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News Release

UBS International Pension Gap Index: Swiss pensions – an international comparison

The Swiss pension system enjoys a good reputation worldwide. However, reforms are needed for its three pillars to remain sustainable. This is confirmed by the latest UBS International Pension Gap Index. Switzerland has fallen behind in recent years, particularly in the sustainability of future pension promises, partly because other countries have already been able to push through far-reaching reforms.

Zurich, 20 May 2021 – Pension schemes are as diverse as the cultures of the countries whose working population they insure. Nevertheless, they all aim to guarantee a certain level of income in retirement. The UBS International Pension Gap Index, first released in 2017, analyses the sustainability and adequacy of the pension promises across 24 jurisdictions. This is done on the basis of the private savings rate required by an average person of 50 today to maintain their standard of living in retirement.

Private savings are imperative

Almost none of the pension schemes examined provides a guarantee that everything will be well, at least if one only considers the mandatory part. Some systems are in a better position and can promise their beneficiaries comparatively generous benefits. These include the United Arab Emirates thanks to its wealth of raw materials and Australia due to its long-standing economic strength. In most countries, however, each individual needs to take responsibility. For example, the Netherlands offers its beneficiaries a pension income almost equal to the last wage and requires little additional savings. In return, however, the retirement age has been steadily raised in recent years and, like contributions, will continue to rise with life expectancy.

Switzerland is in the top third of the UBS-sample with a required savings rate of 14%, albeit only just. This level of personal responsibility should be achievable for a large part of the population, especially if Pillar 3a is used consistently. "The savings rate required to maintain the standard of living in retirement is now slightly higher than it was four years ago, mainly because Switzerland has not yet been able to implement reforms and the uncertainty surrounding future pension benefits has increased," explains UBS economist Jackie Bauer.

Investing is even better

In some countries, much higher private savings rates than in Switzerland are necessary to maintain living standards in retirement. However, it is important to consider whether a system sets itself the goal of providing a wooden stool or a comfortable deckchair. In particular, Anglosphere countries, such as the US, Canada and the United Kingdom, tend to place greater emphasis on personal responsibility, with the pension system intended only to avert poverty in old-age.

In this context, it is important not only to save, but also to invest. In an environment where demographic change is putting increasing pressure on pension systems worldwide, the return in the financial markets, and in particular the compound interest effect, matters. "Pillar 3a in Switzerland offers the best conditions for private saving and investing, because the tax incentives here are more advantageous than in many other systems studied," explains UBS economist James Mazeau.

Reforms are essential

Personal responsibility is becoming increasingly important, and many countries should increase incentives for households to think about their financial situation in the long term. However, because of the rapidly aging population, such measures alone are not enough. Reforms are needed in many countries to improve the sustainability of their systems while allowing pension payments at an appropriate level. For example, in France, where the typical worker is now retiring early, an increase in the retirement age would help.

Some governments have shown that far-reaching reforms are possible without impacting the adequacy of pensions. In recent years, Denmark and Sweden have implemented reforms and made their systems more sustainable. It should be noted that they have enacted rules-based adjustment mechanisms and thus reduced the influence of opposing political interests. In Denmark, increases in the retirement age depend on the increase in life expectancy. In Sweden the state pension is adjusted to the ratio between the number of persons in employment and pensioners. Switzerland could follow such examples to offer future generations a three-pillar-based pension system that is still exemplary in international comparisons.

More information and access to the current publication UBS International Pension Gap Index you can find at www.ubs.com/vorsorgeforum.

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