Occupational benefits

All you need to know about Pillar 2



Mandatory occupational benefits (BVG) in Switzerland
Status: January 2018

AXA winterthur



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AXA offers no guarantees for the completeness or accuracy of the information in this publication. The laws and ordinances currently in force are binding in each case. January 2018.

Pillar 2 of the Swiss pension system

The Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) constitutes a legal framework laying out the minimum requirements for occupational benefits institutions.

In Switzerland, retirement, survivors' and disability pensions are based on the three-pillar concept, which is anchored in the constitution.

Pillar 2 is designed to enable employed persons and their family members to maintain their living standard. It consists of a mandatory and an extra-mandatory (voluntary) part.

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	

Statutory contribution obligation

Swiss employers are responsible for ensuring correct insurance coverage in accordance with the mandatory occupational benefits insurance.



Employer

Anyone who employs staff that is subject to mandatory Pillar 2 coverage must pay at least half of the contributions for the occupational benefits plan.

Employees

All employees whose annual salary subject to AHV contributions is above CHF 21,150 (⅛ of the maximum AHV retirement pension as of January 1, 2018) must be insured.

Insured are:

- Disability and death risks from January 1 following the year in which the person completes age 17;
- From 1 January following the year in which the person completes age 24, the retirement benefits are also insured.

Exceptions:

- Fixed-term employment contracts of up to 3 months
- Exclusively secondary employment (provided that primary employment is already mandatorily insured or that the person is self-employed)
- Disability of at least 70%

Self-employed persons

All self-employed persons have the right to take out voluntary insurance under the BVG.

Unemployed persons

As of July 1, 1997, unemployed persons, too, must be insured if they are eligible for daily benefits from the unemployment insurance and if their applicable daily income (daily unemployment benefits, plus any interim income or earnings from an employment program) exceeds the threshold of CHF 81.20. This provision includes protection against disability and death risks, but not old-age risk.

Approximately every second woman but only every seventh man works part-time.



Insurance term

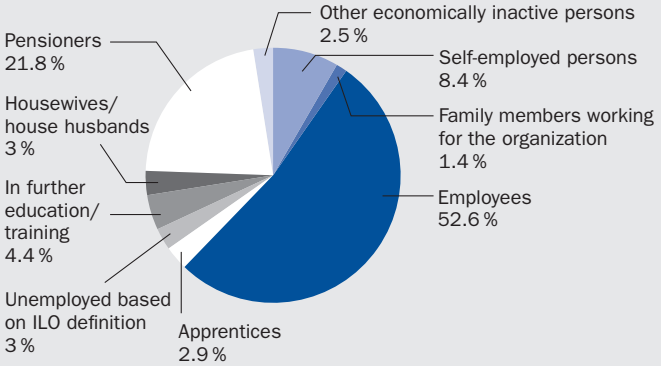
Beginning:
The mandatory insurance begins when an employee starts work; for those drawing unemployment benefits from the unemployment insurance, it begins on the day on which the first benefit payment is issued.

End:
Mandatory insurance ends when the insured person reaches regular retirement age, when the employment relationship ends, or when the insured person's income drops below the threshold. It also ends if the insured person is no longer entitled to daily unemployment benefits because the benefit period has expired.

Temporary extended coverage

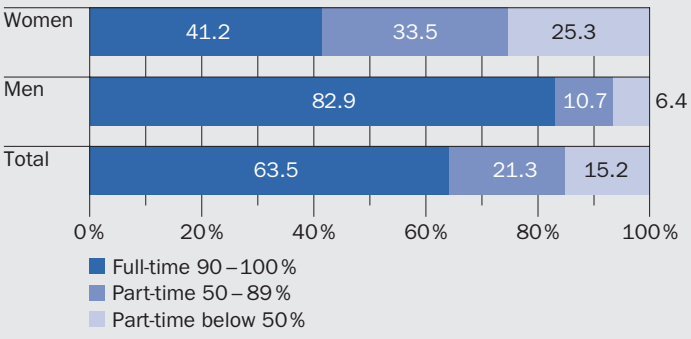
The insured person continues to be covered against disability and death risks for one month after the pension relationship with the most recent occupational benefits institution ends (temporary extended coverage). If the person enters a new employment relationship before the end of that month, the new occupational benefits institution is responsible for providing coverage.

