SLI® Swiss pension plan

Benchmarking study 2019

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Content

Dear Reader,

While the political debates over how best to cope with the challenges of retirement pensions continue, the interest environment has reached new, unfortunately negative record levels. Pension funds must face these realities and work with associated plan sponsors to continually develop new solutions. The leeway for drastic evasive manoeuvres is steadily decreasing, which is reflected in the results of this study.

Although conversion rates, for example, have undergone a long, steady decline, the recent reductions in the interest environment have not yet been factored in. Accordingly, the all-clear cannot yet be issued on this front. The redistribution from active insured members to pensioners continues unchanged. Despite all efforts in this regard, market interest rates remain approximately 0.5 % lower than the implied technical interest rates used to calculate the conversion rates.

The trend within the Swiss Leader Index (SLI®) companies shown in this study is essentially in line with the development we have seen in the overall market. Nevertheless, employer savings contributions, for example, have continued to increase over the last six years, in part due to a reallocation of risk contributions to savings contributions and in part owing to an effective increase in total contributions. This shows that companies and their pension funds are fully prepared to partially counteract a decline in the pension benefit level. They consider it a priority to secure a reasonable level of income for their employees even after retirement. Such compensations of supplementary contributions often occur in contrast to what can be observed in the market (and in particular in the area of collective foundations), where ongoing reductions in conversion rates are often communicated as a unilateral decision without accompanying measures. Here, the joint efforts of companies together with their pension funds seem to generate real added value for insured members. From the companies' perspective, this also raises the question of whether higher savings contributions (especially in the younger years) represent the optimal benefit for millennials, who tend to change jobs more often.

It should also be emphasised that the trend of further restricting pension benefits to reduce risk also continues, in addition to the conversion rate reductions. In particular in the last two years since the change in the relevant legal regulations, other SLI® companies have introduced a so-called DC 1e Top-up pension plan. This trend is also likely to continue.

Apart from many similarities, however, this study also reveals considerable differences between the benefits of individual pension funds. The retirement benefits of one pension fund may still be more than twice as high as those of another. This marked differentiation is due to a wide range of design differences that are examined in detail in this study.

The interest rate applied to the retirement assets of actively insured members has fluctuated significantly in recent years, depending in particular on developments in the asset markets. For example, in 2017 decidedly positive interest rates were applied as a result of the strong market performance, whereas in 2018 this was no longer possible for most pension funds due to poorer returns. On the whole, the last five years saw a pleasingly high average interest rate on retirement assets, which was also considerably higher than the BVG minimum interest rate. In view of negative interest rates as well as lower return expectations in the investment markets, it is doubtful that this trend will continue in the coming years. It is reasonable to assume that on average interest rates will unfortunately come very close to the politically supported BVG minimum interest rate.

We hope you find this an interesting read.

Stephan Wildner
Director of Retirement
Services Switzerland

Overview of SMI® and SLI®

The SMI® (Swiss Market Index) and the SLI® (Swiss Leader Index) consist of the 20 and 30 largest companies on the Swiss stock exchange, respectively. The composition is checked regularly and can therefore change over time. We have based the analysis on those companies that were in the indices at the beginning of 2019.

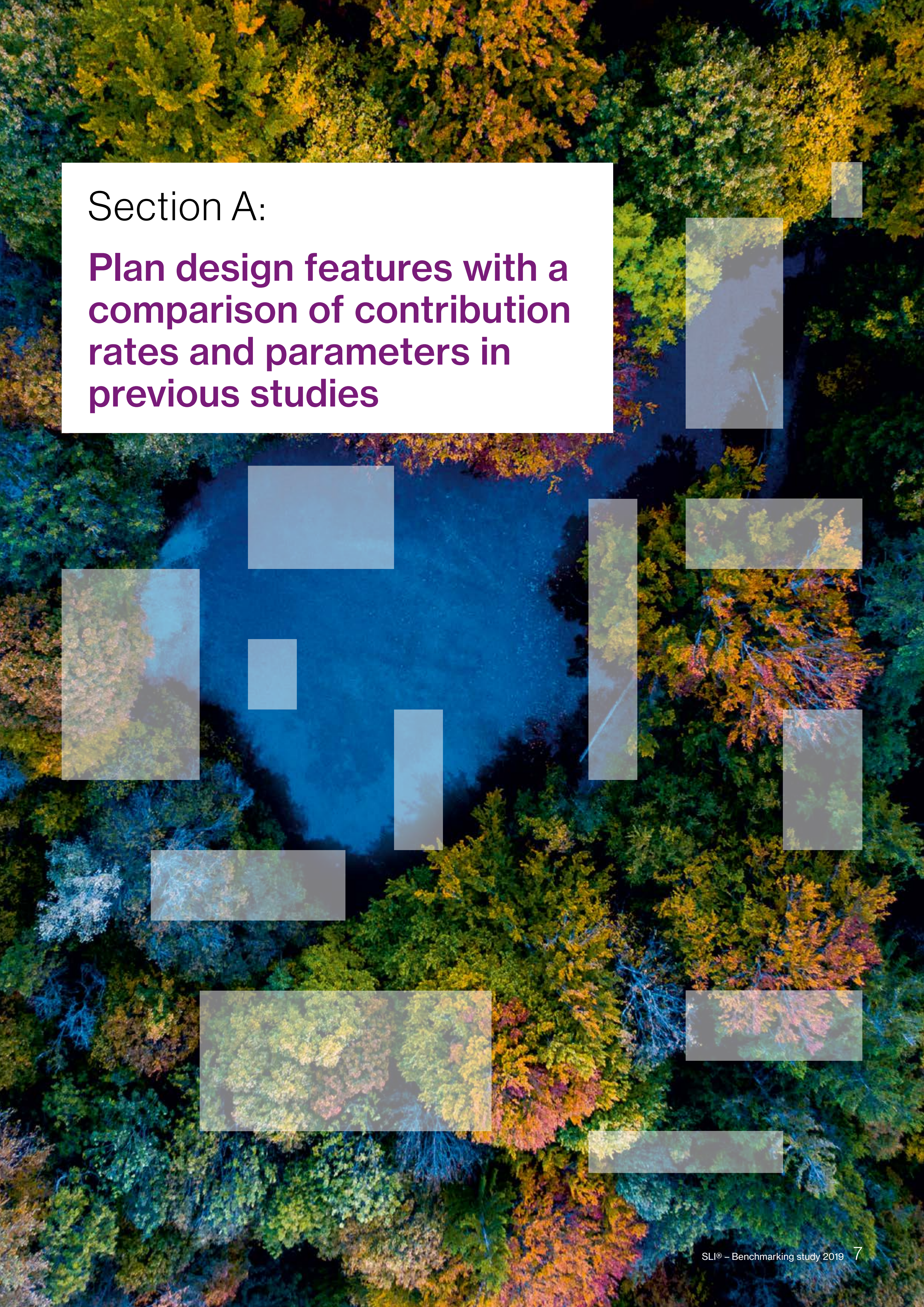
The SMI® includes the following companies:

- ABB
- Adecco
- Credit Suisse
- Geberit
- Givaudan
- Holcim
- Julius Baer
- Lonza
- Nestlé
- Novartis
- Richemont
- Roche
- SGS
- SIKA
- Swatch Group
- Swiss Life
- Swiss Re
- Swisscom
- UBS
- Zurich

The SLI® companies are those shown above plus:

- AMS
- Clariant
- Dufry
- Kühne + Nagel
- Logitech
- Partners Group
- Schindler
- Sonova
- Temenos
- Vifor

The study includes 22 of the 30 SLI® companies.



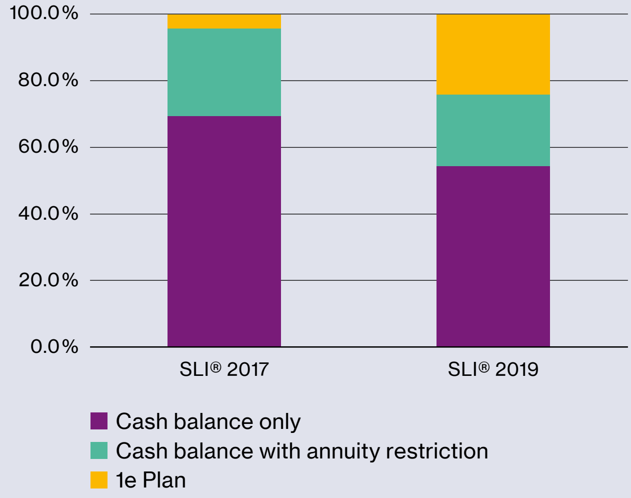
Section A:

Plan design features with a comparison of contribution rates and parameters in previous studies

Generally speaking, pension plans in Switzerland continue to fall into two main categories: those where the benefit at retirement is defined under a formula typically referencing the employee's last earned salary and years of service (defined benefit plans), and those where the benefit at retirement is based on the employee's accumulated account balance at the time of retirement (defined contribution plans[1]). As defined benefit plans have not been seen in this study since 2017, they will not be addressed hereafter. However, while defined contribution plans also offered a complete pension option upon retirement, there is an increasing trend among these plans to limit the pension option.

