pension funds declined in 2021 by 3% to reach 1,389. However, the data also showed "an increased importance of collective and joint pension funds". This means that more smaller pension funds are joining up with existing collective schemes or are forming new ones as the requirements for reporting, due diligence and risk management increase.

The end of the ultra-low interest rate phase might also herald the end of the decline of bonds in Swiss pensions funds' portfolios that has been ongoing for the past 15 years. However, Peter Wirth, head of the Vorsorgeforum, a platform consisting of pension and pension-related associations, said that "the situation is more complex than it might seem at first."

High interest rates are one problem, although less so in Switzerland where it reached a peak of 3.5% in August 2023. For pension funds wanting to invest abroad this means higher hedging costs. Further, Wirth said that the "bond market has evolved considerably and is now more diversified". He added: "It is a very heterogeneous landscape which is not easy to integrate into the pension funds' allocation strategy."

It appears that Swiss Pensionskassen are sticking to their guns. Asked whether there were any major changes planned to the portfolio due to rising interest rates, several pension funds pointed out that while minor adjustments might be made, the current strategy modelled to the latest asset-liability study is kept in place.

Keeping that in mind, the Swiss pension allocation will continue to change – but the adjustments will continue to be made only after careful consideration, always in consultation with all involved, including future pensioners.

Swiss retirement is becoming more flexible

PENSION FLEXIBILITY

LUIGI SERENELLI

Swiss pension funds are starting to offer members greater flexibility in how they access their retirement savings in their old age

BVK, the CHF 36.8bn (€38.7bn) pension fund for the employees of the canton of Zurich, has adjusted its offering according to the new rules of the reformed first pillar. Due to the pension reform in Switzerland, from next year the retirement age (Referenzalter) for men and women will be 65. The changes affect BVK members as well, and the organisation has responded.

From next year, the Swiss fund will offer two new choices, known as 'Kombi' and 'Dyna'. Members who choose 'Kombi' can earn their pension up to the age of 75 entirely or partially as capital. This builds on the existing 'Flex' model, whereby savings are fully or partially paid out as capital but pensioners bear the associated risks in full.

According to article 7 of the BVK's pension rules, members can retire early at age 60 or postpone retirement to 70. If they retire early, and in the case of an early dismissal by the employer, according to article 8 of the internal rules, the Dyna plan foresees a reduction in benefits by 0.125% per month, or by 1.5% per year, until the age of 75. The Dyna and Kombi models seek to respond to more individualised needs in old age.

"The trend towards more choices is clear, and lies in the spirit of the times. Since the BVK has broken the ice with the new plans, I am confident that other pension funds will introduce such models very soon," says Roger Baumann, partner at Swiss pension fund consultancy C-alm.

KEY POINTS

Swiss pension funds are increasingly likely to introduce flexible pay-out models

The pension sector is reluctant to switch to individual pension payouts at the cost of solidarity

The main concerns for pension fund members remain the conversion rate and inflation

Solidarity rules

C-alm has observed pension funds dealing with those or similar models for a long time. However, Swiss schemes still tend to avoid offering members individualised pension plans, to ensure solidarity among members. "Often pension funds tend to wait before rushing ahead with a new pension plan, also because there are legal questions attached," Baumann adds. This is because emphasising choice necessarily means weakening the solidarity mechanisms.

"Solidarity is necessary to maintain a high level of benefits for everyone. Losing too much solidarity can undermine the system, which is why the fundamental aversion of many industry representatives towards such steps is understandable," he says.

With the new BVK models, the traditional division between pension and lump-sum withdrawal is tempered, and allows for changes according to an employee's situation after retirement.

Swiss pension funds allow members an increasing number of options. According to a survey conducted by the asset manager Swisscanto, in 2023 around 60% of the pension funds give choices, an increase of four percentage points compared with 2022. The increase in pension funds providing options is particularly significant in sectors such as public administration (a rise from 57% to 65%), health and social services (from 57% to 64%) and the construction industry (from 22% to 31%).

