State pensions

All you need to know about Pillar 1



Old Age, Survivors' and Disability Insurance (AHV/IV) in Switzerland
Status: January 2018

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Contents

Pillar 1 of the Swiss pension system	3
Obligation to pay AHV/IV contributions	4
Level of contributions	6
Contribution period and contribution gaps	7
Entitlement to a personal pension	8
Education and care credits	10
Income splitting	12
Date of retirement	13
Benefits at retirement age	14
Disability benefits	15
Benefits in the event of death	16
Other important aspects	18

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Pillar 1 of the Swiss pension system

Old Age, Survivors' (AHV) and Disability Insurance (IV) in Switzerland makes up one element of the three-pillar concept, which is anchored in the constitution. The insurance involves a generational contract whereby the working population finances the pensions currently in force.

Pillar 1 constitutes a state pension, the aim of which is to secure the livelihood of pensioners, persons with disabilities, and surviving spouses.[1]

However, economic and especially demographic developments in Switzerland have led to a situation in which securing a livelihood under a state pension becomes possible only in connection with supplementary benefits (EL).

Switzerland's pension system

Needs-oriented pensions

Pillar 1		Pillar 2		Pillar 3	
State pensions		**Occupational benefits insurance**		**Private pensions**	
Mandatory			**Voluntary**		
AHV/IV	Supplementary benefits (EL)	Mandatory benefits BVG/UVG	Extra-mandatory benefits	Tied pension (Pillar 3a)	Flexible pension (Pillar 3b)
Responsibility of the government		Responsibility of the employer		Responsibility of the individual	
■ AHV/IV contributions – Employer and employee: each 50% – Self-employed persons and those not gainfully employed: 100% self-funded ■ EL contributions Funded with federal and cantonal tax money		■ UVG contributions – Employer: Occupational accidents – Employee: Non-occupational accidents ■ BVG contributions – Employer and employee: Employer contributions must equal at least the total contributions of all employees. – Self-employed persons: 100% self-funded		100% self-funded (to close individual pension gaps)	
■ Retirement pension ■ Child's pension ■ Disability pension ■ Disabled person's child's pension ■ Widow's/widower's pension ■ Orphan's pension		■ Daily benefits ■ Retirement pension/capital ■ Retired person's child's pension ■ Disability pension ■ Disabled person's child's pension ■ Widow's/widower's pension ■ Orphan's pension		■ Insurance or banking solution ■ Any other savings and assets	

[1] Art. 111 para. 1 of the Swiss Constitution serves as the legal basis

Obligation to pay AHV/IV contributions

As a rule, retirement (AHV), disability (IV), income compensation (EO), and unemployment (ALV) contributions must be deducted from every salary payment in Switzerland. This applies without restrictions to employees from the age of 17. The obligation to pay contributions ends when the person reaches the statutory retirement age (women age 64/men age 65).



Persons subject to mandatory insurance

- All persons domiciled in Switzerland
- Persons who are gainfully employed in Switzerland
- Swiss citizens who work abroad for the federal government or for organizations designated by the Federal Council

Voluntarily insured persons

Under certain conditions, the following persons can continue their insurance or take out AHV/IV insurance voluntarily:

- Persons who are stationed abroad by a Swiss company. Enrollment is subject to approval by their employer
- Swiss citizens and citizens of EU or EFTA member states who reside outside the EU or an EFTA country, provided they were mandatorily insured for at least 5 years without interruption directly prior to withdrawing

Employed persons

- Beginning: on January 1 after the 17th birthday
- End: when no longer gainfully employed, at the earliest when reaching regular AHV retirement age

Persons who continue to work after having reached regular AHV retirement age must continue to pay contributions, but only for the portion of earnings that exceeds CHF 1,400 a month or CHF 16,800 a year.



