SWISS RISK & CARE

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# INSURANCE INSIDE

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# EDITORIAL

## The impact of inflation on insurance: what is the outlook?

The health crisis and the war in Ukraine are taking a heavy toll on the world's economies and, in particular, on the insurance market. One positive factor: the rise in interest rates. The rise works in favour of insurers who manage large bond portfolios and who should obtain better returns enabling them to replenish their reserves. Unfortunately, this is not expected to offset the impact of rising inflation and there should be a further increase in premiums in 2023. According to Swiss Re's study*, the costs of compensating claims are expected to increase (frequency of natural disasters, increase in the price of raw materials and wages etc.). This increase is expected to affect all lines of insurance.

Health insurance premiums are therefore expected to rise by an estimated 5-10%. In this particular case, inflation is not the only explanation. What we are seeing is a post-pandemic catch-up of health care expenses, since a large number of operations and examinations were postponed during the various waves of Covid, in addition to the intervention of the National Council that required health insurers to pay on part of their reserves that were deemed too high.

Under these difficult circumstances that are unfavourable for companies and their associates, the role of the independent broker comes fully into play. More than ever, they are your ally for the defence of your interests. Our methodology, knowledge of the market and leadership position are all assets that enable us to optimize your insurance portfolio. We are also there to advise you on alternative solutions as perfectly illustrated in the article on pension plans which you will find in this issue. "Take the leap today for insurance cover tomorrow" is still our creed.

We hope you enjoy reading this issue!

**David Cochet**
CEO

*"The volume of insurance premiums worldwide will reach a new peak in 2022". Study of 13 July 2022 - Swiss Re*

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# Financial planning: organising your pension makes all the difference

**At a time when the Confederation is trying to launch a new reform of the 2nd pillar, business managers are looking for the most efficient solutions to make their assets grow and plan their retirement as well as that of their employees. Occupational pension plans offer a range of possibilities that will have a considerable impact on the amount of the annuity as well as from a tax perspective.**

**Solutions offered by the 2nd pillar**
Organising one's pension plan is a major issue for companies and employees alike. The 2nd pillar [Federal Law on occupational pension, survivors' and disability schemes (LPP)]) offers several possibilities.

**- Choosing between capital or annuity, or a combination of both** can be a good solution depending on your plans for life after you retire. Combining capital withdrawal with an annuity allows you to cover your basic needs while giving you the possibility of carrying out projects or optimising your tax situation at any time.

**- Opting for a partial retirement** can also be a gradual solution as an alternative to suddenly stopping at the legal age of retirement. For example, at the age of 62, an employee chooses to work at 60% and then at the age of 64, at 30% before stopping at the age of 65. They will in such case receive an annuity that increases on a pro rata basis. The advantage for the employer: planning for the employee's replacement with the possibility of tilting, which is always beneficial for the continuity of business and the atmosphere at work.

**- Topping up years:** it is possible to make up for any shortfall in contributions by investing in your pension fund. This will apply to people who have entered the Swiss job market at a late stage or who wish to align their pension with an increased salary. This solution will apply not only for previous years but also for future years. If an employee

## The current pension situation in Switzerland

There are three main factors that explain the current pension situation.

First of all, **life expectancy** continues to rise in Switzerland. This is good news, of course, but the consequence is that retirement pensions will decrease. *"In 2021, for the first time in its history, the conversion rate on LPP assets set by insurers was lower than the statutory rate (by way of a reminder, 6.8%)"*, explains Jean-François André, Head of LPP brokerage at Swiss Risk & Care.

Secondly, **bond yields** remain low, causing a deficit in the 2nd pillar.

Lastly, **the successive failures of the Association Vieillesse et survivants** [Old age and survivors' insurance (AVS)] **and LPP reforms** over the past few years have meant that there are fewer new solutions to try.

In view of this situation, Jean-François André reminds us that AVS is in good shape with its Compensation Fund amounting to nearly CHF 39 billion at the end of 2021. Pension funds have an average coverage ratio of more than 117% (i.e. more than CHF 170 billion in reserves, in addition to their annuity provisions), which is also a sign of great solidity.

*The impact of financial planning: 1% additional return on your retirement savings at the start of your career corresponds to a 20% increase in pension...!*

wishes to retire at the age of 62 and receive a full pension, they may pre-fund their retirement. Another important advantage is that top-up payments are tax-deductible.

**- Change your place of residence:** from one canton to another, taxation can vary greatly. This is something to consider when retiring.

