«The best pension system in the world» ?

Critical perspectives on the Swiss three-pillar pension system

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The starting point…

a rather arrogant appraisal of the Swiss pension system …

«The Swiss pension system comes off rather well in comparison to the rotten social insurance systems of its European neighbors [and] rightly deserves the high esteem it receives from abroad: its foundations are properly laid»

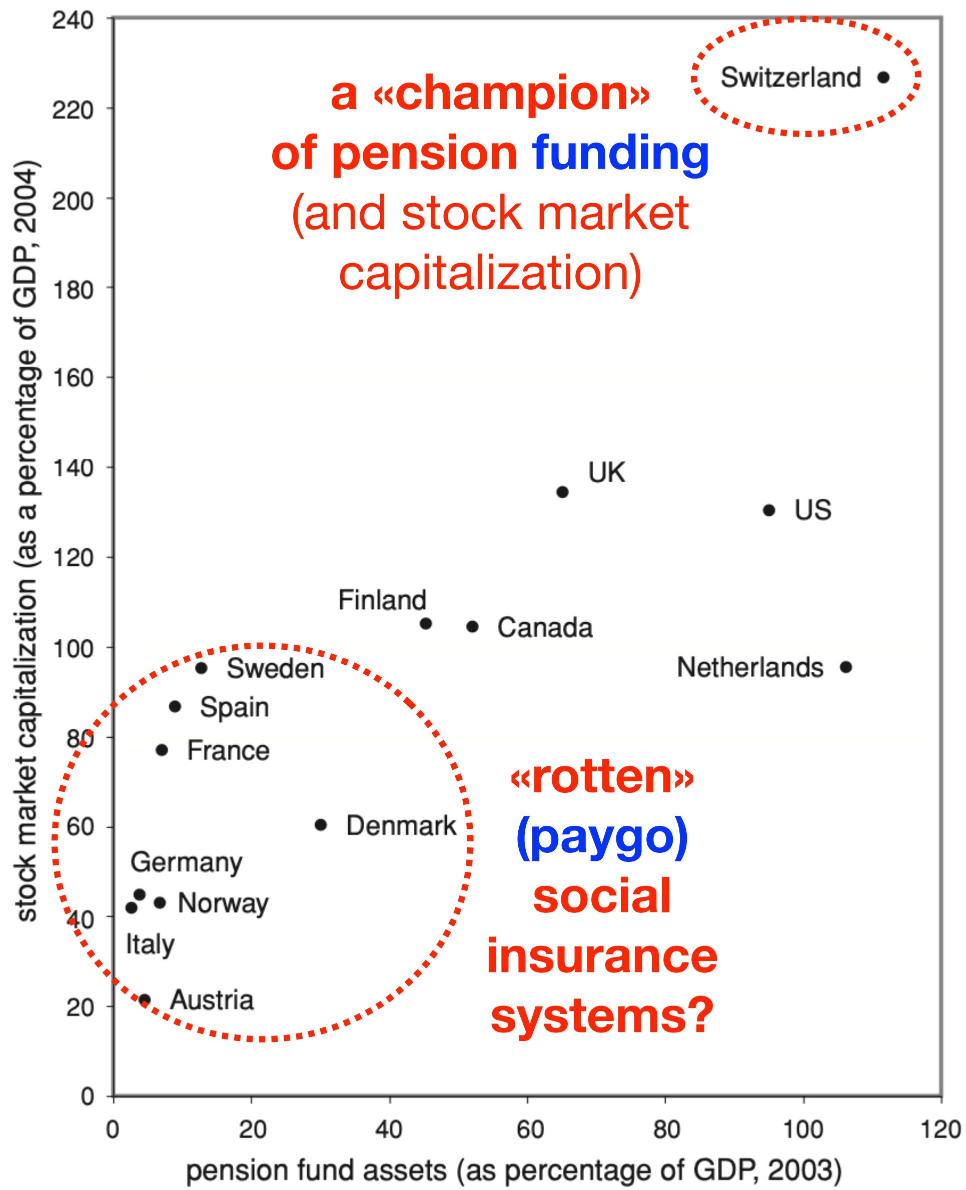
Comment by a Swiss Re [reinsurance company] analyst in the major Swiss business daily (*Neue Zürcher Zeitung*), **2000**

Why is Switzerland considered so favorably … by the **finance industry**?

