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**Autor:** Ribi, Rolf  
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## "The house has been built, but it is never finished"

Two million people draw an old-age and survivors' insurance pension (AHV). The AHV social welfare system is as deeply engrained in the Swiss people as political neutrality. But the way in which the system is financed raises major issues. Today, there are four people in employment to every pensioner. In forty years' time, the ratio will be just two to one. By Rolf Ribi

*"The strength of a people is measured by the welfare of the weakest of its members."*

(Preamble to the Swiss Federal Constitution)

"The house has been built, but it is never finished. Social welfare is an ongoing responsibility", the former Federal Councillor Hans-Peter Tschudi, then aged 88, told me seven years ago. This "house", namely old-age and survivors' insurance (AHV), is the Swiss Confederation's largest and most important social institution. Its "architect" was the former interior minister Tschudi, who rapidly extended the system created in 1948 during his term of office from 1960 to 1973. "The introduction of AHV was based on the strong political will to resolve the complex social problem of old age and to create a more humane Switzerland", Tschudi explained to me. The death of this Social Democrat Federal Councillor in September 2002 was mourned by the entire population.

The "fathers" of this key social institution were Walther Stampfli, the Free Democrat Federal Councillor from Solothurn, and Ernst Nobs, the Social Democrat Federal Councillor from Zurich. In his New Year's address of 1944, Swiss President Stampfli promised the Swiss people that an AHV system would be introduced on 1 January 1948. Parliament backed the proposal and almost unanimously approved the AHV law in December 1946. In the federal referendum on 6 July 1947 (business leaders had called for a referendum), almost 80% voted in favour of it with a turnout of 80%.

### Three pillars of social insurance

The basic principles of the 1946 AHV law still apply today. AHV is a national insurance scheme. It is compulsory for everyone who resides or works in Switzerland. That

includes all employees, the self-employed and the unemployed. AHV benefits are essentially financed by the contributions of employers and the insured, though the federal government and the cantons also help fund them.

The law provides for social welfare and solidarity in three ways:

- The AHV contributions of employers and employees are deducted from the total salary. They determine the pension but only to a certain salary threshold. AHV contributions from salaries above this threshold benefit pension recipients with low incomes.
- The difference between the minimum and the maximum pension has always been small (originally, CHF 40 to CHF 125 a month). The current ratio (CHF 1,105 to CHF 2,210) also represents a balance that fosters solidarity, as the amount that must be paid to obtain the maximum pension is many times higher than for the minimum one.
- AHV involves the transfer of finance from people in gainful employment to pension recipients. The old-age insurance scheme passes the contributions it receives on to those entitled to a pension within the same period. This ensures solidarity between the generations.

The Federal Council came up with the idea of a social insurance system based on three pillars back in 1963. Private insurance, group occupational benefits insurance and AHV were to form the basis of the future social welfare state. According to the Federal Constitution (Articles 112 and 113), AHV, together with invalidity insurance (IV) and the supplementary benefits, constitutes the first pillar and covers basic living costs (food, accommodation, clothing and healthcare). The second pillar, namely group occupational benefits insurance, should, together with AHV benefits, ensure "appropriately that the previous lifestyle may be main-

tained". As a third pillar, the federal government and cantons encourage private insurance through tax benefits and other means.

### Fiasco of the 11th AHV revision

Ever since the AHV scheme was established in 1948, its benefits have been improved in stages. The 10th AHV revision of 1993, in particular, brought about a series of changes. Average-income earners received higher pensions, married women became entitled to an individual pension, credits for raising a family and caring for relatives were introduced, the (previously lowered) pension age for women was raised to 64 in two stages, a widower's pension was brought in and the opportunity to draw the pension early for two years (with a corresponding reduction) was introduced.

The 16th of May 2004 was a black day for the Federal Council and the parties of the middle classes. 68% of voters rejected the 11th AHV revision and 69% rebuffed the financing of AHV and IV through an increase in VAT. For the first time in history, the people went against the government on an AHV bill, and this was the case in every part of the country and in every social group. The reform would have cut annual AHV spending (CHF 30 billion) by CHF 1 billion. VAT would have been raised by 0.8% for invalidity insurance and a further 1% for AHV from 2009.