**- Make additional contributions:** if the employer's contributions are greater than the employee's, the employee can match the employer's contributions to increase their pension.

### The $1^e$, a lesser-known alternative

The $1^e$ refers to the section bearing that number in the second ordinance on occupational pension plans (OPP2). A $1^e$ plan can be set up only for the portion of annual salary exceeding CHF 129,060.

Unlike pension funds which only have one strategy, a $1^e$ can offer up to 10 investment strategies, ranked according to investment risk.

It has many advantages for both the employer and the employee: it is not necessary to constitute reserves. In practice, the choice made by the insured does not affect the others. For companies subject to IFRS accounting standards, the pension commitments on the balance sheet can be reduced, which in turn improves their shareholders' equity. Lastly, as Jean-François André points out, *"the $1^e$ can be a tool for attracting and retaining managers or key people in the company."* The employee benefits from tax optimisation through voluntary top-up payments, they can choose their investment strategy according to their risk tolerance and can change it regularly, which can be useful in periods of uncertainty in the stock market. This flexibility is found in the choice of investment strategies, which can be active, passive, responsible, or bespoke - in short, adapted to the situation and wishes of the affiliated company's pension fund commission.

### Seek advice

Every situation needs to be analysed in order to make the best decisions, and this holds true for both employers as well as employees. Seek advice from an independent pensions expert to help you in making the right decisions.

INTERVIEW

## New investment opportunities, from the drawing board to real life

*ESG funds, cryptocurrencies etc. ... pension funds are opening up to new investment opportunities. Are they a snare or profitable alternatives - Jean-François André, Head of LPP Brokerage at Swiss Risk & Care, and Alberto Gonzalez, Market Head Romandie at Finpension AG, review the situation.*

**1. Would you advise investing in cryptocurrency for your pension?**
**Alberto Gonzalez:** *FINMA, the financial market supervisory authority, has authorised the first cryptocurrency fund under Swiss law in September 2021. The situation is that it is not possible to invest directly in cryptocurrencies for your pension but only via a crypto fund i.e. in a collective investment scheme. In any event, this type of investment should be reserved for «high» and «very high» risk investment strategies, and should not exceed 5% of pension-related investments.*

**2. What do ESG funds consist of?**
**Alberto Gonzalez:** *Investments known as "responsible" are the current trend. The companies that form part of an ESG fund's investment strategy are assessed on the basis of environmental, social and governance (= ESG) criteria. They are thereby given an ESG rating. Once the individual company ratings have been complied, an ESG rating is obtained for the ESG investment fund. It should be pointed out that this assessment does not correspond to any international standard. Interpretation will vary from one country to another depending on the assessment criteria retained. At this point in time it is therefore difficult to compare companies and the rating remains indicative.*

**3. Should you invest in ESG funds?**
**Jean-François André:** *As a general rule, companies choose their pension fund on the basis of its costs, the quality of its administrative management, its solidity, the security of its processes and its returns. We have nonetheless found that over the past 2 years, clients have been more frequently asking for pension funds to comply with ESG criteria. Market players are following this «greening» trend, even if not all funds are ESG-labelled. Do ESG funds perform well? Isn't the question really: are we willing to sacrifice some performance in return for sustainability, which is in itself another form of performance?*

*The replay of the webinar is available on our website: https://www.swissriskcare.ch/les-webinaires*

## Health insurance: price rises are expected

Health insurance premiums are expected to rise sharply in 2023, by 5-10%. There are numerous reasons for this: catching up with expenses in the post-Covid period, as many examinations or operations were postponed during the first waves of Covid, the intervention of the National Council to force health insurance funds to pay compensation to their policyholders in order to reduce their excessively high reserves, and, lastly, the rise in the rate of inflation. It should be remembered that policyholders must declare their wish to terminate their basic health insurance policy before 30 November. For additional insurance policies, the deadline is usually 30 September (to be checked with your insurer or broker). Given the current circumstances, one would have to be certain that some real benefit would be gained by doing so.

## "La Nuit du Bien commun", 20 September at the Théâtre du Léman

Swiss Risk & Care is committed to Geneva for the Common Good to help associations in raising donations. As a member of the selection committee, we have examined the projects of 20 associations and selected 9 that will present their pitch at the Night of the Common Good, and hope to raise as many funds as possible to turn their projects into reality. Please come and take part in this unique event in Switzerland. Registration is free, you will only be asked to pledge funds. This is a moral commitment.
For further information and to register:
**https://geneve.lanuitdubiencommun.com/**

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