Figure 1 shows the development over the last two years for SLI® companies between defined contribution plans with a complete versus a limited pension option. A differentiation is also made with regard to the type of restriction, showing whether the restrictions are applied within the scope of the normal pension plan or via a 1e pension plan. The retirement planning solutions of some companies even provide for both.

Figure 1: **Type of plan and pension option** (% of companies)



Insured salary

The pension plans covered in the study have different approaches for determining what salary is to be insured. At some companies this is the base salary only, whereas at others the definition includes variable pay. Some pension funds reduce the insured salary to coordinate with the AHV, others do not. This makes it impossible to compare employee or employer contributions on the basis of regulatory contribution rates alone; instead, the level of the insured salary must also be taken into account.

Further, many participating companies cover different portions of a salary within different pension plans. For example, some companies cover base salaries in one plan and bonus payments in another. Other pension plans set a limit for the maximum salaries to be insured in the main plan, with the part of the salary exceeding that level covered in a supplemental plan (in some cases in the form of a 1e plan). In this study, these factors are taken into account by looking at employee profiles with different salary types (and levels) when projecting the expected retirement benefits.

Components of pay covered

As discussed, various components of pay are insured under the pension plans. The decision as to whether or not to cover variable pay is often a question of the company's philosophy. In principle, it makes little difference for the pension fund which portions of salary are used to determine contributions as long as the total contribution remains appropriate. Some companies believe that variable remuneration components must be taken into account when measuring the employee's standard of living. For these companies, an adequate replacement income in the event of retirement, death or disability needs to consider the level of incentive pay as well. Other companies believe that pay based on performance and profit is by its nature variable and is neither something that employees should rely on nor that the company should be insuring.

Figure 2 shows that most of the companies in the study still cover variable salary components under their pension plans. The situation is nearly unchanged from the previous study.

1 These defined contribution plans are also referred to as cash balance plans. We will refer to them as "defined contribution retirement plans" or "defined contribution plans" in this study

Figure 2: **Bonus included in insured salary**
(number of companies in %)

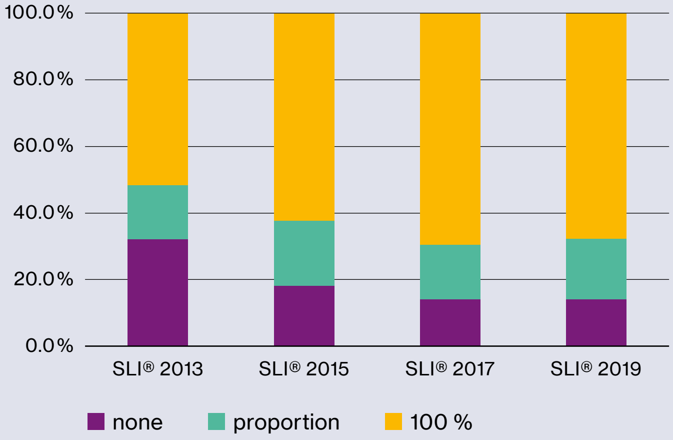
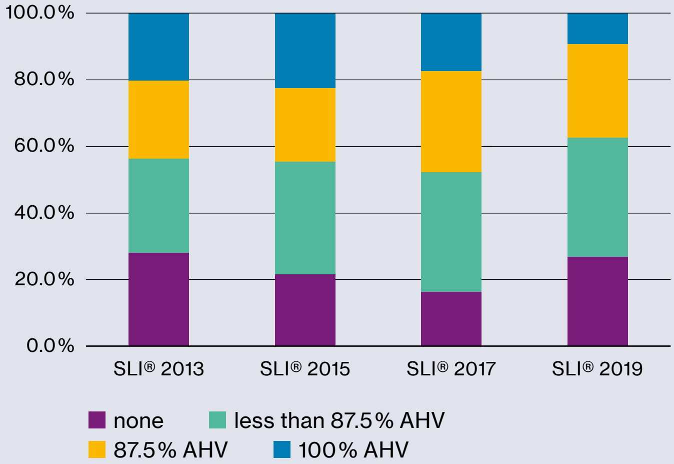


Figure 3: **Maximum coordination offset in base plan**
(number of companies in %)



Coordination offset

The idea behind this "coordination offset" is based on the idea of reducing the insured salary by the benefits already covered under Swiss social security (AHV). Accordingly, many pension plans make a deduction from the total salary when determining the insured salary. The Swiss social security benefit varies by pay level but is capped at CHF 28,440 per person (in 2019). For the legal minimum BVG benefits, the coordination offset is 7/8 of the maximum single AHV pension, or CHF 24,885 (in 2019). A coordination offset tends to affect the benefits for lower-paid employees the most.

As shown in Figure 3, there continues to be a significant variation in the amount of the coordination offset from one company to the next. However, there seems to be a trend towards a reduction in the coordination offset. Changes in this regard are also often observed as compensation measures within the scope of reducing the conversion rate.

Salary limits

Swiss law limits the total salary that can be covered for an insured member to CHF 853,200 (in 2019). However, companies are free to choose a lower salary limit if desired. However, as shown in Figure 4, most companies do not restrict the total covered salary much below this limit, if at all. The situation has barely changed compared to the previous study.

Figure 4: **Limit on covered salary**
(number of companies in %)

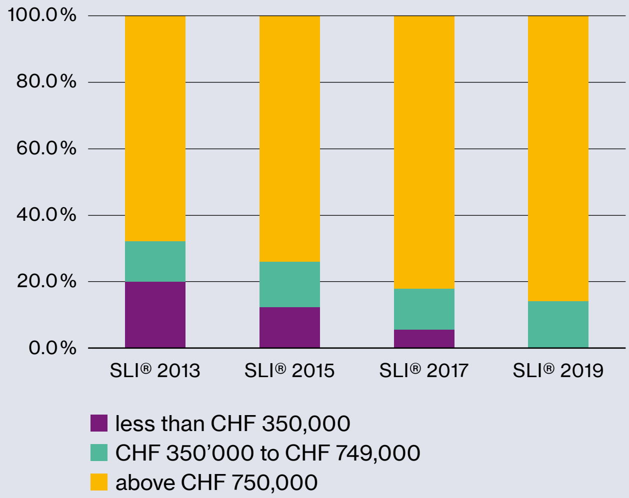
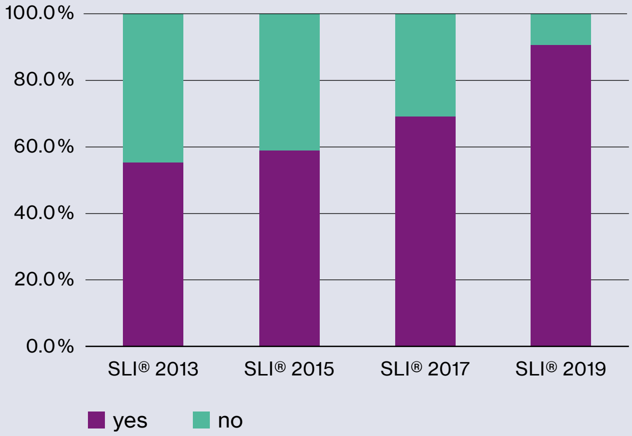


Figure 5: **Employees have contribution choice**
(number of companies in %)



Employee contribution flexibility

Since 2006 pension plans may be designed to offer insured individuals a choice of up to three different employee contribution rates. This means that the insured individual can choose how much to contribute to the plan, and benefit levels are adjusted accordingly. Where this choice is provided by the pension fund regulations, insured individuals may modify their choice regularly (e.g. at least once per year). However, under the applicable law the employer's contributions to the plan cannot vary and thus are not affected by the insured member's choices.

For example, if an insured individual is able to choose to pay 4.0%, 6.0% or 8.0% of the insured salary into the pension fund, the employer's contribution would not vary (e.g. 12.0% of the insured salary). As a result, in this example the employee would receive a total of 16.0%, 18.0% or 20.0% of their insured salary credited to their retirement assets, depending on the choice made.

This flexibility can make the plan more attractive for employees, as they can then adjust their contributions according to their personal circumstances, with retirement benefits being adjusted accordingly. This arrangement can also be tax-advantageous, as employee contributions are tax deductible. A further advantage of this feature is that this can increase the scope for the employee to make voluntary purchases (once-off contributions with tax advantages), since a higher contribution level increases the maximum level of benefits provided under the plan.

Figure 5 shows that in 2019 more than 90.0% of all SLI® companies offer a choice of employee contributions in their pension plans. This once again represents a sharp increase from the previous study.

Funding of the pension funds

It continues to be very difficult for Swiss pension funds to meet their obligation to provide the promised benefits, financed by contributions from the employer and employee as well as returns on investments. The fact that this is not solely a Swiss problem but one that exists globally in one form or another does not help to mitigate the challenge. However, a glimpse beyond national borders can certainly be helpful in identifying new solutions to similar problems. One example of this is the DC 1e pension plans, which have played a key role in pension provision in the English-speaking world for some time.