The arguments against this AHV reform highlighted the increase in the pension age for women to 64, restrictions for the widow's pension and a slower alignment of pensions with inflation. Added to these was the fact that the two AHV bills were overshadowed by the overwhelming 66% vote against the tax package in favour of the economy. The "savings bill" of the 11th AHV revision fell through for a start thanks to its rejection by the Social Democrats and the unions, who opposed the raising of the pension age, and by the middle-class parties, who were against increasing VAT.

### New approach to AHV reform

The two "No" votes to the 2004 AHV bills resulted in a weakening of political will. The Federal Council and Parliament pondered long and hard on the following question: is the time right for a major reform of AHV or can only small revisions take this social system forward right now? The government decided to go down the second path, and the



National Council followed suit. The next "major" reform should come with the 12th AHV revision entering into force in, say, 2015.

This is the main thrust of the "new" 11th AHV reform according to the National Council's decision in March of this year: the pension age for women will be increased to 65 in 2009, putting it on a par with that for men; the Federal Council will continue to bring the AHV pension into line with salary and price trends only every two years (this alignment will be slower if the balance in the AHV fund falls below 70% of annual expenditure); and there will be no early retirement for people on lower incomes or social equalisation for the associated pension reductions. This bill should save CHF 800 million a year. The scaled-down AHV revision was approved by the National Council but only just, by 97 votes to 89. It will pass to the Council of States this autumn.

This limited AHV reform pleased the Swiss People's Party (SVP), but angered the Social Democrats and the unions. The SVP wants to use all the additional income from the higher pension age for women to ensure the financial security of the social system. Hugo Fasel, President of the Travailsuisse union, has already threatened a referendum. Fulvio Pelli, President of the FDP, said: "Carrying on with this savings bill is an absolute waste of time. We are prepared to oppose the reform in a referendum."

#### The left's popular AHV initiative

The popular initiative of the Swiss Federation of Trade Unions (SGB) "for a flexible pension age" is in the political pipeline. This popular initiative submitted two years ago

with 106,500 signatures aims to provide a large proportion of the working population with an unreduced AHV pension between the ages of 62 and 65. Early retirement without a reduction in pension should be available for people with a current income of less than CHF 120,000 a year if they give up employment completely. The unions argue that older employees (men and women) are at greater risk of redundancy, unemployment and compulsory retirement than younger ones and that many older people are left physically exhausted by their jobs and have a lower life expectancy.

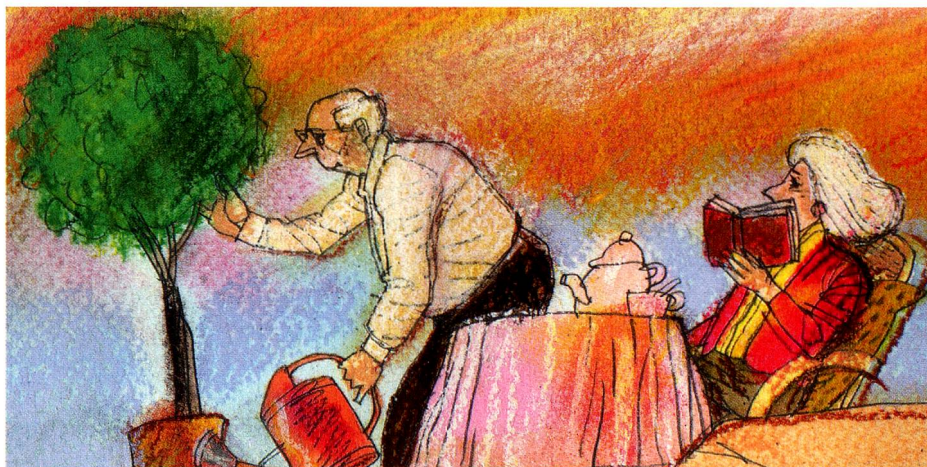
The Federal Council vehemently opposes this popular initiative, which also has little chance of getting through the National Council. The initiative would lead to a lowering of the pension age for a large proportion of the working population. No fewer than 98% of women and 85% of men would profit. It would result in additional costs of CHF 800 million to CHF 1,200 million for AHV (depending on whether the pension age for women was 64 or 65).