Persons not gainfully employed

- Beginning: on January 1 after the 20th birthday
- End: when reaching regular AHV retirement age

In order to avoid gaps in contributions, spouses and widows/widowers who are not gainfully employed must contact the cantonal compensation fund of their municipality.

Persons who are disabled or retire early are also considered to be not gainfully employed. Similarly, spouses not gainfully employed and widowed persons are also liable for contributions.

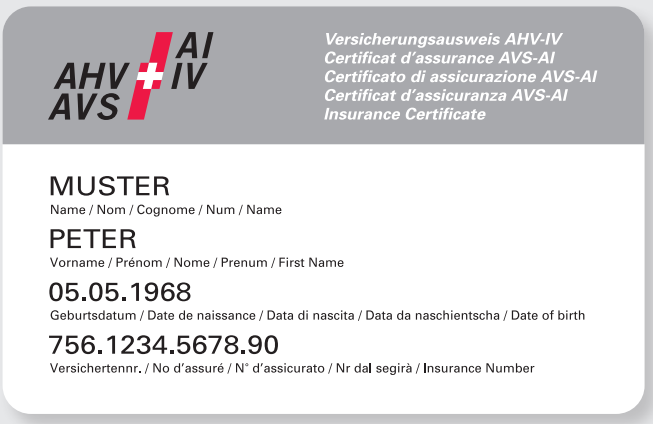
If the employed spouse has paid at least double the AHV/IV/EO minimum amount (2 × CHF 478 = CHF 956), the contributions of the spouse who is not gainfully employed are deemed to have been paid. This rule also applies if the employed spouse has already reached AHV retirement age.

Persons who retire early

Persons who retire early must continue to pay AHV/IV/EO contributions until they reach regular retirement age.

Here, a distinction is made between the following situations when calculating the contributions that are due:

- No further disability:
  Contributions are calculated the same way as for persons not gainfully employed
- Part-time work:
  If, during a calendar year, contributions (from employer and employee) exceed half of those of persons not gainfully employed, the contributions for employed persons are owed for the entire year.



Individuals who pay contributions or draw benefits receive an AHV card with a 13-digit social security number, which is issued once in Switzerland and never changes. It consists of three parts: A code for Switzerland (756) plus a 9-digit random number and check digit.

Level of contributions

The solidarity concept of Pillar 1 also applies when it comes to calculating contributions. Persons with a higher income will pay higher contributions than are needed to finance their pensions, while those with lower incomes will draw more benefits than they earned based on their contributions. In other words, funds from the haves are transferred to the have-nots.

Persons who are gainfully employed in full or in part

Employees and employers each pay half of the AHV, IV and EO contributions. The corresponding contribution rates are calculated as a percentage of the gross salary.

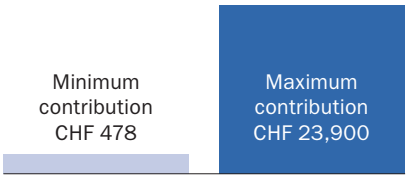
AHV/IV/EO contribution rates

AHV	8.40%
IV	1.40%
EO (income compensation)	0.45%
Total	10.25%

Persons not gainfully employed

The amount in contributions for persons not gainfully employed is calculated based on their assets and their annual income from pensions multiplied by 20 (without IV and EL benefits). The contributions of married persons are calculated based on half of the matrimonial assets and pension income, irrespective of the matrimonial property scheme.

Annual AHV/IV/EO contributions



Self-employed persons

The contribution rate depends on the annual income.

Amount of AHV/IV/EO contributions

Annual income <CHF 9,400	Minimum contribution CHF 478
Annual income starting from CHF 9,400 up to CHF 56,399	Contribution scale from 5.196% up to 9.155%
Annual income as of CHF 56,400	Contribution rate 9.65%



Contribution period and contribution gaps

Each missing contribution year will lead to a reduction in benefits. For this reason, it is important to close existing contribution gaps within 5 years. The compensation fund will provide an account statement for reviewing the situation free of charge.

