

Pension funds: fewer benefit cuts through improved investment performance

Basel, February 14, 2017 – The question of how pensioners will support themselves economically is more topical now than ever. The political debate surrounding the “Pensions 2020” reform will be tabled in parliament during the spring session.

Returns on the investment of pension assets have to date been the most important contributor to our retirement capital. Notwithstanding, this fact has as yet not been taken into consideration in the political debate. It is becoming apparent, however, that in future, it will not be possible to achieve the current target returns. There is therefore a threat of funding shortfalls and cuts to benefits in the pension system. In order to avert such an outcome, pension funds must adjust their asset allocation in line with the changed investment environment and tap additional sources of returns. The study presented today illustrates a number of measures for optimising returns, for example the greater utilisation of non-traditional investments and a necessary realignment of the OOB2 investment guidelines. The competent authorities must recognise the necessity of such changes and act accordingly.

- The political discussion surrounding the “Pensions 2020” reform wantonly neglects the following aspect: the returns on the investment of pension assets, also called the 3rd contributor.
- The asset allocation of pension funds must be adjusted.
- Additional sources of revenue must be tapped (non-traditional investments).
- A realignment of the investment guidelines for occupational pension plans is necessary.
- Appeal to the competent authorities: change is required.

Study “The 3rd contributor to occupational pension plans – Proposals for optimisation”

The study “The 3rd contributor to occupational pension plans – Proposals for optimisation” was conducted by experts from the Swiss Bankers Association (SBA) and the Asset Management Platform, which was founded in 2016. The study

makes numerous proposals for an improvement to asset allocation with the objective of generating higher returns while maintaining the same level of risk. One particular area of focus is investing in non-traditional investments. “Without an adjustment to asset allocation, pension funds will face yield-related problems. This would translate into accepting the risk of a funding shortfall and cuts to benefits in the pension system for no good reason”, says Herbert J. Scheidt, Chairman of the SBA.

Non-traditional investments underrepresented – OOB2 guidelines set wrong incentives

The environment for professional asset management has changed significantly in recent years due to negative interest rates and other factors. Yet the asset allocation of the Swiss pension funds has remained virtually unchanged since the 1980s. Generally speaking, their investment policies are still dominated by bonds, equities and domestic real estate, while non-traditional investments continue to play only a secondary role. This is underpinned by the investment guidelines for occupational pension plans (OOB2), which still categorise assets in a traditional manner, and that, viewed from today’s perspective, set the wrong incentives. A recategorisation under OOB2 is necessary in order to precipitate a change in investment behaviour.

Greater returns with the same level of risk

In international comparison, Switzerland’s investment performance lies at the lower end of the spectrum. Countries with a greater share of non-traditional investments, on the other hand, tend to report higher returns. Comparative analyses suggest that the difference in returns between a standard pension fund portfolio today and a more broadly diversified version thereof would, with the same level of risk, be around one percent annually before costs. For the 2nd Pillar pension assets, this would result in an increase in returns of approx. 8 billion francs.

Necessary impetus for optimisation

Asset management is a strategically important matter for the SBA. Its member institutions have a strong pool of knowledge and experts that should be taken advantage of. “Because of this expert knowledge in asset management, the SBA considers it its duty to make an active contribution to a solution for the long-term success of pension plans. The study presented today does just that”, says Iwan Deplazes, Head of the Asset Management Steering Committee of the SBA and Chairman of the Asset Management Platform. Other associations, namely the Swiss Funds & Asset Management Association (SFAMA) and the Swiss Structured Products Association (SSPA) have also examined how to secure pension plans from the perspective of the 3rd contributor. This is clear proof of the urgency to bring this issue into the political debate.

Key findings of the study “The 3rd contributor to occupational pension plans – Proposals for optimisation”

- **Demystification**

The study aims to reduce reservations about non-traditional investments and calls for the greater utilisation of the room for manoeuvre that exists under the OOB2 investment guidelines in favour of higher expected returns.

- **Recategorisation and greater flexibility of investment guidelines**

An amendment to the OOB2 guidelines is also pressing. Asset classes should in future be broken down into equity, debt, real asset investments and trading & resources. As part of this recategorisation, the private equity, private debt and infrastructure classes would be ascribed to the categories of their (listed) counterparts. This amendment would facilitate a breaking of prevailing investment patterns. The percentage limits for the categories should also be broadened.

- **Prudent Investor Rule**

Pension funds should be regulated in accordance with the Prudent Investor Rule. This concept is already standard in many countries, and dictates that pension funds must manage assets as a prudent investor, or in other words, manage the assets as if they were their own. This would give pension funds significantly greater responsibility, but also more room for manoeuvre when making investment decisions.

Asset Management Platform Switzerland

The SBA has defined asset management as one of the key areas for further development in the Swiss financial centre. The Asset Management Platform was founded together with SFAMA to this end. Its goal is to further develop asset management in Switzerland. An important issue is the debate surrounding the “Pensions 2020” reform. Pension funds in Switzerland manage pension assets of over 800 billion francs. In Switzerland, the banks are among the biggest asset managers. It is for this reason that they want to make a contribution to pension funds and thereby to society.

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