#### Problematic financing of AHV

How sustainable is the way in which AHV is financed? Will today's young citizens ever receive their AHV pensions? Such issues are frequently covered in the press. Three factors determine the income of this social institution: demographic trends, economic performance and productivity. The government can also use VAT or other taxes (such as casino tax and inheritance tax) to finance it.

This is the picture painted by demographic data: the Swiss population is ageing all the time. A 65-year-old man today lives for another 17 years on average, and a woman 21 years. Greater life expectancy is the (welcome) result of better nutrition and advances in medicine. Experts predict further increases in life expectancy. This means that with (presumably) the same pension age, more and more people are receiving an old-age pension for a greater number of years. This is having an impact on AHV expenditure.

An increase in the birth rate may have a positive effect on the fund's income in the



#### FAQ ON AHV

##### Admittance to the voluntary AHV/IV scheme

Swiss and EU/EFTA citizens can join the voluntary AHV/IV scheme provided they were insured for at least five consecutive years immediately prior to leaving the compulsory AHV/IV scheme and they do not move to an EU or EFTA state (Iceland, Liechtenstein, Norway). The admittance application must be made within a year of leaving the compulsory insurance scheme. Insured persons in employment pay contributions of 9.8% (AHV 8.4%, IV 1.4%) of their salary. Insured persons not in employment pay an annual contribution of between CHF 864 and CHF 9,800 based on their assets and pension income. Married persons not in employment pay contributions based on half of their marital assets and pension income.

More information and forms are available at [www.zas.admin.ch](http://www.zas.admin.ch) (The Swiss Compensation Office / Voluntary insurance) and [www.ahv.ch](http://www.ahv.ch)

(Merkblätter / Nr. 10 AHV/IV für Personen im Ausland / 10.02 Freiwillige AHV/IV).

##### Old-age pension

You are entitled to benefits if you have paid at least 12 months of contributions to the compulsory or voluntary AHV scheme. Entitlement to an old-age pension begins on the first day of the month following the date when the pension age is reached (65 for men and 64 for women) and ends at the end of the month in which the pension beneficiary dies.

The flexible pension system allows for early retirement of one or two years. The pension is reduced for the duration of retirement (by between 3.4% and 13.6%). No pensions for children are paid out during the period of early retirement. Retirement can be postponed for a minimum of 1 year and a maximum of 5 years. The monthly old-age pension is increased accordingly. Postponing retirement also results



longer term. While the birth rate after the Second World War was 2.5 per woman for some time, it has now fallen to around 1.5. It is thanks to immigration and the higher number of children born to foreign women that this figure is not even lower. Fewer children means fewer people in employment later on and fewer AHV contributors. Even just to maintain the population of Switzerland at its current level, a woman would have to give birth to an average of 2.1 children.

These demographic trends have consequences. The ratio between those in work aged between 20 and 65 and pensioners is changing dramatically. In 1970, there were 4.3 people in employment to one pensioner, today the figure is 3.6, and in 2030 it will be just 2.3. Going from four people in gainful employment for every one pensioner to just two, as will be the case in 2040, is creating a major, long-term financial problem.

The level of AHV income from the contributions of the working population also depends on economic growth and productivity. The better the economic situation and the more growth, the greater the number of people in employment and the higher the salaries and AHV contributions. Such economic forecasts are, of course, uncertain. What is important are improvements in productivity (i.e. the economic output per person in employment). "If we assume an annual growth in productivity of 1.5%, income will increase 100% by 2050. Despite the higher burden of old-age pension provision, household income will still be 65% higher", estimate economic researchers at the Swiss Federal Institute of Technology. Thanks to this increase in pro-

ductivity, it will still be possible to finance old-age pension provision in the future.