Labor status



Source: FSO 2017

Level of employment



Swiss Labour Force Survey (SLFS) 2016
Source: FSO 2017

Mandatory pensionable salary

The BVG stipulates minimum requirements. All pension funds must therefore fulfill the requirements of the mandatory Pillar 2 part. Further benefits in what is referred to as the extra-mandatory part are also possible.

Pensionable annual salary

The pensionable salary (coordinated salary) is generally defined as the part of the AHV salary between 7/8 and three times the maximum current annual AHV retirement pension valid at the time (on Jan. 1, 2018, between CHF 24,675 and CHF 84,600, i. e. maximum CHF 59,925). If the coordinated earned income is less than 1/8 of the maximum AHV retirement pension (CHF 3,525 on Jan. 1, 2018), it is rounded up to this amount.

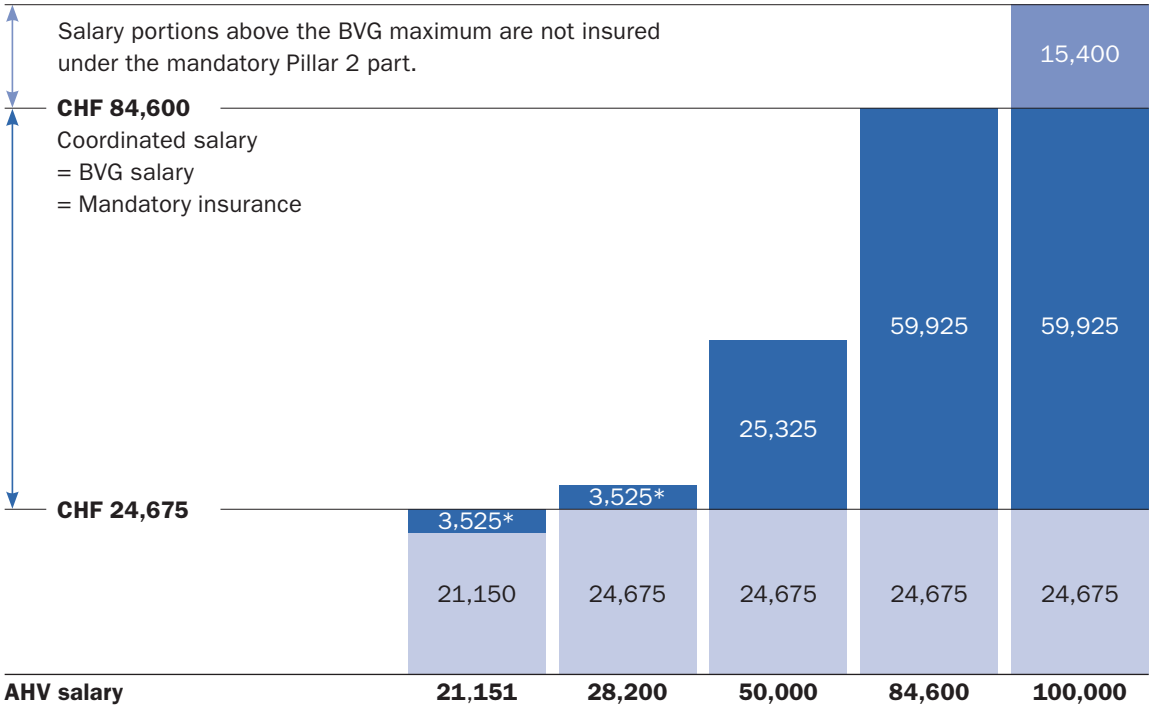
Thresholds

The Swiss Federal Council can adjust the applicable limits for mandatory occupational benefits commensurate with increases in the minimum AHV retirement pension. General developments in salaries can also be taken into account when adjusting the upper limit of the coordinated salary. The pensionable salary of employees or the pensionable income of self-employed persons may not exceed ten times the upper threshold (CHF 846,000).





Coordinated salary



* The minimum pensionable BVG salary is always CHF 3,525 for salaries ranging between CHF 21,151 and CHF 28,200.

- Salary portion not mandatorily insured
- Coordinated salary (mandatorily insured BVG salary)
- Free salary portion without insurance obligation

BVG benefits

Every year, all employed persons receive a pension fund certificate that informs them about the mandatory and possibly about the extra-mandatory benefits that they can expect. The information in this brochure refers only to mandatory employee benefits as prescribed by law.

