

Low interest rates, negative rates and the technical interest rate

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From 2015 to 2022, Swiss pension funds operated in an environment without historical precedent. On 15 January 2015, the Swiss National Bank discontinued the minimum exchange rate of CHF 1.20 per euro and lowered the interest rate on sight deposits above an exemption threshold to minus 0.75 per cent. Yields on federal bonds fell below zero across most maturities, and for several years Swiss investors had to pay to lend money to the Confederation.¹ Pension funds holding large cash balances faced negative interest charged by their banks, which passed on the costs of the SNB's policy to institutional clients.

The negative rate policy hit pension funds in two ways. Their bond portfolios generated little or no return, while the present value of their liabilities increased as discount rates fell. Funds responded by shifting assets into real estate, equities, private markets and foreign bonds with currency hedging, whose costs were in turn affected by the interest rate differential. The SNB raised its policy rate above zero in September 2022 in response to inflation, which ended the negative rate period. It later lowered the policy rate again as inflation fell, returning it to zero in 2025. Status to be verified.²

The technical interest rate is the rate at which a pension fund discounts its liabilities, in particular its obligations to current pensioners. It is set by the board on the recommendation of the pension actuary and must take account of the expected return on the fund's assets and the structure of its liabilities. The Swiss Chamber of Pension Fund Experts publishes a technical directive (FRP 4) with a reference rate that serves as a benchmark.³ During the low-interest period, funds lowered their technical interest rates in many steps, often from around four per cent to below two per cent. Each reduction increased the value of pension liabilities and

reduced the coverage ratio, which forced funds to strengthen their reserves or to lower conversion rates for future retirees.

The reductions in conversion rates that pension funds adopted on the supra-mandatory part were the most visible consequence. Many funds introduced rates of five per cent or lower on the total capital, while still respecting the minimum of 6.8 per cent on the compulsory part through the shadow account. For insured persons with salaries well above the compulsory minimum, the resulting pensions were significantly lower than those promised in earlier decades. Funds often provided compensation through additional contributions or one-off payments into retirement accounts.⁴

1 Notes

1. On the SNB monetary policy decision of 15 January 2015 discontinuing the minimum exchange rate and introducing a negative interest rate of -0.75 per cent on sight deposits above the exemption threshold, and its end in September 2022, see the SNB press releases and annual reports. To be verified. ↩
2. On the end of negative interest rates in September 2022, the subsequent increases of the SNB policy rate and the later reductions, including the return to zero per cent in 2025, see the SNB monetary policy assessments. Status to be verified. ↩
3. On the technical interest rate and the reference rate published under the technical directive FRP 4 of the Swiss Chamber of Pension Fund Experts, see the directive and its annual updates. To be verified. ↩
4. On the reduction of regulatory conversion rates on the total capital by envelope funds during the low-interest period and the compensatory measures, see the surveys of conversion rates published by the OAK BV and by private providers such as Swisscanto. To be verified. ↩

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