Typically, pension funds continue to react on the insurance side by reducing conversion rates and technical interest rates in order to counteract persistently low interest and growth prospects and the steadily rising life expectancy in Switzerland. Therefore, the SLI® study examines these two parameters and the extent to which they have an impact on pension plan benefits.

Technical interest rates

The technical interest rate is a discount rate used to value anticipated future pension payments in the annual financial statements ("actuarial pension reserve"). Setting the technical interest rate is a challenging task, one that goes hand-in-hand with the long-term investment horizon for actuarial pension reserves and the difficult job of assessing future trends in investment returns. In the past, each year on 30 September, the Swiss Chamber of Pension Fund Experts sets a technical reference interest rate, which can be adjusted upwards or downwards. This was 2.0% as at 30 September 2018. However, in April 2019 the Chamber of

Pension Fund Experts issued a new Guideline 4, which has now been upgraded to a minimum standard by the Swiss Occupational Pension Supervisory Commission (OAK BV). How much influence this Guideline will have on technical interest rates is difficult to assess at this time. Its impact on the 2019 financial statements should still be limited. Please also refer to the newly introduced upper limit, which is 2.13% for the 2019 financial statements (for balance sheets with generation mortality tables). Please also refer to Figure 9 with regard to generation mortality tables. However, this newly introduced upper limit may cause a further decline from the end of 2020, as it is much more directly dependent on the (negative) yields of Swiss government bonds.

Figure 6 shows the spectrum of technical interest rates currently being applied for the SLI® companies' pension plans. They range from 1.5% to 2.5%, with a mean of just under 2.0%. One notes, firstly, the significant reduction and much lower variation in the results of 2019 compared to 2017. The reduction in the technical interest rate is directly tied to the coverage ratio, which falls when the technical interest rate is lowered through an increase in pensioners' actuarial reserve.

Interest on retirement savings

The retirement savings of active members explicitly accrue interest at a separate rate. Ideally, the rates for pensioners (technical interest rate) and those for active insured members should be the same in the long term. The reality, however, is quite different. In the past, the technical interest rates for pensioners tended to be higher than the interest rates for active insured members, which promotes the redistribution of assets to pensioners and which is also a topic of controversial debate at the political level. Since the financial crisis, many pension funds have had to battle low coverage ratios. As a result, additional returns have been used to bolster fluctuation reserves and to reduce the technical interest rate instead of providing additional interest for active insured members. This was also the case in 2018, for example, when the average interest rate for insured members was 1.63%. As shown above, the average technical interest rate in 2018 was higher. In 2017, however, insured members were able to benefit from extraordinary market returns.

It is pleasing to note, however, that even with the low level of interest credits, many pension funds were still able to grant interest above the BVG minimum rates, due to the generated returns and a stable financial situation. While the minimum BVG interest rate was 1.0% in 2018, active insured members received an average of 1.63% for the same period (see Figure 7).

Figure 6: **Technical interest rates** (in %)

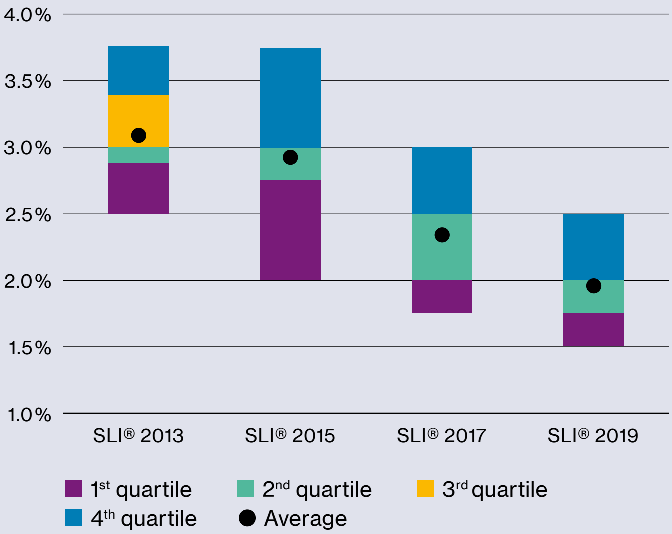
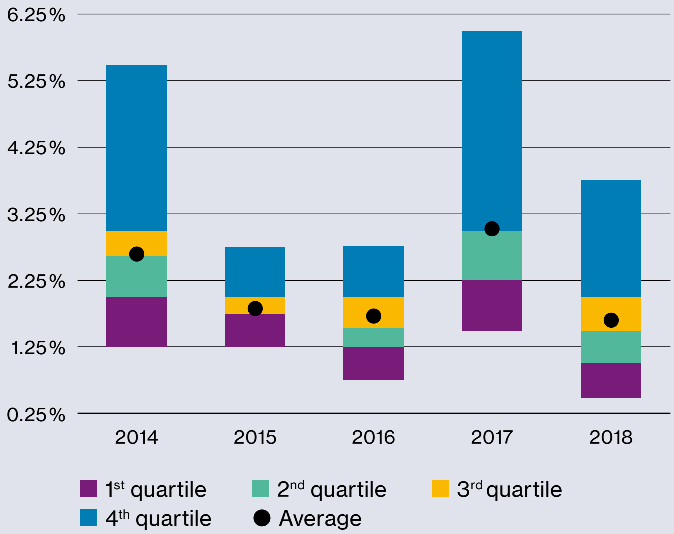


Figure 7: **Interest on retirement savings**



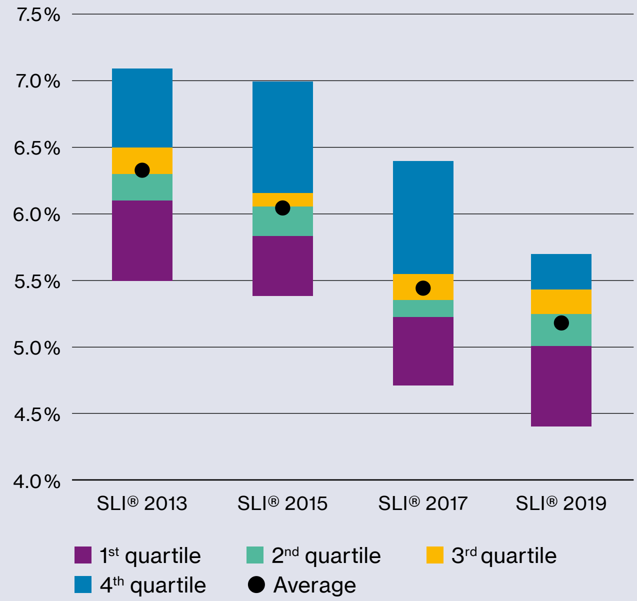
Conversion rates and lump-sum payments

The conversions rates in the market continue to fall significantly and substantial differences can be observed between the pension plans in the study. The conversion rate is the rate at which an insured member's accumulated retirement savings are converted into a pension. Conversion rates are typically stated in terms of the annual pension as a percentage of the total retirement savings, e.g. 5.0% means that the annual pension would be equal to 5.0% of the capital that the member had saved at the start of retirement (thus for retirement savings of CHF 500,000, the annual pension would be CHF 25,000). In particular, the conversion rate factors in information about mortality rates and expected returns, allowing a simple conversion of retirement capital to a life-long pension.

Swiss law requires a minimum conversion rate to apply to the statutory minimum benefits. However, pension funds are free to define a different conversion rate as long as at least the statutory minimum benefits are provided in the end. The legal conversion rate at statutory retirement age is still 6.8% for AHV retirement age. The minimum conversion rate is a heavily debated topic since among experts it is widely seen as too high, due to increases in life expectancy and lower capital market returns. A statutory reduction in the minimum conversion rate was rejected by Pension Reform 2020, the Swiss referendum in September 2017. Many of the latest reform proposals approach 6.0%.

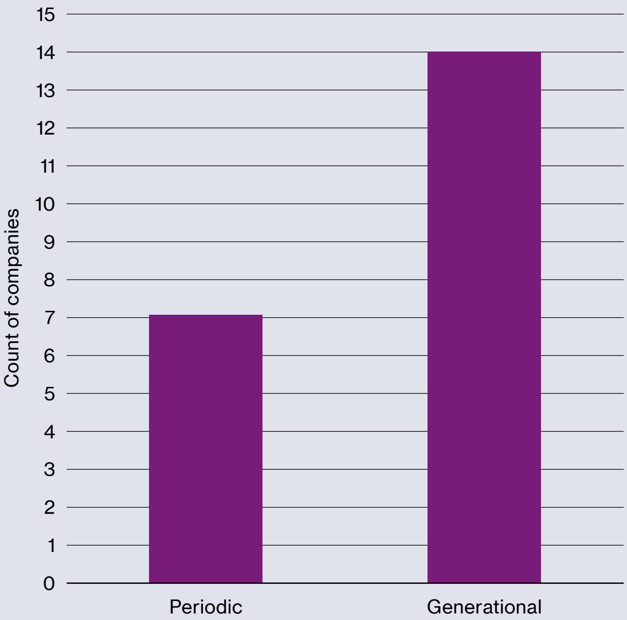
Many Swiss pension funds are reducing their conversion rates as a result of lower investment returns and the continuing trend of increasing life expectancy. Figure 8 shows the current range of conversion rates currently used by SLI® companies. The last two studies reveal a reduction across the board. It is interesting to note the reduction in the top quartile from 2017 to 2019, where the range changed significantly. The rates range from 4.4% to 5.7% (age 65) and the current average value is just below 5.2%. The average conversion rates were considerably higher in the studies of 2017 and 2015, at 5.4% and 6.0%, respectively.

