

Switzerland:

building a multipillar pension system for a flexible labour market

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1. Introduction

The Swiss multipillar pension regime has attracted a lot of praise over the past two decades for its ability to deal with economic and demographic challenges. The regime also enjoys widespread support in the Swiss population, because its three-pillar structure implies that all insured build their old age income security on the interplay of three pillars. A closer look at the distributive implications of this system, however, reveals that the idea of all Swiss pensioners resting securely on three pillars in their old age does not hold true. The Swiss three pillar system, which was established by 1985 already, targeted eligibility and coverage mainly at standard employees. And while a range of important reforms that enhanced pension security for atypical workers have been implemented since then, atypical work still now remains a major source of risk for insufficient old age income.

Switzerland is a particularly interesting case for analyzing the interplay between labour market flexibility and pension reforms for three reasons. The first reason relates to the structure of the Swiss labour market. As in most European countries, part-time work, fixed-term work, as well as unemployment have become very widespread over the last two decades. However, unlike what happened in most of the neighbouring countries, this flexibilization of the Swiss labour market was *not* the result of a deliberate policy of deregulation. Rather, Swiss labour law has always been very liberal with only weak employment protection (OECD 2010) and Switzerland always had a fair amount of (mainly female) atypical workers. Hence, labor market flexibility in Switzerland was never a politicized issue: while adapting pension policy to flexible labour markets in other countries mobilized both conflict on labour market deregulation *and* on social

security reform, the labour market side of the reforms was never politicized in the Swiss case. We will argue and show in this chapter that this precondition facilitated a range of these reforms in the pension system.

The second reason why Switzerland provides an interesting case for the study of the adaptation of old age security to flexible labor markets is linked to the multipillar tradition of its pension system. The first pillar (basic coverage) was introduced in 1948, the second pillar (occupational pensions) developed incrementally on a semi-private basis and became fully mandatory in 1985 already, and the third pillar (private savings) was introduced on a voluntary basis also in 1985. Multipillar systems are a double-edged sword for atypical workers: first pillars generally provide universal coverage (which benefits atypical workers), and modest benefit levels, whereas second (and third) pillars tend to be more strongly linked to standard labour market integration. This is true in Switzerland, as well. However, since the system has been operating through multiple pillars for about three decades already, reforms to improve pension security of atypical employees appeared on the political agendas early on, alongside reforms aimed at stabilizing the overall financial situation of the pension system.

Finally, the Swiss case is an interesting case, because it has indeed experienced a range of reforms that successfully improved pension security for atypical workers. From the portability of private pensions to the introduction of pension splitting, educational pension credits and improved coverage for atypical workers, a series of reforms have adapted the three pillar system to more flexible labour markets. We will show that in Switzerland, the heritage of liberal labour market regulation on the one hand, and the timing of Swiss pension reforms on the other hand explain the success of these reforms. As we will show in this chapter, the specific improvements of old age income security for atypical workers counterbalance – and even outweigh – the negative effects these workers experience through general pension retrenchment in the first and second pillars.

Despite this record of reforms, however, Switzerland cannot be seen simply as a success story of pension security for atypical workers. Indeed, while some reforms still need time to develop their positive effects on atypical workers, others have not been radically enough to actually eliminate discrimination of atypical work entirely. Today, atypical workers - which in the Swiss case predominantly refers to part-time working women - still face specific risks with regard to old age security. Some of these risks result from direct regulatory disadvantages, while others are more generally the result of labor market patterns. Hence today, an accent on increased

female standard employment seems to be the most efficient means to ensure more encompassing old age income security for the entire workforce.

The chapter is structured as follows. In section 2, we will briefly describe and present the structure of the Swiss pension regime in the mid-80s, as well as its effects on both standard and non-standard workers. We will then present (section 3) the major developments in the Swiss labour market since the 1980s, in order to illustrate the challenges Swiss pension policy was confronted with by the early 1990s. Section 4 presents the policy reactions that took place throughout the 1990s and early 2000s in the pension system, before we conclude with an assessment of the distributive consequences of these reforms.

2. Swiss old age income security until the mid-1980s

In this section, we briefly present the main characteristics of the Swiss pension system as it was established until the mid-1980s. Our goal here is to show that even though Switzerland always had a flexible labour market, the Swiss multi-pillar system from the very beginning entailed a rather wide range of coverage gaps for atypical workers. It is important to stress that this regime emerged by bits and pieces over a time span of about four decades from 1948 to 1986. This means that the system was not designed with a specific target in terms of coverage or benefit levels, but that it was incrementally adapted to political demands and external constraints. Hence, the Swiss three pillar system as it was established by the mid-1980s was a policy response to the social and labor market context of the late 1960s and 1970s. The relevant parameters that shaped this system were strongly performing labour markets and stable family structures: hence the focus on standard employment and the strong gender bias in the extent of indirect pension.

As a result, the Swiss three pillar system until the late 1980s provided only sketchy income security for atypical workers, and more generally for low-income earners, housekeepers, self-employed, and all other categories that deviated from standard employment. This bias towards standard employment, however, did not entail strong poverty risks and neither was it strongly politicized (Häusermann 2010), because atypical employment was predominantly performed by women, who were indirectly covered through marriage, by self-employed in the liberal professions, who had the means to take care of their private old age income security or by foreign workers who – in times of crisis – were excluded from the Swiss labour market (see below section 3). Hence, the insider-bias of the traditional Swiss pension system was not

perceived as an acute political problem until the late 1980s when unemployment started to rise, divorce rates went up, self-employment spread, and foreigners no longer served as unemployment buffers.

The first pillar public pension (AHV/AVS¹) covers the basic needs of all retirees on a PAYG-basis. It provides universal coverage and is highly redistributive, since contributions (8.4 per cent of the salary, split equally between employers and employees) must be paid on all incomes (without ceiling), while benefits are only very modestly income-related. The amount of the benefit can vary between a floor (about 20 per cent of the median income) and a ceiling that is twice as high as the floor (about 40 per cent of the median income). Since the mid-1970s, benefits are adjusted every two years according to a ‘mixed index’ of the arithmetic average between inflation and wage increases, which means that real wage increases are only partly reflected in pensions. Within these limits, the amount of the benefit is related to contributions. Insurance and contribution is mandatory for all residents, independent of labour market participation. Hence, students or housekeepers have to pay a very modest yearly flat-rate contribution. Unemployed people pay contributions based on their unemployment benefit, which is treated as a salary, and self-employed pay contributions up to 7.8 per cent of their income.

An important complement to the AHV/AVS in terms of poverty prevention takes the form of means-tested pension supplements (EL/PC²). These means-tested pension supplements were initially introduced in 1966 as a transitory benefit scheme that was supposed to become increasingly obsolete as regular pensions would grow to levels comparable to neighbouring countries. When the financial climate turned from expansion to austerity during the crisis of the 1970s, however, it became clear that EL/PC would become a permanent feature of the Swiss pension regime (Häusermann 2010).

