Changing retirement strategy

A thought experiment for a more sustainable Swiss retirement system

UBS

Editorial

Dear Reader,

There is broad consensus that the Swiss retirement system stands at a crossroads: The question is not whether change is necessary, but how it can best be achieved. While the public debate largely focuses on immediate measures for the most pressing problems, in this report, our experts consider a more comprehensive approach aimed at improving both the financial and social sustainability of the system in the long term.

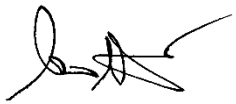
In this spirit, the report outlines a bold transition to a completely redesigned retirement system, intended to stimulate further discussion and encourage farsighted ideas about future pension reforms. The approach presented is just one possible solution among many and is meant to contribute to a broader discussion. However, we believe it addresses numerous weaknesses affecting the current system that have been difficult to resolve.

Pension provision is not the only area that should be open to new, innovative approaches and solutions. The Swiss health care system, infrastructure, energy supply, and other sectors could also benefit from creative thinking and open dialogue. Let us not shy away from questioning the status quo and bringing new ideas for the future of our country.

The authors look forward to your perspectives and constructive feedback as we reflect together on the way forward.

I wish you an inspiring read.

Kind regards,



Sergio P. Ermotti

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Content

Changing retirement strategy

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Executive summary

We envision a system with these attributes:

- **Adequate:** Revision of contribution rates and financing of the first pillar to increase retirement benefits for low-income earners with a full history of employment.
- **Generationally fair:** Remove the structural intergenerational financing of old age benefits on which the AHV primarily relies.
- **Targeted redistribution:** Structural redistribution should flow from the rich to the poor.
- **Comprehensive:** Introduce mandatory long-term care insurance.
- **Fiscally just**: Correct existing rules that mainly benefit high-income earners.
- **Uniform**: Treat all workers equally regardless of age, employment status, marital situation, household type, or family model.
- **Appreciative:** Better acknowledge the societal contribution of parents (and informal carers) and the negative financial impact of child-rearing on retirement prospects.
- **Flexible:** More choice on the timing of benefits withdrawal, benefit forms, service provider, investment decisions, and insurance coverage.
- **Efficient**: Leverage private-sector-led innovation where it can increase the quality of service per unit of cost.
- **Transparent and honest**: Reveal the hidden cost of future benefits that exceed future contributions.
- **Forward-looking:** Long-term reduction of implicit government debt creates the necessary scope for action for essential future investments.

Starting 2035:

- Switch from a pay-as-you-go AHV and funded defined benefit BVG to a **fully funded** scheme with two tranches delivering materially **higher pensions for low-income earners** with a full history of employment, than the current system:
  - First tranche (replacing the AHV)**:** A **funded defined benefit** scheme with contributions on a first portion of wage, **guaranteed returns** backed by the state.
  - Second tranche (replacing the BVG)**:** A **defined contribution** scheme with **market returns**, age-uniform and wage-degressive total contribution rates, based on second portion of wage.
- **Pillar 3a:** Move from income-progressive to income-regressive tax incentives, with higher permittable contributions.
- **Supplementary benefits**: Apply stricter means-testing and restitution criteria, as well as automatic screening of those in need.
- **Insurances:** More freedom of choice for coverage of invalidity and survivor's insurance. Introduce mandatory long-term care insurance from age 45.
- **Reference retirement age:** Start partial indexation to changes in life expectancy.
- **Splitting** of benefits extended to cohabitating parents with children under the age of 12, with opt-out possibilities for everyone.
- **Taxation** of "shadow pensions" corresponding to second pillar capital withdrawals instead of taxation of capital at time of withdrawal.
- **Grandfathering** of accrued entitlements and taxation of benefits in the current schemes, throughout the transition.
- **Reduction of the implicit debt** of the AHV over two generations. The additional costs of the proposed retirement system would be financed through higher taxes.

Introduction

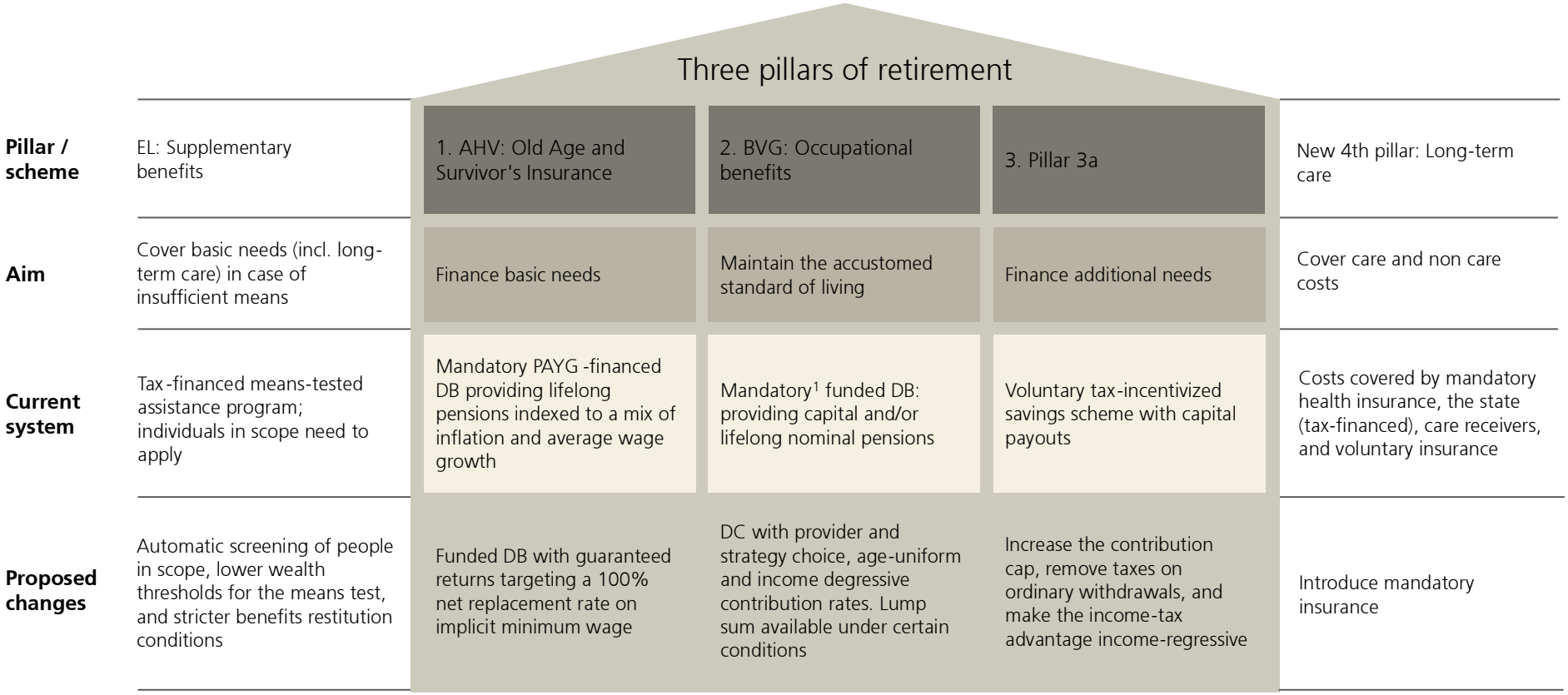
In this report, we explore a range of ideas intended to address some of the perceived weaknesses and challenges within our current retirement system. The spirit of this report is that of a thought experiment, aiming to stimulate discussion rather than prescribe definitive solutions. The propositions presented here are intended as a package and shouldn't be looked at in isolation. They reflect a compromise with the hope that they may help to overcome political gridlock.

One concept we consider is a shift from the existing pay-as-you-go structure of the AHV to a funded state model. We believe this approach would reduce the increasing structural intergenerational redistribution inherent in the current system, which at times may be at odds with the principle that social transfers should primarily support those in financial need. Alongside this, we contemplate ways to enhance pension adequacy for low-income workers.

We also examine the possibility of transitioning pension funds to pure defined contribution schemes. The intention here is to consider whether increased choice, flexibility, and individual responsibility might contribute to improved retirement outcomes for many workers. At the same time, we recognize that such changes could introduce new complexities and potential vulnerabilities.

The report is organized as follows: We begin by outlining areas where improvements might be made and present the ideas under consideration. We then compare the current and proposed systems, describe a possible transition process, and discuss potential financial and societal impacts. Finally, we conclude with a summary of the key challenges, limitations, and opportunities associated with the proposed approach and its transition.

Upgrading the pillars of the retirement system

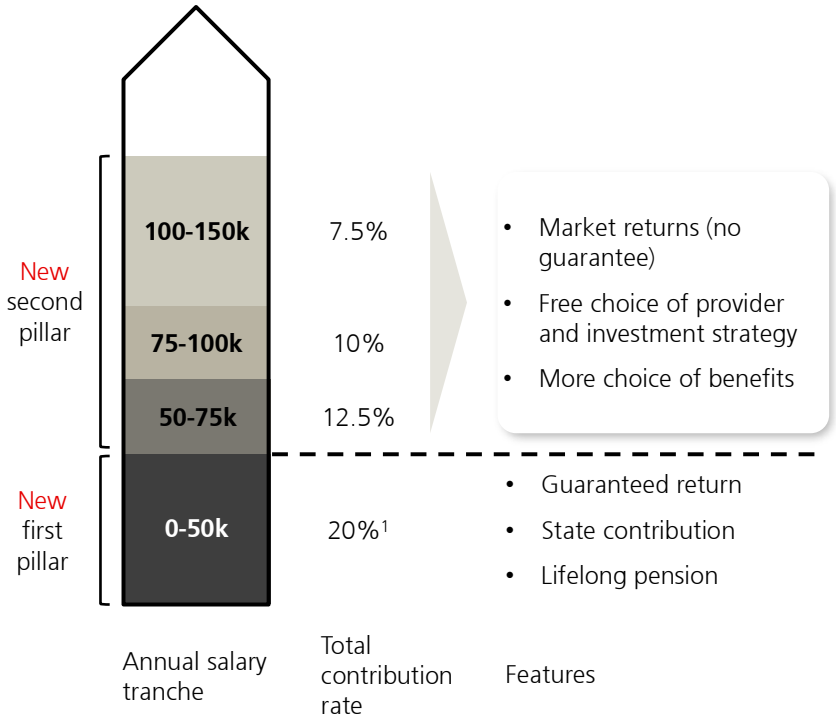


		1. AHV: Old Age and Survivor's Insurance	2. BVG: Occupational benefits	3. Pillar 3a	
Pillar / scheme	EL: Supplementary benefits				New 4th pillar: Long-term care
Aim	Cover basic needs (incl. long-term care) in case of insufficient means	Finance basic needs	Maintain the accustomed standard of living	Finance additional needs	Cover care and non care costs
Current system	Tax-financed means-tested assistance program; individuals in scope need to apply	Mandatory PAYG-financed DB providing lifelong pensions indexed to a mix of inflation and average wage growth	Mandatory[1] funded DB: providing capital and/or lifelong nominal pensions	Voluntary tax-incentivized savings scheme with capital payouts	Costs covered by mandatory health insurance, the state (tax-financed), care receivers, and voluntary insurance
Proposed changes	Automatic screening of people in scope, lower wealth thresholds for the means test, and stricter benefits restitution conditions	Funded DB with guaranteed returns targeting a 100% net replacement rate on implicit minimum wage	DC with provider and strategy choice, age-uniform and income degressive contribution rates. Lump sum available under certain conditions	Increase the contribution cap, remove taxes on ordinary withdrawals, and make the income-tax advantage income-regressive	Introduce mandatory insurance

PAYG = pay as you go; DB = defined benefit(s); DC = defined contribution(s)
1. BVG is not mandatory for most self employed. Sources: FSIO, UBS, 2026

Highlights of the new system

Overview of contributory base and contribution rates



Pros and cons of the proposed system compared to the current one

	Pros	Cons
Financing	• Reduced dependency on demographic development, e.g., fertility and migration • Equal treatment of workers, i.e., age-uniform contribution rates • No generational transfers, i.e., risk sponsoring, in the second pillar	• Increased exposure to financial markets • Lower disposable income and higher cost of employment for low-income earners in particular
Benefits	• Higher first pillar benefits, e.g., +62% for a full-time 20-65 career at implicit minimum wage • Equal treatment of married and non-married partners • Higher child credits in the first pillar • Higher benefits in the first pillar for jobs that lead to reduced life expectancy	• Higher variability of benefits in the second pillar, despite higher pensions than BVG minimum on average
Flexibility and choice	• Earlier withdrawal of benefits possible • Free choice of pension fund provider: workers are not tied to potentially underperforming pension funds of their employer • Option to tailor second pillar investment strategy and survivor's insurance to household situation • Potentially more benefit types in the second pillar	• Risk of suboptimal investment decisions in the second pillar or suboptimal survivor's insurance coverage for some individuals • Some individuals may suffer from choice overload
Old age care	• Mandatory insurance would likely lower the cost of insurance and the financial burden on cantonal finances	• The cost of insurance would particularly burden low-income households in the absence of subsidies • Uncertainty about incentives to "excessively use" the insurance in old age
Taxes	• Fiscally just: income-degressive tax advantages in the pillar 3a and for voluntary pension fund purchases; same fiscal treatment of annuity and capital withdrawals	• Structurally higher taxes to mainly fund child credits and higher state contributions to the first pillar

1. Degressive waiver of employee contributions for very low-income earners depending on household situation, income and wealth. All figures are indicative. Source: UBS, 2026

Room for improvement

Current first pillar: Room for improvement

Unfinanced promises

- The AHV's pay-as-you-go financing can result in **reverse redistribution**: some low-income workers finance the pensions of wealthier retirees.
- The AHV is **financially unsustainable:**
  - The pension promises that each generation makes to itself are too high relative to the contribution rate, contribution period, benefit indexation, and the size of future cohorts. This is further complicated by uncertainties around life expectancy, productivity, labor force participation, wage distribution, activity rates, and future net migration.
  - As a result, the AHV carries an off-balance sheet commitment akin to an **implicit debt** that is much higher than the state's explicit one. This implicit debt doesn't transpire in national accounts and therefore escapes the **public scrutiny** it deserves, as it carries a **high and increasing cost to society**.
- The AHV's current design requires a higher **fertility rate** and net migration than the population may desire.

