



ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs

Switzerland

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European Social Policy Network (ESPN)

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Summary/Highlights

Switzerland is a country which has traditionally had a relatively high employment rate for the 55-64 age group (over 70% in 2013, OECD 2015).

Pensionable age in Switzerland is set at 65 for the basic pension and in the law on occupational pensions. However, early retirement is possible in both regimes, but with an actuarially related loss. In the law there is no special provision for Workers in arduous or hazardous jobs (WAHJ). However, in some sectors and at the company level, there are examples of agreements by the social partners that do take into account the objectively more demanding nature of work for WAHJ. This is the case for example in the construction sector. In addition, WAHJ are more likely to exit the labour market through invalidity insurance.

One example of a successful initiative to improve access to early retirement for WAHJ is an agreement reached by the social partners in the construction sector which allows WAHJ within this sector to take retirement at age 60 instead of 65, on relatively attractive conditions. While the agreement is generally considered a success, those who choose to leave before age 65 will most likely experience some losses in pension income. In addition, this approach was possible because the construction section provides an ideal context for negotiated solutions of this kind. The sector is strongly unionised and relatively protected from international competition, so that the extra cost of providing early retirement can be passed on to consumers. An extension of this approach to other sectors seems unlikely.

While there is broad and diffuse acknowledgement that working in later life is objectively more problematic for WAHJ than for the average worker, no reforms have been adopted or are seriously debated. There is one partial exception, however. A reform that is currently being debated in parliament contains a proposal to provide early retirement at a discounted rate (reductions are less than actuarial) for those who have started working before the age of 20 and who are on a low income as they approach retirement age. This measure, which, if adopted, will only concern the basic pension, is meant to improve conditions for those with long careers. However, it might partly respond to concerns that WAHJ are having a hard time remaining in the labour force until age 65, since long careers are typical of the low skill profile who are more likely to be WAHJ.

In conclusion, it is fair to say that the current pension system does not really take into account the objectively more demanding nature of work for WAHJ. Solutions negotiated by the social partners have only limited potential.

1 Overall description of the policy mix targeted at workers in arduous or hazardous jobs

Generally speaking, the Swiss pension system does not provide dedicated provision for workers in arduous or hazardous jobs. The basic pension is universal and applies the same rules to all workers. Second pillar pensions are organised at the company or at the branch level, and are ruled by federal law, which does not provide any special treatment for WAHJ. However, some company/branch level funds where WAHJ are overrepresented (like in construction, see below) provide easier access to early retirement, in a way taking into account the objectively more demanding nature of work in those cases. Switzerland is a highly decentralised federal country. However, with regard to old age pensions, the policy mix is mostly defined by federal policies and laws. The description of the policy mix that follows applies to the whole country.

End of career options are defined by four different institutions: the first pillar or basic pension, the second pillar or occupational pensions, the third pillar i.e. private individual pensions, and invalidity insurance.

The first pillar pension (AHV/AVS, *Alters-und-Hinterlassenversicherung/Assurance vieillesse et survivants*), provides universal coverage and is a fairly redistributive scheme, since there is no contribution ceiling, but the amount of the benefit can vary between a floor and a ceiling that is twice as high as the floor. In 2016 the limits are set at CHF 1,175 (EUR 950) and CHF 2,350 (EUR 1,900) per month respectively, corresponding to approximately 20% and 40% of the average wage. Benefits are adjusted every two years according to a so-called "mixed index" derived from the arithmetic average between inflation and wage increases. A full pension is paid at age 64 for women and 65 for men.

Within the basic pension (AHV/AVS), early retirement is possible from the age of 63 for men and 62 for women, but with a reduction of 6.8% per year of anticipation, which corresponds more or less to an actuarially determined reduction. The basic pension can also be delayed by up to five years. In this case, the amount of the pension is increased in an actuarially determined way (AVS-AI 2016). It should be noted that the basic pension provides only a limited level of income replacement, about 40% for someone who has earned the average wage throughout his or her career. It is generally insufficient, and to take early retirement one would also need to be able to draw an early second pillar pension. About 10% of the insured take early retirement within the basic pension (Conseil Fédéral 2015: 45). A partial or part-time pension is not possible within the basic pension.