¹ AHV/AVS: Alters- und Hinterlassenenversicherung/Assurance Vieillesse et Survivants

² EL/PC Ergänzungsleistungen / Prélations Complémentaires

Table 1 Structure of the Swiss pension system, mid-1980s

| <i>Function</i> | <i>First Pillar</i> | <i>Second Pillar</i> | <i>Third Pillar</i> |
|---------------------------|---|---|--|
| <i>Additional savings</i> | | Additional voluntary occupational pension coverage (depending on the employer) for earnings above 3 times the maximum first pillar pension. | Un-subsidized voluntary private pensions |
| <i>Income maintenance</i> | | Mandatory occupational pension (BVG/LPP Obligatorium) introduced in 1985. Insures the part of incomes that lies between a lower boundary of twice the yearly minimum first pillar pension, and an upper boundary of 3 times the maximum first pillar pension. | Tax-subsidized voluntary private pensions: tax deductible up to about 4000 Euro p.a. (corresponds to about 8.5% of the median annual income) introduced in 1986. |
| <i>Poverty prevention</i> | Basic pensions: universal coverage for all residents aged 20-64 (AHV/AVS) introduced in 1948. Benefits vary between 20 and 40% of the median income) Supplementary means-tested pension benefits (EL/PC) introduced in 1966, cover the subsistence level (about 40% of the median income). | | |

Source: adapted from Bonoli 2007

In terms of coverage of standard- and non-standard work, the first pillar has obviously always been and still remains the main source of pension income for all low- to middle-income earners, i.e. especially for atypical workers. However, even the universal first pillar has traditionally entailed particular risks for non-standard work. The most salient problem consisted in low contribution records (contrary to many other European countries, the Swiss pension schemes were always based on the principle of defined-contribution, except for the means-tested pension supplements EL/PC). Indeed, many atypical workers, especially women working part-time or withdrawing from the labour market for educational purposes, accumulated only very low

pension rights during their work-life, which for most of them resulted in low pensions³. The minimum (full) pension in the first pillar amounts to only about 20 per cent of the median income, which makes it clear how vital the means-tested pension supplements soon became. This is particularly true for divorced women who could not rely on additional derived spousal pension rights. These means-tested pension supplements (EL/PC) are calculated for each beneficiary on the basis of the real expenses (including living costs, housing, medical and care expenditures). Until 1985, they remained generally below the level of social assistance. For these reasons, divorce remained the most important source of female old age poverty until the early 1990s. Leitner and Obinger (1996) even argue that old age poverty in Switzerland was generally female poverty, due to both the low female labour market participation and the male breadwinner orientation of the first pillar.

The second pillar of occupational pensions is supposed to directly reflect the previous income situation of a pensioner, in order to guarantee to a certain extent the continuation of the pre-retirement standard of living. Private second pillar occupational pensions have a long history in Switzerland, which dates back to the early 20th century (Leimgruber 2008). With these early private funds, however, coverage remained sketchy. When the left-wing parties in the 1960s became increasingly vocal about the need to increase first pillar pensions, the right countered these claims with a strategy that privileged an extension of the – far less redistributive – second pillar pensions. Eventually, the conflict resulted in a mandatory second pillar: in January 1985, occupational pensions became compulsory for all employees over the age of 24, earning at least the access threshold, which was and still is set at the maximum first-pillar pension. Incomes below the access threshold are insured exclusively in the first pillar. This is why this threshold is called “coordination deduction”. Second pillar pensions are thus calculated on the basis of contributions levied on the “insured part” of the income, between the upper and lower boundaries. The contributions are capitalized and distributed as annuities after retirement. According to the regulation enacted in 1985, a full occupational pension requires a contribution period of approximately 40 years. Occupational pensions – which are calculated on the basis of defined contributions - are financed through contributions that are split equally among employees and employers, with age-dependent contribution rates varying between 10 and 18 per cent⁴. With regard to benefit generosity, it is important to distinguish between the mandatory

³ The most important condition for a full pension was and still is a contribution-record of 44 (men) or 43 (women) years.

⁴ Employees aged 25 to 35 contribute 10 per cent of their insured income, while the oldest age group (above 55) contributes 18 per cent.

and the “over-mandatory” part of income insurance. Incomes between the access threshold and about 75,000 CHF (about 56,000 Euros) per year are mandatorily covered. Employers, however, are free to offer insurance and more generous benefits both within and beyond the “Obligatorium” for their most valued employees⁵.

In terms of the distributive consequences of the mandatory second pillar for standard and non-standard workers, it is most important to notice that even though mandatory coverage was introduced in 1985, the effects of this coverage on actual pension levels would become evident only several decades later, when the newly covered pensioners would have contributed sufficiently to receive a substantial benefit. Still, we can evaluate the fit between second pillar coverage rules as introduced in 1985 and non-standard work. In this respect, four observations are particularly important. First, the access threshold was defined in absolute terms, irrespective of the activity level (part-time or full-time). This implied that many part-time workers had either no access to the second pillar, or that only a very small part of their income was insured. Also, people combining several part-time contracts suffered the full deduction for each income, meaning that what was taken into account for eligibility was and still is not the whole annual income but earnings from each specific job. Hence, people who are simultaneously employed in several jobs may not be eligible to second pillar pension at all, if the individual incomes from their various jobs all fall below the access threshold. Second, the portability of occupational pensions in the case of labour market mobility was severely restricted. In most cases, employees lost a large part or even the totality of their employers’ contributions when they changed jobs, a regulation that was obviously at odds with flexible labour markets, but very much in line with the idea of tying employees to their employers. Third, the self-employed generally have no second pillar coverage. They may take out insurance with the public pension fund on a voluntary basis, but only about a third of them do so⁶ (Balthasar et al. 2003). Finally, second pillar coverage applied (and still applies) only to employees with labour contracts exceeding three months of employment. This brief review of eligibility conditions in the second pillar makes it very clear that occupational pensions were created for the standard workers, and not for atypically employed people. Their adverse effects on people in atypical employment, however, remained largely invisible during the 1980s, because most part-time, fixed-term and

⁵ For this reason, there is a very strong variety of benefit provisions in terms of coverage and generosity across pension funds and across economic sectors (Bonoli and Häusermann forthcoming).

⁶ The reasons for this low rate are twofold. Higher-income self-employed in the liberal professions usually rely on private forms of wealth management, while the „false“ self-employed, as well as small entrepreneurs and farmers tend to forego occupational pensions because they have limited means.

low-income workers were married women and because the distributive effects of the occupational pension scheme could only come to light in the longer run.

The third pillar allows people to tailor pension coverage to their individual needs through non-compulsory private pensions. Up to a yearly payment of about 4000 Euros for employees (about 8.5 per cent of the yearly median income)⁷, these third pillar payments can be deducted from taxes. Above this amount, pension savings are entirely private. In principle, private third pillar pensions could thus compensate for lacking occupational pensions for self-employed or housekeepers. However, even though third pillar accounts are widespread in Switzerland, pension incomes from the third pillar represent only a very marginal part of the overall income after retirement (see figure 6 below).