"Pension funds are obliged to insure a spouse's pension of 60% of the current retirement pension in the event of death of a pensioner, but there are already pension funds that offer a flexible choice of benefits corresponding, for example, to 80%," according to Patrick Spuhler, partner at consultancy Prevanto.

"A special feature of BVK pension plans is that the retired persons can choose a lower spouse's pension, so that, in return, they receive a higher conversion rate and thus a higher

COUNTRY REPORT
SWITZERLAND

retirement pension," Spuhler adds.

Lump sum benefits

Perhaps the most significant aspect of BVK's new offering is the opportunity to withdraw part of the retirement capital at the beginning of retirement and to receive a pension from 75, corresponding to the accrued pension rights,

"From the age of 75, the pension fund takes over the investment risk and, in particular, the longevity risk. This model has been implemented by other pension funds for a long time in some cases – for example, by the Pension Fund of the Technical Associations PTV or by the Basellandschaftliche Pensionskasse," Spuhler says.

> "The insured must be advised, because a choice is linked to different aspects"
>
> Patrick Spuhler

For members, the risks emerging from the Dyna and the Kombi models seem manageable, especially compared with full lump-sum withdrawal upon retirement.

"However, the insured must be advised, because a choice is linked to different aspects," Baumann says. In particular, members need advice to take into account the possibility of pension gaps, or a decline in the level of pension.

For beneficiaries, the conversion rate, which is used to calculate the value of pensions based on an employee's savings, and the adjustment of pensions to inflation, remain the main source of concern.

In Switzerland, Spuhler says, only first-pillar schemes must adjust pensions to inflation, while second-pillar funds do that only if they have sufficient financial resources to do so. However, Swiss employees might be seeing the light at the end of the tunnel, as the higher inflation allows pension funds to maintain conversion rates at current levels.

"The conversion rates should not be lowered any further, as most pension funds have already adjusted their rates to a lower interest rate level in the past," points out Spuhler.

Difficult 2022, recovery in 2023

COMPLEMENTA RISK CHECK-UP

The Complementa Risk Check-up is conducted annually and provides insights into the Swiss pension fund market. **Andreas Rothacher** and **Ueli Sutter** share some of the highlights of their findings

Andreas Rothacher

Ueli Sutter

KEY POINTS

- Swiss pension funds returned 3.7% so far this year, in stark contrast to 2022
- Average coverage ratios dropped from 115.3% to 104% in 2022 but recovered to an estimated 106.5% by the end of August
- Schemes turned away from fixed income in favour of real estate and fixed income
- Some 444 pension funds participated in the latest Complementa Risk Check-up

Swiss pension funds achieved an average performance of 3.7% in the year to August 2023, mainly driven by strong equity markets. Global equities (MSCI World) returned 11% in Swiss franc terms and Swiss stocks (Swiss Performance Index) were also up by 6.8%.

This year's positive result is in stark contrast to last year's performance, when pension funds lost 9% on average. This was the worst performance since the financial crisis and the second-worst performance in the past 20 years; 2022 was especially challenging since bond and equity valuations decreased simultaneously.

Coverage ratios decreased

Because of the significant negative returns, the average coverage ratio dropped from 115.3% to 104% in 2022 (figure 1). Just under 9% of pension funds had coverage ratios of below 100% by the end of the year. The high reserves from previous years prevented a worse outcome. This exemplifies the importance of building reserves in strong years like 2019 or 2021.

Thanks to the positive returns till the end of August this year, the picture has improved to some extent. We estimate that the average coverage ratio increased to 106.5% by the end of August.

Fixed-income at new low

At the end of 2022, the fixed-income allocation of Swiss pension funds reached a new low of 31.7%. The equity allocation stood at 29.5% by the end of last year. This is a decrease of almost 2.5 percentage points compared with 2021. The real estate quota reached a new high of 24%. Over the past few years, we saw a