### The AHV pot

All contributions made by those insured under the AHV and IV schemes and all associated benefits are managed by the AHV compensation fund. This fund is responsible for all payments and therefore needs to maintain a balance that is equal to annual expenditure. Last year, the fund's receipts amounted to CHF 34.8 billion, with CHF 25.2 billion from those insured and employers and CHF 6.7 billion from contributions from federal government and the cantons (plus CHF 2.1 billion from VAT and CHF 0.5 billion from casino tax). Total spending on pensions amounted to CHF 32.8 billion. At the end of the year, the AHV fund's capital stood at CHF 40.6 billion – 122% of one year's outlay.

The AHV fund's current problem is the loss made on invalidity insurance. IV owes AHV no less than CHF 11 billion. "Every day, the AHV fund loses five million Swiss francs on invalidity insurance", explained Yves Rossier, head of the Federal Social Insurance Office. If the money loaned to IV (which will probably never be paid back) is taken into account, AHV has a cover ratio of just 88% of annual expenditure.

"It seems a nailed-on certainty that AHV will no longer be able to fully cover its benefit payments using contributions in a few years' time because of the increasing number of pensioners" – this is the legacy of the fund's president Ulrich Grete, who stepped down at the end of 2007. The Federal Social Insurance Office anticipates a positive situation in respect of income and expenditure

up to 2010, after which a downward trend will begin until a deficit of CHF 12 billion is reached in 2030 (or CHF 7 billion according to more favourable estimates). The Swiss Federation of Trade Unions estimates the figure at "just" CHF 4.5 billion due to immigration from abroad and greater productivity.

The financial shortfall for AHV could be countered by a higher pension age (particularly for women), a more flexible pension age or higher contributions from those insured.

### Controversy over pension age

The pension age for men has been 65 since the introduction of AHV, and is currently 64 for women. Increased life expectancy among the older generation is an argument for raising the pension age. The Commission for Economic Policy stated emphatically in its latest report to the Federal Council: "The AHV system can only be preserved if the pension age is increased from 65 to 67."

There are arguments for and against a higher pension age for women. Under the current law, women receive the AHV pension for five years longer than men because their life expectancy is greater and their pension age is lower. But women still earn less than men for the same work, and often work part-time and in poorly paid sectors. Nevertheless, the unions' AHV initiative is also based on a common maximum age of 65 for men and women.

The predominant theme is "flexibility in the pension age", which means deviations from the statutory pension age both upwards and downwards. There is already a

in postponement of receipt of the supplementary pension for wives and pension for children. Further information is available at [www.zas.admin.ch](http://www.zas.admin.ch) (Swiss Compensation Office – Benefits – Old-age pensions – Early retirement and deferred retirement).

If you are insured under **the voluntary old-age and survivors' insurance scheme (AHV)**, you will be informed by the Swiss Compensation Office in Geneva about the procedure for claiming a Swiss AHV old-age pension several months before you reach the legal pension age.

If you are **not or no longer insured under the voluntary AHV scheme**, you will not be informed automatically. It is advisable to make the application for an old-age pension early i.e. six months before reaching the pension age. The procedure is as follows:

1. In the case of **residence in an EU or EFTA state** (Iceland, Liechtenstein, Norway), the application has to be made to the social security authority in the country of residence. If you have never been

covered by the social insurance scheme in your current country of residence abroad, you have to make the application to the social security authority in your last country of residence. If you have only been covered by AHV, you must request the registration form for an old-age pension directly from the Swiss Compensation Office in Geneva. You must state that you have never been insured in an EU/EFTA state.

2. In cases where the **country of residence is outside the EU/EFTA**, the Swiss Compensation Office in Geneva is responsible and provides the forms. If you have never been insured in an EU/EFTA state, you must indicate this on your application.

