

Trouble ahead for Social Security Systems – even in Switzerland

(by Dr. Hans Rudolf Schuppisser, Confederation of Swiss Employers, for panel 2 “Top-heavy load”, Munich Economic Summit 2007)

In Switzerland the financial impact the rapidly changing demography has on the social system seems to be underestimated as elsewhere. As a result the heavy financial consequences are reality.

Nevertheless the changing demography has other than financial aspects which do not only involve financial risks but also offer opportunities. The present demographic situation may have an advantage in that, it makes it easier for companies to reduce staff levels by enhancing technologies and not by resorting to mass redundancies. This is at least how the President of Michelin Group in France put it. Another example of such an opportunity would be the so called conflict between generations, which should not be overestimated either. Surprisingly a recent survey in Switzerland found, that the relations between the generations are now better than before. The reason for that is a higher degree of independence each generation enjoys. This shows that the «Top-heavy load» on which I will focus my presentation is only one dimension of the demographic challenge.

The so called «double-ageing phenomenon» means, that the Swiss age pyramid is being turned upside down and has changed into a mushroom (appendix) because we live longer and have fewer children than most other European countries. You could say: The Swiss population lives nearly as long as the Scandinavians, which means we have a high life expectancy of 78 for men and 84 for women, and we have fewer children, which means we have a low birth rate of 1,4 % (1,3 % for the Swiss and 1,9 % for the foreigners). Which is close to the low Italian birth rate. So when you are talking about the double-ageing phenomenon, we in Switzerland know exactly what you are talking about.

We are not even speaking about «troubles ahead» for the social security system, we are in trouble already – but not only because of the demography. Other main reasons are the so called «medicalisation» of social problems, then the trend to link individualism with a demanding behaviour and – last but not least – an enormous slowdown of the economy in the nineties. A deep structural change in our industry in the nineties pushed up unemployment. The rising unemployment and an increase in medical and social costs came on top of the demographic burden.

All this led to a dramatic increase in the share of social insurance contributions (SCR) from 15 % in 1990 to 22.2 % in 2005. Another report places us according to the share of social insurance contributions before Denmark, Sweden and France but behind Germany and the average of the EU-25. This is really a topheavy load for the Swiss economy as a whole.

Who pays the bill? Only about 23 % of the capital inflows into the social system are paid by the state. 10 % are paid by individuals mainly as health insurance premiums and about 53 % are paid by employers and employees. (28,5 % by the employers, 22,1 % by the employees). The rest are capital revenues, especially for the second pillar, as we call the occupational pension plans.

So what has been done and what has been planned to solve all these problems in Switzerland ? Since the early nineties we have had an instrument called «Financial Perspectives of the

Social Insurance System» (IDAFiSo) and we have been using the Generational Accounting. Now we are preparing a sustainability report. They show us serious consequences of the double-aging phenomenon for the Swiss social security system. According to a new report from 2006, using different scenarios the need for additional growth and contributions for the social insurance system till 2030 will vary between 25,6 % of our GDP according to the basic scenario, 30 % of the GDP in the worst case scenario and 22,6 % in the best case. Please note: In 2005 we had a share of social insurance contributions of 22,2 % .

Even though the financial consequences for our social security system have been known, officially published and periodically presented in political debates since the early nineties, the problems are far from solved. And this is not because nothing has been done. Some proposals for reforming projects have been accepted, but others have been rejected in several nationwide referendums.

Our government has an explicit strategy of reform; it follows an economic growth strategy and six of the ten social insurances are currently being overhauled. But we are still a long way from a solution. A solution which would mean sustainable financing for each insurance type and the system as a whole. But in parliament as well as in a number of referendums on the retirement age a more flexible retirement age combined with an adaptation of the official retirement age (64 for women and 65 for men) to the higher live expectancy seems at the moment to be blocked. Age 67 as in Germany and elsewhere seems to be taboo. So we are in fact in a slow step by step approach to finding a solution to reduce the «Top-heavy load» and how to make especially our old age pension system more equally balanced between the generations.

At the moment our government is trying to stabilize our health insurance system, to find a solution for the old age pension system by slightly reforming the basic pension insurance (first pillar) (retirement age of 65 for both women and men and a slower revaluation of the pensions) and by lowering the conversion rate of the occupational pension plans (second pillar) from the current 7,1 % to 6,4 % now instead of 6,8 % in 2014. (This means, when you have retirement assets of 100'000 Francs you will get 6'400/6'800 Francs instead of 7'100 Francs today.) A discussion about retirement age 67 is avoided for the moment. But legal work is under way to encourage older employees to stay in their jobs longer. A successful adaptation then would depend on both: the employers and the employees.

Another typically Swiss kind of blockage has to do with the low birth rate. Traditional values and a typical federalism in the fields of family – and school policies prevent a mature concept of daycare for children and adolescents. Family policy was traditionally the domain of the cantons and communes (municipalities). But since the early nineties the parliamentary activities in this field have prompted the Confederation to introduce federal subsidies to cover the initial costs of day care facilities. Longer maternity leave and higher child allowances have also been introduced. Both had to be voted on and were very controversial.

Our organization, the Confederation of Swiss Employers, has for years been pushing the political parties and the cantonal and federal governments to introduce – step by step – a higher official retirement age combined with flexible retirement from 62 to 67 in the next decade and also a better combination of day-care facilities and school system. We have also been encouraging our members to introduce a mature concept of age balance in the workplace and to become more family friendly. It seems that things are moving a bit and we hope they are moving in the right direction.

- see also:
- www.arbeitgeber.ch
 - H.R. Schuppisser: Die Menschen werden in Zukunft länger arbeiten, in: Mario von Cranach et. al., Ältere Menschen im Unternehmen (Chancen, Risiken, Modelle), Bern, Stuttgart, Wien 2004 (ISBN 3-258-06615-9)

Adresse: Dr. Hans Rudolf Schuppisser
Schweizerischer Arbeitgeberverband
Hegibachstr. 47, Postfach, 8032 Zürich, Schweiz
schuppisser@arbeitgeber.ch