Figure 8: **Conversion rates, males, age 65**



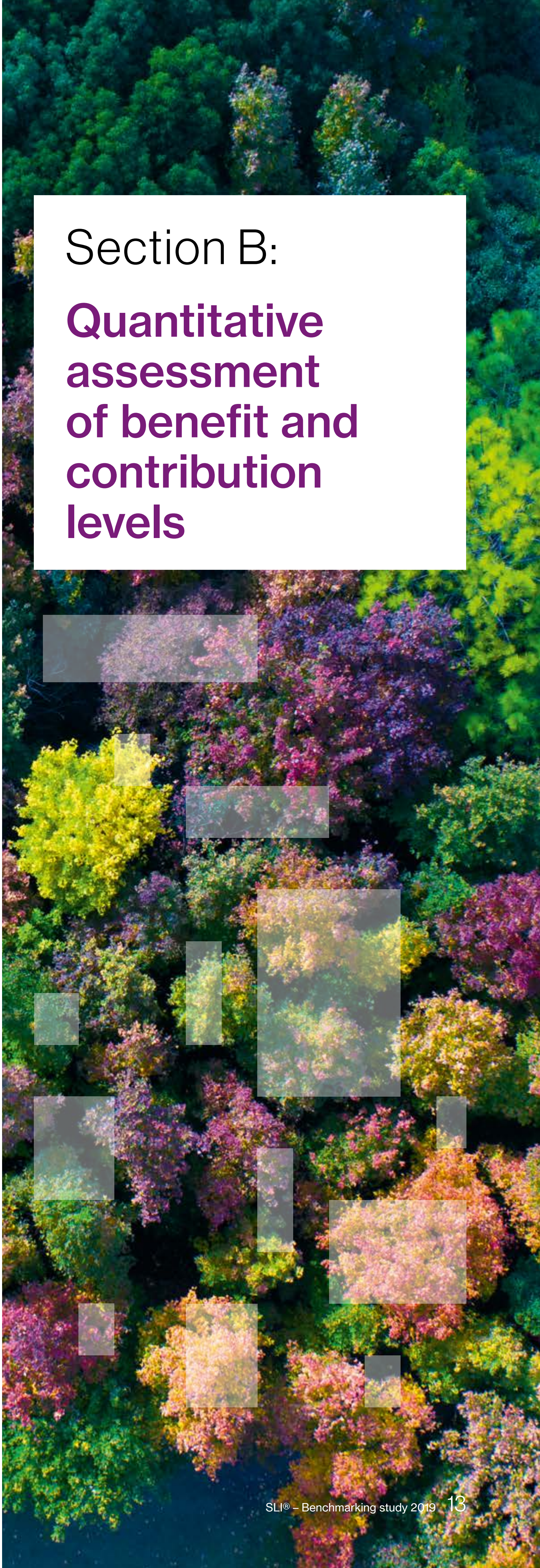
A comparison of the conversion rates applied illustrates the trend of falling conversion rates. In 2013, conversion rates were 6.3% or higher for 50.0% of all participating SLI® companies. Six years later, the conversion rates of all companies are below 5.75%, which nearly corresponds with the lowest rate in 2013. None of the SLI® companies use a conversion rate above 6.0%. Thus, many companies in this depiction have already taken measures to account for the current actuarial realities by continually lowering their conversion rates. This also calls into question some of the current political reform proposals with a recommended minimum conversion rate of 6.0%.

Figure 9: **Mortality tables used**



Some companies have gone a step further and do not convert part of the retirement savings into a pension at all. In such cases, the non-mandatory portion is therefore paid out as a lump sum upon retirement. This was already depicted in Figure 1.

As the final technical parameter, please refer to the mortality tables used to measure the liabilities of pension funds. Most pension funds in this peer group use the BVG mortality tables, which is why this is not discussed in greater detail here. However, it is interesting that approximately two thirds of the group use more conservative generation tables, which is significantly higher than the roughly 50.0 % observed in the overall market. Whether there is an indirect correlation with IFRS measurements required by the companies, which call for the use of generation tables, remains an open question.



Section B:

Quantitative assessment of benefit and contribution levels

In Switzerland, pensions are one of the most important components of compensation during retirement. Comparing the benefits under pillar 2 and the resulting costs is a very complex task, owing to the broad range of variables that need to be taken into account. Indeed, there are various factors that impact benefits, such as variable remuneration components and supplemental plans from a certain salary or employment level. For this reason, this report uses three different employee profiles for all SLI® companies as the basis for calculating current and future expected benefits. These three profiles have the following characteristics:

- Profile 1: Male, age 25, base salary CHF 60,000. We assume he receives no incentive pay and starts with no initial vested benefits.
- Profile 2: Male, age 35, base salary CHF 120,000. We assume he has a target bonus equal to 10.0% of his base salary, and that he joins with initial vested benefits of CHF 60,000 (of which CHF 30,000 is the legal minimum portion).
- Profile 3: Female, age 45, base salary CHF 200,000. We assume that she has a target bonus equal to 20.0% of her base salary, and that she joins with initial vested benefits of CHF 300,000 (of which CHF 75,000 is the legal minimum portion).

Details of other assumptions made when deriving the costs and level of benefits are described in Section D.

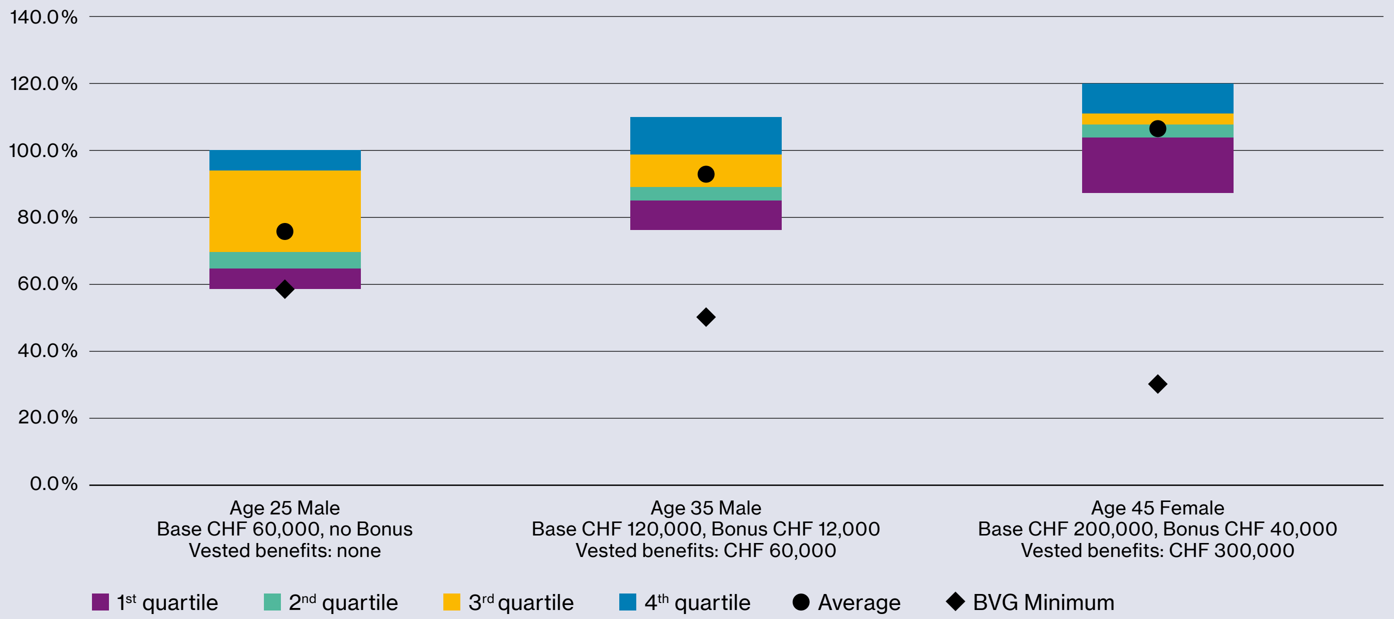
Insured salary

It was discussed in Section A that companies have different methods for calculating the insured salary. As a result, the insured salary will vary by individual depending on their base pay level, bonus and sometimes their position within the company (e.g. management vs non-management). In Figure 10 we compare the insured salaries for the three profiles described above.

The wide disparity between companies is striking. For the first profile, some companies insure only 59.0% of base pay while others insure 100.0%. There are values that exceed 100.0%, as some companies also insure the bonus. However, this figure alone does not allow any conclusions to be made about value. This requires consideration of the contribution levels, which is the next step.

Equally striking for the latter two profiles is that the legal minimum insured salary level is only a small fraction of the base salary, as the BVG only covers salaries of up to CHF 85,320 (in 2019). All of the SLI® companies insure salary levels that are considerably higher.