Complete contribution period

- Men: 44 contribution years (retirement age is 65)
- Women: 43 contribution years (retirement age is 64)

In order to prevent contribution gaps arising from early retirement, all annual contributions must continue to be paid up to December 31 of the year preceding regular retirement age.



Closing contribution gaps

- By paying additional AHV/IV/EO contributions up to a maximum of 5 years from when the gap arose
- By factoring in contribution years that lie more than 5 years in the past by the AHV (education/care years, adolescent years, contribution periods in the year in which the pension falls due, or additional years)

Education/care credits
Contribution gaps cannot arise in the years during which a person has children below age 16 or looks after a close relative. However, individuals must continue to pay contributions in each case. Periods with education and care credits will be factored in as contribution time only if individually owed contributions can no longer be demanded.

Adolescent years
The contribution period relevant for calculating the full contribution term starts on January 1 after the person's 20th birthday. Persons who started paying AHV/IV/EO contributions on January 1 after their 17th birthday can use these contribution periods to cover contribution gaps. The same applies to persons who are eligible for education or care credits after their 17th birthday.

Contributions during the year of the pension case
The period defining the complete duration of contributions but not the obligation to pay them ends on December 31 before the year in which a pension case begins (retirement age, start of a disability, death). Credits from contribution periods in the year in which a pension case began can be applied to fill a contribution gap. Earned income during this period will not be included when calculating the pension.

Additional years
A person who has pension gaps dating back before January 1, 1979, will receive up to 3 additional contribution years.

Full contribution years	Additional contribution years that can be included
20 – 26 years	Up to 1 year
27 – 33 years	Up to 2 years
From 34 years	Up to 3 years

Entitlement to a personal pension

The entitlement to a pension is calculated according to the person's individual account by taking into consideration their earned income.

Calculation of the AHV/IV pension

Each person is entitled to an individual pension from the AHV/IV. The amount of an individual pension is calculated based on earnings and the contribution period. Persons who looked after children below age 16 or who provided care to relatives are also eligible for education and care credits.

Individual pension

Single persons receive an individual pension. The legally prescribed maximum pension for a single person may not exceed twice the minimum pension.

Married couple's pension

Each partner of a married couple receives an old-age/disability pension equivalent to half the amount of their combined income. The total of both individual pensions for a married couple may not exceed 150% of the maximum pension. If this amount is exceeded, both individual pensions are reduced accordingly.

Individual account

An individual account contains a record of all the income a person earns from January 1 after their 17th birthday up to regular retirement age. This serves as the basis for calculating a retirement, survivors' or disability pension.

Revaluation factor

The average income is adjusted to price and salary developments by using a revaluation factor and by including any education and care credits. Accordingly, earned income in years of low salary levels will receive a higher weighting. The decisive factor is the first contribution that is credited to the individual account between January 1 following the person's 20th birthday and the date when the early or regular retirement pension starts.

Full or partial pension

Persons who have contributed for the full period will also receive the full pension. The amount depends on the relevant average annual income. If the contribution period is incomplete a partial pension is paid.

AHV pensions per year

Individuals	
Minimum	CHF 14,100
Maximum	CHF 28,200
Married couples	
Minimum	CHF 28,200
Maximum	CHF 42,300



Adjustment for inflation

The pension amount or the increase of a pension in force is determined based on the pension index (hybrid index), which is calculated using 50% of the nominal salary index calculated by the Federal Statistical Office and 50% of the Swiss consumer price index. As a rule, pensions are adjusted every 2 years as of January 1. This differs from earlier times when the Swiss consumer price index increased by more than 4% within a year.