What are the **historical foundations** of this «success»?

What is the **international relevance** of this «system»?

A first clue/answer to these three questions…



The Swiss «three-pillar» pension system in a nutshell

	1st pillar	2nd pillar	3rd pillar
What is it?	Old age and survivors insurance	Mandatory occupational pensions	Voluntary individual savings accounts
Who is in charge?	federal state	Firms and life insurers	Banks and life insurers
How many people are covered?	(all citizens and residents)	(~90% of wage earners)	(~60% of wage earners)
How is it financed?	PAYGO	FUNDED	FUNDED

In short, a «mixed» system (state/private but also paygo/funded)

… but why would you represent it as a «holy temple»? (more on that later!)

For an easily accessible source of information on the Swiss pension system
www.historyofsocialsecurity.ch

This website presents a centennial perspective on the development of the Swiss welfare state and its major components and is also available in three other languages: **French**, **Italian**, and **German**

Introduction of Old Age and Survivors' Insurance (AHV)

1945 | 1947 | 1948-1990

AHV: The Cornerstone of Social Security

In his 1944 New Year's address, the President of the Confederation Walther Stampfli effectively announced the prompt foundation of a state old age pension. Three years later, on 6th July 1947, the electorate passed the AHV Act; the first pension benefits were disbursed in early 1948. The AHV quickly became the symbol of the Swiss welfare state.

Read on

Structure of the presentation

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- Very favorably viewed by financial actors (who provide 2nd and 3rd pillar products…)

▶ How the «foundations» of the system were laid

A (very) short historical overview

The international influence of the «three-pillar» doctrine

Actual outcomes/challenges & conclusive remarks

How the «foundations» of the system were laid

a very short historical overview (I)

	1917	1947	1972
Number of pension plans	300	>2000	>10'000 (!)
Coverage rate (workforce)	~10%	~30%	~50%
Pension assets (% GDP)	~12%	~30%	~40%

Early and uncontested («**quiet politics**») development of pension plans (tax subsidies, corporate welfare)

Gradual expansion of the «market» for funded pension provision

1917 — **1947** — **1972**

Difficult debates («**noisy politics**») about state pensions (financing issues, boundaries with existing occupational plans…)

e.g. failure of a 1920s project

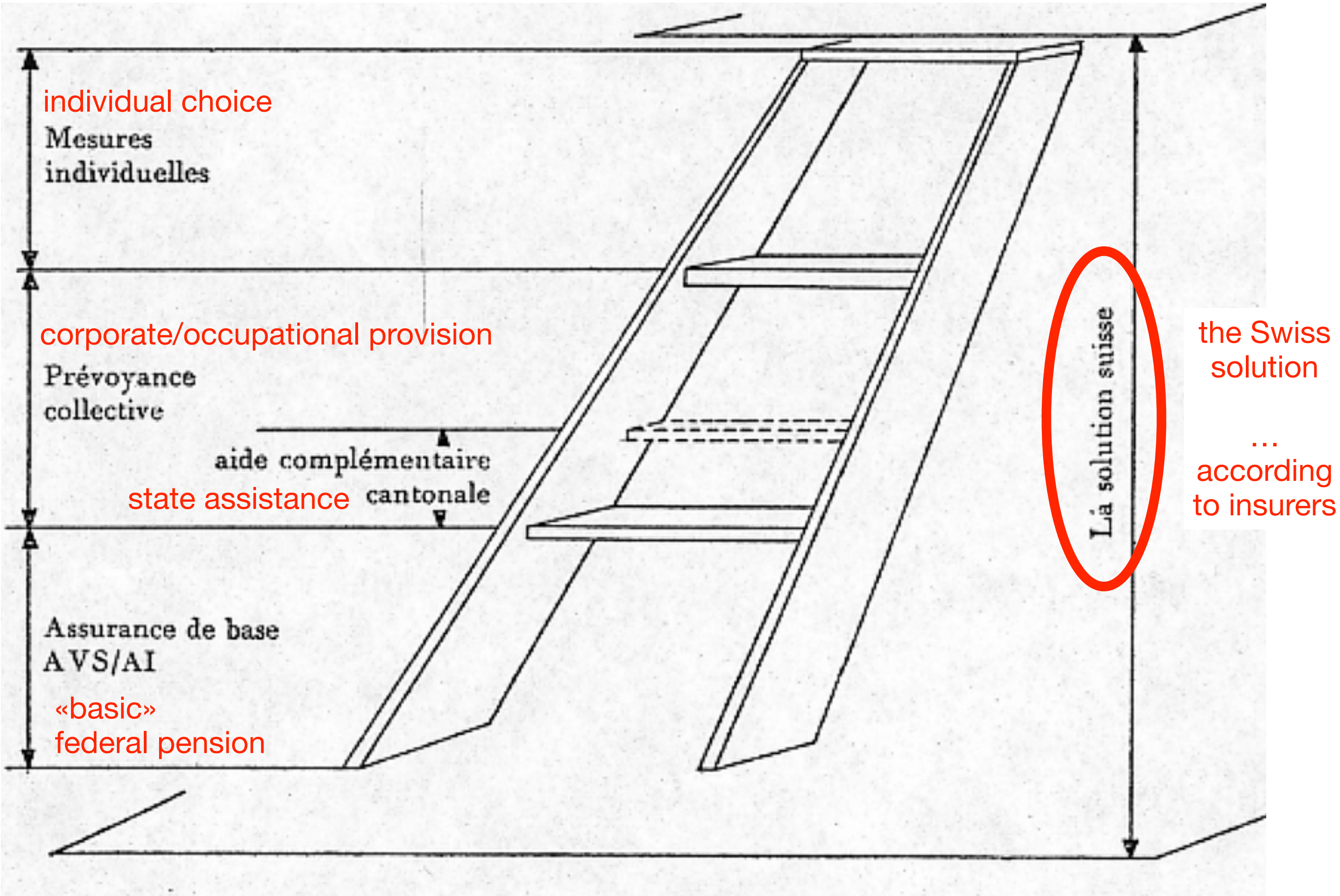
Gradual expansion of the federal state pensions (1972 = **35% replacement rate**)