Limitations of reforms

- Measures to increase the AHV's financial stability implemented in the last decades have notable limitations:
  - Increased **wage-based contributions burden workers** but not (potentially wealthy) pension recipients.
  - Increased earmarked **VAT** disproportionately **burdens low-income households**, when assessing the impact as a share of income. Pension recipients domiciled abroad (15% of payouts in 2024 according to FSIO statistics) are not impacted by such measures.

Outdated model

- Minimum pensions lead to **untargeted redistribution**, e.g., low-income part-time workers receive a minimum pension, provided they have worked 44 years, regardless of their wealth situation, or wealth and income situation of their household.
- Non-working partners are insured through their working spouse and benefit from the splitting mechanism; however, these two points don't apply to domestic partners.
- **Non-married parents benefit more from** higher pensions through **child credits** than married couples (except for low-income and high-income ones). They can also split child credits differently than equally.
- The **maximum pension of spouses is capped**, whereas it isn't for domestic partners.
- "Free-riding" issue: Pensions are paid out whether people have children or not, while the **cost of raising the next generation** of workers (payers) is **disproportionately shouldered by parents**.
- Contributions to the AHV after the reference age do not always lead to higher pensions. This may discourage further employment beyond that age.
- The AHV is locally implemented by 72 compensation offices that don't just manage AHV flows. Efficiency gains and economies of scale could be realized by changing to a central organization with a digital service offering. The compensation offices charge quite high fees of up to 5% on contributions.
- There is a political temptation to adjust early and late retirement incentives to address the labor force shortage, rather than addressing the root causes of this issue.

Current second pillar: Room for improvement

Flawed design

- The **conversion rate** that is set in the law is **out of sync with** actuarial reality—e.g., **life expectancy** and expected financial **market returns**. As a result, pension institutions sticking to the minimum defined benefit plan promise retirement benefits that can only reasonably be kept by resorting to **intergenerational redistribution**—i.e., younger cohorts of workers within the same pension fund partially finance the pensions of retirees.
- The discretionary decision, by which the **minimum interest rate** credited annually to retirement assets in the minimum defined benefit plan is determined, is informed by historical performance of financial assets and can be **inconsistent with the market reality**.
- Promised benefits and **capital guarantee** on retirement assets may limit the risk-taking ability of some pension funds, leading to **sub-optimal** risk-taking and pension **outcomes**.
- Different contribution rates per age class (Switzerland is the last OECD country to do so) can result in **age-based discrimination** mainly for older unemployed low-income earners. Furthermore, it has an important impact on retirement outcomes in case of unemployment in the latter part of the career.
- Low-income, part-time workers and those with multiple employers are generally less well insured than high-income and full-time workers, because of the entry threshold and coordination deduction. This is often justified by the high administrative costs of some pension institutions per insured.
- Capital and pension guarantees require reserves. However, while workers may have to contribute to the constitution of reserves, they cannot carry them to another pension institution and therefore benefit from them when needed.
- Working-age pension fund members may bear the financial risks associated with providing guaranteed pension benefits to retirees—a burden that is intensified by population aging.
- While undergoing consolidation, the pension fund landscape remains **fragmented** (1,200+ pension institutions) leading to **sub-optimal management of assets** in some instances.

Limited choice

- Employees **cannot choose their pension institution**, save for vested benefits account holders and some self-employed workers. For most, all retirement assets (provided they don't exceed the plan's capacity) must be managed by their current employer's pension fund, in **potentially underperforming ones**.
- Only plan 1e and vested benefits participants can choose their investment strategy. For other participants, the management of assets may be at odds with their ability and willingness to take risk.
- In case of a change of employer, assets in plan 1e must currently be transferred to the pension institution of the next employer immediately, potentially crystalizing unrealized losses.
- Holders of a vested benefits account cannot opt for a pension.
- Pensions are typically **not indexed to inflation**, which erodes their purchasing power over time.
- Insurance is **optional for** most **self-employed** workers, potentially giving rise to inadequate retirement provisions.

Taxation

- The taxation of retirement **capital withdrawals** may enable **tax arbitrage** compared to a pension withdrawal.

Other

- Very large withdrawals to finance owner occupied real estate are possible, beyond prudent diversification rules.
- **Non-married** couples can't opt for a **splitting** of benefits in case of separation.
- Employee and employer representation on the **board of pension institutions** can lead to **politicized decisions**.
- **Taxpayers** may ultimately have to **bail out** underfunded **public sector** pension institutions.

Current other insurances: Room for improvement

Survivor and invalidity insurance

- There are many forms of **redistribution** that occur from certain household types to others, not necessarily from the wealthy to the needy.
  - The insurance of survivors in the AHV **doesn't cover non-married couples**.
  - Survivor's benefits in the BVG (minimum plan) don't extend to non-married couples.
  - Provisions on **surviving spouse insurance** include length of partnership or age of the spouse at the time of the risk event, thereby **discriminating against age differences**.
  - In both the AHV and BVG, some participants—e.g., singles and childless—are required to finance risks that are not relevant to them, i.e., insurance of a spouse and/or children.
- Workers are at times at a disadvantage compared to most self-employed workers for whom the second pillar insurance is voluntary and who can contract more targeted and at times more cost-efficient insurances.

Long-term care

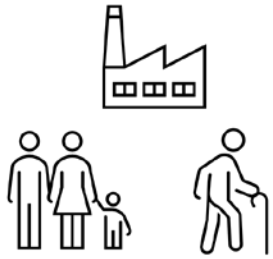
- Mandatory health insurance does not cover all old-age care costs. Most of these costs are funded in two ways: First, through rich-to-poor redistribution mainly at the cantonal and municipal level; and second, through young-to-old redistribution, which is built into the way health insurance premiums are financed.
- There is **no mandatory insurance to cover non-care costs** in old age, which tend to balloon as health deteriorates. Non-care costs include those related to residing in an assisted living facility for instance.
- High non-care costs can easily exceed the income of retirees and accelerate wealth depletion to the point of personal bankruptcy, forcing them to rely on solidarity, which is financed by general taxes, mainly at the cantonal and municipal level.
- The current voluntary long-term care insurance is relatively expensive compared to the probability-weighted cost of long-term care. This might be explained by the limited number of participants, adverse selection, and moral hazard.

Pillar 3a

- **High-income earners** have a **higher-income tax incentive** to make voluntary contributions than low-income earners, whereas the latter should be more strongly incentivized to make old age-related savings.
- The rules around the full closure of accounts for retirement-related withdrawals are unnecessarily cumbersome.

Suggested changes

New first pillar: General principle



Wage based and state contributions

Pension

Wage-based contribution from age 18:
20%[1] total contribution rate **on a tranche of wage** corresponding to **implicit minimum wage.**

State contribution: taxes, e.g., personal and corporate income tax—to supplement returns in case of insufficient reserves.

Capital invested in financial markets, with cohort-dependent **guaranteed returns.**

Central public institution in charge of collecting contributions and managing assets (accumulation phase).

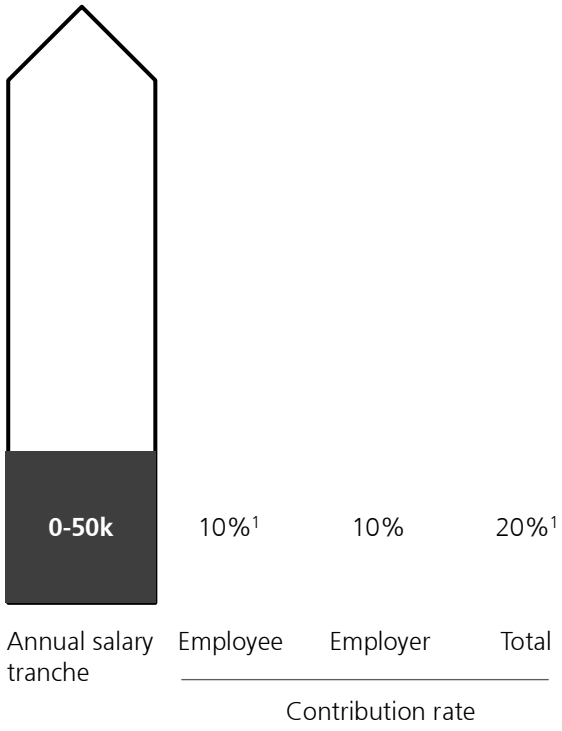
Private institutions providing actuarially neutral annuities (decumulation phase).

Lifelong inflation-indexed pension, may be withdrawn as soon as the accumulated capital (including second pillar, pillar 3a capital and private savings) can purchase an inflation-indexed annuity at least equivalent to basic needs (EL).

1. Shared equally between employer and employee. Degressive waiver of employee contributions for very low-income earners depending on household situation, income and wealth.

New first pillar: Funded defined benefit scheme

Overview of contributory base and contribution rates



Contributions and management of assets

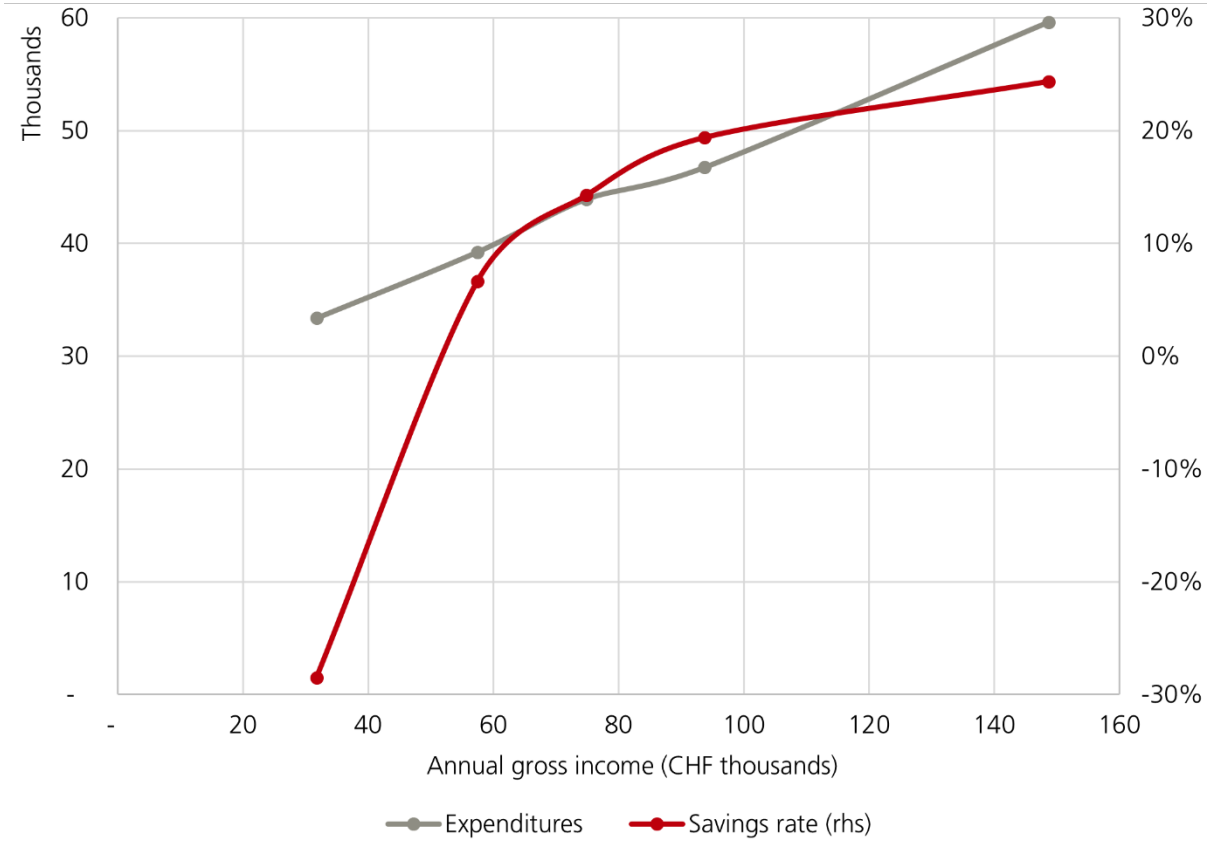
- 20%[1] total contribution rate on a first tranche of salary of CHF 50,000 per year (total labor income). The threshold would be periodically adjusted with nominal wage growth.
- Contributions are invested and managed by a single public institution.
- Workers' retirement assets are credited every year with a cohort-dependent guaranteed return. The latter depends on the life expectancy and reference retirement age (partially indexed to life expectancy) of each cohort—e.g., around 4.2% for an 18-year-old in 2035.
- Non-residents (excluding cross-border workers) would no longer benefit from guaranteed returns unless bilateral social security agreements state otherwise.
- State contribution: The federal government would finance guaranteed returns when reserves are insufficient. The government could either make regular provisions or issue debt when needed. Both would be backed by general taxes—i.e., the burden disproportionately falling on high-income earners.
- Tax-financed credits for parents with children under the age of 12 and other informal care givers.
- Splitting of paid-in contributions by default for parents with children under the age of 12. Opt-out possible for everyone if both parties agree. Opt-in possible for couples without children.
- Non-working spouses are no longer insured by working partners and non-working persons are exempt from contribution.
- No retroactive purchases or voluntary contributions.
- Distinct pool of assets (managed by distinct institutions) would back accumulation and decumulation portfolios—i.e., active members wouldn't risk-sponsor (i.e., bearing the financial risks associated with providing guaranteed pension benefits) retirees.

1. Degressive waiver of employee contributions for very low-income earners depending on household situation, income and wealth. Sources: TaxWare, FSIO, FSO, UBS, 2026

New first pillar: What contribution base?

