

FOR A SUSTAINABLE OCCUPATIONAL PENSION

New conversion rates from 1.1.2022

The Swiss pension system is one of the best in the world. Since the occupational pension was launched in 1985, it has been a fixed component of the tried-and-tested Swiss retirement pension. So that this situation remains unchanged in the future too, Allianz Suisse Life is adjusting the conversion rates to the changed overall conditions.

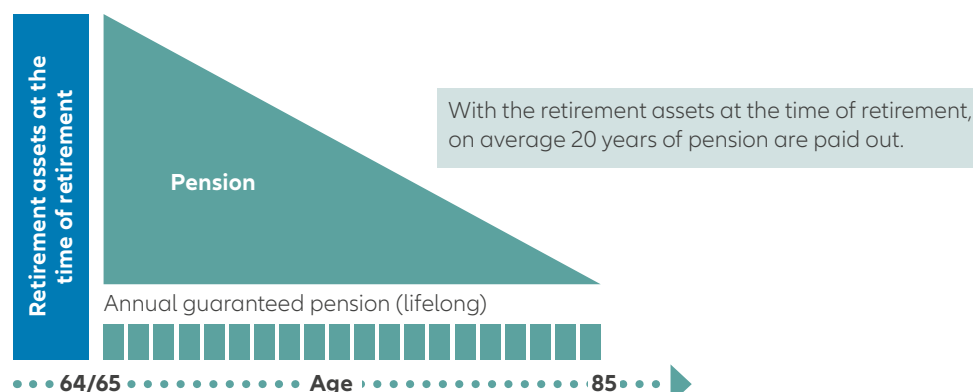
As a result of persistently low return prospects and continually increasing life expectancy, the occupational pension in Switzerland is experiencing more and more financial difficulties and its sustainability is jeopardised. Every year, the legal conversion rate of 6.8% results in a nationwide funding requirement running into the billions. The Board of Trustees of the BVG Collective Foundation of Allianz Suisse Life Insurance Company and Allianz Suisse Life assume joint responsibility and will adjust the conversion rates for mandatory and non-mandatory retirement assets from 1.1.2022.

Within the framework of the mandatory occupational pension, the minimum conversion rate is defined by law. This is currently 6.8% for men aged 65 and for women aged 64. The conversion rate for the non-mandatory retirement assets is defined by the pension fund or in the full insurance by the insurance company in accordance with economically sound parameters and is therefore lower than the BVG conversion rate. The level of the conversion rate is determined by the following factors:

- Life expectancy
- Expected return on the capital used to fund the pension
- Expected pensions for children of retired persons and for survivors in the event of death

WHAT IS A CONVERSION RATE AND HOW IS IT DEFINED?

With a conversion rate, the saved retirement assets at the time of retirement are converted into a lifelong pension. A conversion rate of 6.8% and BVG retirement assets of CHF 300 000.– would mean the payment of a lifelong pension of CHF 20 400.– per year.

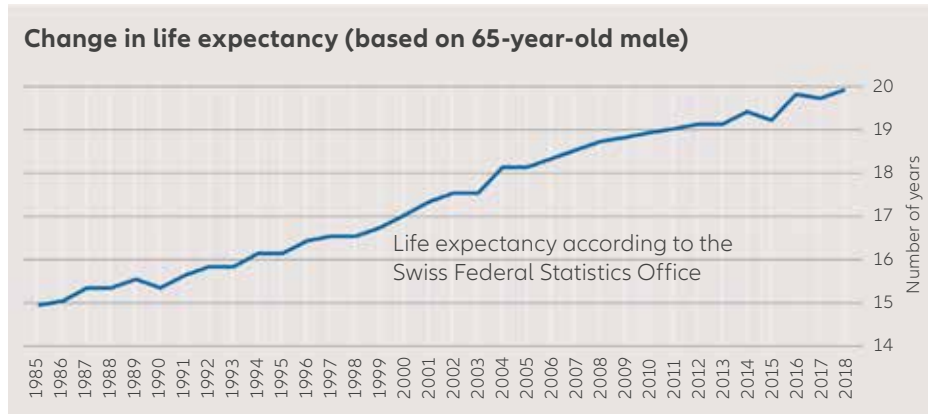


CHALLENGE: BVG CONVERSION RATE TOO HIGH

The current BVG conversion rate of 6.8% is based on the statistical life expectancy of pensioners as measured in the 1990s and does not take into account low interest. Therefore, it is far too high and results in a high funding requirement as well as a nationwide redistribution from employees to pensioners running into the billions.

