

# ELECTIVE CONVERSION RATES AS OF 1 JANUARY 2021

APRIL 2020

**Securing tomorrow's pension today:** the low-interest-rate environment and the continuous increase in life expectancies have necessitated a slight reduction in the conversion rates for the elective component from 1 January 2021.

## BACKGROUND

On average, we now live five years longer than we did thirty years ago. Since the middle of the 20<sup>th</sup> century, Switzerland has been faced with an unprecedented demographic development: thanks to better medical care and the longer life expectancy associated with that, the proportion of older people continues to rise. The average duration of pension payments is also increasing as a result of this demographic trend. This means that the pension capital saved has to last for a longer period of time.

The Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) defines which employees must be enrolled with a pension foundation and which benefits the pension foundations must provide. Benefits that go beyond this compulsory BVG component can be insured by the employer voluntarily. These are referred to as "the elective component".

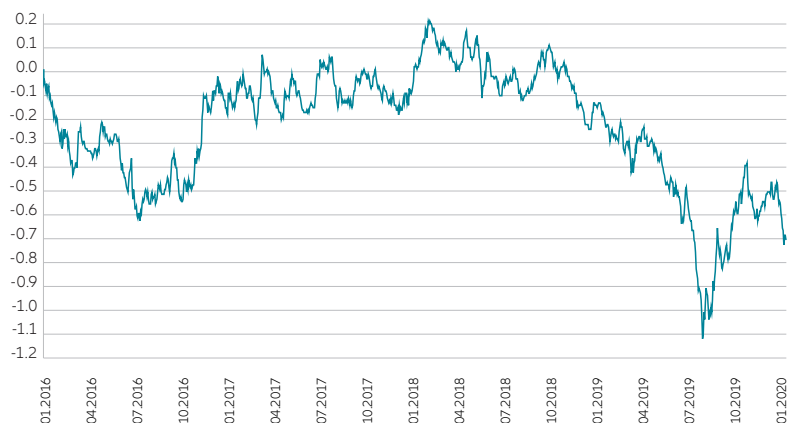
## WHAT IS THE CONVERSION RATE AND HOW IS IT DETERMINED?

The conversion rate is used to convert the pension capital saved at the time of retirement into a lifetime retirement pension. For example, with a conversion rate of 6.8% and BVG pension capital of CHF 100 000, a lifetime pension of CHF 6.800 per year will be paid. The Federal Council defines the minimum conversion rate within the framework of compulsory occupational pensions. It is currently 6.8% for men at the

age of 65 and women at the age of 64. In the elective component, by contrast, the conversion rates are set by the foundation or, in the case of full insurance, by the insurance company. The level of the elective conversion rate is determined primarily on the basis of two factors: the life expectancy of the new pensioners and the technical interest rate, which reflects the potential medium to long-term earnings expected from the actuarial reserve.

## INTEREST RATES STILL AT ROCK BOTTOM

The basis for generating sustainable interest income has declined significantly in recent years. Ten-year government bonds, which are used as a reference for safe investments and guarantees, have mostly borne negative yields since 2015:



## WHAT HAPPENS IF THE CONVERSION RATE IS TOO HIGH?

The conversion rate determines the amount of the pension and applies throughout the period in which the pension is drawn. This means it has an impact across the entire term of the pension. If the conversion rate is too high, the pension capital will not be sufficient to finance the retirement pension. Active insured persons will receive fewer surpluses as these will be required for reserves to finance the retirement pensions in full.

It is therefore in the interests of all insured persons to apply a fair conversion rate that treats all generations more equally. In light of rising life expectancies and the ongoing low-interest-rate environment, Allianz Suisse will cut the elective conversion rates with effect from 1 January 2021. This will reduce the redistribution from young to old and boost financial stability.

## THE ELECTIVE CONVERSION RATES OF ALLIANZ SUISSE

The following table shows the elective conversion rates (CR) valid from 1 January 2021 and applicable at the respective retirement ages:

AGE	CR FROM 01.01.2021		CR UNTIL 31.12.2020	
58	4.130% (M)	3.959% (F)	4.104% (M)	4.136% (F)
59	4.220% (M)	4.042% (F)	4.204% (M)	4.227% (F)
60	4.316% (M)	4.129% (F)	4.307% (M)	4.322% (F)
61	4.417% (M)	4.223% (F)	4.415% (M)	4.423% (F)
62	4.526% (M)	4.322% (F)	4.529% (M)	4.531% (F)
63	4.618% (M)	4.428% (F)	4.628% (M)	4.646% (F)
64	4.739% (M)	4.539% (F)	4.754% (M)	4.768% (F)
65	4.868% (M)	4.658% (F)	4.887% (M)	4.901% (F)
66	5.006% (M)	4.787% (F)	5.029% (M)	5.044% (F)
67	5.153% (M)	4.925% (F)	5.180% (M)	5.198% (F)
68	5.311% (M)	5.073% (F)	5.341% (M)	5.365% (F)
69	5.479% (M)	5.233% (F)	5.513% (M)	5.545% (F)
70	5.660% (M)	5.406% (F)	5.698% (M)	5.739% (F)

For retirements on 1 January 2021, the CR valid on 31 December 2020 shall apply.

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## WHO IS NOT AFFECTED BY THE ADJUSTMENT OF THE ELECTIVE CONVERSION RATE?

Retirement pensions to which the recipient became entitled before or on 1 January 2021 will not be affected by the adjustment. The portion of the retirement pension stemming from a compulsory occupational pension will not be affected, either.

If an insured person opts for a lump-sum payment, he or she will receive the full pension capital saved, without any reductions.

## EXAMPLE: IMPACT ON THE ANNUAL RETIREMENT PENSION OF A 65-YEAR-OLD MAN IN 2021

	RETIREMENT ASSETS	CR 2020	PENSION IN CHF	LUMP SUM IN CHF	CR 2021	PENSION IN CHF	LUMP SUM IN CHF
<b>Compulsory</b>	200 000	6.800%	13 600	200 000	6.800%	13 600	200 000
<b>Elective</b>	100 000	4.887%	4 887	100 000	4.868%	4 868	100 000
<b>Total</b>	300 000		18 487	300 000		18 468	300 000

## EXAMPLE: IMPACT ON THE ANNUAL RETIREMENT PENSION OF A 64-YEAR-OLD WOMAN IN 2021

	RETIREMENT ASSETS	CR 2020	PENSION IN CHF	LUMP SUM IN CHF	CR 2021	PENSION IN CHF	LUMP SUM IN CHF
<b>Compulsory</b>	200 000	6.800%	13 600	200 000	6.800%	13 600	200 000
<b>Elective</b>	100 000	4.768%	4 768	100 000	4.539%	4 539	100 000
<b>Total</b>	300 000		18 368	300 000		18 139	300 000

**PLEASE DO NOT HESITATE TO CONTACT YOUR ADVISOR IF YOU REQUIRE FURTHER INFORMATION.**