Expenditures and savings

Annual expenditures[1] (in CHF thousands) and savings rate, for households of one person under the age of 65, per annual gross income



Calibrating the contributory base

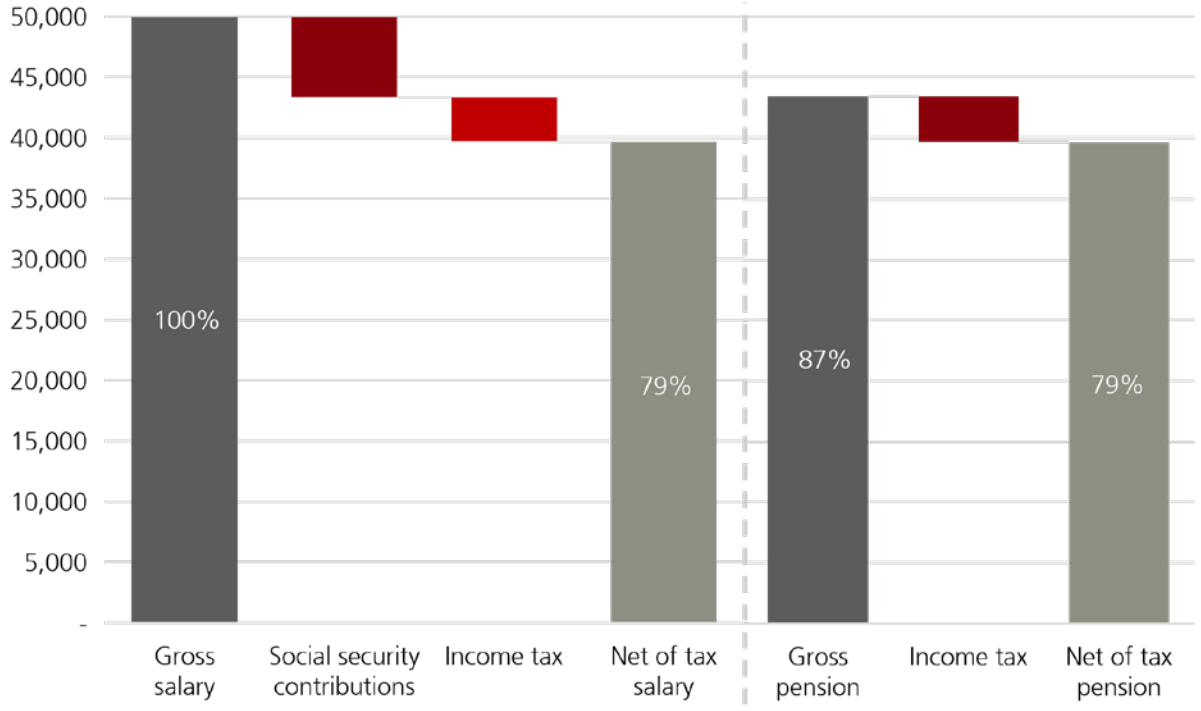
- A zero savings rate is inferred by FSO statistics for households of one person under the age of 65 with an annual gross income of approximately CHF 50,000 per year.
- A zero saving rates suggests that households either cannot or do not want to save. We assume the former without evidence to support it. We further assume that the level of spending at that income level corresponds to a modest or basic lifestyle.
- Incidentally, the median standardized annual gross minimum wage[2] (where it exists) for non-qualified workers is slightly above CHF 51,000. This implicit minimum wage is therefore a proxy for the contributory base of the first pillar. We assume CHF 50,000 throughout this document for the sake of simplicity.

1. Including mandatory health insurance premiums. The dots represent the different income quintiles; the first quintile features a significant share of retirees. 2. Based on various large collective employment contracts. Sources: FSO, UBS, 2026

New first pillar: Higher benefits for implicit minimum wage earners

100% net replacement rate

Example of a 100% net replacement rate on a CHF 50,000 annual gross wage, rates expressed as a share of gross salary



Objective of the new first pillar

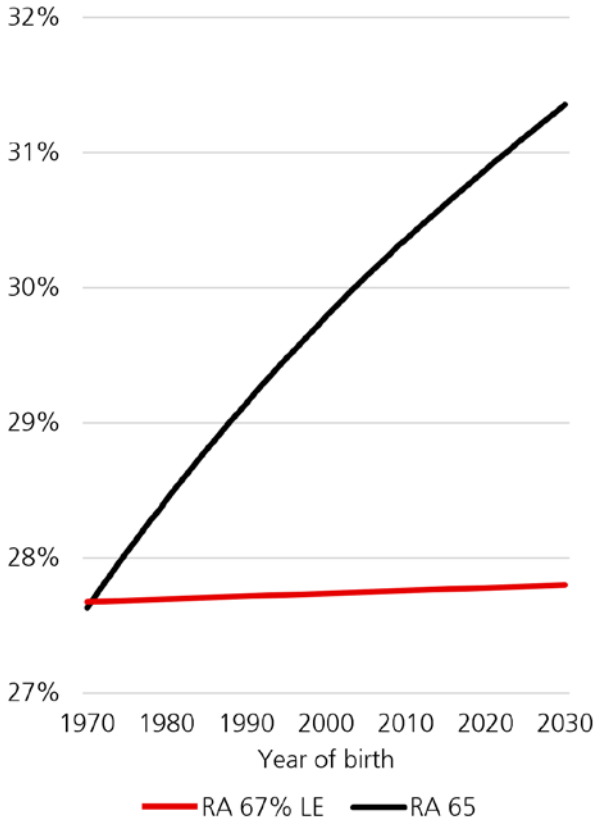
- A gross pension worth 87% of the gross wage results in a 100% net replacement rate for implicit minimum wage earners.
- Regional wage and tax differences can create higher or lower net replacement rates.
- The calibration is based on a full-time working single person. The benefits may therefore exceed the needs of a household consisting of two full-time workers, as couples generally have lower per person fixed costs than people living alone.

Sources: TaxWare, FSIO, UBS, 2026

New first pillar: Increasing reference retirement age

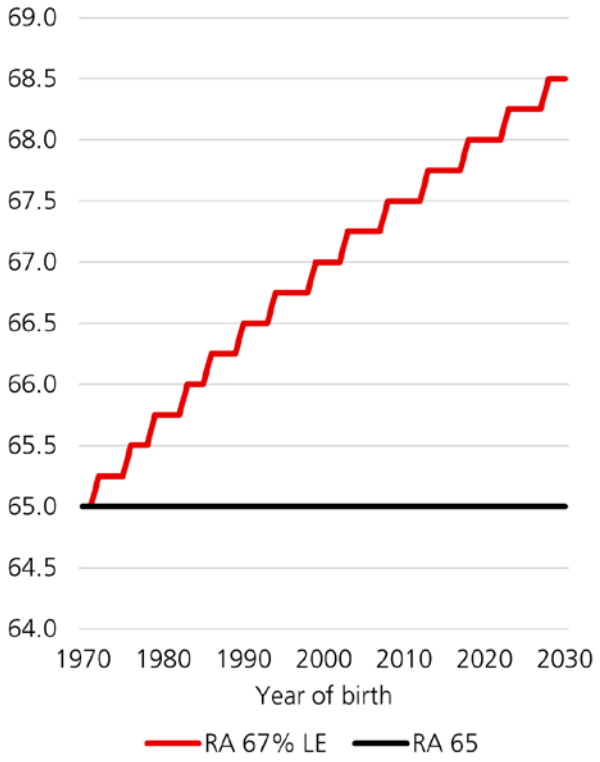
Stable share of life in retirement

Share of life spent in retirement[1] depending on the reference retirement age model and year of birth



Higher reference retirement age

Future reference retirement age (quarterly steps) partially indexed to estimated changes in life expectancy at age 60, depending on the year of birth and reference retirement age model, in years



Adjusted reference retirement age

- A fixed reference retirement age, coupled to longer lives, creates higher shares of life spent in retirement.
- With a reference retirement age of 65, newborns today are expected to have a retirement period almost a quarter longer than today's 65-year-olds[1].
- We suggest partially indexing reference retirement age to 67% of changes in life expectancy at age 60. This results in an almost constant share of life spent in retirement[1].
- All else equal, a static reference retirement age would require younger generations to contribute more, take more investment risk, and/or resort to more redistribution to finance longer retirement periods.
- Reduced reference retirement age for workers with hazardous or arduous working conditions. The occupations should be defined based on objective criteria and scientific evidence. Reductions would be prorated for years spent in such occupations.

1. Conditional on being alive at reference retirement age. RA: Reference retirement age; LE: life expectancy. Sources: FSO, UBS, 2026

The concept of retirement age is outdated but likely to stay

Retirement age: no one size fits all

The decision of when to stop working should be left to each individual. However, choosing to retire should not come with the expectation that society will automatically cover one's financial needs. Instead, individuals should save enough to at least finance their basic needs during retirement—a period that is longer than most think. Still, we recognize that some individuals may not be able to save enough during their working life to maintain a basic standard of living in old age. This is where old age solidarity should play a role: It should supplement the retirement income of seniors up to a basic needs level when their ability to work declines and they lack financial resources.

There should not be a fixed age at which people are deemed unfit to work; this can occur before or after 65. Ideally, eligibility for old-age solidarity would be determined individually, but regular assessments for every worker would be costly and intrusive. As a result, statutory retirement ages remain necessary.

However, the reference retirement age could be lowered for workers who had jobs that led to reduced life expectancy—e.g., physically or mentally demanding jobs. Ideally, to the extent that data can support the calculations, the difference in reference retirement age would be based on years worked in certain job types and their assessed impact on life expectancy. These workers would receive a top up on their first pillar capital at their reduced reference retirement age based on career history and job type.

Philosophy of redistribution

Old-age solidarity assistance should alleviate people from poverty—i.e., help cover basic needs, but not fulfill every desire and dream. But there is no consensus on the exact scope of what basic needs encompass: Should one be able to live alone in a flat in an expensive city, go on holiday once per year, or eat out in a restaurant at least once per month? The answer mainly depends on the cultural backdrop and the living standards of the population.

Undoubtedly, minimum living standards pre- and post-retirement should be aligned. But for old-age solidarity to be contained, only a minority of people should structurally rely on it, and workers should be compelled to provision sufficient resources toward old age, to the extent that they can, i.e., without causing them to live in poverty in working age.

When it comes to the financing of old-age solidarity, resources should flow from the financially secure to the financially needy. On the one hand, everyone should contribute to solidarity efforts, regardless of age or employment status. The financing of old-age solidarity should be progressive, based on all financial resources—i.e., income and assets. On the other hand, the needy shouldn't need to apply for benefits to which they are entitled, as in some cases, retirees don't know that supplementary benefits exist or are ashamed to apply.

New first pillar: Cohort-specific guaranteed return

Assessing and reviewing guaranteed returns

- The term "guaranteed" refers to the formula-based return being credited regardless of market conditions; it doesn't refer to the figure being set in stone throughout life.
- The cohort-specific return would be subject to periodic revisions stemming mainly from:
  - Changes in forward-looking assumptions such as mortality rate, inflation, and real wage growth.
  - Accrued inflation and real wage growth, compared to the assumptions employed.
  - Changes in social security contribution rates and taxes.
- As a result, the guaranteed return could fluctuate with time across cohorts but also for a given cohort.
- The value of the guaranteed return should not be set in law. The law should instead delineate how the guaranteed return is derived by the defined parameters, calculating agent, methodology, etc.
- For a given cohort, the projected annualized guaranteed return (G) at age 18 solves the equation:

$$\sum_{A=18}^{R} B \cdot C \cdot (1+i+g)^{A-18} \cdot (1+G)^{R-1-A} = \sum_{A=R}^{120} \frac{P\,(1+i)^{A-R}}{(1+d)^{A-R}} \cdot s_A$$

Where:

- A = Age
- B = Maximum contribution base
- C = Total contribution rate
- d = Annuity discount rate reflecting market returns on assets underpinning the annuities
- G = Projected annualized guaranteed return
- g = Expected long-term real growth rate of FTE standardized implicit minimum wage
- i = Expected long-term inflation
- P = Pension equal to the maximum contributory base at time of reference retirement age multiplied by the target gross replacement rate, which is a function of social security contribution rate and income tax, aiming to deliver a 100% net replacement rate at reference retirement age
- R = Reference retirement age
- s_A = Projected probability of being alive at a given age

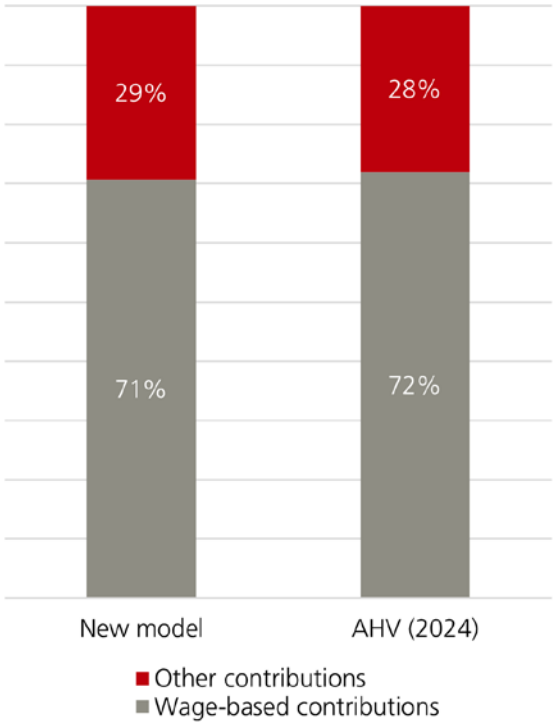
Reduced reference retirement age

- A reduced reference retirement age could be funded by way of a higher guaranteed return, dependent on the job type and its expected reduction in life expectancy compared to the rest of the population. This additional return should be financed through employer contributions for all workers in scope. Any different type of financing would partially relieve employers from the negative health externalities they exert on employees.