Increasing life expectancy

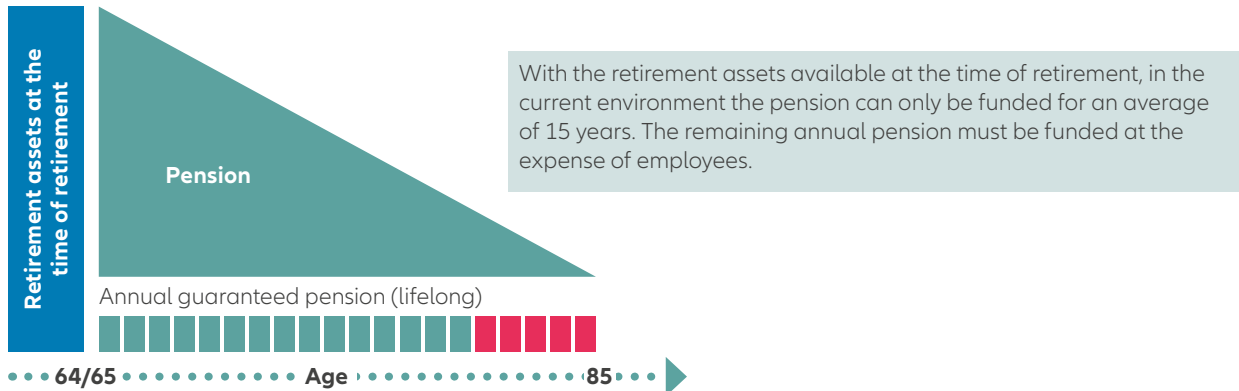
The Swiss enjoy a high standard of living and thus their life expectancy is also accordingly high by global comparison. Compared with 30 years ago, we now live on average five years longer. As a result of this development, the average period during which a person draws a pension is also longer. This explains why the saved retirement assets in the occupational pension need to last for a longer period of time.



Redistribution throughout Switzerland in 2019 was approx. CHF 7.2 billion.

Source:
Report on the financial situation of pension funds 2019 by the Occupational Pension Supervisory Commission (OPSC)

In the current environment, from the time of retirement the pension will last for around 15 years with the existing retirement assets. After this point the capital will be exhausted. However, so that lifelong guaranteed pensions can still be granted, at the time of retirement the existing retirement assets must be increased for the average longer period a person draws a pension.



These financial gaps are also referred to as «retirement losses», and are essentially funded by returns on capital and other sources of profit. This means that during the savings phase, year after year employees miss out on higher interest payments on their retirement assets.

High guaranteed interest in an environment of low expected returns

The BVG conversion rate of 6.8% includes guaranteed interest of around 5% (referred to as the «technical interest rate» in the occupational pension). With a security-conscious investment strategy, for years it has no longer been possible to achieve this guaranteed interest. The return on a ten-year federal bond, which has been negative for some years, acts as a benchmark for risk-free investments.

For some time, it has only been possible to ensure high guaranteed interest for people drawing a pension by means of cross-financing through the investment returns of employees. As a result, employees receive lower overall interest in the purchase process.

Urgent reform of BVG required

The continually increasing redistribution from employees to pensioners over the last few years must be counteracted by a reduction in the BVG conversion rate. Unfortunately, previous reform attempts have failed in the popular vote. Hope remains that with the planned BVG reform, it will be possible to reduce the BVG conversion rate, even through the planned reduction to 6% by the legislator will not

resolve the redistribution problem entirely but only partly alleviate it. In the meantime, we will take responsibility and reduce the conversion rates so that the active insured persons can continue to benefit from attractive surpluses in the future too.