This section showed that the early Swiss three pillar system as it was built until 1985 entailed a high number of coverage gaps for the non-standard employees: in the first pillar, pensions remained below the subsistence level, and the mandatory second pillar provided only sketchy coverage to non-standard workers. These gaps were, however, not politicized, since they mostly affected married women, as well as the self-employed in liberal professions. Hence, coverage gaps did not usually result in actual poverty risks. The perception on the distributive effects of the second pillar changed, however, by the 1990s, when unemployment and atypical employment became even more widespread, and when divorce rates rose.

3. Characteristics and development of the Swiss labour market

After describing the distributive implications of the initial setup of the Swiss three pillar pension system for standard and non-standard workers, we now turn to the Swiss labour market. Three aspects are key for the analysis of the interplay of Swiss pension policy and labour market trends. First, flexibility is not new. The Swiss labour market has always been characterized by very liberal employment regulation. Hence, in contrast to other continental countries, flexibility was not the result of deregulation, because there was nothing really to deregulate. However, and this is the second aspect, atypical employment has become more widespread since the 1980s, due to structural change like de-industrialization, rising female labour market participation and changes in immigration policies. Third, the analysis of atypical employment in Switzerland

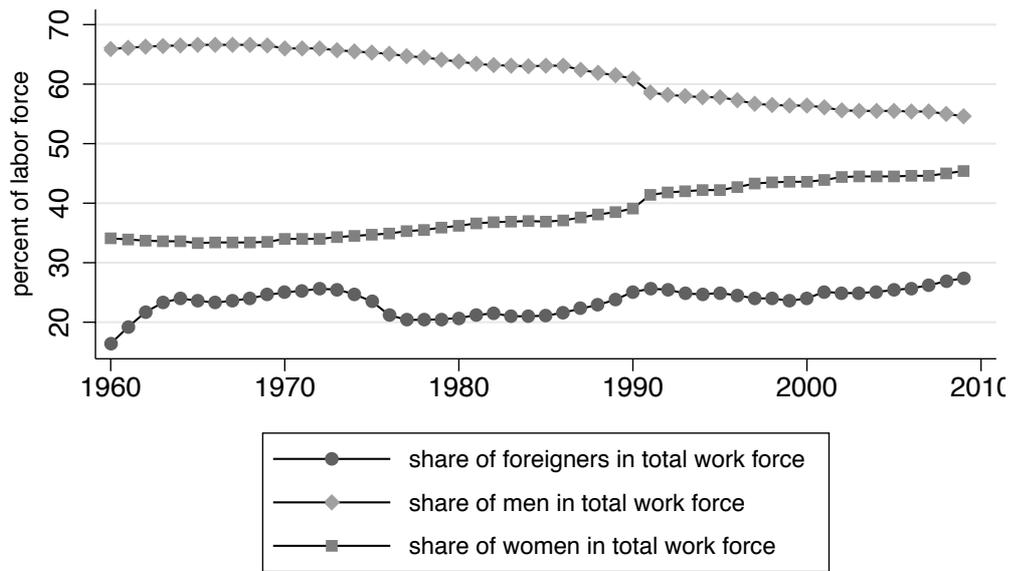
⁷ For self-employed, the tax reduced payment is possible up to 20 per cent of the annual income with a maximum of 25,000 Euros (CHF 32,000).

cannot be detached from a gender perspective, since female part-time work is by far the most common form of flexible work. We now briefly present these three aspects in more detail.

Switzerland regulates few aspects of the employer/employee-relationship. With a score of 1.14 on the OECD Employment Protection Legislation index, the Swiss labour market belongs to the least regulated labour markets in the OECD, similar to liberal countries like Australia, Ireland, Canada and the United Kingdom (Venn 2009). Neither the use nor the maximum number of successive fixed term contracts are regulated, and only oral notice to the employee is required before individual dismissals. In case of collective dismissals, public authorities and workers' representatives are to be informed, but their approval is not required. Additionally, wage flexibility is high, and attempts of the unions to introduce a minimum wage have failed so far.

The main characteristics of the Swiss labour market in the 1970s and 1980s were a comparatively high male employment rate (80 per cent of men above the age of 15 in 1980)⁸ together with low unemployment - which led Flückiger (1998: 369) to describe Switzerland as "employment paradise". During the 60s and early 70s, Switzerland actually experienced a shortage of labour supply, to which trade unions and employer associations responded through an increase in foreign labour (see figure 1). Consequently, Switzerland also had one of the highest rates of foreign workers among the industrialized economies (Straubhaar and Werner 2003: 62). Since labour shortage was solved with foreign workers, female participation rates remained relatively low until the 1990s (figure 1), when they began to rise more quickly because of divorce and increasing female education levels.

⁸ SAKE, www.sake.bfs.admin.ch



Source: SAKE 2010

Figure 1 Share of male, female and foreign workers among the Swiss workforce

After the first oil-crisis in 1973/74, unemployment appeared for the first time in Switzerland, reaching 0.7 per cent of the workforce in 1976. This may seem like a very low level, but it was indeed the first time Switzerland experienced anything like unemployment and there was no unemployment insurance. Unemployment declined again by the end of the 1970s, partly because foreign workers lost not only their jobs but also their residence permissions, consequently having to leave the country (Straubhaar and Werner 2003). In that sense, Switzerland initially – and quite cynically – managed to “export” unemployment and atypical employment, simply by not renewing work permits for foreigners. There are no specific pension regulations for foreigners leaving Switzerland after having contributed to the Swiss insurance system. They receive a regular first-pillar pension depending on their contribution record, and they can – as the Swiss citizens who emigrate – withdraw their entire second-pillar capital upon leaving the country. In that sense, their status as labor market buffer has generally resulted in low pension levels. The “victims” of this policy of the 1970s are obviously still now affected by low pensions. After these decades of virtually no unemployment in Switzerland, its rise to 2.4 per cent in the mid-80s due to the second oil crisis in 1982 came as a shock to both the public and the authorities (Flückinger 1998). However, unemployment rates were still on comparably low level throughout the 1980s.

Hence, until the 1990s, male full-employment, high rates of job tenure and a relatively high share of foreign workers as employment buffers characterized the Swiss labour market. Atypical employment – despite the fact that it was always legally allowed – was a non-issue, which is reflected in the fact that precise yearly statistics on the share of fixed term or part-time employment are lacking.

Switzerland eventually made its first lasting experience with unemployment in the 90s as the Swiss economy underwent a long recession, when unemployment rose to 4.7 per cent by 1997 (Sheldon 2010). From the 1990s onwards, then, unemployment also appeared on the political agenda.