New first pillar: State contribution

Higher share of state contribution

Split of wage-based and other contributions



Level of non-wage-based contribution

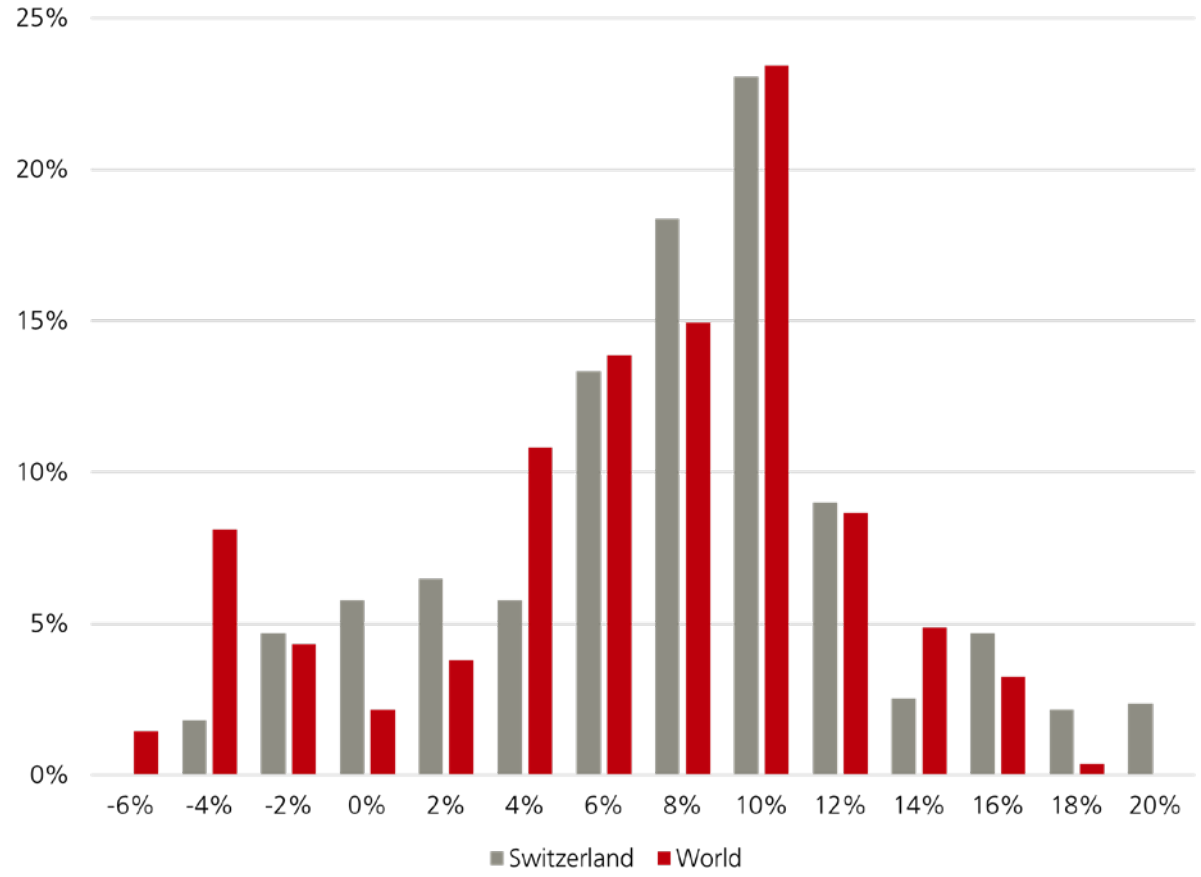
- The state contribution would finance shortfalls, i.e., to remedy severe underfunding situations.
- According to forward-looking simulations, the state contribution would be around CHF 5,000 per year per person on average (longitudinal approach), assuming an equity asset allocation.
- By way of comparison, the Confederation's financial contribution to the AHV was around CHF 3,400 per FTE worker in 2024 (transversal approach).
- The split of wage-based and non-wage-based contributions would likely be unchanged.
- A lower total wage-based contribution rate would increase both the amount and variability of the state contribution.
- The lower the total contribution rate, the higher the structural level of state contribution. The contribution rate should be revised given the appetite for redistribution and the long-term returns that financial markets can deliver per unit of risk.

Risk and return based on 15-year horizons, based on UBS CIO capital market assumptions. See assumptions at the end of the report. Sources: TaxWare, FSO, FSIO, UBS, 2026

New first pillar: Investment strategy

Market returns on your side

Historical distribution of annualized 10-year rolling real gross total returns (in CHF) for global (non-currency hedged) and Swiss equities



The number on the horizontal axis shows the upper band of the two-percentage-point bucket, e.g., 2% means 0% to 2%.

Past performance is no guarantee of future results. Based on MSCI total return indices, monthly data from 1970 to 2025. Sources: Macrobond, UBS, 2026

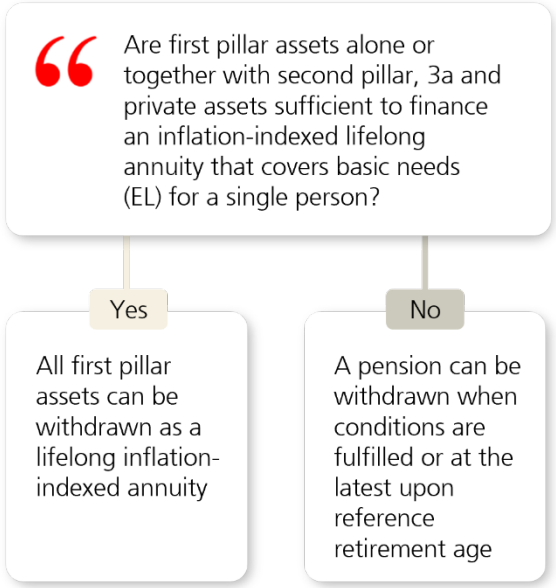
Choosing the optimal investment strategy

- An appropriate investment strategy would have to be developed. It should have an expected return above the guaranteed returns.
- Investment strategies that generate higher returns also produce more uncertain (volatile) returns. Furthermore, equity returns are not normally distributed.
- The frequency and amount of state contributions would depend on the asset allocation, the performance of financial markets, the workforce size, and wage distribution, among other factors.
- Historically, the global and Swiss equity markets have exceeded the target return (net of fees) respectively 72% and 76% of the time since 1970 over 10-year periods.
- Over long-term horizons, the risk-reward profile of investments in financial markets could adversely depart from historical observations.
- Some developed countries have a fully or partially funded state-sponsored scheme by design, such as Singapore's Central Provident Fund (CPF) or Canada and Quebec's pension plans (CPP and QPP).

New first pillar: Retirement benefits

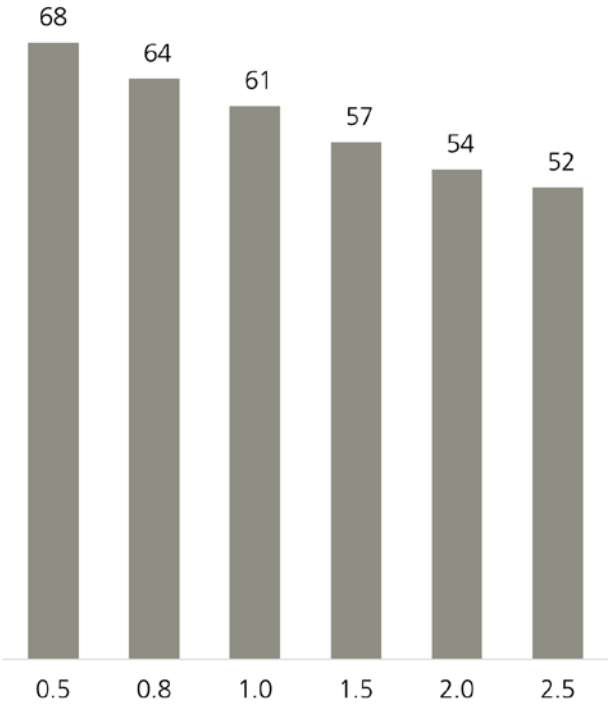
New early retirement conditions

Condition of an early withdrawal of a first pillar pension



Earlier retirement possible

Earliest retirement-related withdrawal age (rounded) of first pillar benefits for an 18-year-old in 2035, depending on wage level expressed as a multiple of implicit minimum wage



Retirement benefits

- Lifelong pension indexed to inflation. Additional insurance, e.g., survivors' insurance, at the discretion and cost of the annuitant.
- Early pension withdrawal possible if workers have sufficient assets in the first pillar, second pillar, pillar 3a, and private savings to purchase an inflation-indexed lifelong annuity that covers basic needs (EL) for a single person.
- For instance, a worker earning implicit minimum wage from the age of 18 could withdraw benefits from the age of 61 at the earliest.
- No cap on the pensions of married couples.
- Pension withdrawable at reference retirement age regardless of the amount of assets.
- Heirs inherit capital in case of death of the insured before the withdrawal of benefits.
- Guaranteed returns would no longer apply to assets left in the scheme once a pension has been withdrawn. A pension would have to be withdrawn beyond reference retirement age in the absence of labor income.

See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

New first pillar: Higher pensions for full-time workers

Higher pensions, particularly for low-income earners

Difference in new first pillar pension in the first year of retirement compared to the AHV, depending on labor entry age and effective retirement age

Implicit minimum wage

Labor entry age	Effective retirement age 63	64	65	66	67	68	69	70
18	76%	75%	75%	82%	85%	89%	92%	96%
19	73%	68%	68%	75%	79%	82%	85%	89%
20	70%	66%	62%	69%	72%	76%	79%	82%
21	68%	63%	60%	62%	66%	69%	72%	76%
22	61%	57%	54%	54%	60%	63%	66%	69%
23	55%	51%	48%	48%	51%	57%	60%	63%
24	46%	45%	42%	42%	45%	48%	54%	57%
25	40%	37%	36%	37%	40%	43%	46%	51%

Median wage

Labor entry age	Effective retirement age 63	64	65	66	67	68	69	70
18	44%	43%	43%	46%	51%	53%	56%	60%
19	42%	38%	38%	41%	45%	48%	51%	55%
20	39%	36%	33%	36%	40%	43%	45%	49%
21	37%	34%	31%	31%	35%	37%	40%	44%
22	31%	28%	26%	26%	29%	32%	35%	37%
23	26%	22%	21%	21%	24%	26%	30%	32%
24	21%	18%	15%	%	19%	22%	24%	28%
25	15%	13%	11%	11%	15%	17%	19%	22%

The withdrawal of benefits in the new first pillar would be conditional on assets being sufficient to finance an inflation-indexed lifelong annuity covering at least basic needs (EL) for a single person.

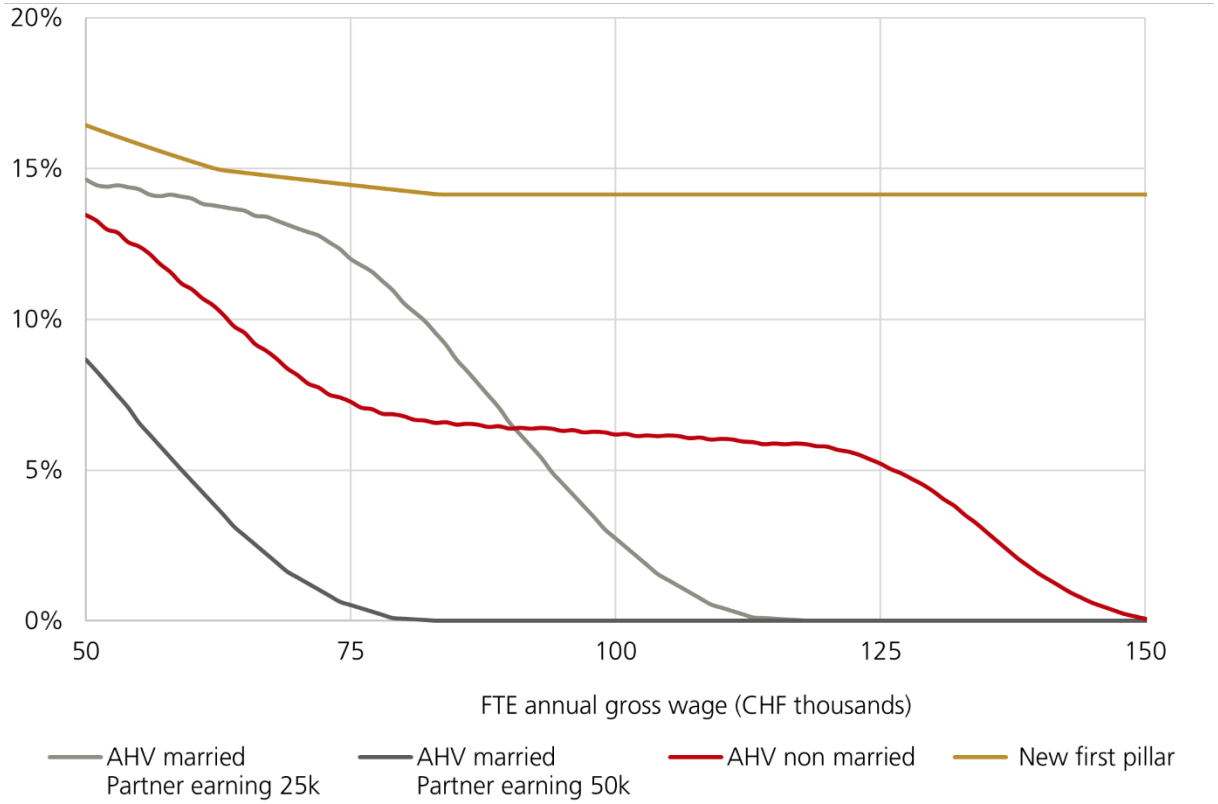
See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

- In the new system, an implicit minimum wage earner and a median wage earner with 20-65 years of a full-time career would have 62% and 33% higher first pillar pensions than the current system, respectively.
- The higher benefits in the new system also come with lower indexation—i.e., inflation instead of a mix of inflation and average wage growth.

New first pillar: Better insurance for parents

Higher pensions for part-time working parents

Increase in first pillar pension related to child credits, depending on the wage level and household situation



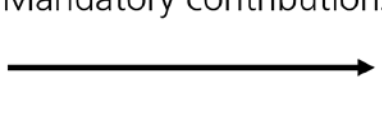
Two children born in the 32nd and 34th year of the parent. Five-year career pause after the birth of the first child, 60% activity rate until the second child is 12, 80% thereafter. The other partner earns an annual gross wage of CHF 25,000 or CHF 50,000 for married couples. Married couples from the age of 21.

See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

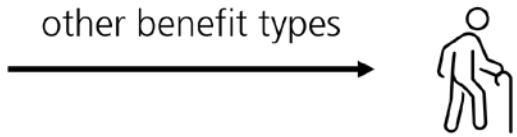
- The AHV currently caps the pension that a married couple can receive. Consequently, mostly low-income earners and non-married parents (excluding high-income ones) benefit from the child credits.
- A married couple with a part-time (see description below the chart) median-income earner (FTE) and a partner earning more than CHF 50,000 per year would not benefit from child credit in the current system.
- In the new system, child credits are more generous and therefore more expensive than in today's system:
  - 40% to 100% of the contribution on a full-time implicit minimum wage worker credited to retirement assets, depending on the age of the youngest child. 100% in the first years of the child, reducing to 40% toward the age of 12.
  - This schedule reflects the care of parents needed considering school hours.
- Child credits would be financed entirely by general taxes, and not mostly by wage-based contributions like today.
- All else equal, the younger the parents, the higher the increase in their first pillar pension.
- The money would be credited to parents regardless of their employment status to not influence their choice.

New second pillar: General principle

Mandatory contributions



Capital, pension or other benefit types



Wage-based contribution from age 18, with different contribution rates and share of employer financing based on salary tranches. Age-uniform contribution rates.

Capital invested in financial markets, with no capital guarantees.

Free choice of (exclusively accredited) service provider and investment strategies.