(Belated) foundation of **federal state pension** The «1st pillar» and cornerstone of the Swiss postwar welfare state

1960s battle on the boundaries between state and occupational provision

Constitutional amendment on the «three-pillar» doctrine

1965: the «Swiss solution» as a ladder…



«The **three pillars** upon which **our Swiss solution** is based form an ensemble whose main characteristic resides in the fact that it does not have the rigidity of uniform solutions which might lead to the leveling of [individual] conditions and to totalitarianism»

(Propaganda leaflet *Our Swiss solution*, published by theUnion of Swiss Life Insurance Companies)

Funded pension provision is a market but also, in the context of the Cold War, seen as a bulwark against Communism (economic and ideological dimensions converge)

Business interests were very influential in the development of this «mixed» system
Life insurance companies were (and are still today) key protagonists in this evolution

1972: «three pillars» vs «people's pensions»

Old age provision on three pillars
On December 3, 1972, vote
***FOR** the Federal Assembly proposal*
***AGAINST** the Communist initiative*

in other words…

FOR mandatory affiliation
to occupational funded pension plans
(+ state encouragement of individual
savings accounts)

AGAINST the further expansion
of paygo « people's pensions»
favored by the left

CONTAINMENT of social insurance
EXPANSION of privately managed
and funded pension plans

How the «foundations» of the system were laid

a very short historical overview (II)

Number of pension plans	>10’000 (!)		~1500
Coverage rate (workforce)	~50%	**Great leap forward** for funded occupational provision in the age of financialization	~90%
Assets (% GDP)	~40%		~140%

1972 — **1985** — **1990** — **2020**

1972: Constitutional amendment on the **«three pillar» doctrine**

1985: Federal law on mandatory **«second pillar»** pensions

Federal subsidies for individual **«third pillar»** savings accounts

Implementation of the «three-pillar» doctrine

2020:

Consolidation and maturation of the system

Increasing tensions about its future…

…and the boundaries between the first and second pillars

After 1972: «pillars» have been widely used as a marketing metaphor by private pensions providers

(banks and insurance companies)

Banque populaire suisse, 1983

Patria, 1983

www.credit-suisse.ch (2003)

www.bvg.ch (2003)

the «three-pillar» doctrine
has not only become a genuine **Swiss trademark**
… but has also inspired others

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How the «foundations» of the system were laid
A (very) short historical overview

