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AHV 21 - Reform and impacts on occupational pension schemes

The amendment of the Federal Law on Old-Age and Survivors' Insurance (AHV) and the additional financing of the AHV through an increase in value-added tax from 7.7% to 8.1% (standard rate) and from 2.5% to 2.6% (reduced rate) respectively were approved in the referendum on September 25, 2022 (AHV 21). The reform is expected to come into force on January 1, 2024.

The reform is intended to safeguard AHV (Swiss first pillar) pensions for approximately the next 10 years, maintain benefit levels and take account of changes in society. Demographically, increases in life expectancy and the baby boomer generation reaching retirement age are of particular importance. In addition, there are new ways of living and working and the desire for more flexibility.

In the following, we provide an overview of the most important changes of the AHV 21 reform and its impacts on occupational pension schemes, and we conclude with an overview of the need for action by pension funds (PFs) and a note on the BVG 21 - Reform.

1. Stabilization of the AHV (AHV 21)

The most important changes in the 1st pillar are:

Topics	AHV 21 – Changes to 1 st pillar
Reference age (“normal retirement age”)	65 for men and women
Increase in reference age for women	In four steps (first increase by three months one year after entry into force, i.e. presumably January 1, 2025)
Compensation measures for increase in reference age for women	For 9 cohorts (born 1961 - 1969) there is: <ul style="list-style-type: none"> - A pension supplement: Life-long basic supplement of CHF 50 to CHF 160 per month (amount depends on income and year of birth) - Lower reduction rate for early retirement (already from age 62)
Flexible retirement	<ul style="list-style-type: none"> - Retirement between the ages of 63 and 70, now on monthly basis - Option to receive partial early pension and partial deferred pension (between 20% and 80%) - Reduction rates for early pension and increased rates for deferred pension are adjusted to life expectancy (smaller reductions for low incomes, adjustments planned for 2027 at the earliest)
Incentive for work over 65	Exempt amount of CHF 16,800 (as before), now optional, i.e. if exempt amount is waived, contribution gaps can be closed and AHV pension can be increased

2. Impacts on occupational pension schemes

The most important changes in the 2nd pillar are:

Topics	AHV 21 – Changes to 2 nd pillar
Reference age (revArt. 13 para. 1 BVG)	65 for men and women PF may set a different reference age from the age of 58 in the plan rules.
Increase in reference age for women (revArt. 13 para. 1 BVG)	In 4 steps: <ul style="list-style-type: none"> - Step 1: one year after entry into force, i.e. presumably from 1/1/2025 for cohort 1961: 64 years and 3 months - Step 2: from 1/1/2026 for cohort 1962: 64 years and 6 months - Step 3: from 1/1/2027 for cohort 1963: 64 years and 9 months - Step 4: from 1/1/2028 for cohort 1964 and younger: 65 years
Transition generation	Early withdrawal of retirement benefits from age 62
Flexible retirement¹ (revArt. 13 para. 2, 13a, 13b BVG)	<ul style="list-style-type: none"> - Retirement between 63 and 70 years of age; PF may allow a lower minimum retirement age from age 58 (in case of restructuring from age 55). - Deferral only as long as employment is continued, max. age 70 - Option to receive partial early pension² and partial deferred pension - Withdrawal of retirement pension in 3 steps, PF may allow more than 3 steps - Lump-sum withdrawal in max. 3 steps³ (step = all lump-sum withdrawals in one calendar year from one employment relationship, also with several PFs⁴) - First partial withdrawal at least 20% of retirement benefit PF may allow lower minimum - Share of early withdrawal may not exceed share of salary reduction⁵
Risk benefits (revArt. 21 para. 1 BVG)	Survivors' pensions during deferral of retirement benefits are measured on the basis of the hypothetical retirement pension at the time of death (benefit improvement from deferral therefore also affects survivors' benefits)
Additional information requirements in the event of vested benefits (revArt. 8 para. 3 and para. 4 FZG)	<ul style="list-style-type: none"> - Exchange of additional information on benefit withdrawals (pension and/or lump sum) among pension or vested benefits institutions that is necessary for <ul style="list-style-type: none"> (i) Calculation of the purchase options or the mandatory insurable salary, (ii) compliance with maximum number of lump sum withdrawals - PF must request necessary information from the member if the entire retirement benefit has already been withdrawn

¹ Older employees are to be given more flexibility, also with the aim of maintaining gainful employment longer and contributing to the stabilization of the AHV. The new regulations apply to mandatory, supplemental and extra-mandatory benefits (revArt. 49 para. 2 lit. 2 BVG, revArt. 89a para. 6 lit. 2a ZGB).

² To be distinguished from reduction of working hours with deferred receipt of retirement benefits. The plan rules may provide that in the event of a salary reduction after the age of 62, the entire termination benefit remains in the PF. It is still possible to continue to insure the previous salary in accordance with Art. 33a BVG.

³ From a tax point of view, this is intended to prevent excessive breaking of the tax progression. Codification of previous tax practice.

⁴ No consolidated approach across several employment relationships (in contrast to Art. 79b para. 3 BVG).

⁵ The AHV salary is relevant, not the salary insured under the occupational benefit scheme. Exception according to revArt. 13 a para. 4 BVG.

Need for action for pension funds

PFs have a number of design options, particularly with regard to flexible retirement. The following topics should be examined more closely and possibly adapted in the pension plan rules:

- **Retirement age:** gradual increase of reference age for women to 65 from 1/1/2025 and adjustments to new terminology
- Check **early withdrawal/deferral of retirement benefits** and **partial withdrawal/deferral of retirement benefits** and adjust if necessary, including conversion rates
- **AHV bridging pensions:** these are usually paid until AHV retirement age. For **bridging pensions in payment** for women up to the age of 64, examine how the financing gap up to the higher reference age is to be closed and provide a corresponding transition measure in the plan rules (e.g. payment of bridging pension only up to the age of 64, additional financing of bridging pension or additional costs for the longer term up to the higher reference age to be borne by the PF).

For **future AHV bridging pensions** it must be regulated that these are paid out up to the AHV reference age. It should be noted that different AHV reference ages will exist simultaneously during the transition period until 2028.

- In the case of (partial) pension deferral, the statutory **obligation to pay contributions** ends when the reference age is reached, while the statutory obligation to pay interest remains in force during the pension deferral period. Contribution payments and voluntary contributions beyond the reference age can be provided for in the plan rules.

Furthermore, it is to be expected that the **need for member advice** will increase. Due to the increased flexibility, members have more options for action and must make decisions after considering the consequences. PFs should prepare themselves to respond to more inquiries.

3. Note on the reform of occupational pension benefits (BVG 21)

Apart from the AHV 21 reform, the Federal Council adopted the message on the reform of occupational pension benefits on November 25, 2020. The design of the measures to compensate the reduction of the minimum conversion rate from 6.8% to 6% for mandatory occupational benefits is the subject of controversy. In June 2022, as part of the parliamentary deliberations, the bill was referred back to the Committee for Social Security and Health (SGK) with the task of drafting a new compromise proposal on the design of the compensation measures. The further course of this reform remains uncertain in terms of content and timing.

We are happy to support you in the implementation of the AHV 21 reform and other pension topics. Please feel free to contact us if you have any questions or suggestions. You can find an overview of our range of services and team members for legal services [here](#).

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