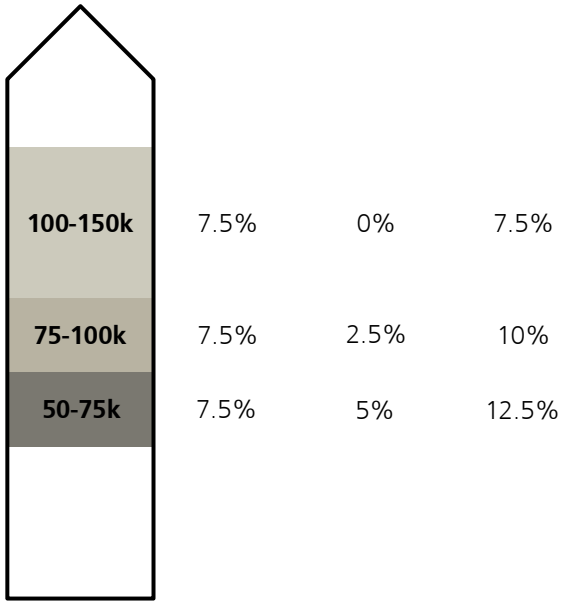
Selection of provider through a government-managed transparency platform to keep marketing costs low.

Free choice of benefits
No retirement age. Early withdrawal of assets possible[1]. Same tax treatment of pension and capital withdrawals.

1. Conditional on assets levels in the first pillar, pillar 3a and private savings.

New second pillar: Defined contribution scheme

Overview of contributory base and contribution rates



Annual salary tranche	Employee	Employer	Total
	Contribution rate		
100-150k	7.5%	0%	7.5%
75-100k	7.5%	2.5%	10%
50-75k	7.5%	5%	12.5%

Contributions

- Aim: Finance additional needs
- Mandatory for all workers, including self-employed.
- Age-uniform and wage-degressive total contribution rates based on salary tranche (multiple of first pillar tranche) with higher share of employee financing on higher wage tranches.
- No deviation from the employee contribution plan. However, employers can set higher employer contribution rates.
- The maximum insured salary should be high enough to allow 1) high-income years to compensate for low-income ones, 2) compensate for shorter careers and career pauses, 3) enable single earners to provision for their non-working partner. Too high a cap would unnecessarily burden companies and households. Moreover, it shouldn't be the government's responsibility to ensure that very high-income earners can maintain a potentially lavish lifestyle in retirement. High-income households have the savings capacity for voluntary savings.
- Contribution rates and contributory bases should be periodically reviewed in light of expected risk and returns of financial markets and the level of expenses of households.

Asset management

- Defined contribution schemes only, i.e., no DBs with risk sharing.
- Life-cycle investing: Contributions invested by default with age-dependent investment strategies.
- Private service providers.
- Retirement assets credited with market returns, i.e., negative returns are possible, there is no capital guarantee.
- Automatic splitting in case of children under the age of 12. Opt-out possible for everyone if both parties agree.

Other

- The cap on voluntary purchases is equal to the assets that an individual could have generated with contributions from age 18 with the maximum insured wage using historical returns and standard contribution rates. Income tax savings from voluntary purchases progressively fade as the income level and contribution level rise.
- Up to a third of assets can be used to finance self-occupied home ownership, without age limit. Full downpayment can be financed with second pillar assets.
- No need to change pension fund in case of loss of employment or employer change.

Source: UBS, 2026

New second pillar: Variability of benefits

Different benefits than the BVG

Difference in retirement capital at retirement age in the new second pillar compared to the BVG minimum plan and average plan, for a median-income earner, depending on labor entry age and effective retirement age

BVG min

Labor entry age \ Effective retirement age	60	61	62	63	64	65	66	67	68	69	70
18	28%	29%	29%	30%	29%	25%	30%	36%	41%	48%	55%
19	22%	22%	22%	23%	23%	19%	24%	29%	34%	40%	47%
20	15%	15%	16%	17%	17%	13%	18%	23%	28%	34%	40%
21	9%	9%	10%	11%	11%	7%	12%	17%	22%	27%	33%
22	3%	3%	4%	5%	5%	2%	6%	11%	16%	21%	27%
23	-3%	-3%	-2%	-1%	-1%	-4%	0%	5%	10%	15%	21%
24	-9%	-8%	-7%	-6%	-6%	-9%	-5%	0%	4%	9%	15%
25	-14%	-13%	-13%	-11%	-11%	-14%	-10%	-5%	-1%	4%	9%

BVG average

Labor entry age \ Effective retirement age	60	61	62	63	64	65	66	67	68	69	70
18	-19%	-19%	-18%	-17%	-16%	-14%	-12%	-10%	-8%	-7%	-5%
19	-23%	-22%	-21%	-20%	-19%	-18%	-16%	-14%	-12%	-10%	-9%
20	-27%	-26%	-25%	-24%	-23%	-21%	-19%	-17%	-16%	-14%	-12%
21	-30%	-29%	-28%	-27%	-26%	-25%	-23%	-21%	-19%	-18%	-16%
22	-33%	-32%	-31%	-30%	-29%	-28%	-26%	-24%	-23%	-21%	-19%
23	-36%	-36%	-35%	-34%	-33%	-31%	-29%	-27%	-26%	-24%	-23%
24	-40%	-39%	-38%	-37%	-36%	-34%	-32%	-31%	-29%	-28%	-26%
25	-43%	-42%	-41%	-40%	-39%	-37%	-36%	-34%	-32%	-31%	-29%

See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

More variable benefits

- On average, higher benefits than BVG minimum but lower benefits than BVG average. Note that the difference in contributions is not considered.
- Higher variability of outcomes: In the worst decile of outcomes, assets could be around two-thirds lower (but still more than 1.5 times higher than the sum of contributions) than in the average case for workers with a 18-67-year career.
- Differences in benefits compared to current system will depend mainly on wage, career history, pension plan, and the performance of financial markets.

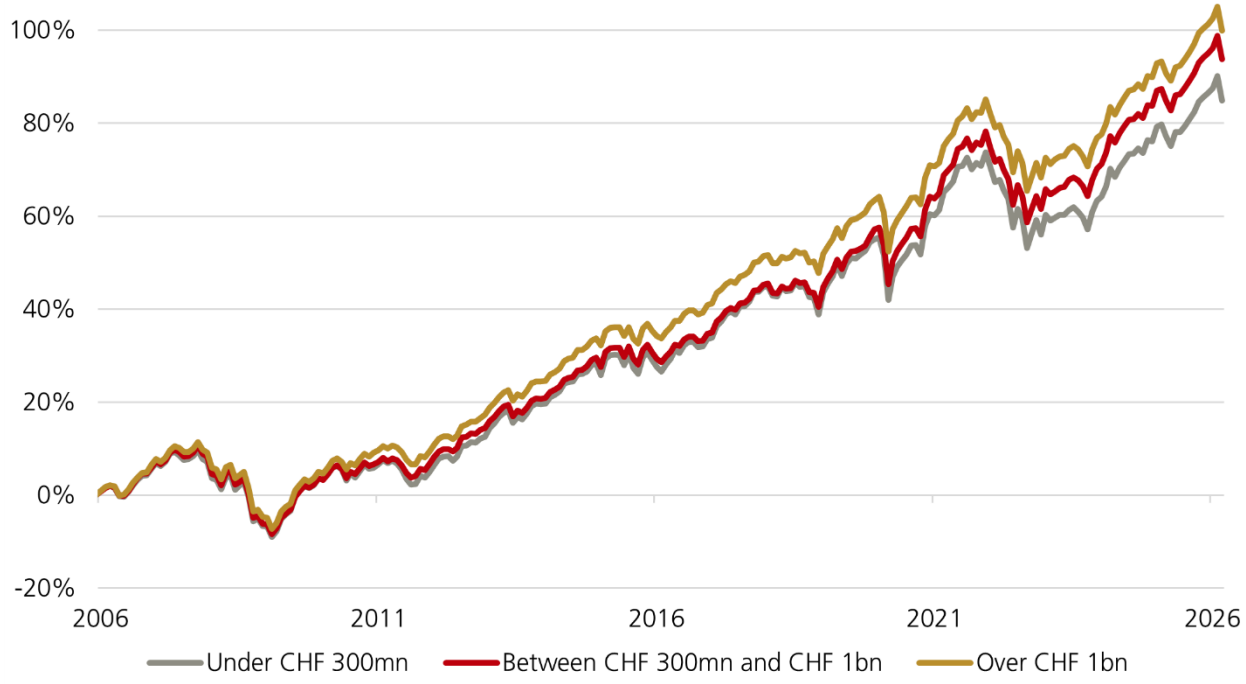
More choice and different rules

- Choice of capital, staggered withdrawal of capital, various pensions—i.e., with or without inflation indexation, lifelong or fixed, with or without guaranteed period.
- Capital withdrawal only allowed if a worker can purchase an inflation-indexed lifelong annuity that covers at least basic needs (EL) with a combination of first pillar, second pillar, pillar 3a assets, and private savings.
- Same tax treatment of pension and capital withdrawals, the latter being taxed like the equivalent pension income, increasing taxable income every year. Note that pension contributions are deferred income that is invested and exempt from income and wealth tax until withdrawal. Upon withdrawal, benefits should be taxed as income.

New second pillar: Free choice of provider

Size does matter

Cumulated net-of-fee performance of pension funds by size group since 2006



The benefits of consolidation

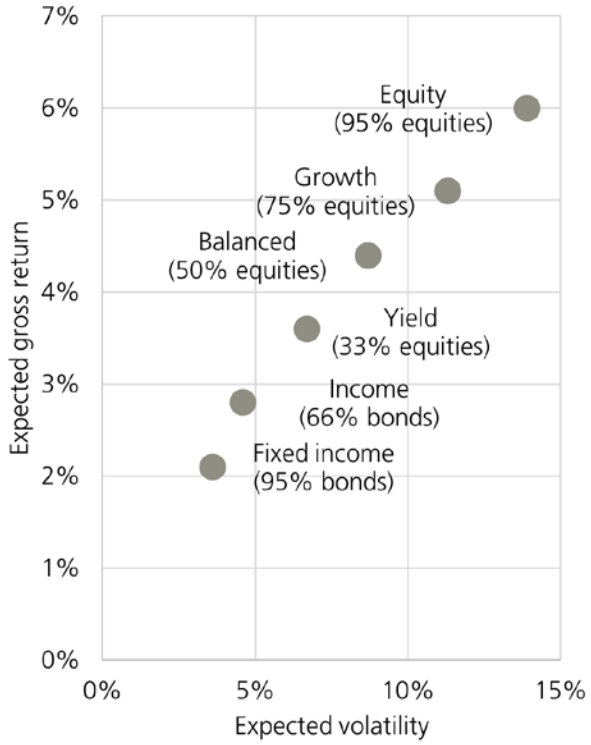
- Switzerland has one of the most fragmented pension fund landscapes among OECD countries with mandatory funded pension funds.
- Further industry concentration could enable more professionalization of investment practices and lower costs in some pension funds, leading to better outcomes overall.
- Free choice of service provider would allow some workers with poorly managed funds to benefit from better returns.
- Historically, large pensions funds have achieved higher returns compared to small and medium-sized ones. While most of the small pension funds achieve good results given their resource constraints, large pension funds have outperformed them by 15 percentage points over approximately 20 years. Extrapolated over 40 years this corresponds to around 30% higher retirement capital.
- The lack of choice is a legacy of the pension fund system that prevailed prior to the introduction of the BVG. We expect that competition will increase net-of-fee returns and improve the quality of services.

Sources: FSO, UBS, 2026

New second pillar: Investment risk

Risk vs. return

Annualized risk (volatility) and expected gross return for different investment strategies (in CHF)



No cash hoarding

Illustrative example of investment strategy in years to reference retirement age

Time horizon to reference retirement age, in years	Minimum required investment risk
10	Income
20	Yield
30	Balanced
40	Growth

Age-based investment strategy

- Lack of guidance on investment strategy and choice overload and can hinder the optimal asset allocation decision of the insured.
- By default, assets of workers are invested in age-dependent investment strategies or target date fund solutions.
- The horizon is calculated based on the time to cohort-dependent reference retirement age.
- The minimum required investment risk decreases with the time horizon. The purpose is to avoid extreme risk averseness—i.e., holding cash during the whole investment period.
- The minimum risk strategy is calculated based on a subjectively defined maximum probability —e.g., 5%—of having lower assets at reference retirement age compared to the sum of contributions.
- Deviations from the recommended risk are subject to a questionnaire.
- Change of strategy available periodically—e.g., monthly or quarterly.

Risk and return based on 15-year horizons, based on UBS CIO capital market assumptions. Source: UBS, 2026

New pillar 3a: General principle

Voluntary contributions

Capital or other benefit types

Voluntary contributions from age 18 until a pension has been withdrawn from the first pillar.

Free choice of service provider, investment strategy, and product type (insurance or banking).

Benefits
Assets available latest upon reference retirement age. Tax-free withdrawal of benefits if related to retirement, i.e., withdrawing first pillar benefits.

New pillar 3a: Degressive income-tax advantages

Higher incentive for lower-income earners

Simplified example of income tax advantage on pillar 3a contributions, in CHF

	Current system		Proposed system	
	High income	**Low income**	**High income**	**Low income**
Annual gross wage	200k	50k	200k	50k
Annual pillar 3a contribution	7.2k	3k	20k	3k
Tax advantage: absolute amount and as a share of contribution	2.5k 35%	0.6k 20%	1k 5%	1.5k 50%

Very high contribution cap

- Voluntary contributions from age 18 until a pension has been withdrawn from the first pillar.
- Retroactive contributions become redundant as the contribution cap is revised upwards—e.g., CHF 20,000 per year.
- The income tax advantage progressively fades as the income level and contribution level rise.
- Proportionally higher income tax advantages for low-income earners than for high-income earners.
- All the capital withdrawable at any time to finance self-occupied home ownership. The withdrawal cancels previous income tax advantages pro-rata contributions.
- Capital available to finance an early pension withdrawal in the first pillar.

Tax-free benefits

- No capital withdrawal tax on withdrawals related to retirement.
- No need to withdraw an account entirely.

Source: TaxWare, UBS, 2026

New invalidity and survivor’s insurance: General principle

Contributions

Risk benefits

Survivor’s insurance (for children only)
Mandatory coverage of orphan risk for children under the age of 18 (25 if studying) financed through general taxes. Optional insurance to cover next of kin and other family members.

Invalidity insurance
Unchanged in the first pillar. No insurance in the second pillar.