The second pillar of the Swiss pension system, occupational pensions, became compulsory in 1985 for all employees earning at least twice the minimum AHV/AVS pension. A full occupational pension is granted to employees with a contribution record of 39 years for women and 40 for men. The law decrees a compulsory minimum level of provision (known as the *Obligatorium*), calculated on the basis of notional contributions, leaving existing pension funds a relatively high degree of autonomy over how to deliver and finance that minimum level of provision (but it must be fully funded for private sector employers).

The whole system is based on the principle that federal law indicates the minimum level of provision, but then funds are allowed to provide more generously. In fact, many pension funds, especially in the public sector or those sponsored by large employers, offer better conditions than the *Obligatorium*. There is however one exception to this rule and it concerns early retirement. The law forbids pension funds from providing early retirement benefits before the age of 58. Otherwise, the law does not regulate early retirement and leaves decisions concerning it entirely up to individual pension funds. In other words, individual pension funds can regulate early retirement freely, provided of course that all promises and commitments are fully funded. Decisions concerning how to regulate early retirement, like any other aspect of individual pension fund regulation, are

taken by parity bodies with equal numbers of representatives from the employer and employee sides.

There are about 2,000 pension funds in Switzerland and there are no statistics concerning the rules that they apply, but it is probably the case that the vast majority of them allow early retirement, with benefit reductions that are in some way at least based on actuarial calculations. In the public sector, in some cases early retirement may still be facilitated with reductions that are lower than those that would result from an actuarial calculation. But in recent years we have witnessed a clear shift toward the adoption of actuarially determined reductions also in the public sector.

Individual pension funds can also allow workers to take part-time retirement and some of them have this provision. In general, early retirement is financed by the second pillar pension.

The third pillar consists in voluntary private individual pensions. These are encouraged through tax deductions. Employees can deduct payments to a third pillar pension up to CHF 6,768 (EUR 5,547; figure for 2016) per year. The self-employed, who are not covered by compulsory occupational pensions, can deduct 20% of their earnings. Funds saved through a third pillar pension can be withdrawn after the age of 60.

Invalidity insurance provides earnings replacement benefits to those who are deemed unable to work because of permanent health impairment. Like the pension system, invalidity insurance has a pillar structure, with a public basic pillar providing benefits of the same level as the basic pension. In addition, occupational pensions also provide a second pillar invalidity pension. In the case of invalidity, the coupling of the two pillars is much stronger than for old age pensions. In most cases, decisions taken by the public pillar are binding for the occupational pension. Thus, if someone is found eligible for a first pillar invalidity pension, he or she will (almost) automatically receive a second pillar pension.

The issue of taking into account time spent in arduous or hazardous jobs has been high on the agenda over the last decade or so, in the context of discussions on pension reform in general. Political actors have failed so far to find an agreement on a concrete measure.

A large reform, known as "Prevoyance 2020" is currently being debated in parliament. The reform aims at making the pension system sustainable until 2035 in the context of an ageing population. The reform contains several provisions, and while none of them explicitly concerns WAHJ, some of them will redefine the way in which some workers leave the labour force and enter retirement. They are the following ones:

- Retirement age in the first pillar pension is going to be equalised at age 65 for both genders
- It will be possible to take a part-time (50%) basic pension, and continue working and contributing for the other half pension.
- Early retirement will be possible from age 62 for both genders, with an actuarially determined reduction.
- Those who started paying contributions before the age of 20 (contributions are due from age 17 onwards if in employment) and have a work income below a given threshold (3.5 times the minimal basic pension) when they request early-retirement, will benefit from slightly more favourable reductions, as shown in table 1.

Table 1: Standard and reduced rates of reduction for early retirement

Age at retirement		Standard reduction rate	Reduced reduction rate
62		11.4%	6.1%
63		7.9%	2.1%
64		4.1%	0.0%

Source: Conseil fédéral 2014: 65

This last measure, while not explicitly targeting WAHJ, is seen as a way of allowing easier access to early retirement to workers who started working early and, being on a low wage at the end of their career, are probably confined to low productivity occupations. These occupations tend to be more physically demanding.

At the time of writing (June 2016), these measures are being debated in parliament, and it is not certain that they will be kept in the final version of the law.