Figure 10: **Insured salary** (as a % of base pay)



Employee contribution rates

It is rather difficult to compare employer and employee contribution rates. In addition to regular contributions, there are also various extraordinary contributions, such as recapitalisation payments in case of underfunding. In order to ensure that these extraordinary payments do not obscure the comparison between individual companies, we assume that the respective only make regular contributions (for both employees and in the following section on employers).

All companies require employees to help finance part of the contributions, with the amount of these contributions depending on age and salary level. Figure 11 shows the contribution rates for a typical career and compares them to the minimum level under the BVG.

Employer contributions

Statutory requirements stipulate that total employer contributions must at least equal the total employee contributions. Apart from that, however, there is a great deal of leeway with regard to the specifics of this requirement.

Figure 12 compares the employer contributions for the three fictitious profiles described above over their assumed careers. As mentioned earlier, this only takes into account the regular contributions as defined in the plan rules. The comparison reveals significant disparities between the individual companies when it comes to employer and employee contributions. Some companies make considerable investments into pillar two.

Figure 11: **Employee contribution rates in SLI® companies over a typical career** (as a % of future base salary)

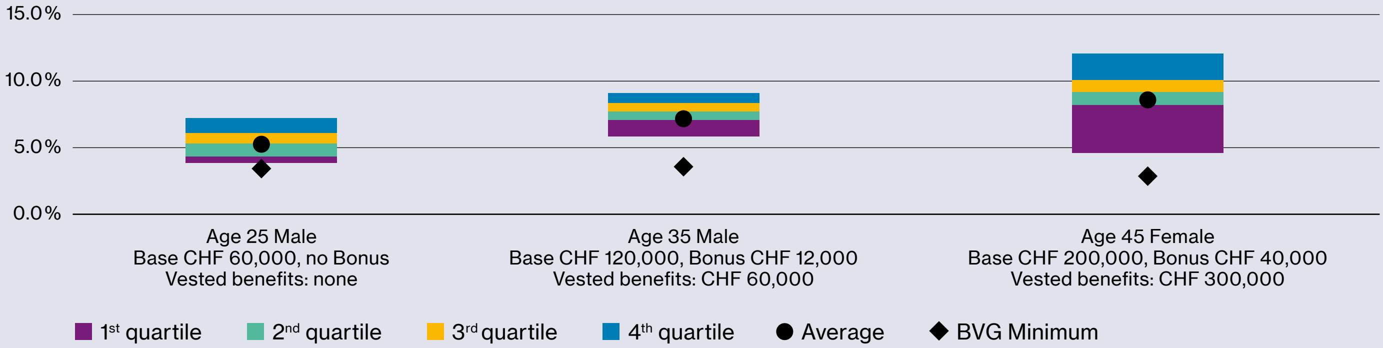
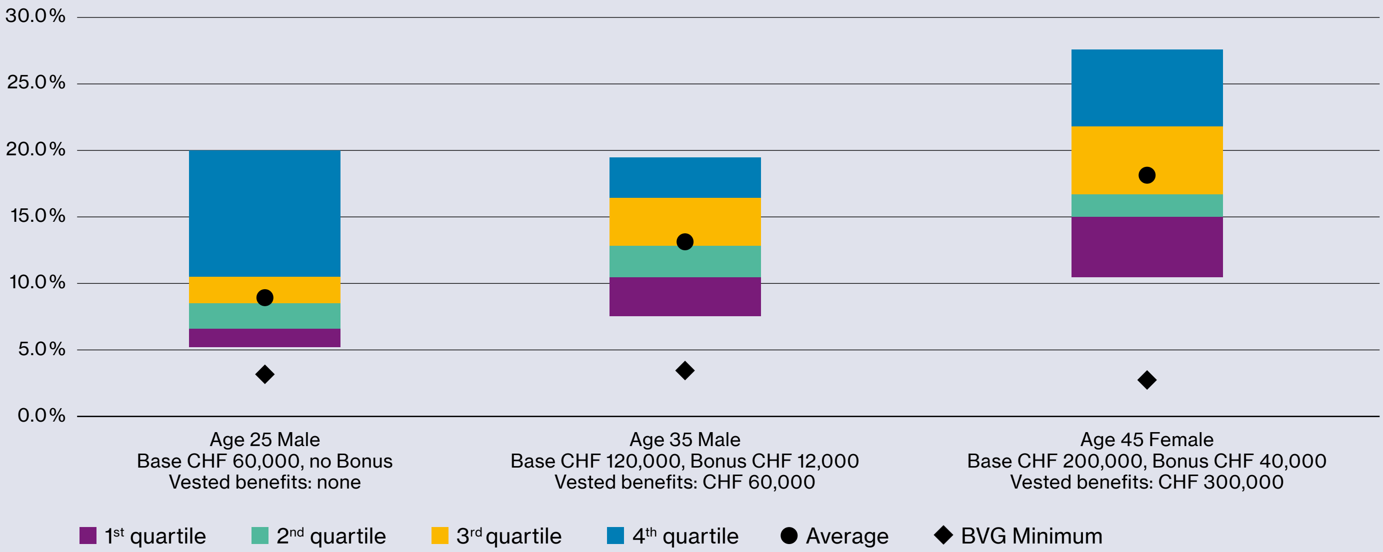


Figure 12: **Employer contribution rates in SLI® companies over a typical career** (as a % of future base salary)



Change in employee and employer contributions since 2013

Figure 13 below shows the level of plan contributions paid by the employees of the respective study participants since 2013. The contributions do not seem to change much from year to year. However, in 2019 it is apparent that the SLI® companies have converged somewhat and that slightly higher contributions are paid on average.

Figure 14, as a counterpart to Figure 13, illustrates the corresponding employer contributions. Between 2013 and 2017, employer contributions tended to increase (likely as partial compensation for the reduction in conversion rates), but in 2019 this trend seems to be slowing.

Figure 13: **Comparison of employee contribution rates** (expressed as a % of base salary at retirement)

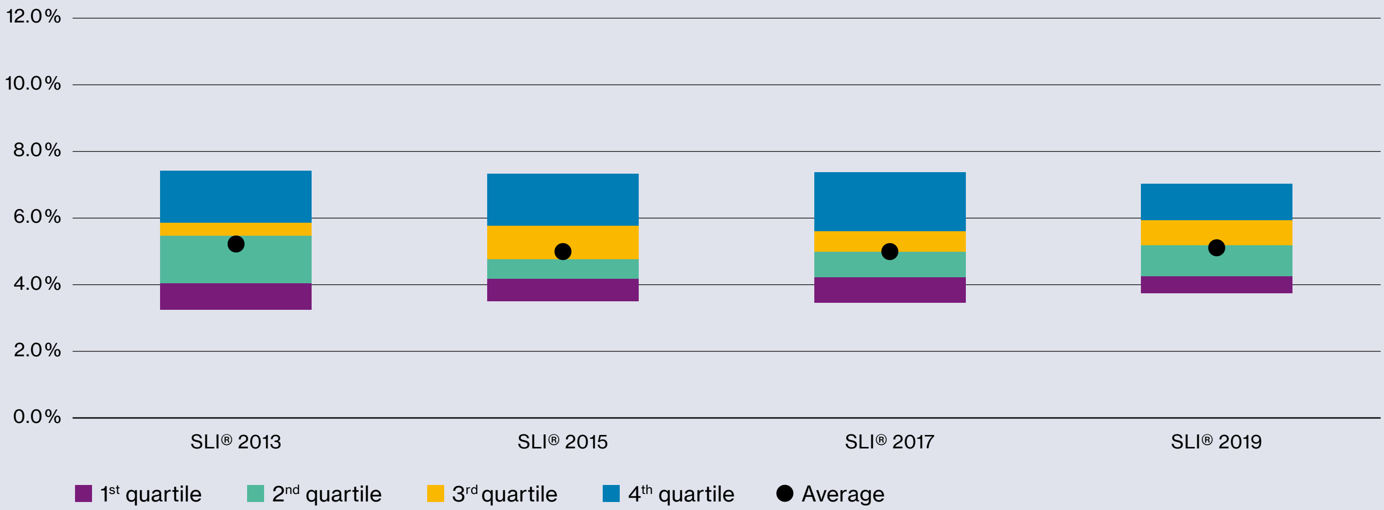
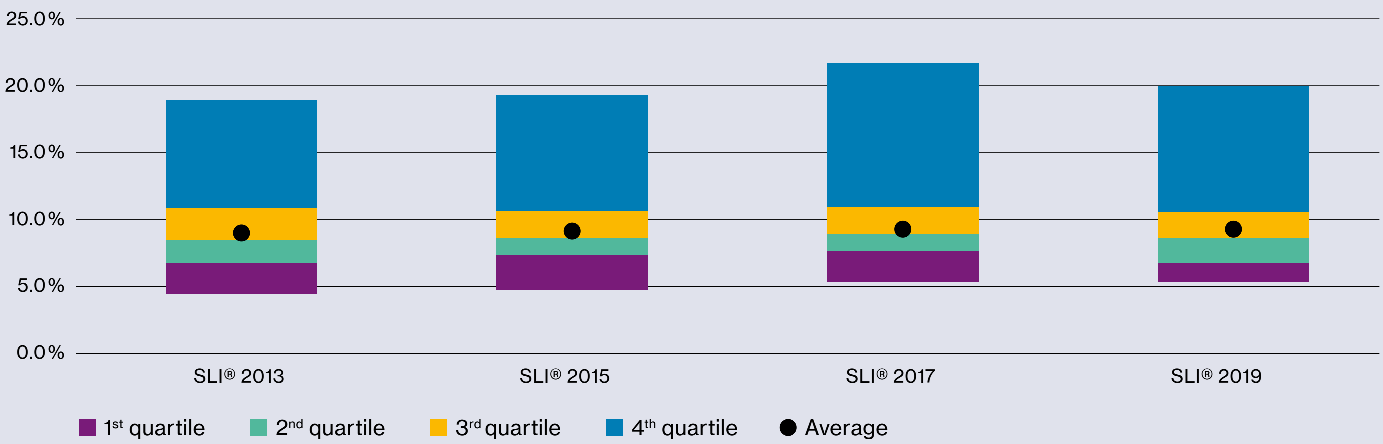