Mandatory orphan’s and invalidity insurance managed by a public institution.

Survivor’s benefits
Orphan’s pension until the age of 18 (25 if studying). Pension worth less than half of net implicit minimum wage depending on the age of the child.

Invalidity benefits
Unchanged in the first pillar.

New invalidity and survivor's insurance: Individual choice

Survivor's insurance (for children)

- Insurance carved out of the first and second pillar.
- Benefits for orphans until the age of 18 (25 if studying).
- Financed by general taxes.
- Benefits per orphan: Pension ranging from a third to half of the net implicit minimum wage depending on the age and the number of orphans in the household.

Spouse insurance

- No mandatory insurance of surviving partner (spouse, cohabitating partner) in the first and second pillar.

Invalidity insurance

- Similar to today, the invalidity benefits of the first pillar would be based on the degree of invalidity. However, the benefits would have to be based on a reference other than the AHV pension—e.g., the 100% net replacement rate of implicit minimum wage.
- This could lead to changes in invalidity insurance financing.
- No mandatory invalidity insurance in the second pillar.

New long-term care insurance: General principle

Mandatory insurance

Coverage of costs when the risks materialize

Insurance premiums from age 45.

Free choice of insurance provider.

Insurance covers **care** and **non care costs** starting from reference retirement age.

New long-term care insurance

Financing

- Premium due from age 45:
  - Mandatory for all residents
  - Premium regardless of health condition
  - Means-tested subsidies for low-income households
  - Premiums reduce taxable income
- Insurance managed by private companies, with free choice of provider.

Benefits

- Coverage of care and non-care costs in excess of the regular non-health-related supplementary benefits handout.
- Benefits portable abroad with coverage capped at cost equivalence in Switzerland.
- Starting at reference retirement age, supplementary benefits still cover shortfalls—i.e., for people with insufficient insurance or resources (income, assets) in old age.

Other considerations

- A risk-sharing mechanism would need to be implemented among insurers to avoid competition for the good risks (i.e., those who are expected to have lower-than-average claims or costs).
- Late comers to Switzerland (after the age of 45) would face higher premiums.
- Supplementary benefits expenditures would likely be reduced, and the cost of mandatory health insurance premiums would likely be lowered.
- A demand/supply imbalance of elderly and care home capacity could lead to higher prices and therefore higher insurance costs.
- A mandatory long-term care insurance would limit the uncertainty related to inheritance and the financing of old-age care and therefore provide financial stability to retirees.

New supplementary benefits[1]: General principle

Taxes levied at different administrative levels.

Cantonal authorities identify residents in need, through tax records.

Supplementary benefits depending on household, income, and wealth situation, as well as care needs.

1. Suggested changes only apply to supplementary benefits paid to retirees. Supplementary benefits paid to IV-recipients are not in scope of the proposal.

New supplementary benefits

Overview of main suggested changes[1]

- Authorities screen for potential recipients based on tax data—i.e., no need to apply.
- Supplementary benefits are available from reference retirement age—i.e., no longer from 58 for widows and widowers, and 63 for early AHV retirees.
- Restitution of benefits by the beneficiary if wealth of the beneficiary increases after the receipt of benefits.
- Restitution of benefits by heirs (unlimited in time) on inheritance that exceeds CHF 40,000 per estate (unchanged threshold).
- For surviving spouses or registered partners, the value of inherited self-occupied real estate is considered for restitution due only after the surviving spouse's or registered partner's death, permanent move to a nursing home, or if the real estate object is sold.
- The current supplementary benefits were introduced in 1966 because AHV-pensions failed to "adequately cover the basic needs for existence" as Art. 112 of the Federal Constitution demands. The same applies to IV, which uses the AHV pension as its base for the invalid's pension. We suggest IV uses the new first pillar as its base after the introduction of the new system. Moreover, significant share of EL paid today supports care needs—this would newly be covered by the mandatory long-term care insurance.

Adjusted means test

- Wealth thresholds
  - Singles: CHF 50,000 (down from CHF 100,000)
  - Couples: CHF 75,000 (down from CHF 200,000)
  - Excluding the value of owner-occupied property as long as it is deemed of reasonable size and standard.
  - No requirement to consume a share of wealth below the above thresholds.
  - Including the current value of past gifts without any limitation in time and no depreciation.
- 100% of all income considered for the income test
- Expenses:
  - Cantonal grid for rents. Cantons and municipalities know best how to assess the cost of living in their regions.
  - Other general costs automatically adjusted for inflation. Currently, the Federal Council checks every 10 years whether maximum rent contribution covers effective rent paid by EL recipients. If the rental price index has increased by more than 10% since the last assessment, the assessment is done earlier.

1. Suggested changes only apply to supplementary benefits paid to retirees. Supplementary benefits paid to IV-recipients are not in scope of the proposal. Sources: FSIO, UBS, 2026

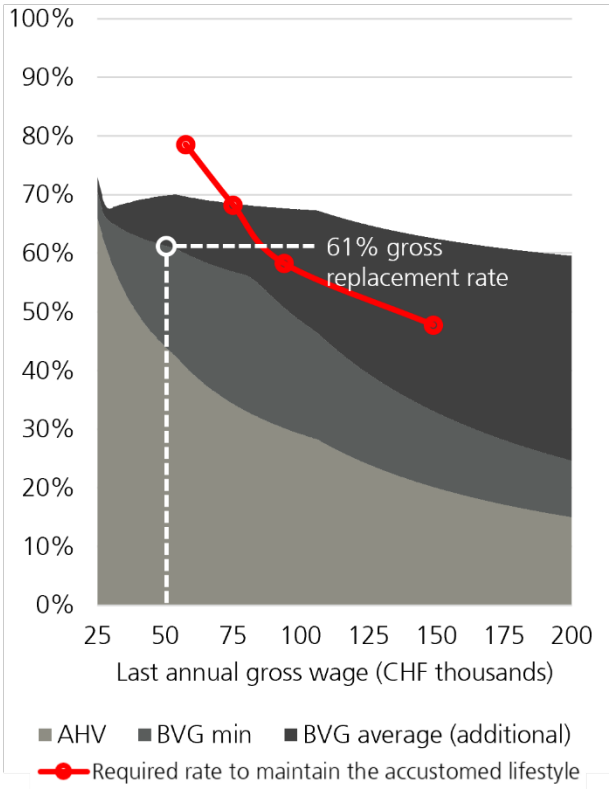
Comparing the old and new framework

Higher gross replacement rates

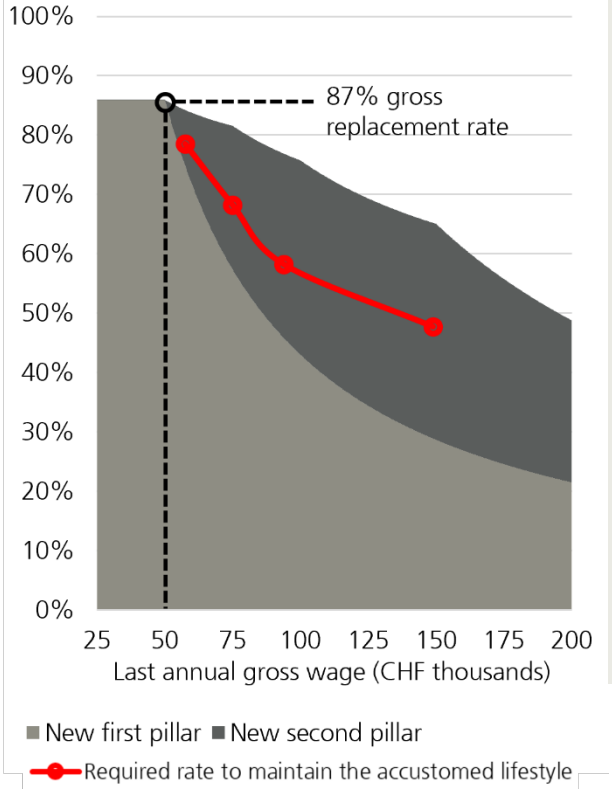
Last salary vs. first pension

Gross replacement rate at reference retirement age, depending on last annual gross wage, in the current and proposed system, as well as required rate to maintain the accustomed lifestyle[1]

Current system



Proposed system



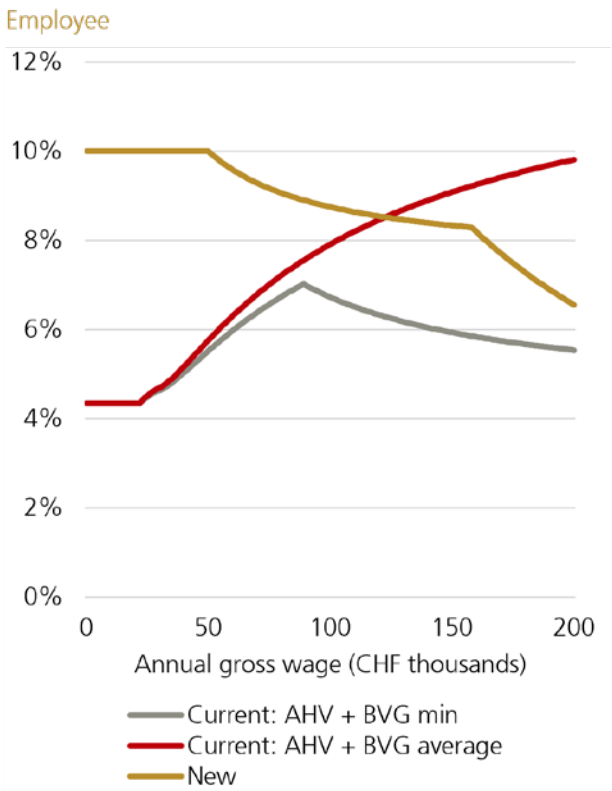
- The constitutional purpose of the first and second pillars together is to ensure that insured persons can maintain their lifestyle in an appropriate manner through retirement. According to our simulations, the AHV and BVG minimum plan does not achieve this objective if the purpose is to maintain the same level of expenses when transitioning to retirement.
- The new system generates higher gross replacement rates on average to satisfy the constitutional objective. The red line shows the required gross replacement rate to maintain the accustomated lifestyle. It should lie below the level of benefits delivered by the new second pillar to account for the variability of benefits of the scheme.
- However, the proposed system could result in more supplementary benefits (not shown on the charts) being paid out than today. This partially depends on the share of households who would have a waiver[2] of first pillar contributions and subsequently rely on supplementary benefits, which is difficult to estimate.
- Limitations of the comparison between the current and proposed system: different reference retirement ages (career span), indexation, and variability of benefits.

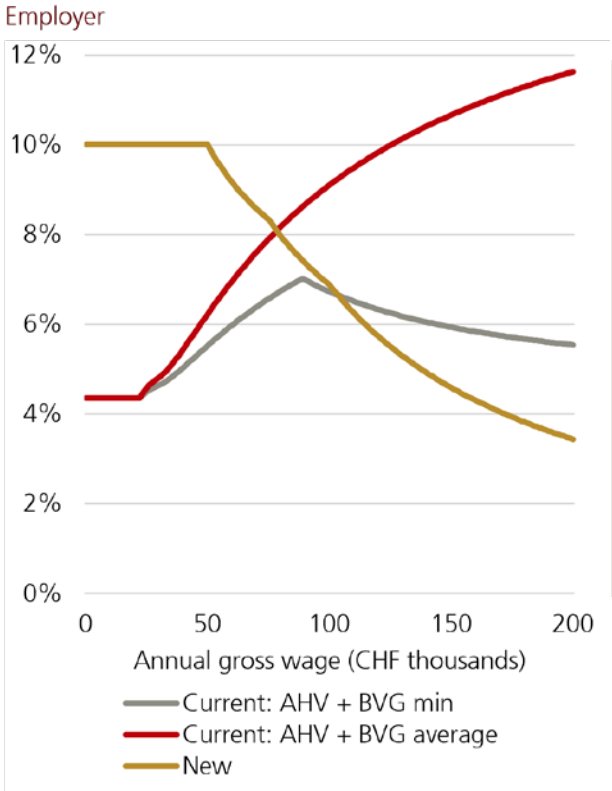
1. We do not display the first income quintile for households of one person under the age of 65, as they tend to have negative savings rates and include a significant share of retirees. 2. Degressive waiver of employee contributions for very low-income earners depending on household situation, income, and wealth. See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, FOPH, UBS, 2026

Weight of old-age contributions (1/2)

Higher cost of employment for low- to median-income earners

Employee[1] and employer effective old age contribution rate depending on annual gross wage, in the current (age tranche 45-54) and proposed model





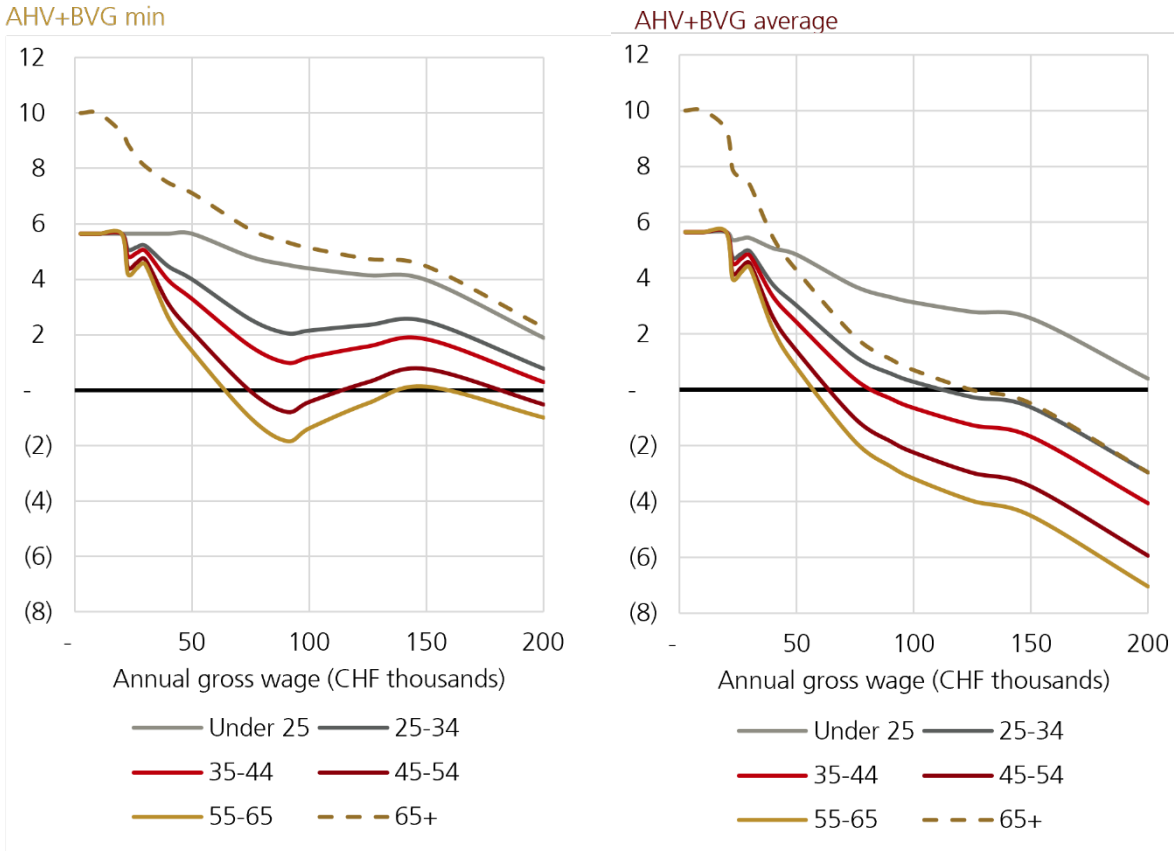
- The new system increases the total cost of employment for employees with an annual gross wage up to around CHF 83k (AHV + BVG min) and CHF 106k (AHV + BVG average).
- The cost of employment in the new system is stable or decreasing, which prevents arbitrage with part-time or low-wage earners.

