

Pension Funds and Investment Foundations — overview and summary

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Swiss pension funds hold more capital than any other group of domestic investors. Their combined assets exceed the annual economic output of the country, while the sums they manage on behalf of employees and pensioners shape the Swiss bond market, the market for rental housing and the voting results at the general meetings of listed companies. In Basel, the pension funds of the canton, of the neighbouring canton of Basel-Landschaft and of the large pharmaceutical and chemical groups are among the most important owners of real estate and among the most visible institutional investors. A financial centre whose history is closely bound up with insurance cannot be understood without them, since the occupational pension is in large part a creation of the insurance industry and still depends on the actuarial techniques that Basel insurers helped to develop in the nineteenth century.¹

This chapter describes the legal architecture of the Swiss pension system and the place of occupational pensions within it, beginning with the constitutional principle of the three pillars and the federal legislation that put it into effect. It then turns to the pension funds of the Basel region, to the rules that govern their investments and to the investment foundations through which many of them invest. Supervision, the retreat of life insurers from the full-insurance model, the long period of low and negative interest rates and the duties of pension funds as shareholders follow. The chapter closes with the cross-border questions that arise in a region where tens of thousands of employees commute from Germany and France every day. Part D described the role of Basel insurers in the early history of social insurance, while Part G discussed the pension funds of the pharmaceutical groups from the perspective of corporate finance. Both treatments are presupposed here.²

1 Notes

1. On the aggregate assets of Swiss pension funds in relation to gross domestic product, see the pension fund statistics of the Federal Statistical Office (FSO) and the annual reports of the Occupational Pension Supervisory Commission (OAK BV) on the financial situation of pension institutions. Figures to be verified. ↩
2. See Part D, chapter IV, on the history of Basel insurance and its contribution to social insurance, and Part G, chapter II, section "The pension funds of the groups", of this book. ↩

2 Conclusion

Measured against the size of the economy, the Swiss pension system is one of the largest pools of long-term capital in the world. Basel holds a significant share of it through the pension funds of its cantons, its pharmaceutical groups and its insurers. The legal architecture that has developed since the vote of 1972 combines the compulsory minimum of the BVG with considerable freedom for funds to offer more, to invest beyond fixed limits under the prudent person principle and to pool their assets in investment foundations. The period of low and negative interest rates from 2015 to 2022 exposed the cost of long-term guarantees, which led envelope funds to reduce their conversion rates on supra-mandatory capital and insurers such as AXA to abandon full insurance. Voters, however, have refused every attempt to lower the statutory conversion rate, most recently on 22 September 2024, while accepting a thirteenth AHV pension in the same year.

Pension funds in Basel are therefore investors, landlords, shareholders and guardians of social promises at the same time. Their decisions affect the rents in the city, the votes at the general meetings of Roche, Novartis and Baloise and the retirement income of cross-border workers from Germany and France. The large Basel groups that sponsor these funds also manage other risks through structures of their own. Their captive insurance companies and the instruments of alternative risk transfer, through which industrial risks reach the capital markets, are the subject of the next chapter.

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