- Funded occupational pension plans have developed early on and have always maintained a strong position vis-à-vis state pensions (which came later, in **1947**)
- The «three-pillar» doctrine (**1972**) has re-affirmed and consolidated the **division of tasks** between state/ private old age provision
- The **political aim** of the doctrine is to contain the 1st state «pillar» and to **safeguard the expansion of pension funds** (**1985**) and individual retirement savings accounts

The international influence of the «three-pillar» doctrine

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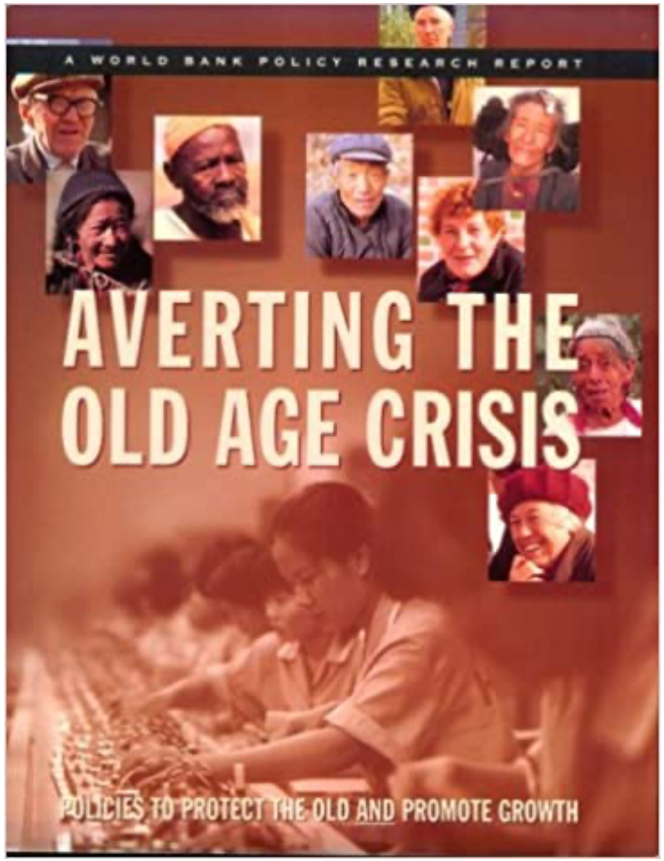
The role of a (classical) 1994 World Bank Report in the international diffusion of the «pillar» doctrine



World Bank, 1994

- «Systems providing financial security for the old are under increasing **strain** throughout the world. Rapid demographic transitions caused by rising life expectancy and declining fertility mean that the proportion of old to young is growing rapidly. Traditional safety nets, such as community and extended family care are weakening under the weight of this growing **burden**.
- Also in peril are the formal systems, such as government backed pensions, which have proven to be both unstable and difficult to reform. The result is an **impending old age crisis** that threatens not only the old but also their children and grandchildren who will inevitably shoulder this burden. […]
- The study concludes that financial security for the old would be better served if governments developed **three systems, or "pillars" of old age security**: 1) a publicly managed system with mandatory participation and the limited goal of reducing poverty among the old; 2) a privately managed, mandatory savings system; and 3) voluntary savings.»

The key goal: developing funded pension provision (as a solution to the so called «old age crisis»

National inspirations for the World Bank

D. Vittas, Swiss Chilanpore*: the way forward for pension reform?* (World Bank, **1993**)

Switzerland
three-pillar system (1972-1985)

«triumph of common sense» (World Bank)

«deliberate pillar approach (OECD, 1988)

2010 «Gold medal for the best pension system in the world» (!) (awarded by Mercer Inc. a pension consultancy)

containing the state
expanding private provision

Chile
Piñera reform (1981)

radical privatization
either loved… or reviled !