Figure 14: **Comparison of employer contribution rates** (expressed as a % of base salary at retirement)



Predicted benefit at retirement

We next look at one of the most significant quantitative points as we analyse the predicted benefits at retirement. Figure 15 shows the projected retirement savings (age 60 as early retirement and 65/64 as ordinary retirement) for the same three profiles described above. Figure 16 shows the corresponding pension benefits. Benefits at all companies substantially exceed the BVG minimum levels. On the whole, the importance of lump-sum benefits is likely to increase further, as over-mandatory retirement savings are increasingly being paid out exclusively as capital. This aids pension funds in managing risk, as interest and longevity risk are transferred to insured members after retirement.

Figure 15: **Retirement savings at retirement in SLI® companies** (as a % of base salary at retirement)

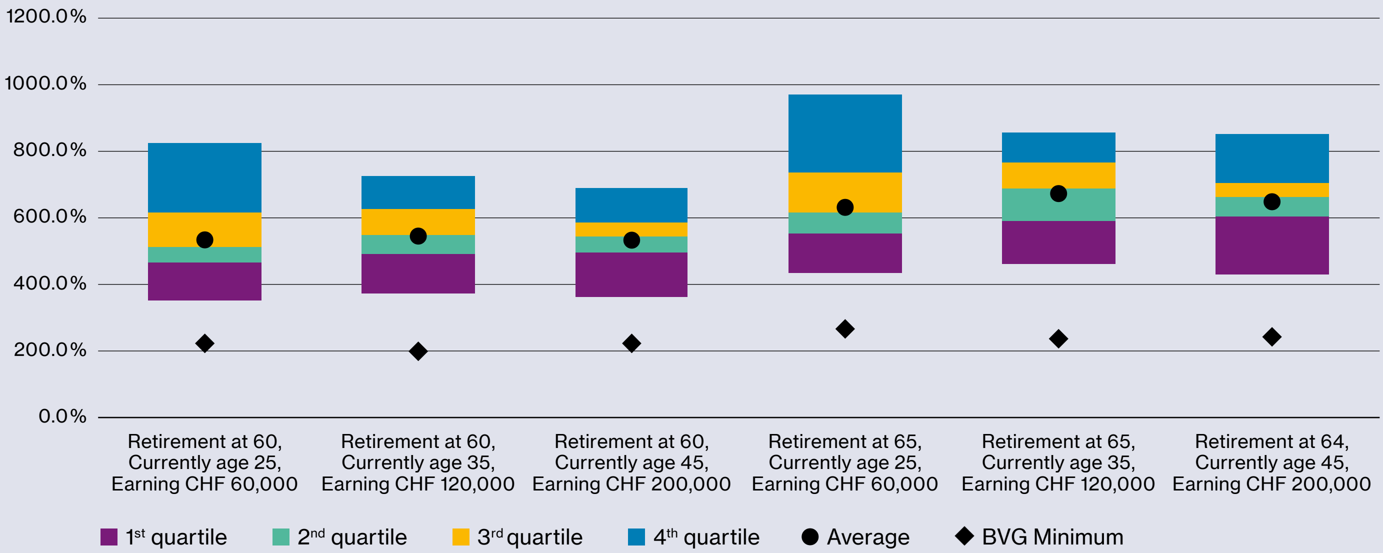
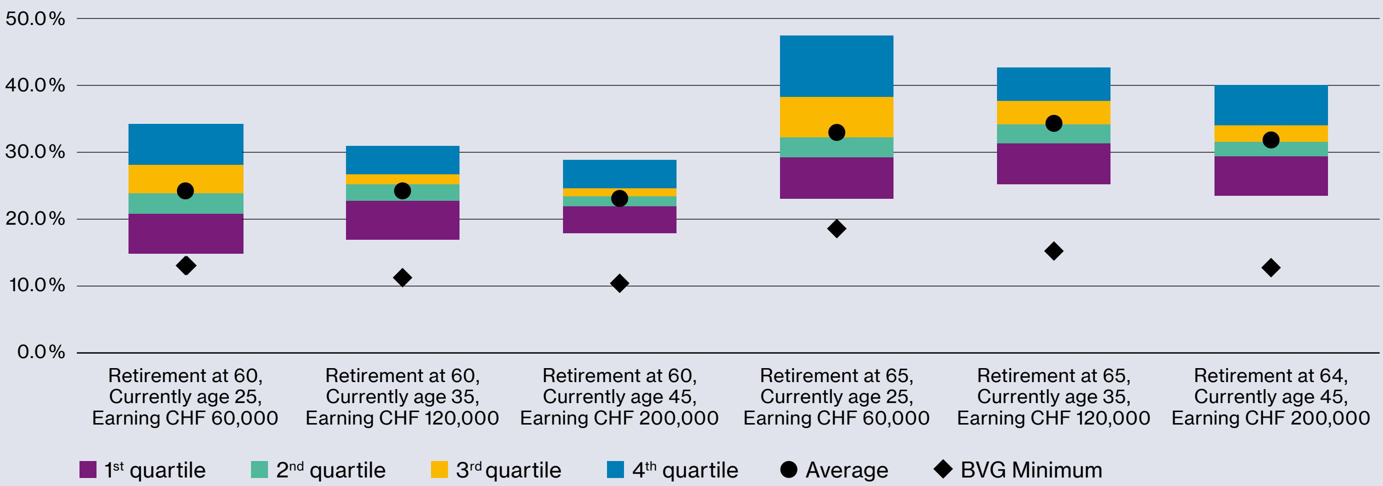


Figure 16: **Pension levels at retirement in SLI® companies** (as a % of base salary at retirement)



It is important to note that first-pillar benefits are much more significant for lower-paid members than second-pillar benefits, as the maximum annual AHV pension is limited to CHF 28,440 (in 2019). For higher earners, this only accounts for a small portion of their overall compensation. For example, full first-pillar benefits would only represent about 14.0% of the income of the 45-year-old profile member above, compared to about 47.0% of the income of the 25-year-old profile member.

The differences between companies are considerable. This vast difference in benefits is particularly apparent for the first profile. If we take two individuals matching this profile, with one working at the company with the most generous pension plan and the other at the company with the least generous, the former would retire at age 65 with pension benefits of around 47.0% of his last base salary, and the latter with only about 23.0%. This illustrates that the combination of insured salary, employee and employer contributions and the conversion rate is crucial.

Changes in retirement benefits since 2013

We would now like to examine the development of retirement benefits somewhat more closely. Figure 17 shows the retirement savings for the first employee profile pursuant to the studies from 2013 to 2019. On the whole, retirement savings at age 65 have been relatively stable over the period indicated. This means that decreasing expected interest income is being more or less compensated for by higher contributions. The calculation assumption for the expected interest income was reduced from 3.5% to 2.25% over the course of the studies shown. This corresponds to a substantial reduction in interest income over a 40-year-long career.

Similar to Figure 17, Figure 18 shows the change in pensions for the same employee profile. The chart illustrates that the average benefits have continually declined from 2013 to 2019. This trend intensified in 2017 and the pension benefits significantly decreased from previous years. In 2019 benefits decreased again, although not as markedly. This decline is a result of falling conversion rates and interest expectations.

Average benefits are now at around 33.0%, falling by an average of around 7 percentage points since 2013, owing in large part to the decrease in conversions rates. While the reductions in conversion rates were compensated for by higher contributions until 2013, this trend has not entirely continued since 2015. This shows that the shift in thinking identified in 2015 has taken hold: reduced benefits are accepted based on reductions in the conversion rate and no longer fully compensated for by contributions.

Risk benefits

In addition to retirement benefits, risk benefits are also critical when it comes to cushioning the financial loss in case of death or long-term disability. Figure 19 shows the annual disability pension that would be paid in case of complete disability, according to the base salary. The reason why more benefits tend to be paid in the top profiles is because of the higher base salary, which results in a lower coordination offset on a percentage basis.