Upon retirement

Retirement pension
Entitlement to retirement benefits generally commences upon completion of age 65 for men and upon completion of age 64 for women. Regulations may stipulate that entitlement begins at the time of retirement, but not before completion of age 58.

The amount of retirement benefits depends on:
- The retirement assets available when the pension starts
- The conversion rate as a percent of the retirement assets

	Women (64)/Men (65)
Minimum interest on retirement assets	**1%**
Minimum conversion rate at ordinary retirement age	**6.8%**

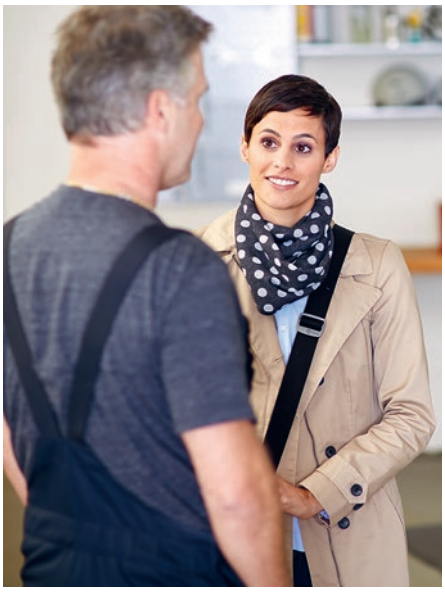
(Status 2018)

Retirement assets consist of:
- Retirement credits
- Any transferred vested benefits
- Interest earned on these amounts

Pursuant to the ordinance of the Federal Council, the following applies:
- The minimum interest rate on the retirement assets is 1% (2018)
- The minimum conversion rate for both men (age 65) and women (age 64) is 6.8%.

In the case of early or deferred retirement, the conversion rate will be adjusted commensurately.

Retired person's child's pension
Persons who draw a retirement pension are entitled to a pension for each child. The same prerequisites apply as for the orphan's pension. For each child, the retired person's child's pension equals 20% of the retirement pension.





In the case of disability

Disability pension
An insured person is entitled to a disability pension if he or she becomes disabled before reaching retirement age.

Calculation basis:
- Accrued retirement assets at the start of entitlement to a disability pension
- Sum of future retirement credits up to retirement age (without interest)

The definitive retirement assets are converted into a disability pension with the same conversion rate used for the retirement pension.

Disabled person's child's pension
Persons who draw a disability pension are entitled to a disabled person's child's pension for each child. The same prerequisites apply as for the orphan's pension. For each child, the disabled person's child's pension equals 20% of the current disability pension.

In the case of death

Spouse's pension
The spouse's pension equals 60% of the full disability pension or of the current retirement pension.

Eligibility for a surviving spouse's pension:
- Duty to provide support for children, or
- Having reached at least age 45, and the marriage lasted a minimum of five years

In all other cases, the spouse is entitled to a single amount of three annual pension payments. Registered partners of same-sex partnerships are treated the same as spouses.

Orphan's pension
The children of a deceased insured person are entitled to an orphan's pension. Entitlement continues until the child reaches age 18 or for as long as in training or at least 70% disabled, but not past the age of 25. The orphan's pension per child equals 20% of the full disability pension or of the most recent retirement pension payment.

Cost of living adjustment on current pensions

After three years, the current survivors' and disability pensions are subject to a first mandatory cost-of-living adjustment. Further adjustments are generally made every two years (the same as in the case of the retirement and survivors' insurance under the AHVG), but not after the year in which the recipient has completed age 65 (men) or age 64 (women).

Adjustments to current retirement pensions depend on the financial position of the benefits institutions.

Form of benefits

Retirement, survivors' and disability benefits are generally paid as a pension. As regards mandatory insurance, a quarter of the retirement assets may be paid as a lump sum. The regulations may also provide for additional lump-sum payments. Minimal pensions may be withdrawn as a lump sum.

