The New Swiss Program of Old-Age and Survivors Insurance

By Max Bloch*

The Swiss people, in a referendum held July 6, 1947, approved by a majority of 4 to 1 the establishment of a Nation-wide compulsory system of old-age and survivors insurance. The legislation ends a period of almost 30 years of planning and marks the beginning of a new era of social security in Switzerland. In this brief outline of the background and provisions of the new law the author has the benefit of information gained while visiting Switzerland early this year.

PLANNING FOR an old-age and survivors insurance program for Switzerland started soon after the First World War, when the Confederation's Constitution was amended to permit the establishment of an insurance program. In 1925 the amendment was confirmed by a majority of 2 to 1 in a popular referendum. One of the main features of the amended Constitution is the clear statement that old-age and survivors insurance must be the first program enacted; introduction of disability insurance is to be a subsequent step.

Preliminary work in drafting a law took 4 more years, and it was not until 1929 that the Federal Assembly received the draft bill. In 1931 the proposed law received large majorities in both legislative bodies, but it was rejected by popular vote in the same year—511,000 to 339,000. No new attempts to enact social insurance legislation were made before the Second World War.

Probably the main reason for the popular rejection of the program was the feeling of the Swiss people that the financial burden was too great. Moreover, they were not accustomed to pay-as-you-go taxes, and wage deductions were an almost revolutionary concept. The other arguments against a compulsory system were much the same as in other countries. The argument that real democratic freedom demands that the individual himself make all the necessary provisions for the last years of his life proved particularly strong.

In 1942, an initiative bearing 180,000 signatures petitioned for enactment of the long-deferred insurance program, and four Cantons also submitted petitions on the subject. The present law went before the Assembly in 1946, after a report and recommendations by a committee of experts set up for the purpose. In December 1946 the bill was passed by the National Council (the lower chamber) by a vote of 170 to 8 and by the Council of State (the upper chamber) by a vote of 34 to 1. The bill was then submitted to popular referendum; more than a million voters, representing 87 percent of the electorate, gave a 4-to-1 majority to the new legislation, which goes into effect January 1, 1948.

The two factors that were probably most influential in changing public opinion between the two referendums were the wartime measures for the protection of soldiers' families and the Federal decree on transitional noncontributory old-age and survivor benefits.

Special Measures

Protection of Soldiers' Families

All male Swiss citizens above the age of 20 must serve in the army, unless they are absolutely incapacitated for such service. The Swiss Army was fully mobilized during the war, and places were found in it even for severely disabled persons. When the fighting near the Swiss border was sufficiently inactive, a system of rotation permitted men to serve in the field for a certain number of weeks or months in a year and to return to their civilian activities for other periods. Even with this system, however, the periods of service for each man were so prolonged that the economic security of their families was gravely endangered. A remedy was necessary and was found in the form of compulsory mutual aid.

Two laws were enacted and later combined into one voluminous code—the law on the refund of lost wages and income. This law provided for the establishment of compensation funds, financed half by the Federal Government and the Cantons and half by a general tax of 4 percent on all wages and on income from independent work. No upper limit was put on the amounts to be taxed. The tax on wages was divided equally between employees and employers. In consequence, the employer had to pay 2 percent of his workers' wages and, in addition, 4 percent of his own income.

Each employer served as an agent for the system. If one of his men had to leave his job to join the army in the field, the employer paid a fixed amount to the family out of the tax collected in his own enterprise. The employers' actions were supervised by local and Cantonal agencies, whose main functions were to administer the system for self-employed persons and to equalize or pool the funds collected by employers in a given region. To achieve Nation-wide equalization and uniform administration, a Federal Equalization Fund was also established. The system proved both popular and successful. The Swiss economy, which moved forward on a high level as soon as hostilities were ended, easily absorbed the tax, and it was therefore continued after the war, though the amounts paid out dropped to almost nothing. As a result, the Federal Equalization Fund now has about 1 billion Swiss francs [1] at its disposal.