1. Degressive waiver of employee contributions for very low-income earners depending on household situation, income, and wealth. See assumptions at the end of the report. Sources: FSIO, UBS, 2026

Weight of old-age contributions (2/2)

Highly dependent on age, pension plan, and wage level

Change in employee old-age contribution rate, proposed versus current system (AHV + BVG min or AHV + BVG average), depending on annual gross wage and age tranche, expressed as a share of gross wage, in percentage points



- High-income earners would be subject to lower contribution rates, while low-income earners[1] would have higher contribution rates.
- The self-employed would potentially contribute more and have more choice than today if the second pillar became mandatory for them.
- Employees with multiple employers would contribute more than today.

1. Degressive waiver of employee contributions for very low-income earners depending on household situation, income, and wealth. See assumptions at the end of the report. Sources: FSIO, FSO, UBS, 2026

Transitioning from old to new

What would the transition look like?

Transition year: 2035

- Workers contribute to the old schemes until 2034 and to the new ones starting 2035. Mandatory participation of the self-employed starting 2035.
- Old-age and risk benefits accrued in the AHV and BVG until the transition year are paid out upon reference retirement age or risk event.

Tax matters

- The prevalent rules applicable before 2035 would apply to the taxation of lump sum benefits from legacy assets in the second pillar and pillar 3a.
- Second pillar and pillar 3a capital payouts stemming from post-transition contributions are taxable ("shadow" pension) and tax-free respectively.

First pillar

- Pension entitlements accrue until the transition year for the purpose of calculating the number of years of contributions, average wage, children, care credits, etc.
- The penalty/bonus for early/late retirement is calculated compared to the new cohort-specific reference retirement age.
- The AHV reserve fund would be used as initial reserve for the new first pillar.

Second pillar

- Current pension funds are closed to new contributions from 2035 and are progressively wound down as benefits are paid out.
- No voluntary purchases in legacy pension funds after the transition year.
- Current pension funds as well as new players could enter the new second pillar market starting from 2035.

Pillar 3a

- Starting 2035, pillar 3a contributions would attract tax advantages according to wage and contribution amount.

Insurances

- Invalidity and survivor's insurance: benefits accrued up to transition date.
- Mandatory long-term care insurance would start with the transition year. Supplementary benefits (means-tested) covers any gaps.

Supplementary benefits

- The new rules apply starting 2035.

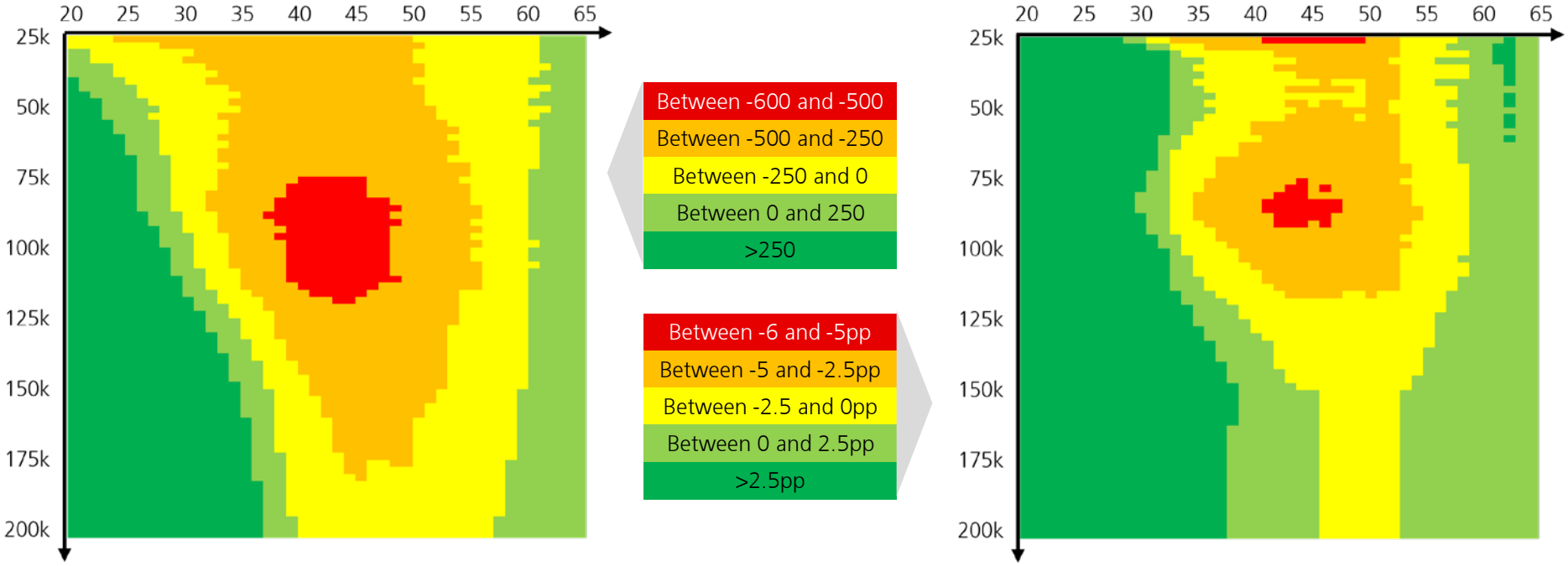
Difference in benefits without compensation measures

Benefits across retirement

Net present value of difference in gross benefits net of difference in contributions, between the current (AHV and BVG minimum) and proposed system (new first and second pillar), depending on last annual gross wage (2025 terms) and age of workers at the time of the transition in 2035, without compensation measures, in CHF per month (2025 terms)

Gross replacement rate

Difference in gross replacement rate at reference retirement age depending on last annual gross wage (2025 terms) and age of workers at the time of the transition in 2035, without compensation measures, in percentage points (pp)



See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

Impact of the transition on retirement benefits

Who's better or worse off?

- The most impacted cohort would be the 30- to 55-year-olds at the time of the transition (2035). These cohorts would have up to 6% lower pensions at reference retirement age.
- Median-income earners born in 1991 would stand to lose the most.
- However, under 30-year-olds and all subsequent generations would enjoy higher benefits over their retirement periods.

Limitations of comparing both systems

- The results are based on average expected benefits in the new second pillar—i.e., not considering the higher variability of benefits compared to the current system.
- The new and current system have different reference retirement ages and therefore different retirement periods. A negative difference in net present value (NPV) of benefits isn't necessarily negative for the finances of future retirees as they work and save while working until a more advanced reference retirement age. Also, some workers in the transition period could experience higher disposable income because of reduced social security contributions.
- In some cases, negative NPV readings are explained by higher contributions across a longer career despite higher monthly benefits on average in retirement.
- Gross replacement rates can be misleading as benefits are indexed differently:
  - First pillar: average of inflation and average wage growth today versus inflation in the proposed system.
  - Second pillar: nominal pensions versus inflation-indexed pensions for the purpose of the simulation.
- The calculation of the AHV legacy entitlements relies on numerous assumptions, which may not materialize as expected.
- In our simulations, the differences don't include:
  - Potential remediation measures to address the financial sustainability issue of the AHV in the current system—e.g., higher wage-based contribution rates, higher VAT rate, etc.
  - Potential changes in taxation implied by the new regime
- Most workers affiliated to a pension fund have a plan that goes beyond the minimum required by law, meaning higher contributions but also higher benefits. The differences (NPV and gross replacement rate) likely depart from the ones we show.

Compensation mechanism

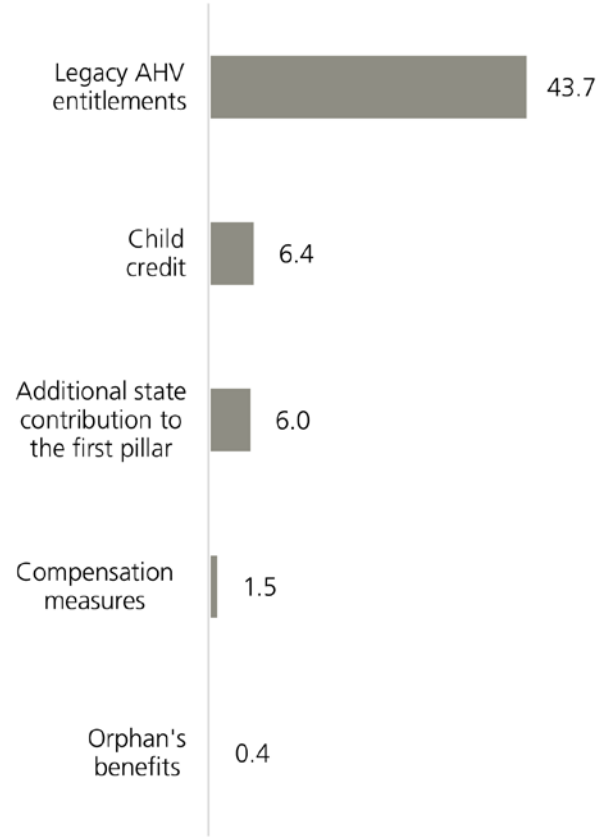
- Some future retirees would be financially worse off and experience materially lower standards of living throughout retirement in the new system compared to the current system, depending on their age at the time of the transition, wage history, household situation, pension plan, investment strategy decisions, and the performance of financial markets throughout their career, among other factors.
- The compensation—paid monthly until the death of the beneficiary—would be equal to the difference between the total monthly income in the old and new system (first and second pillar).
- The calculation would be based on the strict BVG minimum plan, excluding voluntary purchases and including early withdrawals.
- Risk benefits (invalidity and survivor's benefits) would be excluded for the purpose of the calculation.

See assumptions at the end of the report. Sources: TaxWare, FSIO, FSO, UBS, 2026

Additional costs of the transition and the new system: Who foots the bill?

High cost of AHV entitlements

Annualized net new state contributions from 2035 up to 2100, in CHF bn (2025 terms)



Spreading out the cost

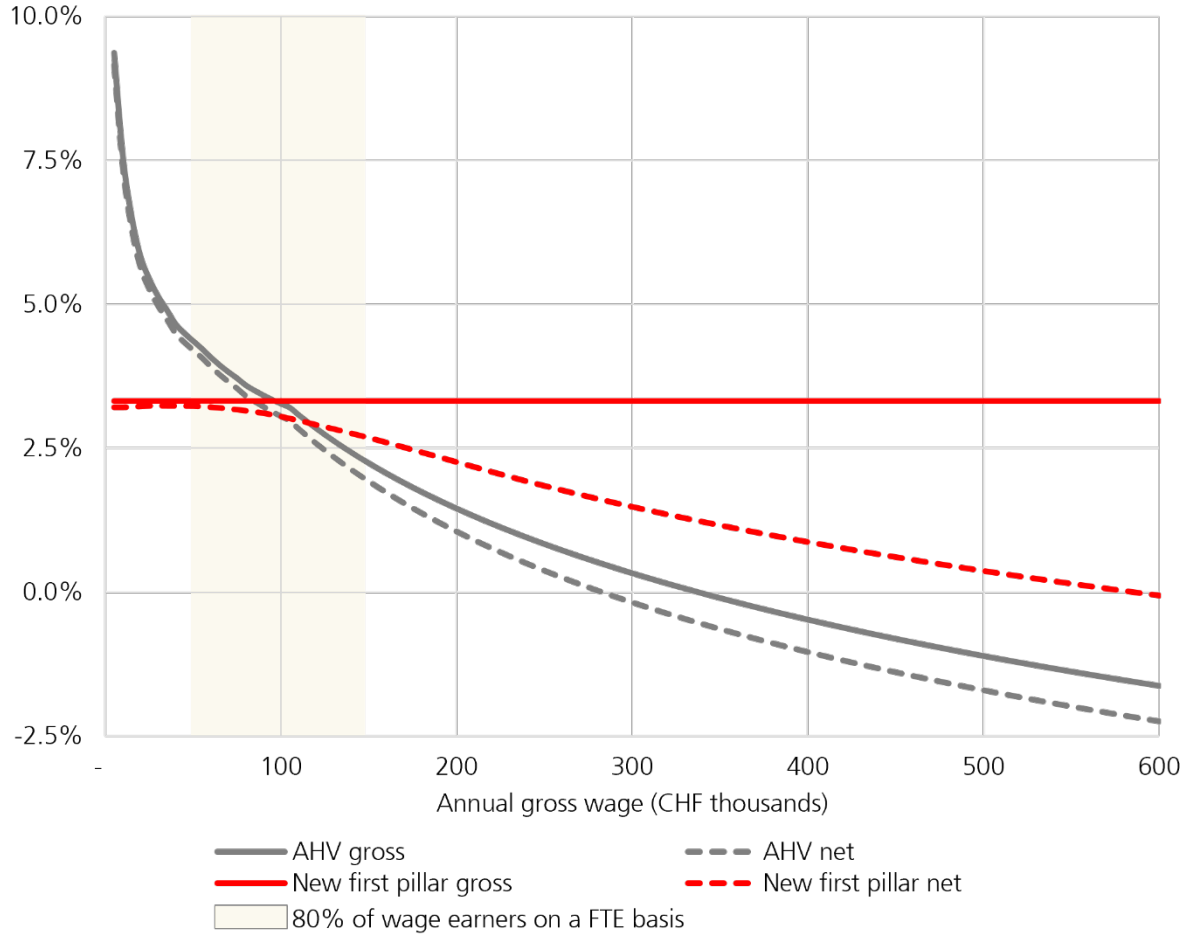
- Additional contributions would fall on the state as the new system phases in. Some costs, such as legacy AHV entitlements, would decrease, while others would increase in line with population growth. Forecasting these costs is notoriously difficult because of behavioral reactions and the compounding effect over the very long time horizon these estimates are made.
- These costs could be evened out until 2100 to spread the financing burden across multiple generations, by using government debt to bridge the gaps. We estimate the additional government debt required would peak at 58% of GDP.
- Additional costs during the transition period could be financed by general taxes. During the transition period, tax revenues of the general government—i.e., at all administrative levels—are estimated to require an increase by 18% on average, including the cost of servicing the additional debt.
- After 2100, in the "steady state," we estimate net new costs would require tax revenues of the general government to be increased by 3%. While a 3% increase in tax revenues in manageable, an 18% increase is high compared to changes in tax revenues induced by tax policy changes that have been achieved in developed countries over the past 30 years.
- Rising income taxes would concentrate the transition burden on high-income individuals who are more able to bear these costs. Whether this is fair depends on the perceived fairness of alternative financing options, such as VAT, wage-based contributions, corporate tax, or other and potentially new taxes.
- The cost of the transition could be lowered by gradually phasing out the grandfathering of legacy AHV entitlements and handing out less generous compensation measures for younger generations.
- By way of reference, AHV payouts amounted to CHF 42bn in 2015 and CHF 53bn in 2025. They are projected at 71bn in 2035 according to the Federal social insurance office, all in nominal terms.

