

Aon Suisse

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BVG/LPP Reform — Law Adopted by the Swiss Federal Chambers On 17 March 2023



BVG/LPP Reform

In the wake of the failed referendum on the “Pensions 2020” project in 2017, the Federal Council proposed a new reform of the Federal Act on Occupational Retirement, Survivors’ and Disability Pension Plans (BVG/LPP) in September 2020 with a view to securing the funding of pension provision while guaranteeing pension benefits and improving the situation for persons with low incomes or working part-time.

The proposal of the Federal Council shuttled back and forth between the two federal chambers before a compromise was finally reached on an amended bill: during the spring session, on 17 March 2023, Parliament finally adopted the BVG/LPP Reform by 113 votes in favour, 69 against and 15 abstentions in the National Council and 29 votes in favour, 8 against and 5 abstentions in the Council of States.

The main innovations in the BVG/LPP reform adopted by the Swiss Parliament are summarised below.

Lower Entry Threshold

The entry threshold previously set at CHF 22,050, was lowered to CHF 19,845. This measure will enable 100,000 people to be newly or better insured.

Reduction of the Minimum Conversion Rate

In response to the rising trend in life expectancy and decreasing long-term return expectations of recent years, the conversion rate will be lowered, in a single stage, from 6.8 percent to 6.0 percent at the reference retirement age (i.e. 65, or between 64 and 65 for women in the interim generation of the AHV/AVS 21 Reform).

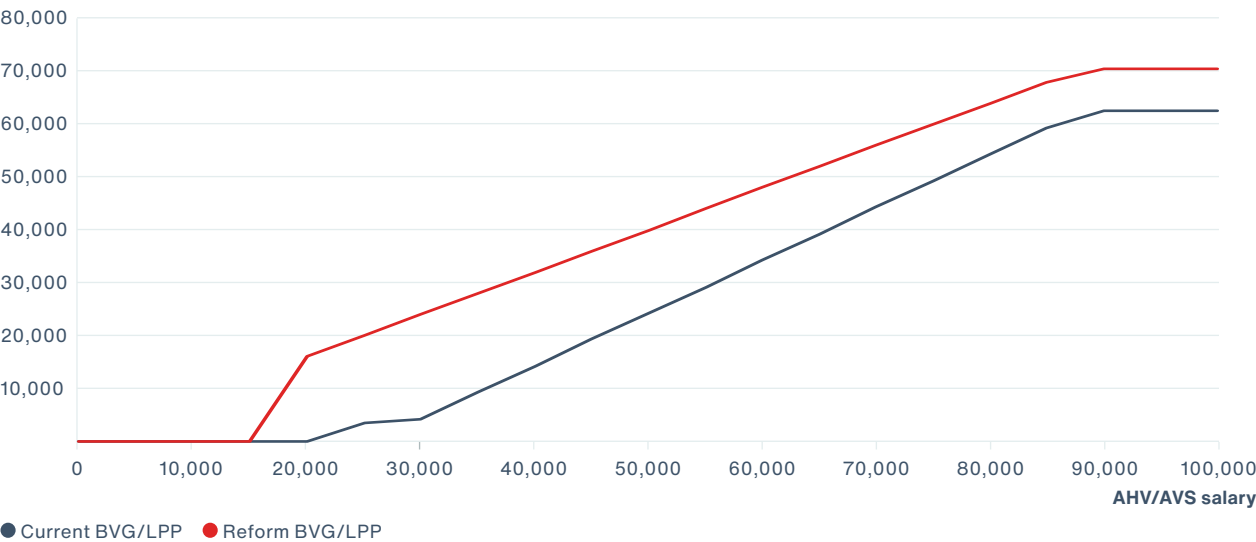
To buffer the impact of this reduction, the reform provides for the implementation of several compensatory measures. Without such measures, the reduction in conversion rate would produce a decrease of about 12 percent in the level of the pension objective. These measures combined will enable benefits to be globally maintained at the present level over a person’s entire career, or even improved for persons in the lower income brackets, especially those working part-time or holding several jobs at a time.

Lower Co-ordination Deduction

The co-ordination deduction currently corresponds to 7/8ths of the maximum AHV/AVS pension (i.e. CHF 25,725 in 2023). The reform provides for a co-ordination deduction of 20 percent of the AHV/AVS salary.

Applying a co-ordination deduction proportionate to the salary will improve the coverage level for all persons whose salary is equal to or lower than the maximum insured amount (CHF 88,200 in 2023).