Transitional Old-Age and Survivor Benefits

At the end of 1945 the Federal Government decided not to wait for the introduction of an insurance law but to institute a temporary program of old-age and survivor benefits for Swiss citizens. Since no special contributions are levied for these transitional benefits, some sort of means

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[1] The Swiss franc is valued at approximately 23.5 cents in United States currency.

test was necessary. The one adopted is simple and moderate. Localities are divided into three classes—urban, semiurban, and rural—and maximum amounts of income for receipt of benefits are fixed for each class. Persons with income in excess of this maximum do not receive benefits. Yearly pensions are flat amounts. For residents in urban communities, they equal half the maximum full benefits provided for in the new insurance law but are considerably higher than the minimum benefits. If the benefit, together with income from other sources, exceeds the maximum income specified for the locality in which the beneficiary lives, it is reduced by the excess amount. This system seems to have become as popular as the allowances for soldiers' families and to have modified any public feeling that people were getting nothing in return for the 4-percent tax for the latter system.

Scope of the New Law

The new law makes coverage compulsory for all persons residing in Switzerland, including aliens and stateless persons, and for Swiss citizens working abroad for wages paid by a Swiss employer. Other Swiss citizens living abroad can insure voluntarily if they are under 30 years of age; those between the ages of 30 and 65 on January 1, 1948, the date the law goes into effect, may also voluntarily insure on that date if they elect such coverage. Only aliens having diplomatic immunity and persons covered by a foreign old-age and survivors insurance system are excepted from coverage.

Thus the law covers all persons residing in Switzerland as well as Swiss citizens living outside the country. An unusual feature is the provision that all benefits but the transitional benefits mentioned later are to be paid unconditionally; that is, the beneficiary may continue to work after his sixty-fifth birthday or he may have income from work, investments, private insurance, and so on.

Benefits

Primary Full Benefit

The basic benefit under the law is the old-age benefit for a single person who has reached age 65. This benefit, which starts on the January 1 or July 1 that follows within 6 months of the individual's sixty-fifth birthday, consists of an annual amount of 300 francs, plus a variable amount related to average annual contributions. This variable amount is computed by multiplying by 6 the average yearly contribution up to and including 150 francs and by 2 the amount in excess of 150 francs. The minimum benefit is 480 francs; the maximum, 1,500 francs a year.

The benefit formula is based on contributions rather than income, because income itself is not a prerequisite for coverage. For the sake of comparison, however, the formula may be expressed in terms of income. A flat monthly benefit amount of 25 francs is supplemented by 24 percent of the individual's average monthly earnings up to and including 312.5 francs, but not by less than 15 francs; from monthly income in excess of 312.5 francs and up to a limit of 625 francs, a further increment is derived at the rate of 8 percent; the maximum monthly benefit therefore totals 125 francs.

The number of years of coverage, it should be noted, has no effect on the amount of the full primary benefit. This provision is understandable in view of the system's unusually broad coverage, under which, as the program matures, the overwhelming majority of the insured persons will have the highest possible number of years of insurance.

The average annual contribution is an important concept, however, for computing benefits. In recognition of the fact that years of bad luck (sickness, unemployment, and so on) may lead to a reduced benefit that is in no way commensurate with the person's true earning capacity or place in the community, if the number of years of coverage is sufficiently high, the worst years and the contributions paid for them are excluded from the computation of the average. For persons who have paid contributions for more than 7 years and as many as 15 years, 1 year of lowest contributions is ignored; if they have contributed for 16–23 years, the 2 lowest contribution years are dropped, and so on; for persons insured for 40–45 years, the 5 lowest income (and contribution) years are excluded.

Derived Full Benefits

All other types of benefit payable under the system are based on the primary benefit amount.

Type of benefit	Yearly minimum (in francs)	Yearly maximum (in francs)	Derived benefit as percent of primary benefit
Primary	480	1,500	
Aged couple's	770	2,400	160
Widow's	375	1,350	50–90
Half orphan	145	360	30
Whole orphan	215	540	45

The primary benefit for an insured man is supplemented by a payment for his wife, provided she has reached age 60. This joint benefit equals 160 percent of a primary benefit which is, however, not always identical with the old-age benefit to which the man alone would be entitled. If the wife has paid contributions of her own—either before her marriage or on the basis of gainful activity after marriage—her contributions (but not years of coverage) are added to those of the husband in computing the primary benefit. The joint benefit of 160 percent is based on the resulting higher primary benefit amount.

Widow's benefits are paid to widows who have one or more children in their care at the time of the husband's death. The amount of the benefit varies with the age of the widow; if she is under age 30, it is 50 percent of the primary benefit; at ages 30–39 it is 60 percent, and so on, up to 90 percent at age 60. At age 65, a full old-age benefit is payable. A childless widow is eligible only if, when the husband dies, she has reached age 40 and has been married for at least 5 years. If she is under age 30 and not eligible for a widow's pension, she is entitled to a lump-sum payment equaling the husband's yearly primary benefit; if she is between 30 and 40 she receives twice that amount.

