

A large number of companies and foundations are currently choosing to gradually reduce conversion rates.

Conversion rate – a Benchmark



Before reviewing the market situation and explaining the benchmark for conversion rates, we need to remind ourselves of the historical context.

When the Federal Act on occupational old age, survivors' and disability insurance (OASI/DI) entered into force on 1 January 1985, conversion rates were set at 7.2%. The legislation was amended with effect from 1 January 2005 – 20 years after it first came into force. Under the amended legislation,

the Federal Council decided to make a first rate cut and gradually reduce conversion rates between 2005 and 2014, bringing them down to 6.8%.

In March 2010, Swiss citizens rejected proposed amendments, including a further rate cut to 6.4%.

On 24 September 2017, the electorate vetoed the proposed reform package, the “2020 Pension Reform”. The package established a conversion rate of 6%. Support measures were planned to offset the reduction in second-pillar pensions: specifically, a CHF 70 increase in the new OASI pensions and raising the pension ceiling for married couples from 150% to 155%.

While all this was happening, in 2004, AXA Winterthur brought in a “split” model, in which the conversion rate established by the Federal Council was used for the statutory minimum retirement savings and a sliding conversion rate was applied to supplementary retirement assets. At the time, the rates used were 5.835% for men aged 65, and 5.574% for women aged 64. The insurance company currently calculates supplementary retirement assets using a 5% conversion rate for 65-year-old men and 4.88% for women aged 64. All insurance companies that offer supplementary insurance products apply this method, as do a significant proportion of collective foundations that operate independently of the insurance companies.

How is the conversion rate calculated? There are two main factors to determine the conversion rate:

- average life expectancy and
- the return on the assets held by the pension fund.

As it is not possible to predict the exact lifespan of each member or future annual return rates, assumptions are used to calculate the conversion rate.

The pension funds determine average life expectancy based on statistical data, known as technical bases. The data set contains information gathered by large pension funds and insurance companies. Analyses by experts determine the rate of return used to calculate the conversion rate. The analyses are based on the prospective future returns in the light of predicted financial market performance.

A Swiss accredited pension actuary is responsible for setting the conversion rate at a suitable level to ensure that retirements are cost neutral. This is an important consideration: active fund members should not be expected to bear the cost of those fund members drawing a pension.

As we can see from the Federal Statistics Office table, life expectancy continues to rise, which is obviously good news. However, pension funds have had to reduce their conversion rates in response to rising life expectancy and the difficulties associated with generating sufficient returns on the financial markets.

EVOLUTION OF LIFE EXPECTANCY

Espérance de vie

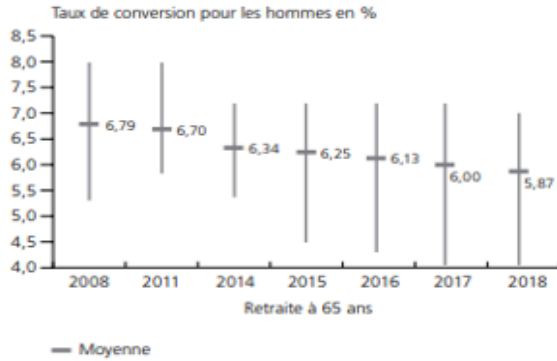
	1981	1991	2001	2011	2016
A la naissance					
Hommes	72.4	74.1	77.4	80.3	81.5
Femmes	79.2	81.2	83.1	84.7	85.3
A 30 ans					
Hommes	44.5	46.1	48.7	51.1	52.2
Femmes	50.4	52.2	53.8	55.3	55.8
A 50 ans					
Hommes	26.0	27.7	29.9	32.3	32.9
Femmes	31.3	33.1	34.5	35.9	36.3
A 65 ans					
Hommes	14.3	15.6	17.3	19.2	19.8
Femmes	18.2	19.8	21.1	22.2	22.6
A 80 ans					
Hommes	6.2	6.8	7.6	8.4	8.8
Femmes	7.6	8.7	9.4	10.1	10.4

Sources: OFS, Scénario

The annual *Swisscanto* report on Swiss pension funds published in May 2018 states that: "For the first time ever, conversion rates have fallen below the 6% mark, dropping to 5.87%". The report is based on responses from the 535 pension funds surveyed in the 2018 study.

1 Taux de conversion

Illustration F-1: évolution du taux de conversion



Extract from the "2018 Swiss Pension Funds Study".

Prévoyance professionnelle suisse published the conversion rates used by cantonal pension funds in the April 2018 edition of the *Swiss industry magazine*. Below, a summary of the conversion rates for those with defined contribution schemes:

Canton of Berne	6.04%	
Canton of Berne teachers' pension fund	5.50%	Rate due to drop to 5.20% from 1 Aug 2020
Canton of Jura	5.71%	
Canton of Lucerne	6.15%	Rate due to drop to 5.20% from 1 Jan 2019
Canton of St. Gallen	6.40%	Rate due to drop to 5.20% from 1 Jan 2019
Canton of Ticino	6.17%	

NB: The cantons of Fribourg, Geneva, Vaud and Neuchâtel all have defined benefit pension schemes.

