Voluntary Old-Age and Survivors' Insurance and Disability Insurance (OASI / DI)
Assessment of the financial impact of the 2001 revision and the control system

Key facts

The voluntary insurance scheme for old-age, survivors' and disability benefits (« voluntary insurance ») has run a deficit since its inception. To a large extent, this imbalance stems from the very fact that it is voluntary, basically attracting only those who expect their net benefits to exceed contributions paid or who wish to remain in the Swiss OASI/DI system. The deficit is also driven by the limited scope of controls abroad, which increases the risk of contributions being based on a declared income lower than that actually earned.

After some ten years in preparation, a revision of the voluntary insurance scheme was launched in 2001. This sought to lower the deficit by restricting membership conditions and increasing total contributions.

In addition to this major revision, there was also a reshuffle of the administrative offices for the voluntary insurance. By the end of 2007, all OASI / DI offices outside of Switzerland were closed down and the Swiss Compensation Office in Geneva took charge of this insurance.

Several years after the revision and reorganisation, the Swiss Federal Audit Office (SFAO) examined the financial impact of the revision (based on data furnished by the Federal Social Insurance Office and the Swiss Compensation Office) and the means currently used to verify membership applications and the obligation to contribute abroad.

The voluntary insurance scheme today

Contributions to this voluntary insurance amounted to CHF 53.7 million in 2010, with a total of 20,842 insured members. In the same year, 1,609 new members joined and 2,986 members left. Around 5% of Swiss citizens living abroad were insured under this voluntary scheme. Very little information exists on the profile of the insured persons and the beneficiaries. In 2010, 99% of the insured persons were Swiss citizens. Only 131 insured persons are of foreign Nationality. Based on a sample survey of those claiming an old-age pension for the first time in 2010 and concerned by the voluntary insurance, 80% had been insured for more than five years in the compulsory insurance system during their entire period of insurance. On average, the new pensioners in this sample survey had contributed to voluntary insurance for 11.5 years, and only around 6% of new pensioners in 2010 had paid solely into the voluntary insurance scheme. The remaining 94% had contributed to both the voluntary and compulsory insurance systems during their working lives.

A revision with the expected impact

The revision did help to lower the number of insured members. From as many as 43,767 in 1990 and 57,024 in 2000, it dropped to 20,842 in 2010 and is estimated at 16,350 for 2016. The number of new members joining has been decreasing since 2002, while total contributions have risen. The average contributions paid per member have almost doubled (from CHF 1,289 in 2000 to CHF 2,311 in 2009). Since the revision, 45% of members on average have paid the minimum contribution into the voluntary insurance scheme, compared with an average of 6% for compulsory insurance. These figures are similar to those prior to the revision, which were 50% and 7% respectively.

The long-term deficit (with a horizon of 2050) has undoubtedly narrowed since the revision, down to CHF 37 million from an estimated CHF 92 million if the revision had not been made.

Updated forecasts

In view of the deficit of CHF 37 million per annum estimated on the basis of current data, the CHF 13 million deficit originally predicted for 2050 in 1997 had to be revised upwards. The difference is primarily due to the fact that the forecasts made in 1997 were based on tighter membership conditions than those ultimately adopted by parliament, whereby only those living in a country with no social security agreement with Switzerland could join this insurance scheme. Parliament was aware that its decision would have a price, but found this acceptable. This was primarily a decision of principle, since certain contracting states did not appear to possess sufficient social protection. Although only an estimate, the anticipated deficit gives an idea of the magnitude and serves as a basis for future forecasts.

No increase as yet in requests for assistance abroad

At the time of the revision, there were concerns that the number of requests for assistance abroad would increase, given that fewer people would be eligible for the voluntary insurance. No such trend has been confirmed to date. However, it is too early to draw any conclusions, as the measurable effects are not expected until around 2020.

Savings achieved by reorganising the administration of the insurance

The Swiss Compensation Office took the lead in a structural reorganisation to lower its management costs for the voluntary insurance. Following this reorganisation, which centralised all activities in Geneva, total headcount was reduced by 49% between the years 2004 and 2010, and savings of an estimated CHF 1 million were made each year. With the planned number of jobs actually having been cut, the savings achieved by the reorganisation should have been higher (CHF 4 million forecast). The total cost of creating new jobs in Geneva was underestimated (12 positions). Moreover, the cost estimates made in 2004 do not *a priori* include all costs. Unlike the situation in 2010, there was no analytical accounting in 2004.