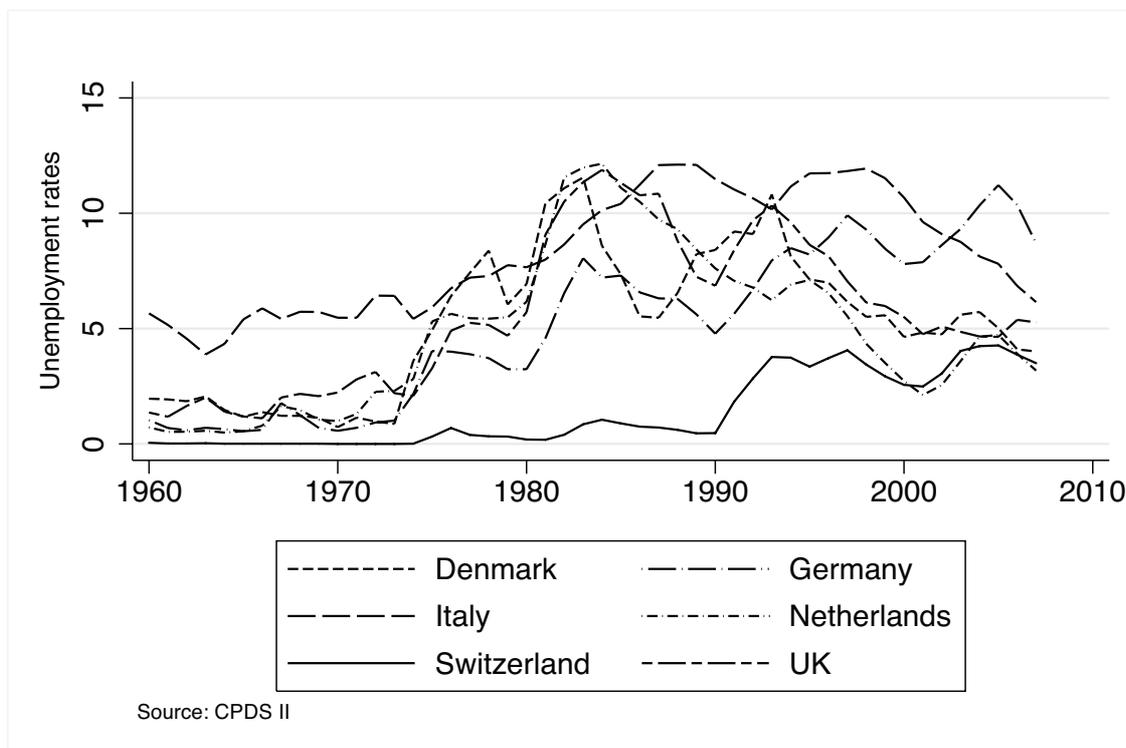


Figure 2 Unemployment rates in Europe

The sudden rise of unemployment in the 1990s – as compared to the low levels of unemployment during the crisis of the 1970s - is largely explained by two developments. By the 1990s, most of the foreign workers had permanent residence permits, which means that they no longer acted as an “unemployment buffer”. The bilateral treaties between the EU and Switzerland accentuated this development by guaranteeing free labour circulation between

Switzerland and the EU. Second, since 1990 women were more strongly attached to the labour market and did not retreat from the labour market anymore when jobs got scarce (see also figure 1). Two further stock market- and financial crises in 2001 and 2008 led to a new rise in unemployment affecting not only low-skilled but also high-skilled employees (Sheldon 2010). In sum, unemployment has become a constant reality in Switzerland, despite remaining on a low level compared to the rest of Europe.

Regarding the development of atypical work, we need to distinguish between part-time employment and fixed-term employment.

Fixed-term employment is widespread in Switzerland - between 12 and 14 per cent - mainly due to the vocational training system: two thirds of young people enter the labour market after firm-based vocational training, the so-called apprenticeship. If, as in national statistics, those apprenticeship contracts are left out, the rate of fixed-term workers is fairly lower: 5.3 per cent in 1991 and 7.5 per cent in 2009, similar to Danish figures⁹.

Part-time employment is an even more common form of employment in Switzerland: In 2008 Switzerland was the country with the second highest part-time rate among the countries studied in the book, second only to the Dutch “part-time economy”.¹⁰ Part-time work increased steadily over the past four decades: In 1970, 12.2 per cent of the workforce was part-time employed, this rate growing to 14.6 per cent in 1980 and to 18.8 per cent in 1990 (+50.1 per cent compared to 1980 and +84.5 per cent compared to 1970). According the Swiss labour force survey 1.26 million persons worked on part-time basis in 2005, representing 31.7 per cent of the total labour force (BFS 2006: 8). A very important characteristic of atypical work in Switzerland needs to be emphasized when we look at the implication of work types on pension rights: atypical work in Switzerland is first and foremost female part-time work. Figure 3 shows that part-time work is almost exclusively female (with a gender ratio of about 80:20 per cent). Fixed-term work is less gendered than part-time but it is also less common than part-time work. Overall, female part-time work represents as much as a quarter of the total workforce.

⁹ SAKE, www.sake.bfs.admin.ch

¹⁰ There is no reliable time series data on part-time work available before 1990.