«retiring the state»

Singapore
Central Provident Fund

state controlled mandatory savings fund

(not very interesting for private providers…)

The «pillar» language as a key (neo-liberal) metaphor for the reform/individualization/financialization of pensions

«State pensions in Europe. The crumbling pillars of old age», *The Economist*, 27.09.2003

This article commented a EU report that anchored the «pillar» language for private/occupational pensions reforms in Europe

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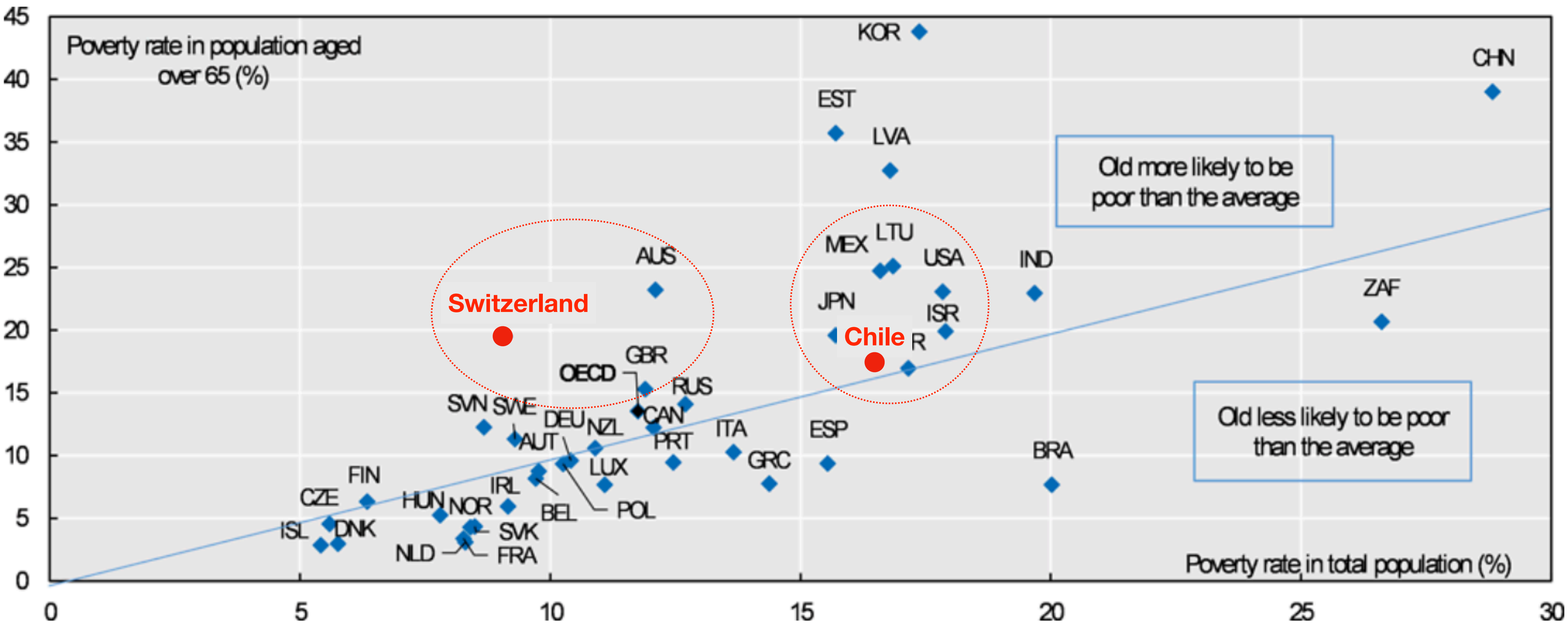
The international influence of the «three-pillar» doctrine

- Used both as a **«marketing» metaphor** (e.g. for selling «funded» pension solutions) and in a normative / ideological argument in favor of private and funded solutions
- **A «Swiss» brand name has become an international generic** (e.g. 1994 World Bank report)
- The «pillar» metaphor has also become an important part of comparative pension analysis

▶ Actual outcomes/challenges & conclusive remarks

What are the issues facing the Swiss pension system?



OECD Income distribution database (9.2019), https://doi.org/10.1787/888934042162

- A mature pension system based on a **complex mix of redistributive (1st pillar) and non-redistributive structures (2nd and 3rd pillars)**
- Relatively **high benefits** (for those with continuous employment, but lower for precarious wage-earners)
- Extremely **high pension assets/reserves** (over 1'000 billion Swiss Francs) -> issue: who controls these assets?
- **Relatively high old age poverty** in comparison to other Western/Northern European countries (see above)
- «Frozen» state pension (since 1972) vs. 2nd pillar benefits that are imbalanced by zero/low interest rates…
- The three-pillar doctrine has safeguarded pension plans but because of their key (and increasing) role these ones are increasingly caught in the **political controversies about the future of the pension system** (e.g. aging demographics, gender equality in pension benefits)