Key figures for BVG pensions in 2018

Theoretical entitlement to benefits per year	Men (Retirement age 65; born in 1953)	Women (Retirement age 64; born in 1954)
Maximum retirement pension	CHF 22,556	CHF 23,318
Maximum widow's/widower's pension (60%)	CHF 13,534	CHF 13,991
Maximum orphan's pension (20%)	CHF 4,511	CHF 4,664

Source: BFS 2018

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Here you will find an overview of your insured benefits

Pension fund certificate

102225675/PWIHQQVMFT

Valid with effect from 01.0X.201X | Contract no.1/999999/VX | SU

AXA Foundation
for Occupational Benefits
Winterthur

Muster AG
PO Box 200
8401 Winterthur

Your personal details

Last name / first name	**Example Max**	Beginning of insurance	01.01.2006 ❶
Date of birth	16.06.1976	Statutory retirement age reached on	01.07.2041
Gender	Male	Annual salary	80'000.00
Insurance number	756.7708.4128.23	Pensionable salary	55'325.00
			CHF

Development of retirement assets in 201X	**Mandatory portion**	**Extra-mandatory portion**	**Total**
Retirement assets as at 01.01.201X	61'541.00	5'942.60	67'483.60
Interest (X.XX%) for 201X	1'076.95	104.00	1'180.95
Retirement credit for 201X	5'532.50	0.00	5'532.50
Retirement assets as at 01.01.201X	**68'150.45**	**6'046.60**	**74'197.05**
These include:			
Vested benefits brought into the fund	14'000.00	5'000.00	19'000.00

❷

The interest rate for the year 201X for retirement assets corresponds to X.XX%* for the mandatory portion and to X.XX%* for the extra-mandatory portion.

* interest incl. interest bonus

Projected benefits on retirement (provisional figures projected with X.XX% interest)		**Capital**	**or* Pension**
by regular retirement	at age 65 on 01.07.2041	**392'241.00**	**26'493.00**
by early retirement	At age 64	374'786.00	24'520.00
	At age 63	357'674.00	22'699.00
	At age 62	340'898.00	21'013.00
	At age 61	324'450.00	19'450.00
	At age 60	308'325.00	17'994.00

❷

*Current conversion rate on statutory retirement: Mandatory portion 6.8%; extra-mandatory portion X.XX%

Disability benefits	
Annual disability pension after waiting period of 24 months	19'743.00 *
Annual pension for disabled persons' children after waiting period of 24 months	3'949.00 *
Waiver of contributions after waiting period of 3 months	

Death benefits	
Annual surviving spouse's pension	11'846.00 *
Annual surviving partner's pension	11'846.00
Death lump sum in addition to the surviving spouse's or surviving partner's pension	-
Death lump sum if no surviving spouse's or surviving partner's pension is due	80'657.00
Annual orphans' pension	3'949.00 *

* In case of accident, the benefits stemming from the mandatory accident insurance are taken into account. In this case, the reservations in accordance with the Rules apply.

Pension fund certificate

Valid with effect from 01.0X.201X	Contract no. 1/999999/VX	SU
Example Max	male	
	Ins. no. 756.7708.4128.23	

Possible purchase of regulatory pension benefits

Possible purchase of additional retirement benefits as of 01.01.201X		1'413.35
Possible purchase of early retirement benefits on 01.01.201X	at age 64	25'208.00
	at age 63	50'654.00
	at age 62	76'406.00
	at age 61	102'479.00
	at age 60	128'991.00

The benefits purchase amounts shown are estimates in accordance with the pension plan. We will provide you with an up-to-date calculation before the purchase. For this we require detailed information from you on the "Purchase of contribution years / early retirement" form. You will find the form on our website, and we would be glad to assist you.

Entitlement on withdrawal before retirement age	**Mandatory portion**	**Extra-mandatory portion**	**Total**
Total of all transferred vested benefits	14'000.00	5'000.00	19'000.00
Vested benefits as at 01.01. 201X	68'150.45	6'046.60	74'197.05

Advance withdrawal for purchase of residential property

Possible early drawing amount in favor of residential property as at 01.01. 201X	74'197.05

Contributions for occupational benefits insurance

Total contribution 01.01.201X - 31.12.201X	6'786.30
Your contribution	3'393.15
Your share of this amount for retirement benefits	2'732.10
Your share of this amount for risk insurance, administration costs and the Security Fund	661.05
Your personal monthly contribution based on 12 months	282.75

Occupational benefits fund commission

On XX.XX.201X the occupational benefits fund commission comprised

Employee representative (Chairperson)	Worker Peter
Employer representative	Boss Simon

The personal certificate is based on the regulations of your pension fund. This certificate replaces all previous versions and was issued by AXA Life Ltd. 8401 Winterthur on the instruction of your pension fund on XX.XX.201X.