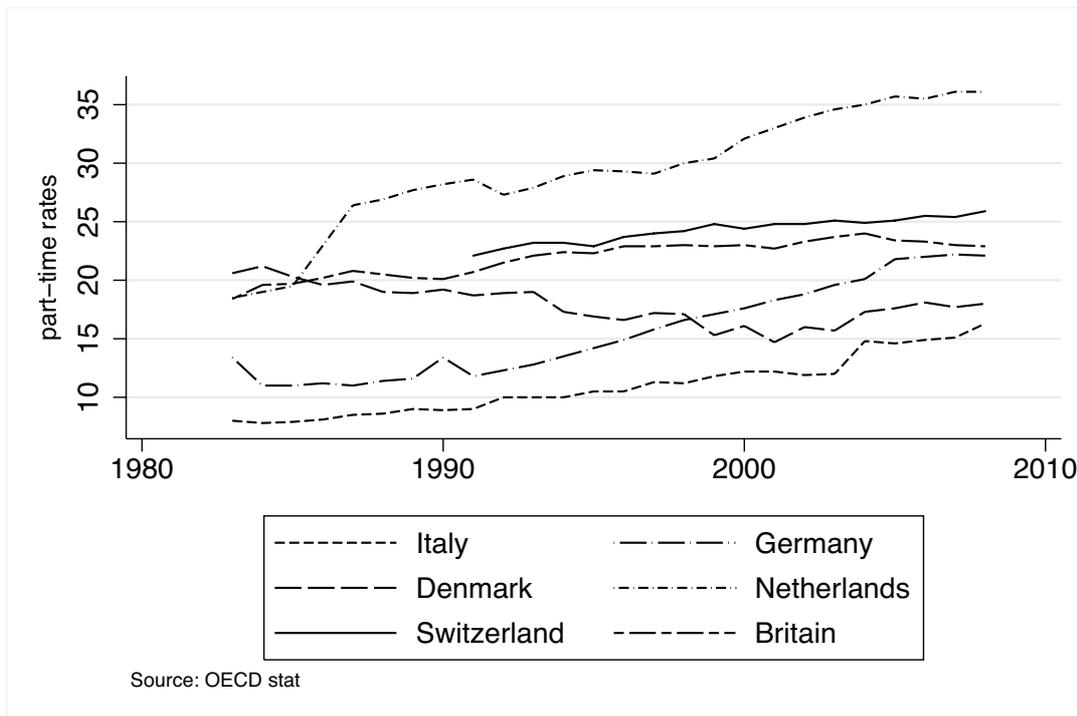


Figure 3: Gender and atypical employment in Switzerland

Particularly low incomes must also be counted among the problems recent labour market transformations imply for old age security. Generally, there is a link between low income and non-standard employment: when defining precarious employment by high insecurity and low salaries (Seco 2003), the share of precarious employment has remained more or less stable (from 2.5 per cent of employment in 1992 to 3.8 in 2002). Further, women, young as well as low-skilled labour market participants are most strongly affected by precarious employment. The increase of precarious employment has also been stronger among women than among men (from 3.6 per cent in 1992 to 5.8 per cent in 2002 for women, from 1.6 per cent to 2.2 per cent for men) (Seco 2003). Finally, about 6 per cent of full-time workers and 29 per cent of part-time workers were working poor (poverty being defined by a household income of less than 60 per cent of the median) in 2000 (Streuli and Bauer 2001).

Another deviation from dependent full-time employment is self-employment. Self-employment developed unsteadily in Switzerland. The share of self-employed persons decreased for many years (mainly in account of the diminishing relevance of the primary sector), before self-employment started to increase significantly in the 1980s and 1990s (Flückiger and Falter 2004). In 2005 the share of self-employed reached 14 per cent of the labour force. Like for

dependent employment, self-employment is characterized by female part-time work: only 44 per cent of female self-employed, but 90 per cent of the male self-employed work full-time (SAKE 2006: 9).

In the context of atypical and precarious work relationships, “false” self-employment is an issue. False self-employment denotes an employment relationship in which an individual declares him/herself as self-employed but is actually dependent from a single client. False self-employment is often used to avoid social security contributions. In Switzerland, it is estimated that 18.3 per cent all self-employed can be classified as false self-employed in 2004 (SAKE 2006: 12).

Overall, we conclude that the Swiss labour market is now characterized by two types of flexibility: besides the traditional low employment protection legislation, we find now a high share of atypical workers in the Swiss labour market. Atypical work and especially part-time work have increased in Switzerland since the 1980s and are a very common work form since the 1990s. Equally important is the fact that atypical work is highly gendered. Unemployment has become a constant reality in Switzerland, despite remaining on a comparatively low level.

4. Adapting the multipillar system to flexible labour markets, 1985-2010

In the previous section, we have seen that flexibility has always been a key trait of the Swiss labour market. The spread of atypical employment grew continuously between the 1970s and the 1990s. Thereby, atypical employment has become very common in an unpoliticized and uncontested way. Indeed, atypical employment – especially female part-time employment - in Switzerland is indeed considered “natural” for women, as it affects a majority of female employees. We have shown in section 2, however, that the Swiss three pillar system entailed a number of old age income security gaps for these non-standard workers. In the first pillar, the benefit levels for people with incomplete or interrupted contribution records remained very low, in many cantons even below the social assistance levels. In the second pillar, non-standard workers fared badly not only in terms of benefits, but also with regard to coverage, as the self-employed, short-term employed and individuals with incomes below the access threshold were usually not covered, at all. And for beneficiaries with low incomes, benefits remained very low. These gaps gained political salience in the 1990s. We can explain this politicization with regard to several factors: on the one hand, the increase of atypical work and growing labor market

instability changed perceptions about the prevalence of labor market risks; on the other hand, societal changes in the form of more single earner families and higher divorce rates played their role in putting the pension coverage of the atypically employed on the agenda. In this section, we discuss reforms of the pension system in reaction to increasingly flexible labor markets, which were adopted in response to these changes. We focus on the reforms specifically targeted at atypical workers not only because of the focus of this book, but also because these reforms became numerous and important on the Swiss pension policy agenda, as compared to “general” reforms focused on financial consolidation and retrenchment. Their saliency can be explained partly by the late development of the Swiss pension regime, which accounts for the fact that retrenchment pressure remained lower than in most other European countries. On the other hand, reforms improving pension rights for atypical workers also became a compensation for retrenchment, thereby providing the necessary balance to two pension reform packages that implemented both overall retrenchment and enhanced old age protection for atypical workers (Häusermann 2010).

Of course, overall retrenchment also affected atypical workers negatively, but proportionally less so than standard employees and certainly less so than in many other countries for two reasons: first, the Swiss pension regime was always defined contribution-based, so that atypical workers had “less to lose” than in other countries. And second, retrenchment was enacted in two instances only, which targeted standard workers more strongly than atypical workers. On the one hand, the female retirement age was raised from 62 to 64 in 1995, in exchange for the introduction of better pension coverage for non-employed and divorced women. On the other hand, overall pension levels were lowered in the second pillar of occupational pensions in 2003. Given that most atypical workers did not have access to the second pillar until then anyway, this retrenchment affected them less than standard workers, who are the main stakeholders in the second pillar. Thus, the reform record we are reviewing in this section indeed improved the pension rights of atypical workers, rather than being offset by overall retrenchment, as it happened in other European countries.

Before the 1990s, it were mainly women’s organizations who had claimed more generous old age pensions for atypical workers, but they did not have sufficient support in political parties and trade unions to be effective. During the late 1980s, however, left- and centre-parties and several trade unions became more receptive to these claims (Häusermann 2010, 2010b).

Consequently, the coverage of part time workers and other atypical workers became a salient issue in the reforms of the first and second pillars.

In the first pillar, both the reforms of the means-tested pension supplements and the reforms of the basic pension scheme AHV/AVS can be seen as reforms to enhance pension security for atypical workers. As mentioned in section 2, the means-tested pension supplements EL/PC were initially thought to be a merely transitory benefit complementing pensions for people with particularly poor contribution records. From the 1980s onwards, however, the EL/PC were successively transformed into a benefit scheme in their own right, through two reforms: in 1985, a broad coalition of all political parties, trade unions and employers decided to increase benefit levels. In 1996, a further reform of EL/PC further increased benefit levels (especially for people living in their own homes, so that they would not have to sell their property) and improved information about eligibility and access to the benefits. These means-tested pension supplements are obviously very important for pensioners with incomplete contribution records and generally low pensions. Suter and Mathey (2000) found that by the late 1990s, EL/PC have become able to reduce the old age poverty rate by 20-50 per centage points (depending on the definition of the poverty line). The EL/PC benefits today lay on average – i.e. with cantonal variations - about 20 per cent above the average social assistance levels (Nova and Häusermann 2005). They correspond to about half of the Swiss median income and are indexed to inflation of prices regularly.