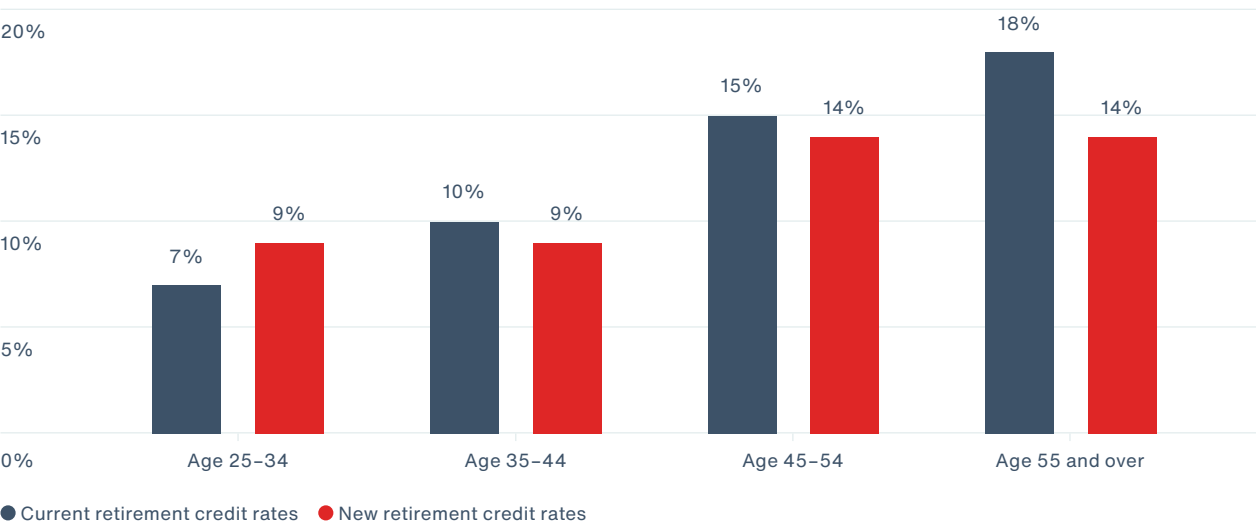
Insured Salary Depending on AHV/AVS Salary



Adjustment of Retirement Credit Levels

The well-known 7-10-15-18 percent retirement credit scale is replaced by a two-level scale: 9 percent from age 25 to 44, then 14 percent from age 45 to 65. The new staggering reduces the supplemental cost of occupational pension provision for older workers and avoids putting them at a disadvantage on the labour market.

Retirement Credits in Percent of Co-ordinated Salary

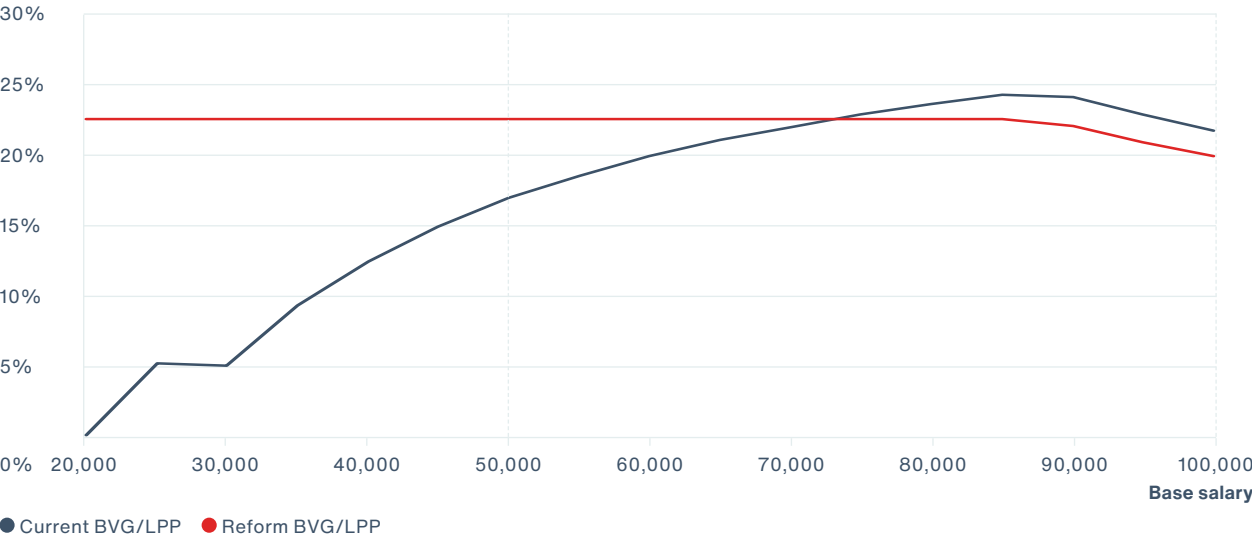


The total retirement credits in percent of the co-ordinated salary amount to 460 percent compared with the current 500 percent over an entire career. The new rates are thus lower than the current rates but are applied to a higher insured salary (given the lower co-ordination deduction). It follows that retirement credits in francs are increased for each age group except the last age bracket for salaries above CHF 70,000.

