

Defined contribution (DC) plans in Switzerland

Overview of Swiss pension system

In Switzerland, in addition to participating in social security, companies have to sponsor a second-tier pension plan (known as the BVG/LPP). This operates on a cash balance basis and must provide certain minimum benefits, including certain guarantees. This plan must apply to all employees on their income between CHF 20,520 and CHF 82,080 (limit as of 1 January 2009). In the absence of an alternative, most companies have also extended the plan to provide mid- to high-earning employees with a BVG/LPP-style plan on their pensionable salary above the threshold. Such plans are treated as defined benefit in nature.

Are DC pensions possible in Switzerland?

While historically DC pension provision has not been possible in Switzerland, a new law came into effect in January 2006 allowing qualified pension plans to offer several investment strategies for retirement savings for pensionable salary over CHF 123,120 (limit as of 1 January 2009). This opened the door to pure DC plans, provided that the pension fund is established separate from that operated for income below that level. There are a number of aspects of the current law that remain uncertain and the Swiss Parliament has been due to consider amendments to the

legislation to clarify these points and confirm that pure DC is possible for income above the earnings threshold.

Whilst it has been possible to establish such a plan since 2006, many companies have been slow to embrace it, preferring to delay until the legislative doubts are resolved. However, Watson Wyatt has worked with several clients to establish 'work-arounds' that mean we have now launched pure DC plans for income above the CHF 123,120 threshold within Switzerland.

How can Watson Wyatt help?

Watson Wyatt has advised several clients, including large Swiss-based multinationals, on implementing a DC pension scheme in Switzerland. This experience coupled with close collaboration with a local administrator who is equipped to provide the necessary DC administration means we are well placed to advise on the establishment of DC plans for income above the BVG/LPP threshold. For more information on how we can help your organisation implement a DC scheme in Switzerland, please contact:

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