What’s beyond 65? Why Switzerland should step up retirement preparations

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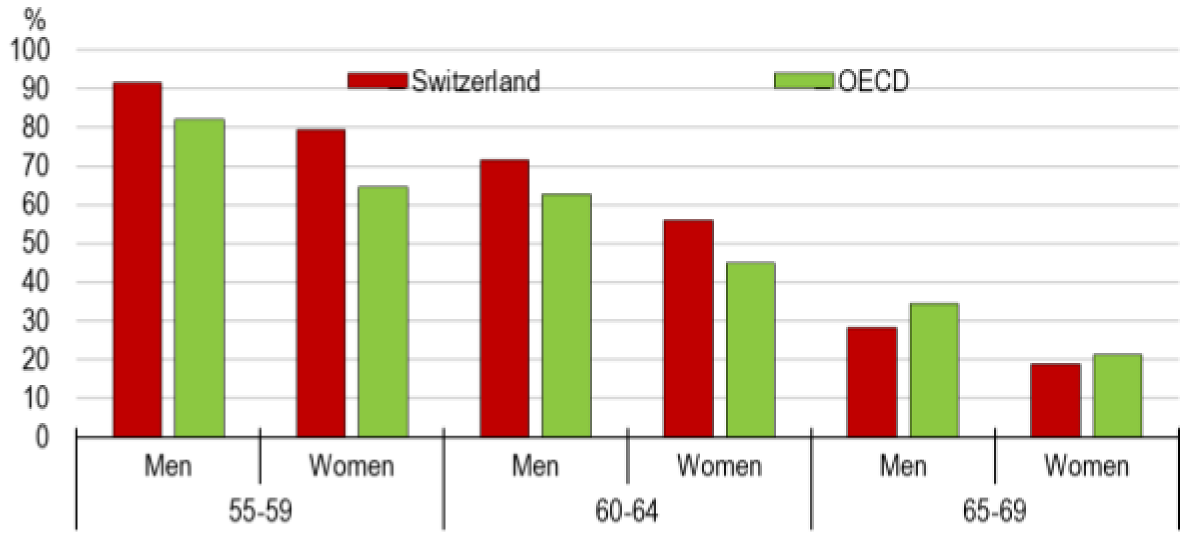
The statutory retirement age in Switzerland (for men) has been age 65 since 1948 and it is currently 64 for women. Sixty-five appears to be very powerful: almost two-thirds of 60-64 year-olds are in the labour force but this plummets to less than one-quarter of 65-69 year-olds (Figure 1). The pension system, with a redistributive public old-age pension and funded occupational scheme, has delivered good retirement incomes, as highlighted in the latest OECD Economic Survey of Switzerland (OECD, 2019). An average full-time worker retiring today receives around 60% of their final wage from the mandatory part. And most have comfortable pensions thanks to the extra-mandatory scheme. Those with fewer financial resources can access financial support to meet their basic needs.

Figure 1. Labour force participation plummets after age 65



Source: OECD, *Labour Force Statistics* database.

Back in 1948, retirement would have lasted 13 years – as against the 21 years a 65 year-old today can expect. On current policies, someone starting work today could look forward to some 25 years of retirement, or longer if mortality rates keep improving. But they would have a lower replacement rate of around 40% of their final salary at retirement from the mandatory pension. At the same time, the too-high conversion rate in the occupational scheme (converting assets into an annuity) is reducing future pension benefits.

Meanwhile, the pace of demographic change is quickening as baby boomers retire. This will place upward pressure on ageing-related public spending (OECD, 2019a). Moreover, the ratio of workers to retirees is likely to fall from 2-to-1 to around 1-to-1 by the early 2040s.

Thinking about working lives beyond 65 will help keep future generations on track towards the comfortable retirement enjoyed by many today. Elsewhere “age 67” is becoming the “new 65” (OECD, 2019b). Some countries, like Denmark and Portugal, have linked the retirement age to all, or part, of increases in life expectancy. For these reasons the Survey recommends:

- Gradually raising the retirement age to 67 and then linking it to life expectancy. This would boost retirement incomes, help fund public spending and shore up the finances of the public pension system.
- Reforms to help people work into older age. Switzerland’s annual conference on old-age workers could find ways of introducing greater flexibility into the wage-setting system to tackle the seniority wages that make older workers more expensive. This could include training opportunities to help workers upskill. Social security contributions increase sharply with age; this could be flattened.
- Updating elements of the pension system, and in particular, lowering the conversion rate and making it a more flexible technical parameter.

References

OECD (2019a), OECD Economic Surveys: Switzerland, OECD Publishing, Paris. OECD (2019b), Working Better with Age, Ageing and Employment Policies, OECD Publishing, Paris.