2 Pension rules for workers in arduous or hazardous jobs

As mentioned above, in Swiss law there is no provision for facilitating access to early retirement for WAHJ, or any other form of targeted support for this group. Things are different at the sectoral or at the company level, where occupational pensions are sometimes used to provide an easier path out of the labour market for WAHJ. The best example is a collective agreement reached by the employer organisation and the trade unions in the construction sector. It should be noted that this is also the only case of such a large scale operation, in terms both of generosity and of workers covered.

An agreement reached between the main trade unions and the leading association of employers in the construction industry has allowed, under certain conditions, most workers in the sector to take retirement at age 60, instead of the statutory 65. The agreement has been declared binding by the Federal government, meaning that all firms in the construction sector¹, not only the signatories, must abide by it

The agreement has been in force since 2003, and consists of an ad hoc foundation jointly run by the social partners (*Stiftung flexibler Altersrücktritt – Fondation retraite anticipée*, known as the FAR foundation) that is separate from both the basic state pensions and company based occupational pensions. This foundation provides an income replacement benefit for a period of 5 years at most, between the ages of 60 and 65. Afterwards, former workers enter into the standard retirement path².

The agreement covers only manual workers within the construction sector who are considered WAHJ. Managers and administrative personnel, for example, cannot access early retirement through this channel (Art 3.). The foundation is financed on a pay-as-you-go basis through wage-based contributions: 1% for the worker and 4% for the employer. Eligible for an early pension are those workers who have paid contributions for at least 15 of the previous 20 years and who have worked without interruption for the last 7 years before applying for the early pension.

A reduced early pension is available to those who have at least 10 contribution years. Those who have not contributed continuously for the last 7 years because of unemployment can also receive the reduced pension if the unemployment spell did not last longer than 2 years.

The standard early pension corresponds to a flat amount of CHF 6,000 per annum (EUR 5,400) plus 65% of earnings. The reduced pension is calculated in the same way, but then reduced by 1/15th for each missing contribution year.

¹ The agreement includes a very precise list of the activities that are considered as being part of the construction sector and hence covered by it.

² More information on the foundation and the text of the agreement are available on www.far-suisse.ch.

In addition to the early pension, insured workers also receive an amount meant to finance their second pillar pension, which requires the payment of contributions until age 65. This amount is calculated as 18% of the pre-early retirement salary. In addition, like every resident person aged between 20 and 64, early retirees need to pay contributions to the basic pension (AHV-AVS).

The agreement states that wherever possible, workers who take an early pension should be allowed to remain members of their employer occupational pensions, so that they can access a standard occupational pension once they turn 65. However, there is no obligation for occupational pensions to accept former workers during the 5-year early retirement period (Art.20). This may potentially represent a problem, because pension funds offer better conditions for annuitization³ than the market. If those who take early retirement cannot remain in their former company's pension fund, they will receive a lump sum at age 65. If they want to convert it into an annuity, this will be at market prices.

The FAR foundation is generally considered a successful example of how to deal with the issue of providing access to adequate retirement provision to WAHJ within the framework of collective agreements rather than through general legislation. It must however be said that this agreement is rather exceptional. The sector is strongly unionised and sheltered from international competition. These are ideal conditions for setting up a relatively generous arrangement, the cost of which can easily be passed on to consumers. In other parts of the economy, the sectoral agreement approach seems less promising. Attempts by the unions to extend the agreement to sectors close to construction (such as electricians, plumbers, etc.) have so far failed.

Other workers who benefit from early retirement are mostly found in the public sector. However, in recent years there has been an alignment with the practices of the private sector, especially in the German speaking part of the country. In general, this shift has implied the adoption of a defined-contribution system, which strengthens the link between the contributions paid and the benefits, so that it is more difficult to provide some advantages for workers who are deemed WAHJ.

3 Retirement patterns and retirement income of workers in arduous or hazardous jobs

Switzerland is a country which traditionally has had a relatively high employment rate for the 55-64 age group, at more than 70% in 2013 (OECD 2015). This means that a large proportion of WAHJ are still in employment when in this age group. While there is some information available on pensioners' living standards, it is difficult to identify WAHJ in the statistics, so that it is not possible to present an image of how they fare in retirement. In this section some evidence is provided suggesting that access to good quality early retirement is an option for those who have good second pillar coverage, which is not necessarily the case for WAHJ.

