INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Crisis country case study

Switzerland

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The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Switzerland

Summary

The consequences of the financial crisis made themselves apparent rapidly in Switzerland. From the second week of 2008 the numbers of unemployed grew gradually, reaching 175,765 in January 2010, an increase of more than 60 per cent in less than two years. Young people were particularly affected by the deteriorating labour market. The shock sustained by social insurance systems reflects the severity of the crisis: in 2008 the old-age and survivors' insurance branch (l'Assurance-vieillesse et survivants (AVS)) suffered a loss of US-Dollar (USD) 2.2 billion. Just under 50 per cent of registered pension funds were overdrawn at the end of 2008. The measures taken to redress the situation in the AVS Reserve Fund involved a risk reduction strategy. As regards measures taken by the pension funds, these were defined by the Federal Act respecting occupational pensions for old age, survivors and invalidity (Loi fédérale sur la prévoyance professionnelle vieillesse, survivants et invalidité (LPP)) and by directives issued by the Federal Council, and concerned in particular the application of lower or zero rates of interest and the levying of recovery contributions. The measures adopted to address labour market issues mainly concerned improvements in support for training and an increase in the duration of compensation where working hours are reduced.

Social security institutions covered

The Federal Social Insurance Office *(Office fédéral des assurances sociales (OFAS))*; the Swiss Federal Office of Public Health *(Office fédéral de la santé publique (OFSP))* and State Secretariat for Economic Affairs *(Secrétariat d'Etat à l'économie (SECO)).*

Overview of the social security system

These insurance schemes cover social risks by awarding financial benefits (in the form of annuities, loss of earnings allowances and family allowances) and through coverage of the cost of sickness and accidents. Benefits under these branches are principally financed out of wage contributions. For sickness insurance, each insured person pays an individual premium. The Confederation and the cantons also finance social insurance schemes to varying degrees (AVS/AI)[1] *(Assurance invalidité (AI))* or in full (supplementary benefits); they also help those in reduced economic circumstances to pay their premiums (reduction of sickness insurance premiums).

[1] Old-age and survivors' insurance (AVS) is the main branch of the Swiss social insurance system. It mainly awards two types of annuity: an old-age annuity (paid in retirement) and a survivors' annuity. Invalidity insurance (AI) is compulsory for all. It awards rehabilitation benefits, providing beneficiaries with the minimum needed to live on or at least a part thereof.

Impact of the crisis

The impact of the financial crisis, followed by the economic crisis, did not spare Switzerland. In the field of social insurance, as in the labour market, their consequences forced both the federal and cantonal authorities to take measures to repair the damage.

Repercussions in the labour market

During the first half of 2008 the labour market benefited, in terms of numbers of jobs, from the prevailing sound economic situation in Switzerland. From 111,877 in January 2008, the numbers of unemployed fell rapidly to 91,477 at the end of June that year. However, this trend was reversed as from the month of July: the initially insignificant monthly rise in their numbers had grown significantly by October. While unemployment fell by a total of 20,400 during the first half of 2008, in the second half it rose by some 27,300, reaching 118,762 at the end of December. For the first time since 2003 unemployment was higher at the end of a year than at its beginning. According to figures from the State Secretariat for the Economy (SECO), at the end of December 2009 some 172,740 people were registered as unemployed with regional placement offices (*Offices régionaux de placement (ORP)).* At the end of January 2010 this figure had risen to 175,765, some 3,025 more than the previous month, raising the unemployment rate from 4.4 to 4.5 per cent. It should be noted that there are sizeable differences between cantons, and during that period the canton of Geneva recorded an unemployment rate of 7.3 per cent. Across the country, unemployment increased by 47,335 (+36.9 per cent) in comparison with the same month the previous year. Youth unemployment (ages 15 to 24) rose to 29,979 (+1.0 per cent), an increase of 8,613 on the same month the previous year (40.3 per cent).

AVS and pension funds: coping with financial market fluctuations

In 2008 the old-age and survivors insurance scheme suffered a loss of USD2.2 billion, despite an increase in its regular income. The difference was the result of negative performance by stock investments out of the social insurance reserve fund. The year 2008 closed with a negative balance sheet entry for "income from investments" some 18 per cent in the red, with losses on investments set at nearly USD4.7 billion (representing 14 per cent of AVS expenditure). Nevertheless, in view of the relatively good overall economic situation and a more or less stable level of employment, the year 2008 did not see any fall in contributions.

As regards occupational old-age insurance (supplementary retirement benefit linked to employment), the number of funds overdrawn increased significantly following the financial crisis. At the end of 2008 some 915 registered funds[2] (46.5 per cent of the total number) were overdrawn. At the end of 2007 only 78 funds (4.2 per cent) had been in such a situation. At 31 December the total amount of such debt reached USD49.3 billion, compared to USD16.1 billion the previous year.

According to the latest figures from the OFAS, some 32 per cent of registered welfare institutions were still overdrawn at end-October 2009 (74 per cent for funds with state guarantees, and 30 per cent for those not so covered).

[2] The registered institutions manage LPP-governed insurance schemes, whereas unregistered institutions only handle pre-compulsory and provident-obligatory pensions.

Responses to the crisis

Choosing recovery

Compared to a good many private sector financial institutions, the AVS Reserve Fund reacted relatively quickly to the crisis. Measures taken initially focused on a 50 per cent reduction, at end-2008, to a level of 30 per cent, in investments at real value (shares, indirect immovable investments and raw material futures), which involve risk. At the same time it undertook a massive increase in liquidities. In addition, following the decision taken in April 2009 to shorten its planning horizon and to continue to reduce risks, the proportion of holdings in relatively risky medium-term investments was at the time of writing (June 2010) just above 20 per cent.