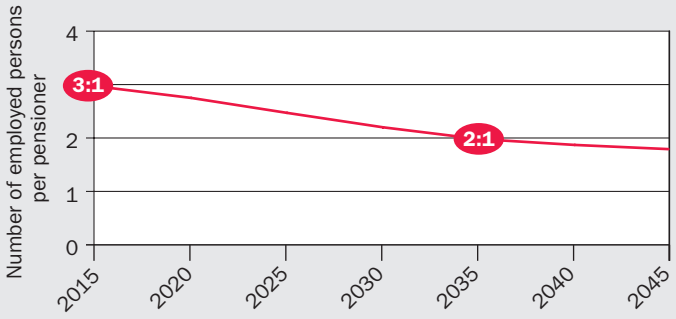
Calculation of the AHV/IV pension

The pension formula is used to calculate the pension on the basis of the relevant average annual income.

$$\frac{\text{Earned income} \times \text{Revaluation factor}}{\text{Contribution years}} + \frac{\text{Education credits} + \text{Care credits}}{\text{Contribution years}} = \text{Relevant average annual income}$$

A decreasing number of workers support an ever increasing number of penioners.

Number of employed persons for 1 pensioner



As of 2015, forecast by FSO

Education and care credits

Education and care credits will increase the relevant average annual income, and this leads to a larger pension. Whereas education credits are added automatically, care credits must be claimed in writing annually.



Education credits

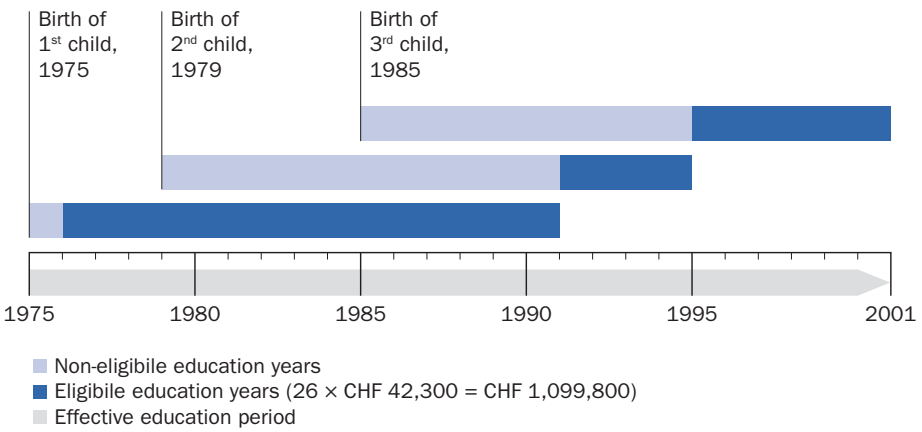
Education credits are applied to persons responsible for children below the age of 16. Here, the number of years and not the number of children is decisive. In the first child's year of birth, no education credits are applied; in the year in which the youngest child turns 16, the full amount in education credits are applied.

Each spouse is entitled to half of the amount. This also applies to unmarried or divorced parents, provided they share childcare responsibilities equally. The decision of whether to share half of the education credits rests with the court, the child and adult protection authority, or the parents themselves based on an agreement. In the absence of any agreement, the mother is entitled to the full education credits.

The compensation fund applies education credits automatically when calculating pensions. They equal three times the minimum AHV pension at the time when entitlement to the pension begins (3 × CHF 14,100 = CHF 42,300).

Education credits will increase the relevant average annual income, and this leads to a larger pension. However, the credits will raise AHV/IV benefits at the most to the maximum pension of CHF 28,200 a year.

Education credits





Care

Persons who look after relatives are eligible for care credits, provided the following requirements are met:

The relatives require assistance and receive care allowance for a moderate or severe disability from the AHV, IV, accident, or military insurance. Care contributions for children below the age of 18 with moderate or severe disabilities are treated the same way as the care allowance.

The decisive factor is the number of years during which care is provided, not the number of persons. While no credit applies in the year when care starts, the year in which care ends will receive the full amount in credits that are due.

Care credits equal three times the minimum AHV pension at the time when entitlement to the pension begins (3 × CHF 14,100 = CHF 42,300).