	Current BVG/LP		Reform BVG/LPP		Difference		Current BVG/LPP	Reform BVG/LPP	Difference	
AHV/AVS salary	50,000		50,000				100,000	100,000		
Insured salary	24,275		40,000				62,475	70,560		
Retirement credits										
Ages 25–34	7%	1699	9%	3600	1901	+3.8%	4373	6350	1977	+2.0%
Ages 25–44	10%	2428	9%	3600	1173	+2.3%	6248	6350	103	+0.1%
Ages 45–54	15%	3641	14%	5600	1959	+3.9%	9371	9878	507	+0.5%
Ages 55 and over	18%	4370	14%	5600	1231	+2.5%	11246	9878	-1367	-1.4%

The graph presented below (pension objective calculated according to the golden rule: with no salary increases or credited interest) shows that, over a full 40-year insurance term, the compensatory measures enable pensions at the pension reference age to be maintained at a level close to the current level – and maybe even increased for persons earning less than CHF 70,000 – despite the lower minimum conversion rate.

Pension Objective in Percent of AVS/AHV Salary



	Current BVG/LPP		Reform BVG/LPP	
AHV/AVS salary	50,000	100,000	50,000	100,000
Co-ordinated salary	24,275	62,475	40,000	70,560
Total retirement credits* in percent of co-ordinated salary	500%	500%	460%	460%
Total retirement savings capital*	121,375	312,375	184,000	324,576
BVG/LPP conversion rate	6.8%	6.8%	6.0%	6.0%
Retirement pension	8,254	21,242	11,040	19,425
Pension in percent of AHV/AVS salary	16.5%	21.2%	22.1%	19.5%

* over a full 40-year career

Effects on Full-career Funding

	Current BVG/LPP		Reform BVG/LPP		Difference	In percent of AHV/AVS salary
AHV/AVS salary	Insured salary	Total savings credits*	Insured salary	Total savings credits*		
50,000	24,275	121,375	40,000	184,000	62,625	+3.1%
60,000	34,275	171,375	48,000	220,800	49,425	+2.1%
70,000	44,275	221,375	56,000	257,600	36,225	+1.3%
80,000	54,275	271,375	64,000	294,400	23,025	+0.7%
90,000	62,475	312,375	70,560	324,576	12,201	+0.3%
100,000	62,475	312,375	70,560	324,576	12,201	+0.3%

* over a full 40-year career

Considering the changes in the definition of the insured salary and in retirement credit levels, the increase in contributions over a full career oscillates between 3.1 percent and 0.3 percent of the AHV/AVS salary.

Pension Supplement

To maintain the pension level for the interim generation, a lifelong pension supplement will be paid to persons reaching retirement age in the fifteen years after the reform comes into force.

The amount of the supplement and the definition of the circle of recipients were at the heart of the debate on the reform.

In the compromise finally adopted by the Federal Assembly, all persons whose retirement savings capital is equal to or less than CHF 220,500 at retirement would be paid a supplement of CHF 200 per month for persons retiring within five years (1st to 5th) of the effective date of the reform, CHF 150 per month for the next five years (6th to 10th) and CHF 100 per month for the five years after that (11th to 15th). From the 16th year, the Federal Council will set the amount of the supplement for each calendar year.

Persons with retirement savings capital between CHF 220,550 and CHF 441,000 will also receive a supplement, staggered degressively depending on their retirement savings capital. Persons with more receive nothing.

Overall, about 50 percent of the new retirees in the interim generation will be entitled to a full or reduced supplement.

We should point out that the supplement does not concern survivors' pensions.

This pension supplement, which is paid directly to the occupational benefits institution of the persons concerned, will be co-funded by subsidies from the Guarantee Fund and by the occupational benefits institutions themselves.

Other Changes

The legislative has extended the possibilities offered to self-employeds in terms of occupational benefits coverage (Article 44(1) BVG/LPP). This reform will enable self-employeds to contract insurance from any occupational benefits institution which permits it.

Since 2020, pursuant to Article 47a BVG/LPP, persons over 58 who lose their job may maintain their insurance coverage for death and disability risks only, or for both savings contributions and risks. The proposed BVG/LPP reform would allow these persons to continue their membership without paying either savings or risk contributions. They would only have to pay the contributions for administrative costs and their retirement savings capital would continue to bear interest.

For the time being, the occupational benefits institutions referred to in Article 89a(6) ZGB/CC which only provide extra-mandatory benefits may not offer the benefit of Article 47a BVG/LPP to their members. The BVG/LPP 21 Reform is designed to change that.

Once the retirement credit scale is flattened out, the system of subsidies for unfavourable age structure will be eliminated.

Effective Date

This reform is clearly bound to have a significant impact, in terms of benefits and in terms of funding, on occupational benefits institutions offering benefits equal or close to the minimum BVG/LPP benefits. For institutions offering a higher level of benefits, the effects will centre on the lower entry threshold and possible pension supplements. In any event, the BVG/LPP shadow account will have to be updated. A revision of the co-ordination deduction will certainly trigger a debate in foundation boardrooms about the possible review or abolition of this pension plan parameter.

Reforming the BVG/LPP was necessary. Being the fruit of much debate, the final compromise cannot hope to satisfy everyone. It is highly likely, therefore, that as for the AHV/AVS 21 reform, the people will have the last word: political parties and the trade unions have already announced a referendum.



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