See assumptions at the end of the report. Sources: Macrobond, TaxWare, FTA, FSIO, FSO, OECD, finance ministries of various countries, UBS, 2026

New first pillar: Still redistributive

High- to low-income redistribution

IRR on total contributions, gross and net of federal income tax[1] on natural persons and earmarked VAT, in %



1. Assuming 18% and 25% of federal income tax revenues on natural persons flow to the AHV and new first pillar (steady-state), respectively. See assumptions at the end of the report. Sources: TaxWare, FTA, FSIO, FSO, UBS, 2026

- The new first pillar would be redistributive due to the financing of the scheme's shortfalls by the state. The latter would disproportionally be financed by high-income earners. According to FTA statistics, around two-thirds of federal income tax revenues on natural persons stem from the top 5% of income earners.
- However, the extent of the redistribution in the new first pillar would depend on the performance of financial markets. The latter could cause more, or less, redistribution than depicted in the chart.
- Our forward-looking simulation assumes a 20-65 full-time career for a given cohort and incorporates today's existing earmarked VAT and assumes a share of federal income tax paid by natural persons from the age of 20.
- Limitations of the analysis:
  - High-income earners tend to exhibit higher life expectancy than low-income peers (not considered here), which lessens the redistribution.
  - Taxes other than VAT and federal income tax on natural persons are not included in the analysis.
  - Very high-income earners tend to earn income from capital, which is not considered here and would increase the redistribution.
  - A waiver of new first pillar contributions for low-income earners would increase their IRR, which is not shown on the chart.
  - In the AHV, the PAYG mechanism relies on people having children. The cost of raising the next generation, which disproportionally falls on parents, is not reflected in the analysis.

Tax revenues and government spending

Government spending

- Importantly, not all the new costs cited throughout the report are incremental—as the lack of financial equilibrium of the AHV would likely lead to increased VAT, wage-based contributions, and perhaps taxes.
- Furthermore, the impact on government budget at different administrative levels is difficult to estimate.
- The structural state contribution to the new first pillar would increase by around 50% compared to today, on average.
- Mandatory long-term care insurance would lower the EL expenditures and other old age-related expenditures of cantons that are likely set to rise due to the aging of society.

Tax revenues from natural persons

- All else equal, the limitation on voluntary pension fund purchases would likely increase the income tax paid by high income earners.
- Higher social security contributions and higher income tax incentives on pillar 3a contributions for medium-income earners would likely lower income tax revenues from that category of income earners.
- The taxation of "shadow" pension in the case of capital withdrawals of second pillar benefits would likely increase tax revenues in the long run.
- All in all, with prevailing tax schedules, income tax revenues could rise, mitigating the need to increase taxes in a steady state environment.

See assumptions at the end of the report. Sources: TaxWare, FFA, FSIO, FSO, UBS, 2026

Opportunities and challenges

Main challenges of the new system

First pillar

- Higher dependency of state finances to the performance of financial markets.
- A very severe and very long equity bear market could require a sizable state bailout that would, all else equal, likely require higher taxes.

Second pillar

- Higher variability of second pillar benefits (DC) compared to today's DB, except for Plan 1e and FZ. Variability of outcomes may be a source of anxiety and complicate retirement planning.
- Financial market outcomes and individual investment choices could potentially result in large differences in benefits relative to contributions between and within cohorts. This could lead to a share of workers not embracing the scheme despite higher paid-out benefits on average.

Pillar 3a

- Unknown behavior of households—and impact on tax revenues—with regard to voluntary contributions in the pillar 3a with different fiscal incentives and reduced possibility to make voluntary purchases in the second pillar.

Invalidity and survivor's insurance

- A non-mandatory insurance of invalidity (excluding invalidity insurance in the first pillar) and some survivors could potentially lead to insufficient coverage for some households.
- Potentially higher cost of survivor's insurance (when adjusting for the level of risk benefits) for some households.

Other

- It is difficult to estimate the impact of:
  - Changed disposable income (through changed social security contributions and income tax) on household consumption.
  - Changes in demand for financial assets in CHF, e.g., Swiss equities and bonds, and its implication for pension fund managers.
  - Higher cost of employment for low-income earners
- Lack of inflation market—e.g., liquid inflation-linked bond market—in Switzerland to price inflation-indexed annuities.
- In a steady state, assets of workers in the new second pillar would be around 20% lower than in the status quo. However, assets of workers in the new first pillar would be around 65% higher than in the second pillar (status quo).
- Politicians could exert pressure on the public institution managing the new first pillar assets to make investment decisions that align with political goals, potentially at the expense of the long-term financial sustainability of the scheme.

See assumptions at the end of the report. Source: FSIO, FSO, UBS, 2026

Opportunities of the new system

Greater adequacy

- Higher benefits for low-income earners with a full history of employment and mandatory long-term care insurance reduce the risk of old-age poverty.
- Furthermore, automatic eligibility screening for supplementary benefits ensures support reaches those in need.

Social cohesion

- Refocusing old-age redistribution from young to old to rich to poor fosters generational fairness and solidarity across income groups. This approach strengthens the social fabric.
- Universal participation and uniform treatment—regardless of age, employment status, or family structure—reduce discrimination, help ensure that no group feels excluded, promote inclusivity, and narrow social divides.
- Redesigned, income-regressive tax incentives and taxation of lump sums further enhance fiscal justice.

Increased choice and flexibility

- Greater flexibility in accessing benefits allows individuals to tailor retirement to their personal circumstances, improving quality of life and satisfaction.
- Leveraging competition and economies of scale can reduce costs, improve service quality, and encourage innovative solutions that benefit all participants.

Trust in the system

- Enhanced transparency and financial sustainability help build public trust. When the insured understand how the system works and see that it is designed for long-term viability, confidence increases.

Headspace for other issues

- Explicitly stating the true cost of future state-sponsored retirement benefits also supports informed public debate and policy decisions.
- By making the system less dependent on demographic shifts and more financially sustainable, governments can better plan for other societal priorities such as education, health care, or climate action for instance.
- A more stable, less contentious retirement system reduces political and social friction, allowing society to focus on other important debates and reforms.

Main challenges related to the transition

First pillar

- Higher taxes required mainly to finance legacy AHV entitlements.
- The debt required to smooth these costs for a generationally fairer redistribution of the burden would require an exception to the debt brake rule.

Second pillar

- Relatively short investment horizons in the new second pillar during the transition period—i.e., limited risk-taking ability.
- Cost and legal hurdles to the consolidation of legacy assets.

Pillar 3a

- Administrative cost of maintaining new and old scheme in parallel.

Invalidity and survivor's insurance

- Migration of existing contracts.

Other

- Substantially raising tax revenues may prove challenging. For instance, some tax-sensitive very high-income taxpayers may seek ways to circumvent a higher income tax—e.g., by favoring capital gains or relocating to more favorable tax jurisdictions.
- It is difficult to estimate the impact of:
  - Sudden changes in social security contribution levels, taxes, and with time, workers being able to withdraw retirement benefits earlier than in the current system on the labor market.
  - Increased debt (bridge financing) on interest rates and exchange rates.
  - Higher income taxes on household consumption.
- Administrative cost for companies and the government (social insurances and tax administrations) to switch to the new system.
- Throughout the transition, some cohorts would experience materially lower retirement benefits that compensation measures wouldn't cover.
- Our estimates are not based on a progressive increase of social contribution rates and taxes, although this would have to be the case.

Appendix

Acronyms and specific terms

- AHV (*Alters- und Hinterlassenenversicherung*): Old age and survivror's insurance
- BVG (*Berufliche Vorsorge Gesetz*): Law on occupational benefits
- DB: Defined benefit
- DC: Defined contribution
- EL (*Ergänzungsleistungen*): Supplementary benefits
- FTE: Full-time equivalent
- FZ (*Freizügigkeit*): Vested benefits
- IRR: Internal rate of return
- IV (*Invalidenversicherung*): Invalidity insurance
- LE: Life expectancy
- NPV: Net present value
- PAYG: Pay-as-you-go
- RA: Reference retirement age

Assumptions, unless otherwise stated

- 1% inflation
- 0.5% real wage growth
- Supplementary benefits: CHF 37,350 p.a. (2025 terms)
- 1.5% real GDP growth
- 1.5% real growth of general government tax revenues
- 1% cost of debt
- 80% labor market participation rate
- Reference retirement age linked to 67% increase in life expectancy at age 60
- FSO generational mortality tables
- Career span: 18-65 in the current system; 18 to cohort specific reference retirement age in the proposed system
- Transition starting 2035
- Unless otherwise state: full time employment; single employer; BVG minimum plan
- BVG minimum plan credited interest rate: 1.25%
- Single individuals for tax calculation purposes
- 1.6% discount rate for annuities
- 3.2% net of fee return on assets in the BVG average plan.
- 0.5% TER (total expense ratio) on all financial returns in the second pillar
- 0.2% operating fee on the management of new first pillar assets
- 4.2% (for 18-year-olds in 2035) guaranteed return in the new first pillar
- 87% gross replacement rate in the new first pillar
- 20% total contribution rate on annual gross wages up to CHF 50,000 (2025 terms) in the new first pillar
- Equity asset allocation for the management of assets in the new first pillar
- Three contribution bands in the new second pillar ranging from 1x to 3x the contribution base of the new first pillar, with total contributions rates of 12.5%, 10% and 7.5%.
- New contributions in the new second pillar invested in time-to-reference-retirement-age-based investment strategies ranging from 66% bonds ("Income") to 95% equities ("Equities") for time horizons of 28+, 28, 24, 18, and 15 years. The expected net of fee return for a person working full-time from age 18 to 68 is 5.1%.

Glossary

BVG minimum/average plan: The BVG minimum plan is the one set by Swiss law that defines contribution rates and benefits formula among other things. The average plan designates the commonly observed more generous plans.

Defined benefit (DB): A type of retirement plan in which the employer or sponsor promises a guaranteed lifelong pension, usually adjusted for inflation, based on a formula that takes into account the employee's earnings history, tenure of service, and retirement age, among other factors. Wage-based contributions can either 1) finance ongoing pensions, i.e., pay-as-you-go mechanism, in which workers finance today's retirees; 2) be invested, i.e., funded (capitalized) scheme; or 3) a mix of both, i.e., partial funding. Where relevant, financial risk lies primarily with the sponsor of the scheme. DB schemes may feature systematic redistribution from high- to low-income earners.

Defined contribution (DC): A type of retirement plan in which contributions flow to an individual account. These contributions are invested, with beneficiaries sometimes having a say on the investment strategy. Upon retirement, the sum of contributions and the returns thereon are often paid in the form of a lump sum or installments. The future level of benefits is not guaranteed and depends on the amount of contributions and performance of investments. Beneficiaries bear the investment risk—i.e., the uncertainty of returns—as well as the longevity risk—i.e., the risk of outliving financial resources in retirement.

Funded scheme: Refers to a scheme where liabilities, i.e., future payment of benefits, are covered by existing assets.

Indexation: In the context of retirement benefits, generally refers to the adjustment of retirement benefits to changes in prices (inflation) or wages.

Internal rate of return: The rate at which the present value of positive and negative cash flows equals zero.

Life expectancy: The statistical measure of the average remaining lifetime of a specified set of people grouped by age and gender, at a given age, e.g., at birth or at retirement age.

Lump-sum payment: A one-time payment of a share or all benefits.

Means test: The analysis of a person's financial resources (e.g., income, assets) that determines the receipt of subsidies.

Median: The number that divides a ranked scale into two parts—50% of values lie above and 50% lie below it. The median is not as affected by outliers, as an arithmetic average would be by extremely high or low values.

Net present value: The time value adjusted measure of a series of future flows, e.g., contributions and retirement benefits, after adjusting for a discount rate such as inflation.

Net replacement rate: The ratio of first net retirement income and last net employment income.

Pay-as-you-go: In the context of a pension scheme, a financing mechanism in which pensions of current retirees are paid by contributions of current workers. When contributions exceed pension payments, the surplus is usually invested.

Plan 1e: Plan 1e is a defined contribution scheme set at the discretion of employers for their high-income earning employees.

Quintile: One of five equal groups that a set of data can be divided into. The value of a quintile marks the point below which 20% (first quintile), 40% (second quintile), and so on, of the data fall.

Regressive/progressive: Decreasing/increasing, i.e., contributions/tax rates that decrease/increase with increasing income.

Steady state: A situation where a system's parameters remain stable, i.e., not in a state of transition.

Vested benefit: Accrued retirement benefits of employees that have left their employer without joining a new pension fund or those that exceed the pension plan of the current employer.

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