

**The world of pension provision is facing numerous challenges.** Increased life expectancy, the end of the era of perpetual economic expansion and the changing nature of work and family life are groundswells that are producing the significant changes to the system which we are experiencing in Switzerland.

**The CPEG** is not immune to these major developments, but it also has features which exacerbate its situation: an unfavourable ratio between active insured persons and retirees, a high degree of under-capitalisation and a rigid management structure. The obligations of the CPEG are increasingly weighing down its balance sheet despite the excellent performance by the trustees in managing the assets of the CPEG, which has never faltered. In round figures, our Fund has assets of **CHF 11.9 billion**, but its obligations total **CHF 20.7 billion**. Its coverage ratio is only **57.4%** (as at 31 December 2016), namely the lowest in Switzerland (*see p. 4*).

**The law** requires us to achieve a coverage ratio of at least 80% in 2052, by proceeding along a “growth path” which was determined when the CPEG was created in 2013. In concrete terms, the coverage ratio must already be at least 60% on 1 January 2020: however, this target is not achievable in the current conditions.

Consequently, the long-term financial equilibrium of the CPEG is no longer guaranteed. Moreover, the risk of a deficit situation in the short term does not exclude the duty to implement restructuring measures. However, **the Committee has a legal obligation to maintain the financial equilibrium of the CPEG**. But it can only take action on the benefits to the active insured members, thereby reducing subsequent commitments; financing (contributions and any injection of capital by the employers) is the remit of the Grand Council.

**Your Committee accordingly worked without respite** between December 2016 and 4 May 2017 **to adopt** a package of measures that are designed to restore the long-term financial equilibrium, while having the least possible impact on benefits: **it is firstly a matter of raising the pivotal retirement age** which will enter into effect on 1 January 2018; the Committee will, **provided it is absolutely necessary, subsequently** be able to implement a reduction in the annual pension rate from 1.5% to 1.35%, accompanied by a supplementary plan based on savings that are not guaranteed and on other less significant adjustments to the benefits plan (*see p. 2*).

**The Committee has fully embraced the decision to defer the 2<sup>nd</sup> set of structural measures** in view of the announcement by the Council of State on 6 April of a draft law, which will set the course for substantial capitalisation of the CPEG and a transition to defined contributions. This announcement was also made possible by the progress in the discussions with the public service union. If the draft law is adopted all the players will have fulfilled their responsibilities.

**The mandate of the current Committee will expire on 31 August 2017.** At this point I wish to thank my colleagues, in particular Mr. Michael Papparou, Vice President, for their dedication and the quality of the work that was undertaken jointly for our institution during this critical period.

**Eric Alves de Souza,  
President of the CPEG**

## **The Committee definitively adopts the new pivotal age and plans a second package of measures to restore the financial equilibrium of the CPEG**

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As part of its remit, the Committee has decided to implement a set of measures that are designed to restore the financial equilibrium of the CPEG. It is thus assuming and implementing its responsibilities to adjust the benefits of the Fund to the financial resources that are available.

The Committee has also taken into account the recent development in the political context around the Fund, in particular the declaration of 6 April 2017 by the Council of State, announcing its intention to introduce a draft law in the near future, stipulating supplementary capitalisation of the CPEG.

### **Entry into effect**

The Committee has confirmed **the entry into effect of the raised pivotal age on 1 January 2018** (see *CPEG INFO No. 6*).

However, with regard to the **other measures described below, the Committee has decided not to determine their date of entry into effect for the time being** in order to give the political authorities sufficient time to introduce and review the draft law that has been announced.

It is only **in the event that a law is not promulgated by 30 June 2018** that the Committee will determine the date of entry into effect of these other measures.

### **Reduction of the pension rate**

This measure is the most significant in terms of its impact on the insured members, but it is also the measure that has the most impact on the financial equilibrium of the Fund. The Committee chose it in full knowledge of the facts and after considering the consequences for the different categories of insured members. This measure involves reducing the annual pension rate from 1.5% to 1.35%. The pension objective, which is currently set at 60% of the last insured salary (or around OASI 50% of the salary), is thus reduced to 54% (or around 45% of the OASI salary), based on a full record of 40 years of insurance contributions.

At the same time, a supplementary plan based on savings is implemented with the creation of compensation accounts for the insured members. The purpose of this plan is to offset the aforementioned reduction in benefits by paying money into these accounts if the financial situation of the Fund permits. The decision whether to pay money into these accounts is made annually by the Committee.

If an insured event occurs, the savings that are available on the compensation account of the insured member will be converted into a supplementary pension which will be added to the main pension. Moreover, the amount stated in the account is an integral part of the vested benefits of the insured member.

### **Adjustment to the calculation of disability pensions**

With regard to the specific situation of insured members who are suffering from a disability, the Committee has decided to adjust the calculation of this benefit and to calculate it on the basis of a forecast at 65 years of age (instead of the current 64 years of age). This will lessen the impact of the reduction in the level of benefits in such situations.

### **Change to the conditions for granting and calculating the benefits of the children of retirees**

The Committee has taken the view that the situation of a retiree with dependent children was in certain circumstances the result of a personal choice. The Committee has therefore decided to defer granting benefits to a child of a retiree to the date when the retiree reaches the pivotal age, instead of 60 years of age as at present. Moreover, benefits for children of retirees will only be granted to children who were born prior to the retirement of the insured member.

With regard to the amount of benefit, it will be capped at the amount of the pension calculated according to the federal law on occupational pensions, instead of 20% of the retirement pension that is paid at present.

### **Adjustment of the reduction factors for early retirement between 58 and 60 years of age**

The reduction in the annual pension rate necessitates making a change to the scales of leaving benefits. In order to prevent the Fund from making an actuarial gain from this transaction, there are plans to lower the reduction factors to 5% for the 58 to 61 year age group compared to 6% in the current standard plan.

**Impact of the measures**

Raising the pivotal age and reducing the pension objective are the measures that have the greatest impact on the insured members.

The first measure is tantamount to a benefit reduction of 5%. This impact is the same for all the insured members. It is nevertheless possible to circumvent this reduction by working an additional year until the new pivotal age.

The reduction of the pension objective entails a decrease in benefits of around 10% maximum. However, this reduction will be attenuated for the insured members who are close to retirement.

**Information for the insured members**

The presentation of these measures is confined to the key principles here. As the date of entry into effect has not been determined (apart from the raised pivotal age), they will not be technically implemented for the time being and individual simulations consequently will not be produced.

As the new pivotal age will enter into effect on 1 January 2018 it will be taken into account in your insurance certificate for 2018.