In the first pillar AHV/AVS, there is one reform in particular that included improvements for part time and atypically employed, i.e. the 10th reform of the AHV in 1995 (for detailed analyses of the reform process, see e.g. Bonoli 2000, Häusermann 2010). To understand the importance of this reform in terms of pension security for atypical workers it is crucial to bear in mind that atypical work in Switzerland is very gendered. For a long time before the reform, left-wing parties and women's organization had demanded that the first pillar should grant improved pension rights for women with low or discontinuous employment biographies. Opposition against this improvement came from two sides: on the one hand, market-liberal actors opposed higher costs on the other hand, conservative forces wanted to maintain the idea of joint "couple's pensions" in order to strengthen the traditional family model. The Swiss "couple's pension" implied that married couples received 150 percent of the main earner's (usually the husband's) pension upon retirement, regardless of the wife's individual pension contribution

record. This implied that women usually lost their individual right to a pension upon their husband's retirement, and that they had to rely on very low pensions in case of divorce. Representatives of both left- and right-wing parties managed to draft a compromise that included the complete individualization of pensions between spouses, meaning that contributions by both spouses during the entire duration of marriage are added, split by half and paid into two separate, individual pension accounts. This was a net improvement for most married women who generally earn less than their husbands. Additionally, the reform introduced pension credits for women who interrupt work for the purpose of raising children. In exchange for these improvements – and as a means of pension retrenchment – the reform also introduced an increase in women's retirement age from 60 to 64. After this reform being successfully implemented, the pension rights of men and women equalized radically, so that in the 2000s, about a third of both men and women enjoy maximum full pensions (Nova and Häusermann 2005: 26-27). Thereby, this reform was very effective in raising pension benefits of people with discontinuous employment biographies¹¹. The reform was not explicitly framed in terms of pension security for atypical workers but rather in terms of gender equality. But since atypical work and gender are so closely related in Switzerland, the reform must clearly be interpreted as a reform that enhanced pension security for atypical workers. Of course, the increase in women's retirement age to 64 affected all female workers – in both standard and atypical employment relations – negatively. However, given the high Swiss employment rate for the elderly, this restrictive reform element did not offset the benefits for atypical workers.

Several reforms adapted the second pillar of occupational pensions to more flexible labour markets: the introduction of the free portability of pensions in 1994 and the extension of pension coverage to low-income and part time workers in 2003. More recently, temporary work has also become protected more generously.

The issue of occupational pension portability was brought on the agenda by a direct democratic popular initiative (see Häusermann 2010 for details). Before this reform, people lost up to half of their pension savings when changing jobs. With growing labour market instability, unemployment and job market mobility, this regulation became more and more visible and problematic. In reaction to the popular initiative, the parliament thus adopted the Law on the free transferability of occupational pensions FZG/LLP¹² in 1994 (see Bonoli and Häusermann

¹¹ It must be emphasized, however, that splitting only applies to married couples. Cohabiting couples do not benefit from pension splitting.

¹² Freizügigkeitsgesetz in der beruflichen Vorsorge / Loi sur le libre passage dans la prévoyance professionnelle.

forthcoming for details). Henceforth, the transfer value of a pension would correspond at least to the entire mandatory contributions paid by both the employee and the employer. In addition, this reform enacted two elements of social modernization: first, contrary to what had been the rule before, women's pension savings would no longer be dissolved upon marriage. Indeed, until 1995, women received their contribution-payments in cash when they got married, because the law assumed that they would leave the workforce. Second, pension savings accumulated during the time of marriage would henceforth be split in case of divorce.

The 2003 reform introduced the most important reform in terms of enhancing pension security of atypical workers to the occupational pension scheme. The major goal of this reform was retrenchment, i.e. lowering benefit levels in response to demographic ageing. However, very early on, the left claimed compensations in the form of better coverage of atypical work and low incomes. As explained in section 2 above, the access threshold and coordination deduction of about 16'000 Euros p.a. (in the year 2000) had adverse effects on both part-time and low income workers, since only those workers earning more than this threshold were eligible for insurance at all, and only their income above this threshold was insured. The left demanded that this threshold should be proportional to the activity rate (i.e. someone working 50 per cent would be eligible for insurance with an annual income of 8000 Euros already). In reaction, the parliament initially proposed a rather generous solution: it introduced a distinction between the access threshold and the coordination deduction. The access threshold should be lowered to about 12'000 Euros p.a., and the coordination deduction should correspond to 40 per cent of the income. For part-time workers, this would have been a very strong improvement, since a considerably larger part of their income would have been insured. To give an example: for someone earning e.g. 16'000 Euros p.a. with a 50 per cent job, this would have meant that he/she would a) be eligible for occupational pension insurance and that b) 9'600 Euros of his/her salary would be insured (60 per cent). Before the reform, this person would not have had any insurance at all. Eventually, however, this proposal was somehow watered down. While the access threshold was lowered to about 13'000 Euros per year, the coordination deduction remained set at a fixed level (of about 15'000 Euros p.a.), irrespective of part time or full-time work. For the same example as before, this implied that the person would newly be eligible for pension insurance, but only 1000 Euros p.a. would be insured, which still represents an improvement compared to the status quo ante. The 2003 reform thus improved second pillar pension coverage for part-time and low income workers, but it did not go as far as initially

planned and it maintained part-time worker discrimination. Also, the overall lowering of second pillar pension levels (the conversion rate of capitalized savings into pensions was lowered from 7.2 to 6.8 percent) obviously affected atypical workers, too. However, given the fact that many of them did not have any substantial coverage in the second pillar before the reform meant that retrenchment affected them proportionally less than the standard workers, who are the main stakeholders in the second pillar.

The third and most recent reform of the second pillar was done by decree in 2008, improving the situation of fixed term workers with a term below three months. The government decided that if these workers are employed several times in a row by the same employer on short-term contracts (less than 3 months), the duration of all these contracts must be cumulated for the insurance-calculation (BSV 2009). The goal of this reform was to fight the misuse of fixed-term work by employers, who tried to circumvent second pillar coverage by hiring and re-hiring people on short-term contracts only.

These three reforms, however, should not conceal the fact that adaptation to flexibility nevertheless remained incomplete and atypical workers still fare clearly worse in the second pillar than standard workers. This is partly due to reform failure, and partly to the inherent characteristics of a capitalized pension scheme, which depends on stable employment and contribution payment. Table 2 follows the illustration of the three pillar system developed in table 1, summarizing the reforms, which aimed at enhancing pension security for atypical workers (bold) for each of the pillars.