Figure 17: **Comparison of retirement savings according to our studies from 2013 to 2019 for a 25-year-old employee with an initial base salary of CHF 60,000** (expressed as a % of base salary at retirement)

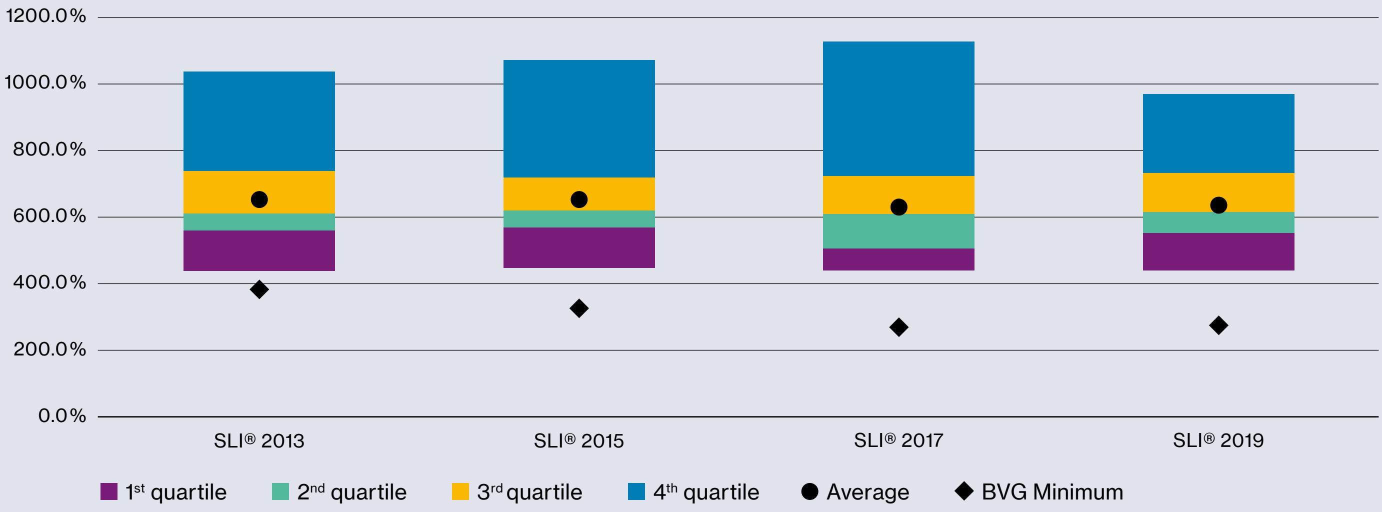


Figure 18: **Comparison of pensions according to our studies from 2013 to 2019 for a 25-year-old employee with an initial base salary of CHF 60,000** (expressed as a % of base salary at retirement)

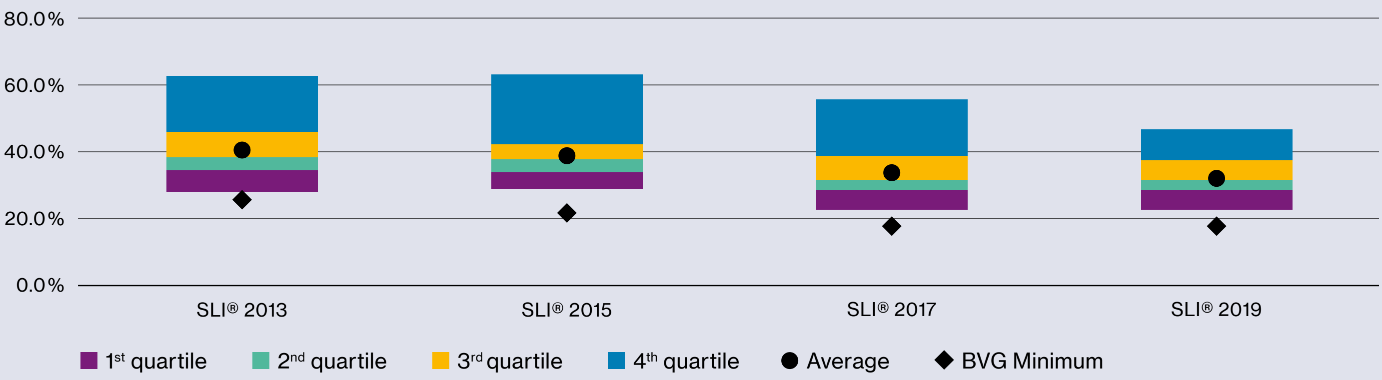
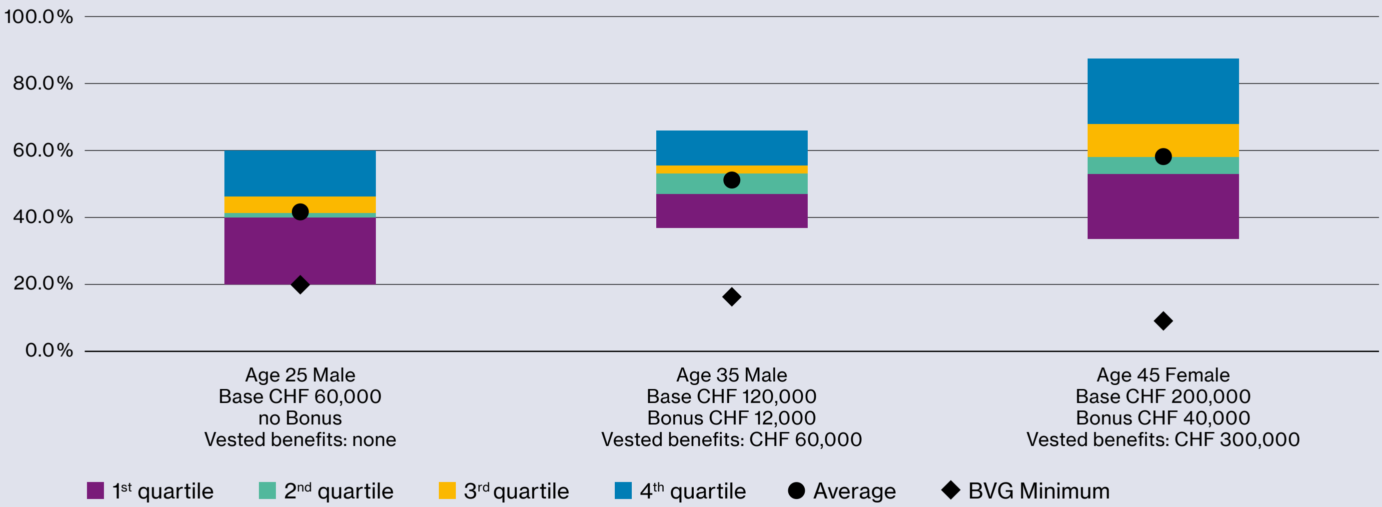


Figure 19: **Annual Disability Pension** (as % of base pay)



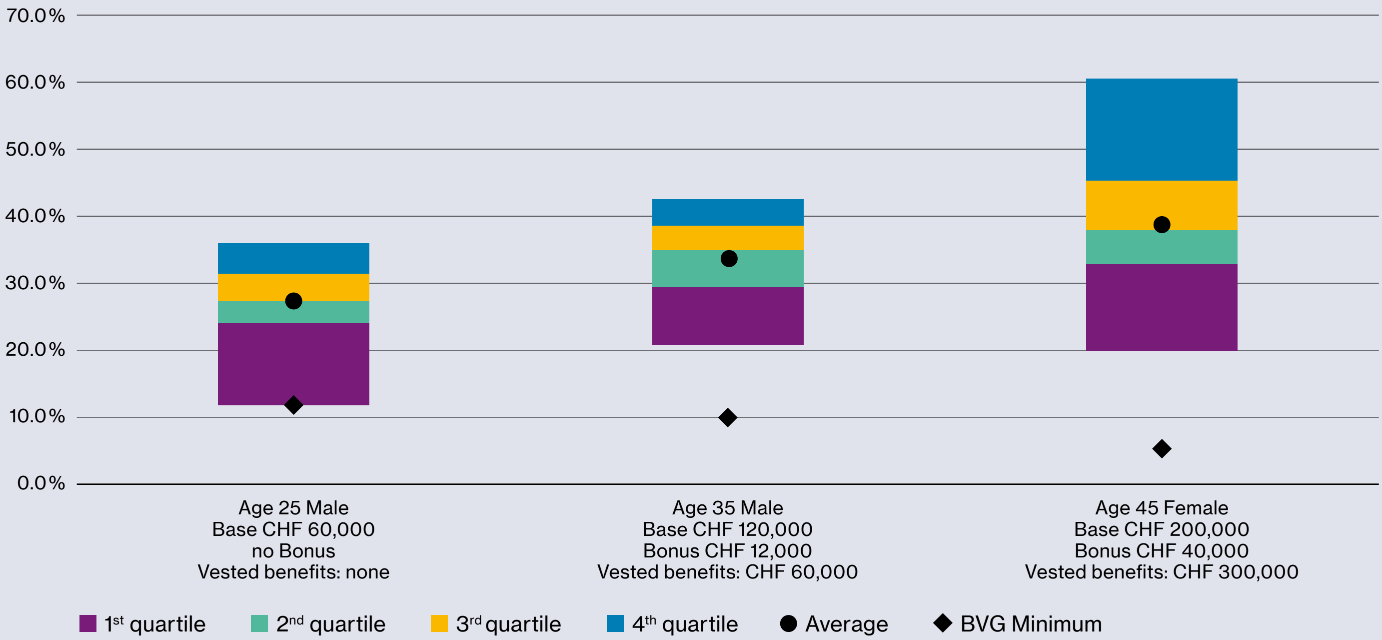
For the death benefit, we assume that the employee has died and the surviving partner is entitled to a full partner pension. This annual partner pension is depicted in Figure 20. The picture is very similar to that of a disability pension, albeit at a lower level. The level for surviving partners should be around two thirds of the disability pension, which is evident from this chart. In general, it can be said that the average risk benefit measured against the statutory level is quite high. However, there are large differences between the individual SLI® companies.

