

avenir analysis

A second pillar that's stronger than it looks

How pensions benefits reflect our choices

Does the occupational pension live up to its promise? Can it withstand rising life expectancy and turbulent financial markets? In a new analysis, Avenir Suisse explains why the second pillar is still going strong, despite general belief.

Since the introduction of the Occupational Pensions Act (OPA) in 1985, more than three-quarters of new pensioners have received second-pillar benefits. But how have these benefits evolved?

Better than expected, if we look beyond annual pensions. According to a new report by Avenir Suisse, average benefits from the second pillar have fallen only slightly between 2015 and 2022, much less than believed.

Increase in lump sums

This is because more and more people are withdrawing their occupational pensions in lump sum. Between 2015 and 2022, the proportion of new retirees who withdrew all or part of their occupation pension in a lump sum increased by 7 percentage points, from 49 percent to 56 percent. In addition, the median capital per new retiree rose from CHF 85,000 to CHF 114,000.

Therefore, the analysis of pensions, without taking lump sum withdrawals into account, delivers incorrect results. For a more realistic picture, Avenir Suisse has calculated an “equivalent pension.” Sonia Estevez and Jérôme Cosandey converted the lump sum withdrawals into hypothetical annual incomes and came up with some astonishing results.

Indeed, if lump sum withdrawals are included in these “equivalent pensions,” the decline in pensions is almost halved, from 9 percent to around 5 percent between 2015 and 2022, using an average conversion rate. Calculated using the minimum conversion rate of 6.8 percent, benefits will fall by just 1 percent. If we consider the fact that pensions have been paid out for longer due to rising life expectancy, the so-called sharp drop in benefits in the second pillar is actually just a myth.

Higher benefits for women

Thanks to the increasing participation of women in the workforce, their benefits have risen by 2 percent to 6 percent between 2015 and 2022, depending on the conversion rate, despite a 4-month increase in life expectancy. For men, “equivalent pensions” have fallen from 4 percent to 9 percent over the same period, but for a 7-month increase in life expectancy.

Individual factors such as the level of employment or the choice of profession play a decisive role in the second pillar. However, benefits also depend on systemic factors. The joint committee of pension funds can go beyond the minimum requirements of the OPA or improve intergenerational equity by adapting

technical aspects. It is important that the insureds are aware of the consequences of such decisions, both personal and collective.

Funding the second pillar through capitalization confronts the insureds and pension funds with the consequences of their choices. This is directly reflected in the benefits promised and in the coverage ratio of pension funds. This transparency is not a sign of weakness in the system. On the contrary, it has the merit of curbing the temptation of politicians to promise benefits that will have to be paid for by future generations.

avenir analysis: “Die unterschätzten Leistungen der zweiten Säule – Eine ganzheitliche Betrachtung der Kapitalbezüge und Renten der beruflichen Vorsorge” (“A second pillar that's stronger than it looks. – How pensions benefits reflect our choices”), Sonia Estevez, Jérôme Cosandey, 11 pages, available online from June 26 at www.avenir-suisse.ch/en/.

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