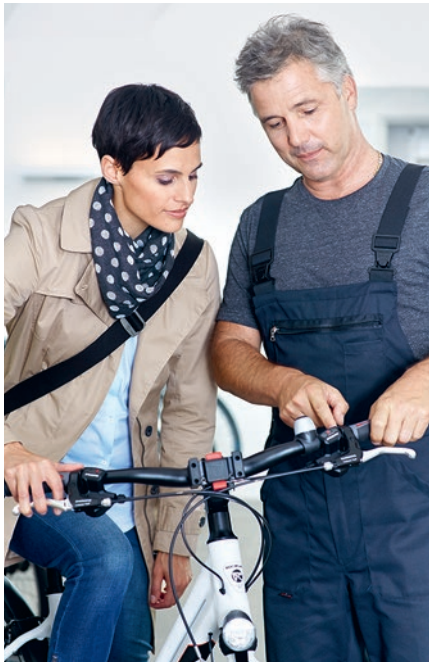
You will find general information on your pension fund online at www.axa.ch/meine-Pensionskasse. You can also use your personal code to calculate provisional amounts for benefit purchases, advance withdrawals for purchasing residential property, etc.

If you have further questions, please contact: xx xxx, Tel. +XX XX XXX XX XX,
xx.xxx@axa-winterthur.ch

❶ When starting a job
❷ Salary portion mandatorily insured under the BVG (see page 6)

Principles of financing

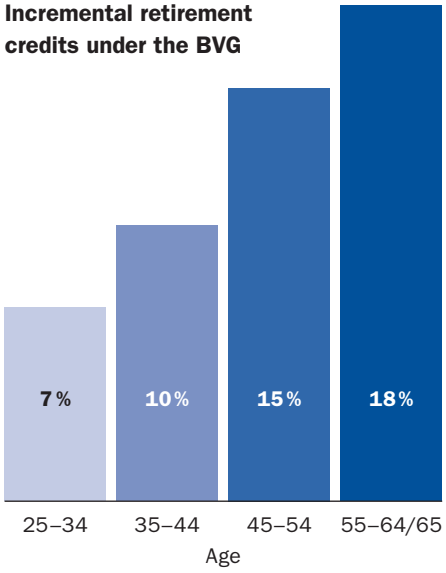
Occupational benefits are funded using the level premium system, whereby each insured person accrues savings for his or her pension payments upon retirement.



Contributions

- **Retirement credits**
  Retirement credits are defined as the employee and employer contributions that accrue as retirement assets. Pursuant to the BVG, the savings process for retirement benefits starts on January 1 following the year in which the person completes age 24. Retirement credits are calculated as a percent of the pensionable salary (coordinated salary) and change incrementally by age (calendar year minus year of birth).

Incremental retirement credits under the BVG



Retirement credits as percent of the pensionable salary

The basis for the financial stability of a pension fund is a funding ratio of over 100 %.



- **Risk contributions**
  These include premiums for the risks of disability and death. Premiums may vary depending on the pension fund.

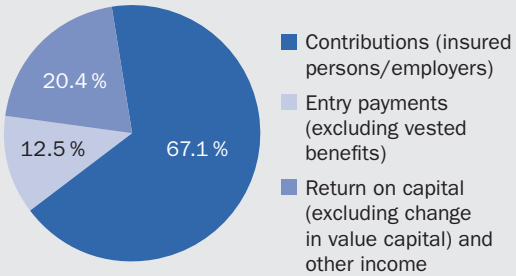
- **Contributions to the Guarantee Fund**
  Contributions to finance the Guarantee Fund are determined annually and approved by the Federal Social Insurance Office (FSIO).

- **Contributions to administrative expenses**
  Previously administrative expenses were often a part of the risk premium. Today, however, pension funds must disclose them separately in their accounts.