As regards pension funds, the law does not provide for any compulsory control by the supervisory authority. The pension institution must declare any overdraft and corresponding measures taken at the latest when the annual accounts show it. In addition, the supervisory authority has no power to intervene in the management of the fund. It is for the Board of Trustees to decide on recovery policy.[3] A number of institutions have already begun to take action on benefits, such as the zero interest rate: this is simple to apply and has a relatively rapid impact. Another possible measure is to reduce the conversion rate for provident-obligatory pensions. These measures are not cited in the Act, but concern only the provident-obligatory portion of pension capital. The Act itself specifically provides for the possibility of receiving joint redressment contributions. It may be noted that these are taken into consideration after the above measures. The active participation of beneficiaries is required here, since their wage is reduced as a result. The employer's contribution must be at least as high as the worker's. The Act also provides for the possibility of levying contributions from pension beneficiaries, but sets such restrictive limits that the impact on redressment is virtually non-existent. One final measure is specifically mentioned: a reduction in the minimum interest rate for the compulsory portion of occupational pensions. The reduction may be not more than 0.5 per cent and must not be applied for more than five years (Prinz, 2009). The authorities also sought to adjust the minimum conversion rate to 6.4 per cent,[4] but without success: a reduction in the conversion rate under the LPP was put to a public vote and was rejected on 7 March 2010 by 72.7 per cent of votes in all cantons.

Active labour market measures and youth employment

A number of measures were taken to address the impact of the crisis on employment so as to support younger people, who are particularly sensitive to fluctuations in the labour market.

Unemployment insurance reacted by offering more places under work placement schemes for young unemployed people to provide them with their first experience of work. The number of such subsidized places was intended to be doubled by 2010 and to total 4,000.

In addition, contributions towards wage payments are at the time of writing being awarded to employers for six months where they engage young jobseekers without work experience for a specified period. Such contributions help young jobseekers affected by long-term

[3] The range of possible measures is relatively wide. Some are specified in the legislation, others are not. Any measures decided by the Board of Trustees must, however, be based on the rules of the institution.

[4] For 2010 the rate is set at 7 per cent for men and 6.95 for women. The first adjustment, which will bring the rate to 6.8 per cent for men and women, is still being applied, however. New legislation provides the possibility to set this minimum conversion rate at 6.4 per cent for new pensions as from 2016.

unemployment to enter the labour market. Financial assistance is allocated to enterprises in the form of an allowance of USD875[5] for each 100 per cent job (or less, depending on the level of activity). The jobseeker must be under 30 and must have been unemployed for more than six months.

Contributions to the financing of training programmes for young people who found themselves without a job at the end of their apprenticeship were also introduced. Such financing, allocated by the Federation, was set at 50 per cent of the total cost of ongoing training, but with a maximum of USD4,375 per person. Ongoing training can be approved until the exhaustion of the credit voted by Parliament. This measure will come to an end on 31 December 2011.

As regards stabilization measures affecting all workers, the Federal Council increased the period of compensation for reductions in hours of work from 12 to 18 months[6] and also shortened the waiting period. In autumn 2009 Parliament authorized the Federal Council to increase the maximum period of compensation for reduction in hours of work from 18 to 24 months and reduced the waiting period.

In parallel, and as from 1 January 2010, highly skilled workers suffering reduced hours of work were permitted to take part in research and teaching projects in collaboration with higher education institutions. Under these new measures their work on such projects is performed during reduced hours of work. Participants continue to receive compensation. Enterprises are also able to apply to the cantonal labour market authority for financial assistance for ongoing training schemes (equal to half the costs subject to a maximum of USD4,375 per participant) and to assess enterprise training needs (equal to half the cost, with a maximum of USD1,313 per person)[7].

Financial assistance for hiring for limited periods was intended to be awarded only where the national unemployment rate reached 5 per cent. Limited period hiring was restricted to unemployed persons who have been eligible for a daily unemployment insurance allowance for at least six months. Wages in line with what is normal for the occupation and region concerned (with a maximum of USD2,625 a month) were paid for such hiring and co-financed by a package of complementary stabilization measures. The enterprises concerned shared some of the wage costs.

Lessons learned

At the time of writing, it remains difficult to identify the full extent of the impact of the crisis on social security institutions, since the financial and economic crisis is still relatively recent. Moreover, it is too early for any reliable assessment of the long-term recovery of equity markets. To this uncertainty could be added the exceptionally low level of fluctuation reserves. It should therefore be emphasized that the financial risks are still considerable: the recovery measures decided by the joint pension bodies will have to be pursued in an

[5] At the time of composing this case study in June 2010 the exchange rate was CHF1 = USD0.874.

[6] For a limited period unemployment insurance covers part of the wage costs of workers whose normal working hours are reduced in order to prevent lay-offs following brief but inevitable short-term losses of work. Unlike unemployment compensation, such allocations are paid to the employer. Each worker concerned is entitled to refuse the compensation for reductions in work; the employer must then continue to pay the worker’s wage in full. However, the risk of then being laid off increases for any worker doing so.

[7] The combined amount of financial assistance for ongoing training and training needs assessments must not exceed a ceiling of USD4,375 per participant.

appropriate manner by making the growth of fluctuation reserves a central medium-term objective.

Conclusion

The outlook for the health of the labour market is, however, becoming "clearer". The Group of Experts of the Confederation predicts a small growth in Swiss GDP of some 0.7 per cent in 2010, but accompanied by increased unemployment, which should reach 4.9 per cent in 2010, representing some 193,000 workers. But there will be no increase in employment or steady recovery before 2011. It is therefore planned to maintain the active measures targeted at the most vulnerable and to embark on a medium- and long-term strategy that takes account of the sweeping changes in the labour market brought about by the crisis.

Sources

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