

The conversion rate and the minimum interest rate

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Two parameters dominate the economics of the compulsory minimum. The first is the minimum conversion rate, which determines the annual pension paid for each franc of retirement capital. When the BVG entered into force, the rate was 7.2 per cent, which meant that a capital of CHF 100,000 produced a lifelong annual pension of CHF 7,200. The first BVG revision, adopted in 2003, lowered the rate gradually to 6.8 per cent, a level reached in 2014.¹ Since then, every attempt to reduce it further has failed in a popular vote.

The conversion rate carries considerable economic weight because it embodies two actuarial assumptions, life expectancy at retirement and the interest rate at which the capital can be invested during the pension phase. With a life expectancy at sixty-five of more than twenty years and long-term interest rates far below those of the 1980s, a rate of 6.8 per cent requires a return that most actuaries regard as unattainable without excessive risk. The pension fund must finance the difference. In practice it does so by paying lower interest to active members or by drawing on reserves, which amounts to a redistribution from active employees to pensioners that the Swiss literature has estimated at several billion francs a year.²

The second parameter is the minimum interest rate that pension funds must credit to the retirement accounts of active members for the compulsory part. The Federal Council sets it after consulting the Federal Commission for Occupational Pensions and reviews it at least every two years. The law requires it to take account of the returns on federal bonds and on other customary investments such as shares, bonds and real estate.³ From 1985 until 2002 the rate stood at four per cent. After the stock market losses of 2001 and 2002 it fell to 3.25 per cent and then declined in steps until it reached one per cent in 2017. It has since been raised moderately as interest rates rose.⁴

The two parameters interact in a way that reveals the political economy of the system. A minimum interest rate that is too high burdens funds during periods of low returns, while one that is too low deprives savers of returns that the fund actually earned. Envelope funds can mitigate both problems because they are free to credit different rates on the supra-mandatory part. Funds that insure only the legal minimum, often small employers in trades and services, have far less flexibility. The parameters are therefore felt most strongly by employers with modest salaries, whose employees depend entirely on the compulsory minimum.⁵

1 Notes

1. On the minimum conversion rate under Art. 14 BVG, its original level of 7.2 per cent and its reduction to 6.8 per cent under the first BVG revision of 3 October 2003, phased in from 2005, see the federal legislation and the dispatches of the Federal Council. Dates to be verified. ↩
2. On the actuarial basis of the conversion rate and the estimated annual redistribution from active insured persons to pensioners, see the annual reports of the OAK BV on the financial situation of pension institutions, which have quantified this redistribution. Figures to be verified. ↩
3. On the minimum interest rate under Art. 15 para. 2 BVG and Art. 12 of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2, SR 831.441.1), and the role of the Federal Commission for Occupational Pensions (BVG-Kommission), see the federal legislation. To be verified. ↩
4. On the historical development of the BVG minimum interest rate (4 per cent 1985–2002, 3.25 per cent 2003, 1 per cent 2017–2023, 1.25 per cent from 2024), see the communications of the Federal Social Insurance Office. Rates from 2025 onwards: status to be verified. ↩
5. On the different effects of the minimum interest rate and the conversion rate on envelope funds and on pension institutions insuring only the BVG minimum, see the dispatches of the Federal Council on the BVG reforms and the literature on Swiss occupational pensions, for example the commentaries on the BVG and FZG. To be verified. ↩

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