Administrative expenses not covered by members' contributions

The total administrative expenses for the voluntary insurance are far in excess of the maximum that members could be expected to contribute for this purpose, i.e. some 5% of total contributions. In 2010, administrative expenses posted a deficit of CHF 4.3 million not covered by members' contributions. In the SFAO's opinion, the problem is that this CHF 4 million is added to the deficit between contributions collected and those required to finance the benefits.

Obligation to furnish information is too lax; controls produce limited findings

The evaluation of the control system for the voluntary insurance leads to the conclusion that the entry and exit process is dependable. The main risk was found to be in the assessment process, i.e. the risk of optimisation (by making false declarations). The Swiss Compensation Office has limited control measures at its disposal, relying on members' own declarations and the documentary evidence they themselves submit. This risk can be mitigated only by requesting official documentary evidence. Even then, the assessment process is too lax with regard to the information insured members are required to furnish. Moreover, the Swiss Compensation Office does not charge for an order for payment, even though it should do so by law.

Given the limited means of verification available to the Swiss Compensation Office, the findings of its audits are also limited. Financial adjustments resulting from false declarations (errors) are of minor significance, according to the Swiss Compensation Office. Furthermore, the number of automatic assessments is quite high (11% annual average between the years 2006 and 2010 ; 8% in 2010), despite a known increase in eligible income and assets. Presumably, some members would be better off taking automatic assessment than declaring the details of their financial situation. Also, of the members automatically assessed during the years 2006 and 2010, 43% had this done twice during that period, 16% had it done three times, and 17% at least four times.

A control strategy that does not yet adequately address the risks

The Swiss Compensation Office does not yet have a strategy in place for pinpointing those cases requiring further examination, although it is working on such a strategy. At present, all dossiers are treated equally, whether in the initial or subsequent assessments. No difference is made according to the member's country of residence, declared income or the findings of previous audits. A double control process is often conducted, together with sporadic audits by group heads. Whereas these double controls made sense after the 2008 reorganisation, they are no longer adequate, given their current frequency. No on-site audits are conducted. The possibility of calling on Swiss representations abroad to make checks is not being exploited. However, there is some cooperation between the federal bodies concerned by the voluntary insurance.

Room for improvement and recommendations

The revision of the voluntary insurance system has produced the intended effects, i.e. lowering to some extent the future deficit between contributions collected and those needed to finance benefits. In the long run, the updated forecasts estimate that the deficit will rise as high as CHF 37 million per annum. The Swiss parliament's decision not to limit membership to those living in countries with no social security agreement with Switzerland has had a financial impact on the projected deficit of voluntary insurance, as was to be expected. Based on more recent financial prospects, the Federal Social Insurance Office believes that measures to balance the voluntary Old-Age and Survivors' Insurance and Disability Insurance accounts will become necessary in the near future in order to address the rising expenditure from 2020 on and to cope with the deficit in the years that follow. In this respect, if the political will is to lower the deficit further, the underlying concept of the 2001 revision, i.e. to further restrict membership conditions and increase total contributions, still applies.

Given the outcome of this evaluation, the SFAO has formulated four recommendations to help narrow the deficit in voluntary insurance. These take account of the limited control measures available abroad and seek to reduce their administrative expenses. The SFAO welcomes the fact that the concepts underlying these recommendations already featured in the Swiss Compensation Office's discussions, at its own initiative, during the first half of 2011. The SFAO's recommendations are as follows:

1. The Swiss Compensation Office should finalise its development of a control strategy based on a risk assessment and should apply this ;
2. The Swiss Compensation Office should charge members for each order for payment it sends regarding the assessment and collection of contributions, as provided for by law. The Federal Social Insurance Office should oversee compliance with the legal provisions ;
3. The Swiss Compensation Office should raise the minimum mark-up applicable in the case of an automatic assessment (to a more dissuasive amount) ;
4. The Swiss Compensation Office should not define members' contributions on the basis of their own declarations but according to official documents issued by the authorities of their country of residence. In the absence of such documentary evidence, the Swiss Compensation Office should conduct an automatic assessment. The Federal Social Insurance Office should oversee compliance with the legal provisions.

The Federal Social Insurance Office and the Swiss Compensation Office both back the recommendations of the SFAO, with two exceptions. Instead of a strict application of recommendation 4, the Federal Social Insurance Office suggests a differentiated requirement of proof, depending on the respective state, in conjunction with the control strategy (recommendation 1), so the contributions can be determined within the required time limits. The Swiss Compensation Office rejects recommendation 2 on account of difficult implementation (see annexe 1 for the statements).

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