Orphan's benefits are payable to age 18, or to age 20 if the orphan is in school, is an apprentice, or is mentally or physically incapable of earning. Children whose parents are not known will always receive the maximum orphan's benefit of 540 francs.

Partial Benefits

The full benefits described above are intended for people who will have paid contributions for many years after the law has taken effect. It was felt that it would be unjust to give exactly the same benefits to the present generation of workers who, at the time they die or reach age 65, will have paid contributions for only a short time. Normally, contributions are to be paid during the adult life of the insured person—from the time he is 20 years old and until he reaches age 65. To postpone the payment of full benefits until the system has been working for 45 years seemed unduly rigorous. It was therefore decided to postpone for 20 years the payment of full benefits and to pay so-called partial benefits during that period. Low-paid workers are not affected by this measure. The law specifies that, when the average yearly contribution is 75 francs or less, partial benefits are to equal the full benefits, and in terms of average income this provision would affect persons earning up to 156.25 francs a month. If average yearly contributions exceed 75 francs, the partial benefit equals the full benefit computed on the basis of an annual contribution of 75 francs, plus an annual supplement for each full contribution year of 1/20 of the difference between the basic amount and the amount of the full benefit based on the same average contribution.

Orphan's benefits are to be paid from the beginning at full rates.

Reduced Benefits

In view of the wide scope of the law, it is expected that most of the population will pay contributions for all years between the ages of 20 and 65. The only exception will be people who spend a number of years outside the country without working for a Swiss employer and without taking out voluntary insurance. These persons, it is felt, should not receive the same benefits as those who have paid contributions regularly. Consequently, except for orphans, the law reduces benefits, partial as well as full, in proportion to the number of years that contributions should have been paid, according to the individual's age group, but were not paid.

Transitional Benefits Based on Need

All benefits described above are granted only if the insured person has paid contributions for at least a full year. Persons who have contributed to the program for a shorter period or who have never contributed, and whose incomes do not exceed a specified amount, will receive benefits based on need. These benefits, payable only to Swiss citizens, are broadly similar to those under the noncontributory program described earlier.

Organization

The old-age and survivors insurance law provides for full use of the organization set up to administer the program of compulsory mutual aid for soldiers' families. The employers will be entrusted with the payment of benefits, as in the earlier program. This administrative procedure is possible only because of the relatively simple eligibility requirements. It would be almost impossible in a system including invalidity insurance and would not even be possible if the law provided for retirement benefits related to income from other sources.

The employer will receive the contributions of his employees, to which he will add his contributions as an employer and also as a self-employed person. He is charged with paying benefits to those who have been employed by him for at least 2 years, and to their survivors. If he is affiliated with an occupational compensation fund, he must periodically regulate his accounts with his fund.

These occupational compensation funds are to be formed by employers' associations or by self-employed persons, or by joint action of other groups. Each fund must have at least 2,000 employers or revenue of 400,000 francs annually from contributions, it must provide guarantees to cover damages, and its rules must be approved by the Swiss Federal Council. The funds may assess their members for administrative costs in accordance with ability to pay. Cantonal compensation funds (comprising all employers and self-employed and nonemployed persons who do not belong to an occupational fund) and Confederation compensation funds having special functions—those for public employees, for example—are also to be created. They will determine contributions and benefits, receive contributions and pay benefits to the extent that the employers are not charged with doing so, and allocate contributions among their members.

The Federal Compensation Center will review and regulate the financial operations of the compensation funds, supervise their work, and perform other duties. The Swiss Federal Council is to supervise the entire system; it is also charged with naming a Federal commission on old-age and survivors insurance to advise the Government on matters in this field and to aid in regulating existing insurance organizations.

A feature of the national insurance system is the participation of private insurance institutions. Some 4,300 insurance institutions, with assets of 3 billion francs, now provide cash benefits in case of old age and survivorship, and it was felt that persons who had taken out private insurance should not lose their rights under those programs. The new law provides for the recognition and continuance of these institutions. They will collect the contributions from insured persons, but they will reduce their own premiums by the amount of the contributions, so that no additional costs are involved. On the other hand, the benefits based on the law will be paid to the insurance institutions, which will then be able to deduct the amount from its own payments.

