

# Special session : pension funds give cause for concern

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# Pension funds give cause for concern

*The economic slowdown has rocked the foundations of pension funds which invested some of their funds in the stock exchange. The Federal Council rushed to their aid, which aroused the anger of contributors.*

ON 1 JANUARY 2003 the minimum rate of interest on occupational pension funds (OPFs) is to be reduced from 4 to 3.25 percent. Every two years the Federal Council decides whether to raise or lower this rate depending on the economic situation. The Federal Council made its latest decision on 23 October, but the issue had already been largely decided on 22 August and subsequently backed up by special sessions of both houses of parliament held on 26 September and 3 October.

The fact that a special session had to be held for this decision illustrates just how

controversial the question of a minimum interest rate is. This special debate was demanded particularly by the Left, which declared itself the mouthpiece for thousands of disgusted pension fund members who had taken to the streets in early July following the Federal Council's announcement of plans to reduce the minimum interest rate. This unexpected step gave rise to speculations about the financial health of the insurance companies responsible for such pension funds, which were suspected of loss-making speculations on highly volatile stocks and shares. There were even fears of another Swissair-style "grounding", but with much more serious social repercussions. Spokespersons for the major insurance companies such as Rentenanstalt/Swiss Life were quick to deny such accusations but admitted to some problems. In their view, an annual interest rate of four percent was unrealistic given the continual decline in share prices over the past two years. On the other hand, they understood the concern of pension fund members, particularly if the minimum rate were to remain at 3.25 percent, in which case their pension would be lower than anticipated.

Above all, it is the younger contributors who draw the short straw.

Criticism also centred on the lack of transparency in the management of pension funds, especially in terms of the distribution of profits. Insurance companies were accused of putting the profits from the economic boom into their own pockets. Hence also the criticism that the Federal Council had made itself an accomplice in the "pension theft" and rashly come to a decision without obtaining detailed information on the pension funds' actual financial situation.

## More transparency

The special session offered an opportunity to examine and address some of these accusations and issues. The Federal Council once more emphasised the correctness of its decision in view of the difficult economic situation and the figures provided by insurance companies. "Without a reduction in the minimum interest rate, the occupational pension scheme would be at risk," commented Federal Councillor Ruth Dreifuss, at the same time apologising for the Federal Council's "hasty, stormy and feverish" actions.

In the government's view it is wrong to talk of "pension theft": 95 percent of the revenues earned by insurance companies are passed on to contributors. On the other hand the Federal Council took advantage of the special session to criticise the lack of transparency in the financial accounting practices of insurance companies.

Some members of parliament managed to see the positive side of the crisis: at least the weakness has been identified. The people's representatives should learn from these events and establish standards to increase transparency in pension funds as part of the reforms to the law on occupational pensions, which is currently being debated by the Council of States. The Federal Office for Social Security for its part aims to examine the financial situation of individual insurance companies on an annual basis.

Pablo Crivelli

Translated from the German.



Patrick Lüthy / Imagopress

Will persons drawing pension benefits be left out in the rain?