Table 2 Reforms in the Swiss multipillar pension system since 1985

| <i>Function</i> | <i>First Pillar</i> | <i>Second Pillar</i> | <i>Third Pillar</i> |
|--|--|--|---------------------|
| <i>Additional savings</i> | | | |
| <i>Income maintenance (ideally at around 60% of previous earnings)</i> | | 1994: Portability of occupational pensions in case of job mobility; 2003: Lowering of access threshold for part-time and low-income workers; 2005: increased coverage for temporary employed workers | |
| <i>Poverty prevention (up to ca. 50% of the median income)</i> | Introduction of pension splitting between spouses and educational benefits (1995) Increase in means-tested pension supplements (1985, 1996) | | |

5. After the reforms: current situation and future prospects

In conclusion of this chapter, we attempt to assess the distributive implications of reforms by evaluating the situation in terms of old age pension coverage and benefit levels for standard and non-standard workers. Significant reforms were implemented, which clearly improved the situation of non-standard workers. Old age poverty, in particular, was strongly reduced. With regard to income maintenance, however, the Swiss three pillar system still displays strong imbalances between standard and non-standard workers.

As we have shown in this chapter, Switzerland saw a range of significant reforms that improved pension security for atypical workers over the past two decades (see table 2). Reforms in the first pillar played an important role in lifting atypical workers above the poverty line (even though this poverty line remains comparatively low at 40-50 per cent of the median income). Today, all pensioners whose insurance rights do not grant them an income of this level can apply for supplementary benefits. The reforms in the first pillar were also very important in raising female pension security in particular. The picture is more mixed when it comes to second pillar pensions, i.e. income maintenance policy. Here, the implemented reforms have

certainly not solved all problems. Nevertheless, the 2003 reform extended coverage to about 100'000 additional individuals (2.2 per cent of the labour force), most of them women (BSV 2003: 342). No reforms with the aim to enhance pension security for atypical workers have been implemented, however, in the third pillar.

The crucial question in this section relates to the distributive outcomes of the Swiss record of reforms in terms of coverage, poverty prevention and income maintenance for non-standard, as compared to standard workers. The assessment of these distributive consequences is obviously difficult, since all pension reforms deploy their effects only over longer time spans, which is particularly true for changes in funded pension schemes. In addition, there are no precise projections or simulations of reform outcomes in Switzerland. However, we will assess the distributive outcomes on the basis of available data on the current situation and future prospects, by discussing the three pillars sequentially. Official pension statistics generally do not differentiate between standard and non-standard workers, but they do report coverage rates and benefit differentials for men and women, which – given Switzerland's gendered labour market - provides important insights with regard to flexicurity.

In the first pillar, basic pensions (AHV/AVS) now guarantee a truly universal coverage, which is not discriminatory between standard and non-standard work. As a result of the reforms of the 1990s, first pillar benefits for men and women, as well as for standard and non-standard workers have become almost equal. Given their specific employment status (more standard, full term and higher income jobs), men contribute about twice as much to the AHV/AVS than women. Nevertheless, benefit levels for male and female pensioners have become more or less equal, due to the redistributive character of the AHV/AVS, and due to splitting¹³ (BFS 2003: 39). About 30 per cent of both male and female single pensioners, and about 60 per cent of pensioner couple households receive the maximum pension (BSV 2009). Hence, pension security for atypical workers is currently off the first pillar reform agenda, since most demands have been satisfied.

In terms of first pillar poverty prevention for non-standard workers, reforms in the field of means-tested supplementary pensions (EL/PC) have played an important role, too. With the increases in the level of these benefits in the 1980s and 1990s, EL/PC managed to reduce old

¹³ Splitting was enacted also retroactively, so that it resulted very quickly in an equalization of pension levels. Splitting, however, applies only to married couples, which is why marriage is and will remain an important factor in ensuring full first pillar pensions for women (BFS 2003).

age poverty levels in Switzerland by 20 to 50 per centage points (Suter and Mathey 2000). In 2000, between 6 and 20 per cent of the pensioners (depending on the canton) received these benefits (Consoc 2003). With reference to a poverty line of about 40 per cent of the median income, means-tested pension supplements eliminate old age poverty in Switzerland altogether. This assessment must be qualified, however, by two observations: first, 40 per cent of the median income is a rather low level of subsistence and second, it is estimated that still about a third of all pensioners, who would actually be entitled to them refrain from applying for means-tested pension supplements, because these benefits still now remain stigmatized socially (Leu 1997: 403). However, in combination, AHV/AVS and EL/PC provide effective poverty prevention for non-standard workers.

In the second pillar of occupational pensions, coverage for non-standard workers has clearly increased with the 2003 reform, but it still remains patchy and differences in benefits remain important. In the late 1990s, about 85 per cent of employed men were covered by the second pillar, as opposed to only 65 per cent of female employees (SGK-N 2003). The 2003 reform extended coverage to about 100,000 low income and part-time workers, most of them female (BSV 2003). In consequence, the per centage of insured women grew more quickly over the 2000s than for men, but women still remain underrepresented. In 2008, women represented 41 per cent of the actively insured (BFS 2009), which is an increase of only 4 per centage points over a decade. A further extension of the coverage of atypical work could be achieved by an even lower access threshold, or by increased female labor market activity rates.

With regard to benefit levels, the distributive outcomes for standard and non-standard workers have remained more or less stable. Obviously, the effects of increased coverage are not visible yet in the actual levels of benefits. Similarly to the level in 2000, women in 2008 represented about 30 per cent of the beneficiaries of second pillar pensions. Their part of saved assets amounted to about 28 per cent. Most importantly, female pensions correspond on average to only about 50 per cent of male pensions. These proportions have remained unchanged during the last decade (BFS 2000, 2009b). Women remain concentrated in the low pension level categories. Half of the female second pillar pension beneficiaries (but only 20 per cent among their male counterparts) receive less than 10,000 CHF per year (about 6,000 Euros, 14 per cent of the median annual salary) (Consoc 2003). These numbers illustrate clearly that part-time work results in low second pillar pensions. The increased coverage of atypical workers since 2003 will not change this result dramatically, given the relatively low level of part-time salaries.

Generally, low salaries always lead to low pension payments. This is why the distributive effects of the three Swiss pension pillars are very distinct. Figure 4 presents the only available data on the composition of income sources for pensioner households. It is based on a survey conducted in 2001 and it presents the sources of the monthly gross household income.