The objective of pillar two, in combination with pillar one, is to compensate for around 60.0% of lost pay due to disability and around 40.0% of lost pay due to death. This objective is at least met by all companies for the first two profiles. For the third profile, the smallest plan fails to meet the objective by about 10 percentage points. However, this is because the first pillar has little significance for this profile.

Structural financing status of the pension plans

Structural underfunding is the difference between the value of benefit entitlements and the value of employer and employee contributions (including initial vested benefits brought by new hires). Figure 22 shows a valuation of structural underfunding of the pension plans for the individual profiles. For younger employees, this difference tends to be negative, i.e. the plan makes a gain. This is typically the case because the contributions for risk benefits are higher than needed for this group, and younger insured members thus compensate for the too-low contributions of older members. Further, older employees are more likely to stay with the company until retirement and benefit from subsidised conversion rates. There are also differences by gender: according to the BVG 2015 actuarial principles, females tend to have higher costs of risk benefits than males.

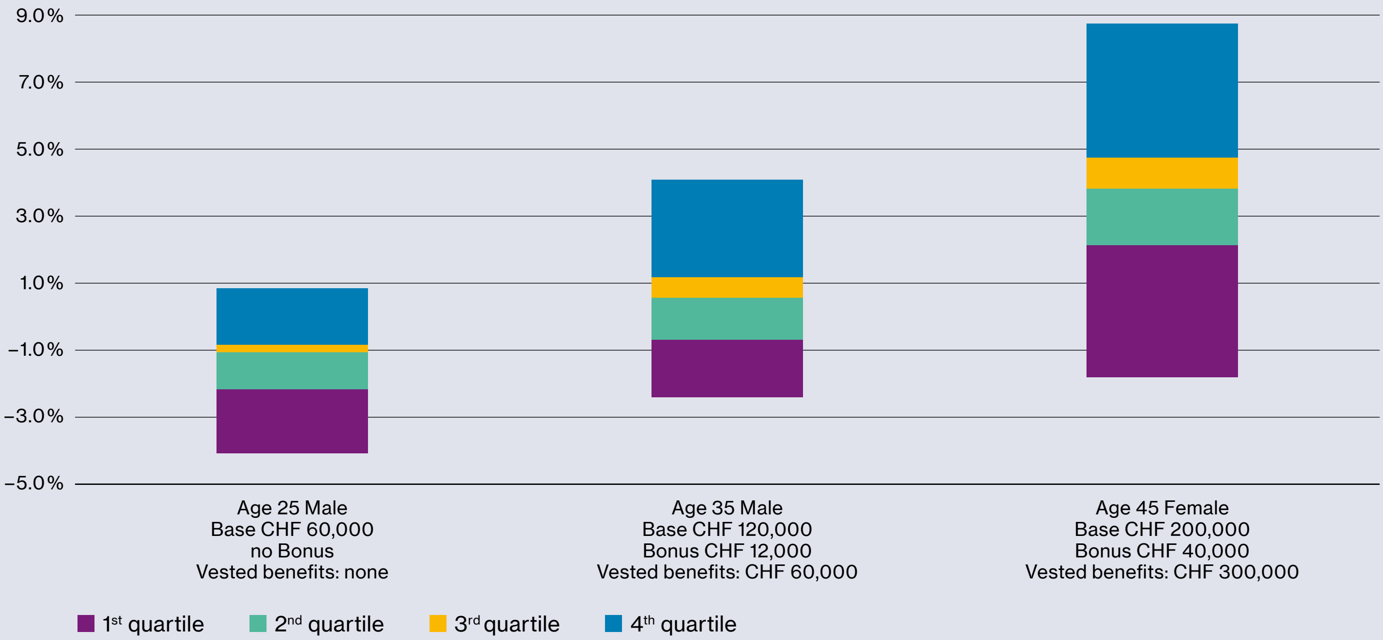
Figure 20: **Annual partner pension** (as % of base pay)



Furthermore, the older profiles also exhibit a greater spread for structural underfunding between individual companies. One reason for this is that some pension plans prohibit employees from converting part of their retirement savings into a pension, instead paying out this portion directly as a lump sum. This reduces costs as increasing longevity and the interest guarantee no longer play a role.

Most of the companies in the SLI® provide benefits that increase with age. Thus, older employees tend to have higher pension costs than younger ones simply because the plans are designed that way. This may have implications for the companies' willingness to hire or retain older workers, as the employer contributions may be significantly higher than for a younger employee at the same salary level. Further, as the average age of a company's employee base increases, their average costs tend to rise.

Figure 21: **Value of unfunded future benefits of SLI® companies** (expressed as a % of expected future base salaries)



Section C:
Actions to be taken

The present study confirms that benefits from occupational pensions are decreasing further, even though all stakeholders are fighting this trend. The existing challenges are not just going to disappear overnight, nor can they be directly influenced by legislators. As a result, the decision-makers in Swiss pension funds will have to pave new paths.

A sustainable pension plan should follow these guidelines: the targeted benefit level can be achieved with known costs, limited redistribution and appropriate (investment) risk. The main points for pension funds and the corresponding tools are already on the table:

- Total rewards approach: the occupational pension is an important tool for remuneration, but the expense for the employer is substantial. This makes it all the more important to align the total remuneration package with the market, and maintain competitiveness overall. Employers can use a high weighting of the occupational pension to consciously set a course for HR policy.
- Pension plan: The pension plan should be understandable and actively communicated so employees are able to correctly assess the value of their occupational pension. 1e pension plans represent an increasingly significant alternative in the market for higher earners, who help with these objectives.
- Investment strategy: It is imperative to take new approaches in the investment strategy because of the interest-rate environment. Aside from a diversified investment strategy, the selection of truly successful managers is crucial. When using modern asset classes, however, it is important to remember that they often require higher levels of control and governance – where there is a potential for higher reward there is always higher risk, which needs to be actively managed.
- Governance: On the one hand, good decisions require experience and expertise on the part of the decision-makers, which comes along with increased professionalism. On the other hand, tools are needed to depict various alternatives for action and their quantitative outcomes in decision-making situations. In this way the impact and, in turn, target achievement can be assessed by the Foundation Board before parameters are changed.
- Insurance: The market for reinsuring pension fund benefits is in a constant state of flux and a regular review of existing policies and a comparison with the self-insurance of such risks is recommended periodically.
- Accounting: More accurate approaches to valuation in accordance with international accounting standards, such as the ever controversial topic of “risk sharing”, allow employers flexibility and “room to breathe” so that they can continue to make substantial contributions to pension funds in the future.

Consequently, decision-makers have many tools at their disposal to ensure that occupational pensions are fit for the future.

Section D:
Closing remarks

This study only covers the occupational pension benefits offered by each company, and ignores other elements of compensation. If these other components were included, the results might look quite different. We are extremely grateful to all of the participating SLI® companies for their assistance with this survey.

Survey methodology

For the purposes of this study, we have only analysed those occupational pension benefits that are available to new hires at each company. Special benefits for existing employees, such as grandfathering, were not considered.

In order to review the cost and value of benefits, we have made a number of assumptions. Key among these are the following:

- Salary increases of 1.75% per year
- Interest credits for defined contribution plans of 2.25% per year
- BVG 2015 turnover, disability and mortality rates
- Retirements from age 60 occur with a likelihood of 10.0% per year until at the latest age 65/64 (men/women)
- Members are assumed to prefer a pension at retirement to a lump sum if such a choice is available
- Insured members contribute at the “standard” rate if such a choice is available
- Where plans provide only for lump-sum benefits, life insurance company tariffs have been applied for the conversion to pensions
- In some charts, comparisons are made with the minimum BVG benefits. For this purpose, retirement savings were projected at the minimum BVG interest rate of 1.0%.

Confidentiality

Information on individual companies’ plans is held strictly confidential.

Disclaimer

This report summarises the key results of the study conducted by Willis Towers Watson. Unless otherwise specifically agreed in writing, we assume no responsibility, duty of care or liability to persons who may gain access to this document and any decisions made on the basis of this document shall be entirely at their own risk.

This report does not purport to be and is not a substitute for specific professional advice. Individual circumstances should be closely analysed before any action is taken.

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