied to all accidents that take place after 1 January 2017 and only applies under certain conditions for accidents that took place prior to this date.

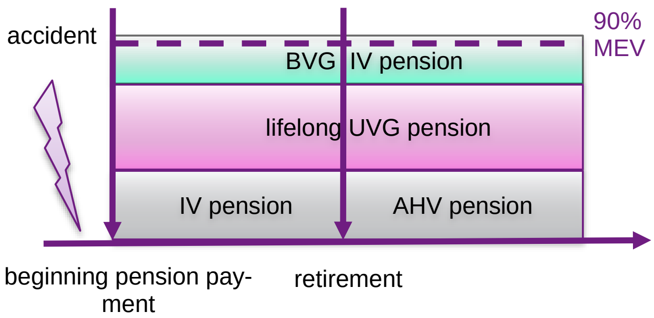
Other significant amendments relate to the redefinition of the inception and end of insurance and the assumption of the obligation of accident insurance to provide benefits in the case of specific accident-like injuries to the body. These amendments essentially result in the extension of insurance coverage under accident insurance and the closure of any significant gaps in insurance cover.

Changes in occupational pensions

The most important changes in occupational pensions triggered by the UVG revision are in the benefit coordination area. These are illustrated below.

Situation prior to 1 January 2017

Previously, disability pensions under mandatory occupational pension insurance could be reduced by the same amount both prior to and after reaching retirement age if together they and other qualifying benefits, in particular those from the AHV, IV and accident insurance, exceeded 90% of the projected forfeited income (PFI) (see graph below)[1].



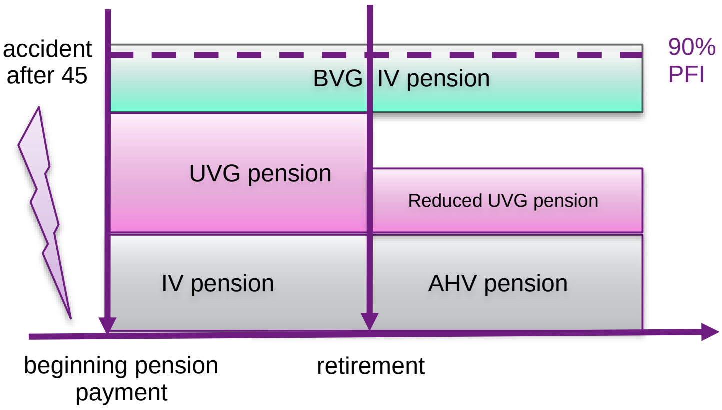
Situation after 1 January 2017

The basic principle of being able to reduce a pension, when disability benefits under occupational pension insurance combined with other qualifying benefits exceed the projected forfeited income, remains. However, a distinction is now made between the reduction in disability benefits prior to and after reaching statutory retirement age.

[1] The following graphs are simplified for the purpose of illustration.

There are no significant changes (see Art. 24 BVV2) with regard to the reduction in disability benefits **prior to reaching statutory retirement age.** What is new is that an exhaustive list of benefits qualifying as excess compensation has been drawn up. Explicitly mentioned in this list are, for example, daily allowances from mandatory and voluntary benefit insurances.

The most important change affecting occupational pensions is undoubtedly the new regulation governing the reduction in **disability benefits after reaching statutory retirement age** (see Art. 24a BVV2). This provision now stipulates that pension funds are not obliged to compensate for the reduction in UVG disability pensions after retirement age. In this way a shift in benefits from accident insurance to occupational benefits is avoided so that the excess compensation mentioned above no longer exists.



One additional feature of the new reduction provision of disability benefits after reaching statutory retirement age is that a reduction in disability benefits under occupational pensions insurance is only possible in combination with benefits from accident insurance, military insurance and comparable foreign benefits. The reduction in benefits of persons rendered disabled as a result of illness is no longer planned as such persons are only entitled to benefits from the AHV and occupational pensions insurance. Furthermore, it is now the case that the reduced benefits from occupational pensions insurance together with the benefits under the UVG, MVG and comparable foreign benefits may not be lower than the non-reduced BVG minimum requirements.

Another amendment applies to the **inception of insurance.** From 1 January 2017, the same inception of insurance applies in the occupational pension's area as under the revised accident insurance legislation. This means that insurance incepts on the day on which an employment relationship starts or when the individual is first entitled to a salary. In this way, persons in possession of an employment contract but who have not yet started to work due, for example, to their employment contract starting on a public holiday, are insured.

So what now?

The amendments to the excess compensation rule under the BVV2 that entered into effect on 1 January 2017 have implications for the amount of minimum benefits that a pension fund registered in accordance with Art. 48 BVG must provide.

All-encompassing pension funds, i.e. those offering benefits in excess of the statutory minimum, must comply with the BVG minimum requirements whilst taking into account the new legal coordination provisions. Thanks to their all-encompassing nature, they have some room to manoeuvre in terms of the coordination of benefits and can lay down their own (more rigorous) coordination provisions. For this reason, pension funds with all-encompassing pension plans are only affected to a limited extent by the amendments to the law that went into effect on 1 January 2017.

Nevertheless, we recommend pension funds with all-encompassing pension plans to analyse their benefit level under the current coordination provisions during the next revision of their pension fund regulations and in particular their compliance with the BVG minimum requirements. Where desired or necessary, they should adjust the provisions governing excess compensation in their regulations. Pension funds have until 31 December 2018 to implement the legal provisions.

We would be pleased to assist you in analysing the benefit level of your pension fund and in drawing up the necessary or desired amendments to your pension fund regulations. It goes without saying that we would also be pleased to offer you training on the UVG revision and the coordination of occupational pension provision.

For further information

If you have any questions please contact your advisor at Willis Towers Watson or:

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