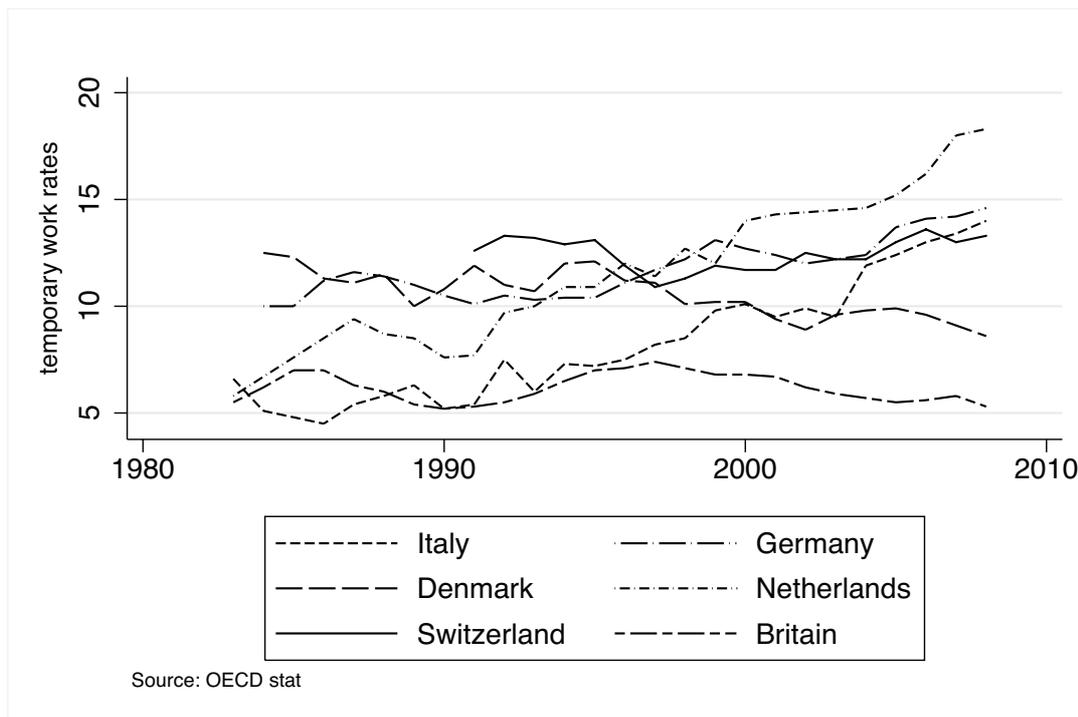


Figure 4 Composition of the monthly gross household income (equivalent incomes, corrected for household size)

Source: Balthasar et al. 2003: 166

Figure 4 shows that pensioners who earned up to the median income before retirement rely first and foremost on the first pillar after retirement. It is only for the medium-level incomes that second pillar pensions represent an increasingly large share of the household income. Third pillar pensions remain marginal, because only higher income strata accumulate substantial third pillar savings and these income strata also benefit from a range of other income sources, such as private fortune or work income even after retirement. It must be noted that the snapshot presented in figure 4 is likely to adjust over time, with second pillar pensions becoming more important (they were introduced only in the mid-1980s, so that no generation has accumulated full contribution records yet). However, the overall dimensions are likely to stay the same: the lower income levels rely mainly on the first pillar, while the middle classes draw on a

combination of first and second pillar pensions and the higher incomes combine a plurality of different income sources. A governmental referring to data from 2005 (BFS 2007) confirms this stability: Only about 23 per cent of the pensioners receive pension benefits from all three pillars. 38 per cent combine revenues from the first and the second pillar, while 34 per cent still rely on the first pillar exclusively. Gender differences are pronounced: only 15 per cent of the male pensioners live on first pillar pensions only, this is the case for 47 per cent of the female retirees.

The distributive effects discussed so far rely on the current or recent situation. Very few prospective simulations of reform effects exist. Exceptions are the contributions by Bonoli and Gay-des-Combes (2003), as well as by Bertozzi and Bonoli (2003), who simulated future (year 2050) pension incomes for different household types. They find that the lack of substantial second pillar pensions will remain the most important reason for pensioners falling below the poverty line, i.e. having to apply for EL/PC. Labor market absence and low incomes are and will remain the main determinants of insufficient second pillar pensions, and these low incomes are in turn a result of performing non-standard work or informal (non paid) care work and being single. These projections show that even the extension of second pillar pension coverage will not fundamentally alter the distributional outcomes of the second pillar for standard and non-standard work, because the levels of second pillar pensions will remain low.

Finally, a word on the self-employed. Self-employment (and part time employment) will remain the main determinants of lacking second pillar coverage (Bonoli and Gay-des-Combes 2003). This explains why self-employed persons remain active on the labor market after retirement much more often than former employees (Flückiger and Falter 2004). Almost 25 per cent of all the self-employed in Switzerland do not contribute voluntarily to either second or third pillar savings schemes and, even more important from our perspective, about 20 per cent of self-employed (i.e. about 3 per cent of the overall labour force) are estimated to economically dependent workers, that is “false” self-employed working for only one client (Flückiger and Falter 2004). These workers will have access to first pillar pension only, i.e. they will have pensions at the poverty line (40-50 per cent of the median income). No reforms are on the agenda to change this situation¹⁴.

¹⁴ The government currently advocates an increase of contributions on artists's (low and cumulative) salaries to the first pillar AHV/AVS. This small reform will, however, not change the poor status of self-employed in the second pillar.

In sum, the Swiss three pillar pension system after the reforms of the 1990s and 2000s performs well with regard to poverty prevention for non-standard workers. When it comes to income maintenance through the second and third pillars, however, the gap between non-standard and standard workers has not become much smaller.

6. Conclusion

We have shown in this chapter that the Swiss three pillar pension system is a particularly interesting case to analyze the interplay between labour market flexibility and old age income security for several reasons. The first reason is that, contrary to other European countries, labour market flexibility was not the result of a deliberate labour market deregulation strategy. Rather, labour law was always very flexible. Indeed, atypical employment is the most common form of employment for women in Switzerland. Second, within a layered multipillar system, measures responding to the flexible Swiss labour market structure could be integrated incrementally and very pragmatically. These reforms improved poverty prevention for non-standard workers significantly, and they also increased the coverage rate of atypical workers in the second pillar of occupational pensions and pension portability. Coverage in itself, however, does not necessarily lead to sufficient pension levels in defined-contribution systems such as the Swiss, which is why pensions for atypical workers in the second pillar are and will remain very low. Also, general benefit retrenchment (the increase of female retirement age in the first pillar, as well as lower pension levels in the second pillar) counterbalanced these improvements to some extent. However, they did not offset the beneficial effects of reforms in favour of atypical workers, because retrenchment targeted mostly standard workers.

Why were reforms improving pension rights of non-standard workers possible, at all? We have shown in this chapter that two factors contributed to the success of these reforms: the first is timing. The Swiss three pillar system was built in parallel with the transformation of the labour market. This means that it – in contrast to other European pension regimes - did not have to make a “detour” through the “industrial era”. Rather, given its late development, it evolved directly into a more piecemeal, layered, fragmented system of multiple pillars, which could be variably adapted to new challenges. Second, the non-politicization of labour market flexibility proved to be helpful for reform success, too. Flexible labour markets are an uncontested fact in

Switzerland. Hence, reforms to enhance pension security for atypical workers were very pragmatic and not as politicized as in other countries.

Poverty prevention has thus largely disappeared from the Swiss pension reform agenda. Income maintenance, however, is still an issue. Here, however, the limits of occupational, funded pensions in providing generous pensions to non-standard workers become visible: since these schemes are strongly based on the equivalence principle and strictly contribution-related, low salaries will always result in low pensions. Unless some form of solidarity and redistribution is introduced in this scheme, all that can be done to lower second pillar pension benefit differences in Switzerland between standard and non-standard work is to increase (female) activity rates to higher levels of employment, and income levels of non-standard workers.

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