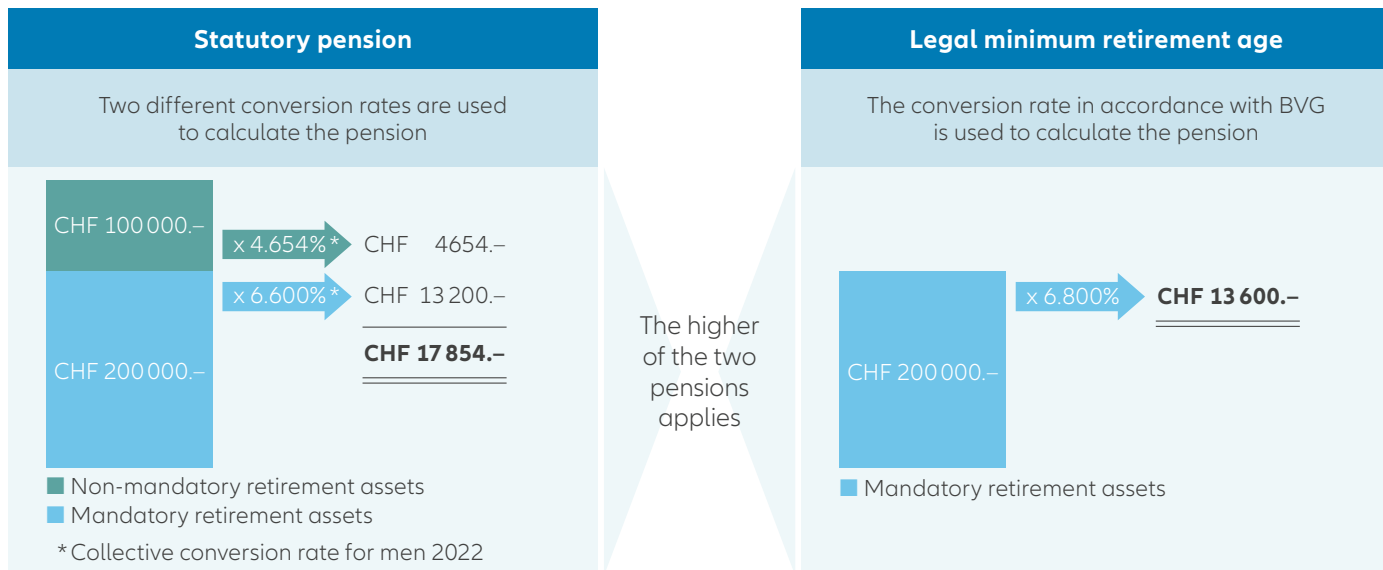
ADJUSTMENT OF CONVERSION RATES FROM 1.1.2022

The Board of Trustees of the BVG Collective Foundation of Allianz Suisse Life Insurance Company and Allianz Suisse Life have made a joint decision to adjust the retirement conversion rates for the mandatory and non-mandatory retirement assets from 1.1.2022 to the changed overall conditions, in order to ensure pensions are sustainable in the long term. The reduction is planned in three stages:

Year	Conversion rate mandatory portion* (men and women)	Conversion rate non-mandatory portion for men	Conversion rate non-mandatory portion for women
2022	6.600%	4.654%	4.607%
2023	6.400%**	4.492%**	4.446%**
from 2024	6.200%**	4.332%**	4.287%**

*in compliance with shadow accounting, **subject to approval by FINMA



We will guarantee the legal minimum benefits at all times. This will be ensured by comparing the regulatory pension against the legal minimum pension. The higher of the two pensions will always be granted.



The higher of the pensions will always be paid out. In this example, the statutory pension is CHF 17,854.- and is above the legal minimum pension of CHF 13,600.-.

You can find the conversion rates for 2021 to 2024 online at allianz.ch/bvg-documents in the document «Key BVG figures, interest and conversion rates».

HOW EMPLOYERS AND EMPLOYEES CAN COUNTER THE IMPACT OF LOWER CONVERSION RATES

From the company's perspective 	<ul style="list-style-type: none">✓ Structure the pension plan so that the retirement credits are increased prior to the age of 25✓ Increase retirement credits✓ Create the option for employees to define the level of their own retirement credits themselves from a selection (plan option)✓ Increase the relevant insured salary for the calculation of retirement credits
From the employee's perspective 	<ul style="list-style-type: none">✓ Make voluntary purchases of additional pension fund benefits and also benefit from tax advantages✓ If possible: Through a targeted selection voluntarily choose the savings plan with the highest retirement credits (plan option)✓ Receive the retirement assets at the time of retirement instead of as a pension or as a combination of lump-sum and pension.✓ Transfer pillar 3a assets to the pension fund✓ With the private pension (pillar 3a) save further for retirement and also benefit from tax advantages✓ If possible operationally: Work beyond the normal retirement age and benefit from a higher pension.

We are here to help our customers and insured persons!

Pension provision is our top priority. Therefore, we will do all we can with the products and services we offer so that our customers and insured persons can look to the future with no worries. All consultations are free of charge. We have outstanding expertise in all pension and insurance-related matters, and look forward to hearing from you.

CONTACT

Your advisor will be happy to help if you need more information.

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