The available evidence suggests that there are two sorts of factors which explain leaving the labour force before the age of retirement. They can be distinguished between "pull" and "push" factors. Pull factors refer to being entitled to generous pension provision. In general, this is not the case for WAHJ, with the exceptions mentioned above (construction industry and some professions in the public sector). Otherwise, pull factors probably concern managers and highly paid professionals working in large companies and in the public sector more. These are the conditions that are most likely to make the early retirement option attractive.

The relevance of pull factors is illustrated by the fact that one of the main determinants of taking early retirement is the amount of capital accumulated in one's second pillar

³ The notion of annuitization refers to the transformation of a capital accumulated over the years of work into a regular payment.

pension. Those in the top quartile start leaving the labour market at age 60 and by age 67 there is virtually no one left. In contrast, those who are in the first quartile in terms of accumulated pension wealth are unlikely to take early retirement (some 80% works until age 65) and then continue working beyond the age of retirement, with 30% still in employment at age 70 (IDAFForAlt 2003: 10).

The view that a good second pillar pension is essential in order to take early retirement is further confirmed by survey data on the main source of income for early retirees. According to a survey carried out in the early 2000s, the second pillar was the main source of income for 61% of all early-retirees; for 28% it was personal savings and other personal resources; the first pillar was the main source of income for only 8% of them and the third pillar for 2 % (IDAFForAlt 2003: 11).

Early retirement decisions can be affected by push factors, or the difficult nature of employment in the approach to the age of retirement. Some of the available evidence indeed suggests that push factors matter. For example, when studying the determinants of leaving the labour force between the ages of 55 and 64, Wanner and colleagues (2003) found that low education (defined as having compulsory education only) increased the risk of being out of the labour market relative to someone with a vocational qualification. The sector of activity was also found to be a powerful determinant of leaving employment before the statutory age of retirement. Those working in the catering, hotel and transport industries were the most likely to leave the labour force during this age bracket (data refer to late 1990s early 2000s⁴). Those working in sectors where WAHJ are overrepresented, such as construction, were not more likely than average to leave the labour force (Wanner et al 2003). Note that this study refers to a period before the adoption of the agreement in the construction sector mentioned above.

It can be argued that for WAHJ, invalidity insurance plays a role as a pathway out of the labour market: in fact, workers in sectors where arduous and hazardous jobs are common are over-represented. For example, in 2014, 10% of all new invalidity pensions concerned construction workers, while they make up only 6.5% of the workforce. For industry in general, the figures were 24% and 15% (OFAS 2015).

Demographers have also shown that life expectancy is highly correlated to education level and profession. In a more recent study, Wanner has estimated different retirement ages by education level, so as to equalise the average duration during which a pension is received or the ratio between years worked and years in retirement. Table 2 shows the results of his calculations

Table 2: Life expectancy adjusted retirement ages

		Equal retirement duration	Equal ratio work/retirement
Men	No education	63.7	63.5
	Compulsory educ.	63.9	63.5
	Vocational educ.	65.0	65
	University	66.4	67.1
Women	No education	64.2	63.8
	Compulsory educ.	64.1	63.8
	Vocational educ.	65.0	65.0
	University	66.2	67.1

Source: Wanner 2012

⁴ Even though somewhat dated, these are the most recent available studies on early retirement patterns in Switzerland (Wanner, personal communication, 17.05.2016).

It can be assumed that most WAHJ have attained only a limited level of education, and are probably concentrated in the first two categories (no education and compulsory education only)⁵. The fact that they on average have a lower life expectancy is a powerful argument for a differentiated retirement age, or at least for some compensation that would improve the system's fairness. The contributory logic of the basic pension would imply similar ratios of work and retirement durations. As can be seen in table 2, this is not the case, and low educated workers should be able to retire some 3 years earlier than people with a university education.

The available evidence suggests that WAHJ are not really benefitting from retirement conditions that take the more demanding nature of their work into account. The construction sector is an exception that is unlikely to be reproduced elsewhere. There is a diffuse agreement on the recognition that working in later life is objectively more problematic for WAHJ than for the average workers. However, up to now there has been no agreement on a suitable reform. The proposal contained in the reform "Prevoyance 2020" is the only attempt at facilitating access to early retirement for a group where we think WAHJ may be overrepresented.

⁵ It may be the case that higher skilled professionals are exposed to high levels of stress, making their job also arduous, and possibly resulting in mental disability before the age of retirement.

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