

BVG reform: a double-edged sword

On 22 September 2024, the Swiss population will vote on the reform of the Swiss Federal Law on Occupational Pension Schemes and the relevant Old-Age, Survivors' and Invalidity Benefits (BVG). The reform is intended to provide better coverage for part-time employees and employees on lower salaries, render older employees more attractive to the labour market and overcome current shortcomings in the second pillar.



These measures are important, because the future funding for old-age and survivors' insurance (AHV) is not guaranteed. For this reason, it is important for all employees to have a solid second pillar for retirement.

The planned BVG reform harbours several advantages but also disadvantages.

Advantages of the reform

- Lowering the conversion rate from 6.8% to 6.0% would bring future pensions back into alignment with the amount saved by employees themselves and their employers. In short: young people would no longer be paying for pensioners.
- The envisaged pension supplements would partly compensate for the lower conversion rate.
- Older insured persons would become more attractive on the labour market, because salary deductions would be lowered from the age of 45.
- The coordination amount, a special salary deduction, would be aligned with the level of employment. This would provide part-time employees with significantly better coverage and a higher BVG pension in old age.
- The entry threshold would be lowered, meaning employees on lower salaries would also be BVG insured and have higher pensions in old age.

What would the BVG reform entail?

In simplified terms, the reform encompasses the following five changes:

- The conversion rate would be reduced from 6.8% to 6.0%.
- The reduction of the conversion rate would be compensated for by means of credits (so-called “pension supplements”) for those with certain birth years. The supplements would be financed through salary deductions applicable to all insured persons.
- Salary contributions would be slightly increased up to the age of 45, then lowered from the age of 45 onwards.
- Lower salaries would also be insured as a new feature.
- Part-time employees would enjoy better coverage.



Disadvantages of the reform

- The envisaged reduction of the conversion rate from 6.8% to 6.0% will not suffice. Technically correct conversion rates today would need to be around 5.0%.
- Pension supplements to account for the reduction of the conversion rate would be allocated in a scattergun approach. This means that some insured persons whose pensions are not, in fact, any lower would also receive supplements. Meanwhile, there would be pensioners receiving lower pensions who would not benefit from any supplements.
- The reform applies to a mere circa 15% of all insured persons. The vast majority would not be impacted by the reform, because many pension funds – PKE included – incorporated the required reform measures into their regulations years ago. These insured persons, however, would be helping to cover the costs of the supplements for the 15% through salary deductions.

Assessing the BVG reform is difficult. It harbours considerable advantages but also several disadvantages.

A key question for voters is whether to accept the envisaged pension supplements. Not only are they distributed in a scattergun

“The BVG reform would greatly benefit women.”

approach, but also the vast majority of insured persons who do not stand to benefit from the reform will have to help finance them. There would have been better, more affordable solutions to balance the scales, but unfortunately, parliament opted for an expensive option that is not particularly targeted.

One thing is for sure: the trade unions’ slogan “Pay more for a lower pension” is simply wrong. We can also say for certain that the reform would greatly benefit women.

Lastly, it is important to emphasise that current and future PKE pensions are not affected by the BVG reform. Retirement savings assets at PKE are significantly greater than legally required, and PKE has already taken all the necessary reform steps over the past years. If the BVG reform is passed, insured members of PKE will only be subject to an additional, but minor salary deduction.

“PKE’s current and future pensions would not be affected by the BVG reform.”

Should you wish to delve deeper into this topic and the arguments in favour and against, we recommend the fact check available in German and French on the Swiss Pension Fund Association (ASIP) website:

<https://bvgreform-faktencheck.asip.ch/>



Consequences of the 13th AHV pension payment

Now that the 13th AHV pension payment has been approved, a strong second pillar is all the more important.



An ill 1st pillar – 13th AHV pension payment to increase deficit to over CHF 200 billion

The popular vote of 3 March 2024 saw the Swiss population approve the initiative for a 13th AHV pension payment. This additional pension payment, distributed in a scattergun approach to all pensioners, including those who are not in need of it, comes at a high cost. There would have been better and significantly cheaper options that would have

provided support only to those pensioners who really need supplementary benefits.

AHV deficit in the billions

Without additional financing, the AHV's deficit is set to increase by several billion Swiss francs each year. The cumulative deficit will now increase to over CHF 200 billion

by 2050, dramatically increasing the debt burden on future generations.

Who will bear these costs?

The additional costs being incurred will primarily fall to young people. This is because increasing salary contributions only impacts the working population and, all things considered, increasing value-added tax would also more significantly impact young people than it would pensioners. This clearly illustrates the other side of the coin of the 13th AHV pension payment. The young generation bears a heavy burden. Whether this is a fair, appropriate and sustainable intergenerational contract is questionable to say the least.

A strong second pillar is crucial

In this context, a solid, strong second pillar is more important than ever. In occupational pension provision, all insured persons save for their own retirement along with their employers. If pension funds like PKE have done their homework over the last few years and adjusted their benefits to the lower interest rates and higher life expectancy, there will be no redistribution from young people to pensioners. Everyone will receive the pension they have saved along with their employer. Thus, all generations benefit equally.

“The lack of financing for the 13th AHV pension payment weakens the first pillar. This makes a solid, strong second pillar all the more important.”

Changes on the Foundation Board

Some significant changes are to be made on PKE's Foundation Board.

Martin Schwab stepping down

After over ten years on the Foundation Board, of which seven as President, Martin Schwab has decided to leave the Foundation Board as of the end of 2024. His decision is based, among other things, on his election as the new President of the Association of Swiss Electricity Companies (VSE). We will be officially bidding Martin Schwab farewell at the end of his term in the December edition of "exclusive".

Martin Schwab's departure leaves one position, the role of Employer Representative, free on the twelve-member Founda-

tion Board. The process to recruit someone to fill the position has already commenced. In early 2025, the Foundation Board will be reconstituted, and a new President and Vice President will be elected. We will keep you informed.

New member of the Foundation Board

Philip Janssen has been elected to the Foundation Board as a replacement member for the term of office ending September 2025. He is filling the position on the Foundation Board previously held by Joris Gröflin, who left at the end of December 2023 due to his

departure from Axpo. Philip Janssen represents the Axpo Group as their Employer Representative, where he has served as Corporate Head of HR since March 2023.

For more information on the Foundation Board and its current composition, please visit our website at www.pke.ch: "Über uns" → "Organisation" → "Stiftungsrat" or the equivalent tabs.



Philip Janssen

Corporate Head of HR | Axpo Services Ltd.

“ The second pillar is vital in safeguarding financial security during retirement, which is often underestimated by employees. With this in mind, it is important to ensure PKE's financial stability at all times and, in doing so, to consider the interests of employers and insured members in equal measure. ”

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