An application for the care credits must be filed each year with the cantonal compensation fund of the care recipient's community. The yearly application is important because, unlike in the case of education credits, it is very difficult to verify a claim that dates back 10 or more years. Retroactive applications can be considered for a period of 5 years. If several persons are involved in providing care, the care credit will be divided among them.

Entitlement

Entitlement to education or care credits is not contingent on whether the person is gainfully employed or not.

If, in a particular year, the conditions for both credits are met, only the education credit will be applied.

Income splitting

According to the concept of income splitting, which was introduced in 1997, half of the income each spouse earns during the marriage is credited to the other spouse.



Time of the split

As a rule, the earned income of the spouses is split if both are entitled to a pension. As long as only one spouse is eligible for a pension, the pension will be calculated without the split.

Widowed persons

For persons who are widowed, earned income will be split only once entitlement to a retirement or disability pension begins.

Divorced persons

In the case of divorcees, earned income is divided either at the time of the divorce at the request of the spouse (joint or individual application by the spouses) or by virtue of the office when a pension case starts.

Division of income and credits

In order to calculate the relevant average income per year of a married, divorced or widowed person, earned income achieved by both spouses during the marriage is split and each half is then credited to the individual AHV account. Any education and care credits earned during the years of the marriage are divided as well.

Calculation of pensions for married couples

Woman	Man	
All earned income	All earned income	**Before the marriage**
50% of own earned income 50% of husband's earned income 50% of the education/care credits	50% of own earned income 50% of wife's earned income 50% of the education/care credits	**During the marriage**
Woman's pension	Man's pension	

Date of retirement

Instead of statutory retirement at the age of 64/65, insured persons can ask to have their retirement pension start as much as two years early or have it deferred by up to five years. Spouses can set the date of their pension payments separately.



Early retirement

Men and women can retire 1 or 2 years before reaching regular retirement age. Persons whose retirement pension begins early will experience a lifelong reduction in the amount of the pension. The pension of men and women is reduced by 6.8% for each year of early retirement.

Pension deferral

Men and women who are entitled to a retirement pension can defer it by a minimum of 1 year and a maximum of 5 years. Deferral will cause the pension to increase by a pro rata supplement depending on the duration of the deferment (deferment of 1 year = supplement of 5.2%, deferment of 5 years = supplement of 31.5%). There are no restrictions to starting the pension during this time.

Pension reductions and increases with flexible retirement

	Number of years	Pension reduction	Pension increase
Early retirement	–2	13.6%	–
	–1	6.8%	–
Regular retirement	2018 (women born in 1954 / men born in 1953)		
Deferred retirement	+1	–	5.2%
	+2	–	10.8%
	+3	–	17.1%
	+4	–	24.0%
	+5	–	31.5%

(Status 2018)

Benefits at retirement age

Regular retirement starts at age 64 for women and at age 65 for men. If contributions were paid for the full duration, the full pension amounts to a minimum of CHF 1,175 and a maximum of CHF 2,350 per month, depending on the average income.

Retirement pension

Every person is entitled to a pension from the AHV. The individual pension is at least CHF 14,100 and at the most CHF 28,200 a year.

Entitlement to a retirement pension begins on the first day of the month following the month in which the person reaches regular retirement age. A retirement pension can be drawn early in return for certain restrictions and consequences, or it can be deferred.

Pension supplement

If a person is eligible for both a retirement pension and a widow's/widower's pension, the larger of the two will be paid.

Widows/widowers are entitled to a 20% supplement to their retirement pension. The pension plus this supplement may not exceed the maximum retirement pension (CHF 28,200).

Child's pension

Persons providing childcare who draw a retirement pension are eligible for a child's pension for each child below age 18 (or until the child has completed training; at the most until age 25). The pension equals 40% of the retirement pension.

Ceilings

Both retirement pensions of spouses are reduced (capped) if the total exceeds 150% of their maximum AHV pension (150% of CHF 28,200 = CHF 42,300).

