Press Release from 19 May 2015

Swiss pension funds benefited from a strong performance on the stock markets in 2014.

A strong stock market performance in 2014 meant healthy returns and a satisfactory to good funding position for Switzerland’s pension funds. The current negative-interest-rate environment presents a challenge to the pension funds, though only 22% of them currently intend to adjust their investment strategy. This is revealed in Swisscanto’s "Swiss Pension Funds 2015" survey, covering 437 pension funds. The results were presented on 19 May 2015 by Swisscanto and Zürcher Kantonalbank.

As at the end of 2014, the Swiss pension funds included in the survey were in a satisfactory to good funding position. The coverage ratio for private pension funds reached 113.6% on an asset-weighted basis at the end of 2014 (110.3 % in 2013), while the ratio for fully funded public sector pension funds without a state guarantee rose to 103.5% (100.7% in 2013) and that for partially funded pension funds increased to 83.6% (74.6% in 2013). This means that for private pension funds the ratio is close to the declared target of 116%.
The main driver in these improved ratios was the strong performance of equities in 2014, with Swiss shares climbing 12% and US stocks putting on over 25% in Swiss franc terms. There were also price gains in bonds, particularly US bonds. According to the survey, 90% of investment returns were between 5% and 9.9%.

Low interest rates necessitate greater risk

However, in order to achieve their target returns the pension funds are clearly having to enter into greater risk. The difference between the risk-free return, based on ten-year Swiss government bonds, and the target return has widened from 1.8 to 3.5 percentage points since 2007. Because of legal requirements and risk management rules for pension funds, only limited use can be made of risky investments. Because of this, only 22% of survey participants are intending to adjust their investment portfolios despite the current interest rate environment. The change in asset allocation in 2014 also shows that the pension funds are rebalancing their assets on a broad front and limiting their equity holdings.

Significant reduction in discount rates and target returns

The pension funds have largely made good the losses on the capital market resulting from the 2008 financial crisis and almost returned to the 2007 coverage ratio. This is notable because discount rates were reduced significantly over the same period. Private pension funds have cut the rate from 3.5% to 2.8% on average, while those in the public sector have reduced it from an average of 3.7% to 2.9%. This means that the target return required to maintain their coverage ratio is around 30% lower. In this way, the pension funds have done much to
secure future benefits in the current low-interest-rate environment. The reduction in discount rates since 2007 has cost the pension funds around CHF 18 billion.

According to the survey, just under two thirds of public sector pension funds apply a discount rate of 3%, while 17% of them have higher discount rates. Of the private pension funds, only 38% apply a rate of 3%, while 13% of them use higher rates. At present the reference rate issued by the Swiss Chamber of Pension Actuaries is 3%, though a reduction is foreseeable.

Conversion rate close to target for 2020 pension system reform

The reduction in the discount rate is the main reason for the fall in the conversion rate. Since the 2002 survey, this rate has dropped from an average of 7.1% to 6.2%. This puts it even at this stage close to the 6% which the Swiss Federal Council envisages as a minimum rate under the 2020 pension system reform project. Recent decisions by major pension funds to cut the conversion rate further suggest that this trend will continue. The survey participants regard a minimum conversion rate of 5.7% as appropriate under the 2020 pension system reform.

Costs satisfactory

According to the survey, the total costs for administration and asset management per scheme member are at a median of CHF 1,060, with top rates of CHF 1,150 for small pension funds with fewer than 250 members and around CHF 750 for the large pension funds with 10,000 or more members, which benefit from scale effects. Asset management averages 0.54% of assets under management.
Effects of negative interest rates

The pension funds are very much feeling the effects of the introduction by the Swiss National Bank (SNB) of negative interest rates as a current monetary policy measure. The SNB has rejected calls from the pension funds for a dispensation. The degree to which they are impacted will depend on the banks and the extent to which negative interest rates are passed on to the pension funds. Zürcher Kantonalbank, for instance, has decided not to charge negative interest rates up to a certain allowance for long-standing, stable clients. Current interest rate forecasts suggest that short-term rates will remain in negative territory over the next year. That is also true of ten-year Swiss government bonds. In view of European Central Bank policy, the Swiss franc is likely to remain on the strong side, which points to negative interest rates over the longer term. If this occurs and if the SNB pushes negative interest rates still further down, the financial institutions will not be able to avoid charging pension funds more.

Survey of 437 pension funds

A total of 437 pension funds (compared to 370 last year) took part in the "Swiss Pension Funds 2015" survey. They have assets of CHF 560 billion (CHF 506 billion the previous year), and their members number 3 million, of which around 2.2 million are still working and 800,000 are pensioners. This means that the survey covers around two thirds of all Swiss pension funds. It furnishes valuable time series on key metrics for many parts of the Swiss occupational pension sector, providing a picture of the current situation in the sector. Swisscanto is wholly owned by Zürcher Kantonalbank.

Detailed results
Detailed results are available right now at www.swisscanto-pk-studie.ch. Visit Website (Source Swisscanto)

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