### Payment of the old-age pension

The Swiss Compensation Office in Geneva calculates AHV benefits in Swiss francs. You can choose whether you want your pension paid out in Switzerland or in your country of residence. Payments abroad are



lower pension age for men and women, though this is linked to lower pensions (AHV and occupational benefits insurance) and continued compulsory contributions (AHV). This option is currently open to high earners in particular. The unions' ini-

tiative aims to also open up this opportunity to lower earners – while retaining a full pension.

Upward flexibility in the pension age (with a higher pension) is also controversial. The “Neue Zürcher Zeitung” believes that

“a major AHV reform cannot be achieved without a general increase in the AHV pension age to over 65”. A higher pension age is based on the assumption that older people can remain in employment for longer. In reality, this is often not the case. Companies



generally made in the currency of the country of residence. Costs relating to the transfer to the recipient bank are borne by the Swiss Compensation Office. Neither the Swiss Compensation Office nor the agent bank deducts charges or commission from the amount transferred.

#### **Supplementary pension for wives**

In addition to the old-age pension, a husband is entitled to a supplementary pension for his wife, provided she was born before 1942 and is not entitled to a pension herself.

#### **Pension for children**

Pensioners are entitled to an additional pension for children under the age of 18 or until they complete their education (up to the age of 25).

#### **Provisional pension calculation**

You can request a provisional/projected pension calculation from

the Swiss Compensation Office. The information required for this calculation includes the family situation, number of years insured, contributions and current and future income. Please allow the Swiss Compensation Office sufficient time to carry out this complex calculation. Please send the application form, available at [www.zas.admin.ch](http://www.zas.admin.ch) (Services – Projected/provisional pension calculation), together with an official document containing the applicant's personal details (surname, first name, date of birth and name of spouse) to the Swiss Compensation Office.

#### **Information and forms**

Details concerning **the old-age pension** are available at [www.zas.admin.ch](http://www.zas.admin.ch) (Swiss Compensation Office)

#### **Survivors' pension**

If your spouse is insured under the compulsory or voluntary AHV scheme at the time of his/her death, you are entitled to a widow's or



demand involuntary early retirement, employers prefer younger workers for cost reasons and people who become unemployed in their fifties and sixties rarely find a new job.

### Higher AHV contributions?

According to the Federal Council, 1.1% in additional contributions will be required by the year 2020. The issue of higher statutory AHV contributions by employees and employers is a politically explosive one. Taking a greater percentage of salary puts a strain on the economy and on wage-earners, and has a negative impact on solidarity between the generations.

Added to this is the fact that the vast majority of pensioners today find themselves in a good position financially, and only around 6% are affected by genuine poverty. According to a study by the Federal Social Insurance Office, the group aged 55 to 75 fares the best financially (families with three or more children, single parents and single women are the worst off). Author Professor Philippe Wanner of the University of Geneva, asks the following provocative question: "Should solidarity between the generations with regard to the financing of AHV be enhanced with a solidarity contribution from pensioners?"

Another possibility could be to slightly reduce the maximum AHV pension in future, or alternatively to stop fully aligning all current pensions with inflation or the general trend in salaries. "Either of these two measures would go a long way towards stabilising AHV", claims publicist Beat Kappeler, one of the most ardent critics of our social system.

### Criticism of AHV

"Old-age pension provision in Switzerland has degenerated into a means of funding luxury for the older generation", explains Beat Kappeler. When AHV was established in 1948, basic living costs (food, clothing, accommodation and healthcare) accounted for 74% of household expenditure, whereas today this is only 42%. According to the Constitution, AHV and occupational benefits insurance should together "appropriately" cover the lifestyle to which people have become accustomed. Kappeler argues that "trips around the world, holidays, cars, restaurants, golf clubs and much more besides are not necessarily appropriate. Any-one who wishes to enjoy all these pleasures until they are 90 should save privately for them".

