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Swiss 1e pension plans spark appetite for younger generations

BY LUIGI SERENELLI 21 AUGUST 2020

The 1e pension plan market in Switzerland is expected to continue widening, as appetite is likely to increase, especially among younger generations.

“From the point of view of the employees, 1e plans give an option to reduce large redistributions within a fund,” Hansruedi Scherer, a partner at Zurich-based PPCmetrics, told IPE.

These pension products can be highly desirable for the younger insured in Pensionskassen with high technical interest rates and high conversion rates, he added.

Patrick Spuhler, founding partner of pension consultancy Prevanto, told IPE that the volume of 1e plans will continue to increase because of the opportunities and benefits these products provide.

“The main benefit of 1e solutions is that the account of the insured person is credited with the entire return on assets without dilution, redistribution, or use of funds to build up fluctuation reserves,” he explained.

Listed companies also benefit from 1e plans that are based on IFRS Defined Contribution Plans, he said, adding that large companies with 1e solutions include CS and Novartis; others may follow.

Many 1e plans were introduced because employers wanted to reduce its implicit pension fund obligations, Scherer said, noting tnat this trend is likely to continue.

According to a recent PwC survey, assets under management of Swiss providers of second pillar 1e plans grew by 31% year-on-year to reach CHF5bn (€4.6bn) at the beginning of 2020.

Providers of 1e products expect assets to grow 15% annually to CHF10.1bn in 2025, a smaller growth rate compared to the 20% that a previous PwC survey predicted, estimating assets to reach CHF12.7bn by 2024.

The market for 1e plans, which give the option to choose up to 10 investment strategies, is limited to people with a minimum annual salary of CHF126,900.

PPCMetrics expects the wide spectrum of investment strategies offered to remain unchanged.

“From a tax point of view, it is also not at all optimal for many insured to choose particularly risky strategies within the framework of the second pillar,” Scherer said.

1e plans have been a source of controversy in Switzerland for more than a decade, since the inception of a reform package for the second pillar was introduced in 2006 under the article 1e.

“From the perspective of the insured, 1e plans offer opportunities but also high risks, for example if losses are “realized” at the time of retirement or when changing jobs,” Spuhler said.

1e plans usually do not provide for an old-age pension, only a capital payment. The number of possible insured people is very limited and thus the plans are not an alternative, but a supplement to the basic pension, he added.

Based on their own risk capacity, insured people – which are usually relatively close to retirement age – are potentially more susceptible to investment risks, but can hopefully get higher returns through the 1e plans rather than through Pensionskassen, which may have a limited risk capacity, Scherer said.

“The requirement of higher risk capacity compared to Pensionskassen is not always met for a long time,” Scherer concluded.

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