Factsheet

The future of retirement provision

Retirement provision now and in the future

As the term suggests, 'retirement provision' is about providing for old age. Constant adjustments are required to ensure that these provisions will continue to be adequate in the future. It is important for the current generation of young people to also engage with the issue and make sure they have a say in the reforms.

How does retirement provision work in Switzerland at present?

The Swiss retirement provision system rests on three pillars:

- The **first pillar** is Old-Age and Survivors' Insurance (OASI). It is **mandatory** for everyone living in Switzerland to pay a proportion of their wages into OASI. The first pillar functions as a **pay-as-you-go system**. This means that the pension contributions paid in are passed on directly to current pensioners month by month. In other words rather than being saved, the money is paid out immediately – hence 'as you go'. In old age, everyone receives an OASI pension, including people who have never worked.
- The **second pillar** is the occupational pension (OP) scheme. Here, both employees and their employers pay money into a pension fund. Unlike OASI, the money is not passed on to current pensioners, but is saved until paid out when the person reaches retirement age. In other words, each person saves for themselves in an occupational pension fund. The money is invested on the capital market, in other words on the stock and bond markets, until it is paid out. For this reason, this form of funding is known as a **fully-funded system**.
- The **third pillar** consists of **private retirement provisions**. Each person can opt for this form of savings voluntarily. In other words, the third pillar is not mandatory, although private saving for old age is tax-privileged by the state.

What are the challenges faced by the retirement provision system?

When the Swiss retirement provision system was created, the societal and economic circumstances were different to now. It was assumed that the funding of pensions would be guaranteed for decades thanks to strong population and economic growth. But for quite some time now there have been signs that the increasing **ageing of the population** in particular, stemming from a low birth rate and constantly increasing life expectancy, poses a major challenge in terms of retirement provision. Even comparatively high net migration (immigration exceeding emigration) cannot halt the 'superannuation' of the Swiss population. As a result, the proportion of people over 65 is constantly increasing; at the same time, the proportion of people of working age is decreasing. Owing to this development there are more and more pensioners in relation to working people. This is resulting in the following challenges in terms of retirement provision:

- In the **first pillar** there will be a **pay-as-you-go deficit** from 2029 already. In other words, more money will be paid out than paid in. This means that the contributions paid in by working people will no longer be sufficient to cover OASI pensions, which will lead to long-term funding problems.
- Pensions in the **second pillar** are calculated on the basis of a fixed **conversion rate**. This rate is currently running at 6.8% (as at 2025). This means that a retired person receives payment of 6.8% of their accumulated balance per year. At that rate, their retirement assets will be used up after 15 years. Since pensions are paid until the end of a pensioner's life, overall more money will be paid out to people over 80 than they paid in and saved during their working life. This means that the second pillar also faces major financial challenges.

There are also other changes influencing retirement provision. For example, nowadays many more women work than in the past. While this increases the number of people paying contributions, at the same time there are more part-time jobs where work is increasingly done under a temporary contract or on an on-call basis. Working models like this reduce the contributions paid into the retirement provision system.

What kind of solutions are being discussed?

To address the financial challenges faced by the Swiss retirement provision system in the long term, there will have to be changes on both the income and expenditure side. On the **income side** two approaches are conceivable: on the one hand, higher employee and employer contributions, and on the other, higher taxes, for example additional VAT shares used to fund OASI. On the **expenditure side**, the funding problem could be addressed by reducing pensions. Another potential solution would be to **raise the retirement age** even further. This would mean that working people would have to pay contributions for longer and retirees would not draw a pension for so long. This adjustment would affect both the income and the expenditure side.

These solutions could alleviate the funding problem and are currently (as at 2022) also being discussed intensively.[1] However, all three approaches are having a tough time. Increases in employee contributions are a burden on those currently working and could erode their motivation to work. Pension cuts result in lower pension income and are therefore extremely unpopular. And the idea of raising the retirement age even further is meeting with resistance, especially among older working people.

What will the retirement provisioning model look like for future generations?

The reform of the current retirement provision system is controversial. There is a danger that the various political camps and the different generations will block each other, preventing a sustainable solution from being found. Against this backdrop, we will now look at four approaches already adopted in other countries.

- **Pegging to life expectancy and economic situation:** The economic situation is a key factor in the funding of retirement provisions. In an unfavourable economic situation with unemployment, for example, wage contributions and tax receipts fall. Both are key components of pension financing. Automatically adjusting the terms and payments in line with demographic, economic and financial developments is therefore considered internationally to be one of the most promising measures. In Germany, for example, pension levels are adjusted to wage growth. Another option is to peg the retirement age to the average life expectancy.
- **Concept of the working lifetime:** These days people's career paths vary a lot more than they did 50 years ago. Some people start work at age 15 and others at age 20, while some only embark on their career when they are 30 and have completed their studies. The idea of the working lifetime is that everyone has to work for the same amount of time over the course of their life. So if you start work earlier, you can also retire earlier. Breaks for maternity or paternity leave or because of illness would be taken into account in the calculation of your working lifetime. As in Finland, the working lifetime could be reduced for people doing physically demanding work.
- **Flexible retirement age and flexible transition to retirement:** A flexible retirement age means that people can postpone retirement and thus increase their pension. This incentive would encourage working people to stay in the labour market for longer. The transition to retirement could also be made more flexible, for example by encouraging people to continue working on a part-time basis and initially draw only a partial pension. Sweden has had a flexible retirement age since back in the 1990s.
- **Citizens' service:** Another approach is the so-called citizens' service. The idea is that all residents of a country do one year of citizens' service in the course of their lifetime. For that year they have to take on nursing or care duties or work in a social institution. This type of service could also be done by young pensioners, who for example would support younger generations still working by providing childcare or support to older pensioners. France introduced one-month citizens' service in 2021.

The ideas for reforms looked at here show that there are different models when it comes to finding a sustainable solution to the problems of retirement provisioning. The ideas that will eventually be implemented in Switzerland will be decided by voters in referendums.

Footnotes:

[1] Under the 'OASI 21' reform, two key measures were introduced to reduce the deficit in the OASI fund. On the one hand, under the reform the retirement age for women was raised to 65 (lowering expenditure), and on the other the share of VAT used to fund OASI was increased (increasing income).