Similar to the pension models in Germany and Sweden, Kappeler is calling for pensions to be adjusted continuously in line with a longer life expectancy, the number of people in employment and economic growth. He says, "if the number of contributors falls, if pensioners continue to live longer and if economic growth fluctuates, the seemingly secure AHV system will find itself in troubled waters". The logic behind what Kappeler and economic experts are demanding cannot be faulted, but what this would mean is the end of the popular, socially-responsible and solidarity-based AHV national insurance system as we know it today.

### The people have the final say

Any change to old-age and survivors' insurance (AHV) in the Constitution and law requires the approval of the Swiss people (ref-

erendum). The AHV system is as deeply engrained in the hearts of the Swiss people as neutrality. The question is whether the people understand the realities of the situation, such as the ageing of the population and the financial outlook for AHV. "It would be risky to assume that public opinion is ready for the inevitable adjustments to old-age pension provision", warned Jean-François Rudaz of the Federal Social Insurance Office.

"A fundamental reform based on demographics and economic output would stand a good chance of winning approval in a referendum because it would be a credible way of securing the AHV system", says critic Beat Kappeler. And young people would again have confidence in a "sustainable" social insurance system.

As far as Federal Councillor Hans-Peter Tschudi, the former "architect" of this social insurance institution, was concerned, AHV is "primarily a political problem rather than an insurance one". His legacy still resonates today – "as long as the political will exists to provide fathers and mothers with a well-earned retirement, solutions can be found".

### Documentation

Pasqualina Perrig-Chiello, François Höpfinger and Christian Suter: Generationen - Strukturen und Beziehungen. Generationenbericht Schweiz. Zurich 2008, Seismo Verlag ([www.seismo-verlag.ch](http://www.seismo-verlag.ch)). CHF 58, EUR 38.50  
Strategy for a Swiss Policy on Old Age. Federal Council Report of 29 August 2007  
Federal Council Statement on the Popular Initiative "for a flexible AHV age" of 21 December 2006  
Documentation centre doku-zug.ch

a widower's pension provided you meet certain criteria. If an insured parent dies, children are entitled to an orphans' pension depending on their age. Further information and forms are available at [www.zas.admin.ch](http://www.zas.admin.ch) (Swiss Compensation Office – Benefits – Survivors' pension).

### Disability pension

If you meet certain conditions, you or your children may be entitled to a disability pension or rehabilitation measures. The so-called helplessness allowance is not paid to recipients who reside abroad. More information and forms are available at [www.zas.admin.ch](http://www.zas.admin.ch) (DI Office for insured people living abroad OAIE).

### Notification duty

If you draw a pension or are insured under the voluntary AHV/IV scheme, you must inform the Swiss Compensation Office in Geneva of any important change of circumstances: e.g. change of address;

changes to status (deaths, marriage, divorce or births); the discontinuation or completion of periods of training or study if a child has reached the end of his/her 18th year and is claiming benefits, etc.

Please contact the Swiss Compensation Office in Geneva if you have any queries about the AHV/IV system: Tel. +41 22 795 91 11, [www.zas.admin.ch](http://www.zas.admin.ch)

**Contributions:** Central Compensation Office CENT, Swiss Compensation Office SCS, Voluntary Insurance – Contributions, Avenue Edmond-Vaucher 18, P.O. Box 3100, 1211 Geneva 2, Fax +41 22 795 98 55, [csc-af@zas.admin.ch](mailto:csc-af@zas.admin.ch)

**Old-age pension:** Central Compensation Office CENT, Swiss Compensation Office SCS, Voluntary Insurance – Contributions, Avenue Edmond-Vaucher 18, P.O. Box 3100, 1211 Geneva 2, Fax +41 22 795 97 03, [sedmaster@zas.admin.ch](mailto:sedmaster@zas.admin.ch)

**Disability pension:** Central Compensation Office CENT, DI Office for insured people living abroad OAIE, Avenue Edmond-Vaucher 18, P.O. Box 3100, 1211 Geneva 2, Fax +41 22 795 99 50, [OAIE@zas.admin.ch](mailto:OAIE@zas.admin.ch)