For 2019, the leading collective foundations have set the following conversion rates for men aged 65:

	Si taux de conversion enveloppant	Si splitting = taux de conversion sur avoir surobligatoire
Ascaro Vorsorgestiftung	6.200%	
ASGA	6.400%	
AXA Group Invest		5.500%
Caisse de pension pro	6.000%	
CIEPP Caisse Inter-Entreprises de Prév. Prof.	6.800%	
FIP Fonds interprofessionnel de prévoyance	6.800%	
Fondation BCV 2ème pilier	6.100%	
Fondation collective Vita		6.000%
Fondation Patrimonia	6.600%	
Groupe Mutuel Prévoyance		5.544%
La Collective de Prévoyance - Copré	6.600%	
Profond Institution de prévoyance	6.600%	
PV Promea	6.800%	
Spida	6.800%	
Stiftung Integral60	6.700%	
Swiss Life (semi-autonome)	6.100%	

Note: With combined conversion rates (column on the left), one rate is applied to all retirement assets, both statutory and supplementary.

In **split models** (right column), the 6.8% conversion rate set by the Federal Council is applied to the mandatory retirement assets and a separate rate is used for the supplementary assets.

Annually every June, the newspaper *Sonntagszeitung* publishes a comparison of all pension funds on the market. The table below shows the conversion rate details published this year:

Umwandlungssätze 2019 (alle Angaben in %)

Vollversicherungen	UWS* BVG/ UWS Über- obligatorium**	Ø UWS* bei 80% BVG- Anteil	Ø UWS* bei 20% BVG- Anteil
Allianz Suisse	6.80 / 5.07	6.45	5.42
Basler	6.80 / 4.90	6.42	5.28
Helvetia	6.80 / 4.91	6.42	5.29
PAX	6.80 / 5.24	6.49	5.55
Swiss Life	6.80 / 5.25	6.49	5.56

Teilautonome Gemeinschafts- und Sammelstiftungen

Alvoso LLB PK	6.10 / 6.10	6.10	6.10
Ascaro	6.20 / 6.20	6.20	6.20
Asga	6.40 / 6.40	6.40	6.40
Avanea	6.35 / 6.35	6.35	6.35
AXA Group Invest	6.80 / 5.50	6.54	5.76
Basler Perspectiva	5.80 / 5.80	5.80	5.80
Copré	6.60 / 6.60	6.60	6.60
Futura	6.60 / 5.60	6.40	5.80
GEMINI	5.90 / 5.90	5.90	5.90
Groupe Mutuel	6.80 / 5.15	6.47	5.48
Nest	6.30 / 6.30	6.30	6.30
Novus Collect	5.60 / 5.60	5.60	5.60
PK pro	6.00 / 6.00	6.00	6.00
PKG	6.00 / 6.00	6.00	6.00
Previs	5.80 / 5.80	5.80	5.80
Profond	6.60 / 6.60	6.60	6.60
Spida	6.80 / 6.80	6.80	6.80
Swiss Life Business Inv.	6.10 / 6.10	6.10	6.10
Swisscanto	6.80 / 6.20	6.68	6.32
Transparenta	6.80 / 6.20	6.68	6.32
Vita	6.80 / 6.00	6.64	6.16

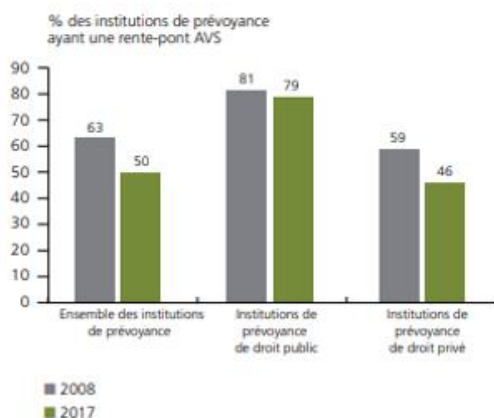
*Umwandlungssatz **Umwandlungssätze für Männer im Alter 65 für BVG-Guthaben/
für überobligatorische Guthaben Quelle: www.pensionskassenvergleich.ch

It is obvious that the insurance companies tend to use lower conversion rates than the independent collective foundations. However, it is important to bear in mind, that foundation boards are increasingly opting to reduce the conversion rates used in their pension funds.

Finally, it is worth noting the figures for AHV/AVS bridging pensions, which are also highlighted in the 2018 *Swisscanto* report on Swiss pension funds.

5 Rentes-ponts AVS

Illustration A-4: évolution des rentes-ponts AVS



AHV/AVS bridging pensions provide increased financial support to insured persons seeking early retirement. These benefits are offered mainly by public pension funds (79%) that changed only slightly since the last evaluation in 2008 (81%). The situation is different in private pension funds. There the decline has been more intense since 2008 and bridging pensions are only available in less than half of the cases.

We hope we have provided a comprising overview of the conversion rates used by pension funds in Switzerland. Should you require further information or need assistance on the subject, please do not hesitate to contact IBC Insurance Broking and Consulting SA.



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