If both parents draw a pension, the child's pension will be reduced if the total exceeds 60% of the maximum retirement pension (60% of CHF 28,200 = CHF 16,920).



Disability benefits

The purpose of a disability pension is to compensate for the economic consequences from restricted capacity for work due to impaired health. The pension amount paid out depends on the level of disability. Entitlement to an IV pension ends no later than when the retirement pension starts.

Basic principle

The guiding principle of the IV is "reintegration before pension". A disability pension is only granted if reintegration is not or only partially possible.

Reintegration measures

- Medical treatment
- Integration measures in preparation for resuming a professional activity
- Professional measures
- Special education, therapeutic measures, and care for insured persons below age 20 who are impaired
- Supply of appliances
- Early recognition and early intervention
- Daily benefits and travel expenses
- Advice and support during reintegration
- Entitlement to provisional benefits if ability to work deteriorates again in the first three years after the person resumes work
- Attempt to resume work without contract but with daily benefits or pension for six months

Disability pension

Entitlement to an IV pension depends on the following:

- Reintegration is impossible
- Average incapacity for work of at least 40% for one year without significant interruption
- Disability of at least 40% as of the end of that year
- At the earliest upon having completed age 18
- Three full effective contribution years before the pension comes into force

Entitlement to a disability pension ceases as of the date when AHV retirement benefits begin. The pension must be adjusted or cancelled if the level of disability changes considerably.

Level of disability	Type of pension
From 40 %	Quarter pension
From 50 %	Half pension
From 60 %	Three-quarter pension
From 70 %	Full pension

Child's pension

Persons providing childcare who draw a disability pension are eligible for a child's pension for each child below age 18 (or until the child has completed training; at the most until age 25). The pension equals 40% of the disability pension. If both parents receive a disability pension, each parent is eligible for a child's pension.

Thresholds

If both spouses are disabled, the pensions will be reduced (capped) as soon as the total exceeds 150% of the maximum IV pension (150% of CHF 28,200 = CHF 42,300).

If both parents draw a pension, the child's pension will be reduced when the total exceeds 60% of the maximum disability pension (60% of CHF 28,200 = CHF 16,920).

Widow's/widower's supplement

Widowed persons who draw a disability pension are entitled to a 20% supplement to their disability pension. The pension, together with this supplement, may not exceed the maximum disability pension (CHF 28,200).

Benefits in the event of death

The purpose of death benefits is to reduce financial hardship if a spouse or parent dies. If the survivor is entitled to an AHV or IV pension at the same time, the higher pension will be paid out.



Widower's pension

Husbands and divorced men
The same conditions apply to married men and divorced men: They receive a fixed-term widower's pension equalling 80 % of the decedent's retirement pension until the youngest child has reached age 18.

Widow's pension

Married women
Married women receive a permanent widow's pension equalling 80 % of the retirement pension upon the husband's death, provided the following conditions are met at that time:

- There are children, irrespective of their age, or
- She has reached age 45 and the marriage(s) lasted at least five years (for couples who marry several times, the durations of the marriages are cumulated.)

Divorced women
Divorcees will receive a permanent widow's pension equalling 80 % of the divorced husband's retirement pension provided that one of the following conditions is met:

- There are children and the dissolved marriage lasted at least 10 years
- The divorcee was older than 45 at the time of the divorce and the marriage lasted at least 10 years
- The youngest child completed age 18 after the divorced mother reached age 45

Divorced women who meet none of these conditions are entitled to a widow's pension until the 18th birthday of the youngest child.



Remarriage

- Entitlement to a widow's or widower's pension ceases upon remarriage
- If the new marriage lasts less than 10 years (divorce, declaration of annulment) the person will again be entitled to a widow's or widower's pension.