Only insurance institutions receiving a special license under the present law may participate, however, and it is intended to grant such licenses only to small mutual nonprofit associations that seem to deserve the protection and encouragement of the public authorities. The remaining institutions, in particular those organized on a profit basis, will have the right, within the first 10 years after the law takes effect, to adapt their systems to take into account the additional burden imposed on the income of their clients.

The benefits under the old-age and survivors insurance law will be computed on the basis of individual accounts of insured persons. If a person moves to a different locality or starts paying his contributions to a different agency, a new account will be opened with that agency. The Federal Equalization Fund will coordinate the individual accounts of each person, in order to combine the records whenever an application for a benefit is filed.

Financial Provisions

Contributions

Contributions, as noted earlier, will equal 4 percent of income from employment. A tax on capital income is not levied because it was felt that such a tax would lead to extremely complicated financial and social problems.

Contributions are to be paid by all persons between the ages of 20 and 65, except wives who are not gainfully occupied or who work without pay in their husband's business or enterprise, and widows who are not gainfully active. Children above the age of 15 who work for wages also pay contributions, but the 5 years between their fifteenth and twentieth years of age will be ignored in computing the average contribution to serve as a basis for the primary benefit; the amount of contributions paid during those 5 years, however, will be included in the total of contributions, which means extra credit for work at an early age.

For self-employed persons whose wage or salary income is less than 3,600 francs a year, the rate of contributions may be reduced as much as 2 percent, according to a sliding scale to be established by executive order. The reduction in contribution rates, however, will not lower benefits, since the contribution will be credited to the individual insurance account at the full 4-percent rate.

Nonemployed persons fall into two distinct categories. For destitute persons who can pay only a nominal amount, a minimum contribution of 1 franc a month has been set. If they cannot pay even that amount (as in the case of inmates of asylums, for example) their home Canton pays the minimum contribution for them. For other persons who live exclusively on capital income, support from relatives, and so on, the monthly contributions will be graded from 1 to 50 francs according to their standing in the community, which is not necessarily a function of capital income.

State Subsidies

Obviously a levy of 4 percent on income will not finance the benefits provided for in the law, even though there is no upper limit on taxable income. In fact, a self-supporting system was never contemplated, and the Constitutional amendment foresaw the necessity of heavy subsidies, which it limited, however, to one-half the total financial requirements. The proceeds from taxes on tobacco and hard drinks were earmarked for the purpose. Long before the insurance law was worked out, these proceeds were being transferred to a special fund, which amounted to about 230 million francs in 1934, when the transfers were discontinued. Had the transfers been maintained, the fund would now total about 800 million francs; its actual amount was 244 million francs at the end of 1945.

The proceeds from these taxes at present rates, plus the interest from accumulated funds, would not be sufficient to meet the difference between total benefits and total contributions. The second part of the law therefore deals exclusively with new provisions on the import and production of tobacco and tobacco products, from which a substantial financial return is expected.

In working out the method of financing the system, the legislators chose one falling between the two extremes of pay-as-you-go, under which public authorities would have covered the actual deficit of each fiscal year, and the "eternal annuity plan," under which equal amounts would have been set aside each year to build up a reserve from which later deficits could be met. Under the plan written into the law, subsidies will be low in the beginning (though higher than the actual deficits of the first years) and will increase as time goes on, until a certain stabilization is reached. It is estimated that yearly subsidies of 160 million francs will be necessary during the first 20 years, 280 million francs during the following 10 years, and 350 million francs thereafter. In addition, 400 million francs will be transferred from the reserve of about 1 billion francs that has accumulated under the soldiers' assistance program. During the first 20 years the Confederation will pay two-thirds of the subsidies and the Cantons will pay one-third.

A special trust fund is to be set up under the management of a board of 15 members appointed by the Government. The board also acts as the highest supervisory authority for all echelons of the insurance system and as the main advisory body for the Government on all questions concerning old-age and survivors insurance.

The administrative costs of the State funds are not to be paid out of the normal 4-percent contributions or out of subsidies but, as mentioned earlier, will be financed by special assessments levied by the compensation funds according to the financial capacity of their members.

Appeals Procedure

The local and Cantonal agencies will decide on contributions as well as benefits, but independent appeals committees will be established for each Canton. A further appeal to the existing Federal Insurance Court will be permissible.