Actuarial Studies Seminar
Macquarie University
4 March 2009

Dr Benjamin Avanzi
Actuarial Studies, Australian School of Business, UNSW

The demand for retirement annuities and non-mandatory superannuation savings: the case of Switzerland

The Swiss model of social security distinguishes itself by several aspects. It is based on three pillars that offer benefits in case of retirement, disability and death in a coherent, coordinated way. In addition, more than half of the Swiss who retire choose to annuitize their capital. In the first part of the presentation, we describe the Swiss security system with an emphasis on retirement benefits, and give some insights about what in the Swiss model could explain why the so-called "annuity puzzle" is not observed. We also discuss some of the issues the Swiss pensions system is currently facing.

The superannuation plans need to offer at least the same benefits as the ones that are defined in the law. For that mandated component of the savings, the Swiss government chooses the rate at which it is earning interest, as well as the rate at which it is converted into annuities at the time of retirement. Any loss (or profit) incurred by these figures is borne by the non-mandated savings component. In the second part of the presentation, we build an economic model of the demand for non-mandated superannuation savings, in function of the level of the mandated interest rate and conversion rate. Our goal is to determine whether an equilibrium exists, and under what conditions.