Orphan's pension

Children are entitled to an orphan's pension equalling 40% of the relevant deceased parent's retirement pension until completion of age 18 for the duration of their training, but not after their 25th birthday. If both parents have died, the children are entitled to two orphan's pensions.

Thresholds

Both orphan's pensions are reduced (capped) if their total exceeds 60% of the maximum AHV pension (60% of CHF 28,200 = CHF 16,920).

Career supplement

If a person dies before having reached age 45, the relevant average income is increased by a pro rata supplement when calculating the pension.

Widowed person's supplement

Widowed persons drawing a retirement pension are entitled to a 20% supplement to their pension. The pension, together with this supplement, may not exceed the maximum retirement pension (CHF 28,200).

The decisive criterion for the calculation of a child's pension and widow's/widower's pension is always the personal AHV/IV pension.

What pensions will the AHV be paying in 2018?

Monthly rates for ordinary full pensions (CHF)		Minimum	Maximum
Retirement/disability pension	**100%**	**1,175**	**2,350**
Widow's/widower's pension	80%	940	1,880
Orphan's/child's pension	40%	470	940

All pension rates are calculated based on the main pension (see Art. 35 et seq. of the AHV law).

Other important aspects

State pensions are a complex set of regulations designed to accommodate individual situations as much as possible.



Registered partnerships

With the introduction of the Federal Law on the Registration of Partnerships for Same-Sex Couples, the following applies:

- A registered partnership has the same status as a marriage
- A legal termination of a partnership is the same as a divorce decree
- If one partner dies, the surviving person will have the same legal status as a widow or widower

Simultaneous entitlement to a retirement/disability pension and a widow's/widower's pension

If a person meets the conditions for both a retirement pension and a widow's/widower's pension, the larger of the two will be paid.

Care allowance

Persons who permanently require personal supervision or the help of another person for performing their daily needs on account of impaired health can apply for a care allowance from the AHV or IV. Such applications must be filed with those institutions that already pay benefits.

In order to be eligible for benefits, the following conditions must be met:

- Domicile and permanent residence in Switzerland.
- Severe or moderate level of dependency (IV: also a low level)
- Continuous dependency for at least 1 year (AHV) or permanent (IV)
- No care allowance from the mandatory accident or military insurance

The amount of the care allowance is based on the level of dependency as well as on the living situation and is evaluated in line with the person's overall financial situation.

Monthly care allowance

Level of dependency	Benefits	In a care facility	At home
Low	AHV	–	CHF 235
	IV	CHF 118	CHF 470
Moderate	AHV	CHF 588	CHF 588
	IV	CHF 294	CHF 1,175
Severe	AHV	CHF 940	CHF 940
	IV	CHF 470	CHF 1,880



Assistance contribution

This contribution enables individuals who require care to remain at home despite their disability, making it possible to arrange for help individually. In this case, the IV will pay a contribution of CHF 32.90 per hour. Care providers who require special qualifications in order to administer care because of a particular impairment by the insured person are eligible for an assistance contribution of CHF 49.40 per hour. The rate for night duty is determined case-by-case and based on the amount of care that is required, at maximum CHF 87.80 per night.

For minors, the contribution is intended to allow them to attend a public school. Entitlement also applies to children and young people with severe disabilities who receive care at home. The assistance contribution is intended to remove some of the burden from parents and family members and provides an alternative to placement in a care center.

Supplementary benefits

Supplementary benefits are intended to secure the livelihood of AHV or IV pension recipients who are in an economically weak situation. These benefits are paid primarily by the cantons.

Supplementary benefits are paid to persons who

- are entitled to an AHV pension, a pension or care allowance from the IV, or who have received daily benefits from the IV for at least six months,
- have their residence in Switzerland and also live there, and
- are Swiss citizens.

Persons who are not Swiss citizens may also be eligible for supplementary benefits if they have lived in Switzerland continuously for ten years (as a rule there is no qualifying period for citizens of EU and EFTA countries). Supplementary benefits depend on the person's income and assets.

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