Investment income

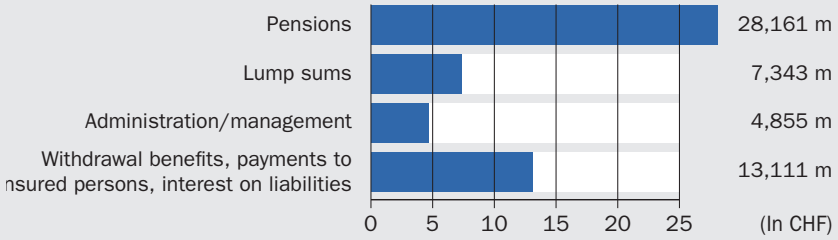
Pension funds are obligated to provide long-term guarantees for all current and future pension payments. In order to fulfill this mandate, pension funds must invest and manage their BVG contributions in a way that offers optimum protection as well as a return on the investment in the course of decades. Investment income counts as a third source of contributions, besides the amounts paid by employers and employees.

Breakdown of revenues
Amounts paid into the occupational benefits insurance in 2015: CHF 68,225 m



Source: FSIO 2017

Breakdown of expenditures
Amounts paid from the occupational benefits insurance in 2015: CHF 53,470 m



Source: FSIO 2017

Entitlement to pension fund assets

The employer's current pension fund manages the assets that accrue during a person's gainful employment and transfers them to the new pension fund in case the person changes jobs. In exceptional cases, it is possible to have the benefits paid out in cash.

Change of employer

Vesting
In accordance with the Federal Law on Vesting in Pension Plans, a person is fully entitled to all the available retirement assets (full vesting) when changing jobs, which also involves a change of pension funds/occupational benefits institutions. When transferring to a new occupational benefits institution, the previous institution must transfer the entire amount to the new one. If this is not possible, the person must take out a vested benefits policy or open a vested benefits account.

Having the vested benefits paid out in cash is possible when
- leaving Switzerland for good (except when moving to an EU/EFTA country)
- becoming self-employed
- the vested benefits are less than one annual contribution by the insured person.

Search for assets

Anyone who is unable to locate their occupational benefits institution or Pillar 2 assets can contact the Second Pillar Central Office for support:

Second Pillar Central Office
BVG Guarantee Fund
Administrative office
Eigerplatz 2
P.O. Box 1023
3000 Berne

info@zentralstelle.ch
www.sfbvg.ch





Promotion of home ownership

Insured persons can make early withdrawals or pledge assets from their pension fund for the purpose of financing owner-occupied property up to three years before retirement.

Early withdrawal

Up to age 50, an insured person can withdraw an amount equalling the current amount of vested benefits. After age 50, the maximum amount in vested benefits that can be withdrawn equals the amount that was available at age 50, or half of the amount that is currently available – whichever is larger.

To be noted:

- An early withdrawal can be repaid voluntarily, but a withdrawal is possible only every five years
- Minimum withdrawal: CHF 20,000
- A withdrawal will lead to a reduction in occupational benefits
- The entire amount of the early withdrawal must be repaid if the property is sold

Pledge

An insured person can pledge either the entitlement to pension benefits or a sum up to the full amount in vested benefits. In the latter case, the same provisions apply as in the case of an early withdrawal, in particular after the insured person has reached age 50.

Divorce

In case of divorce, each spouse is entitled to half of the retirement assets from the other's occupational benefits fund that accrued during the marriage, irrespective of the matrimonial property regime.

This includes:

- Pension fund assets
- Assets from vested benefits accounts or policies
- Advance withdrawals made during the marriage

Divorce courts receive information from the Second Pillar Central Office as to whether pension assets are available. The court then offsets the respective amounts and enters the exact difference and address for the transfer (occupational benefits institution or vested benefits account/policy) in the divorce decree. The calculation of the division for the mandatory pension benefits settlement commences at the time divorce proceedings are initiated.

Claims are also split if a marriage partner is already drawing a retirement pension or a disability pension under Pillar 2.

Other important aspects

Since the BVG came into effect, the legal regulations have been adjusted and supplemented several times – for example through promotion of home ownership. The BVG will continue to be subject to changes in the future in the form of partial revisions.



Objectives of the BVG

Since 1985 the BVG has served the constitutional goal of enabling retirees, survivors and disabled persons to keep, within reason, their accustomed living standard, supplementary to their AHV/IV benefits. However, because of the aging population and the subsequent need to pay pensions over longer periods, the minimum interest rate as well as the conversion rate had to be lowered significantly. These changes are increasingly casting doubt over the original objectives.

Occupational benefits institution

Pension funds (collective foundations) fall under social insurance providers because they cover the primary social risks of old age, disability and death. Fulfilling the pension mandate requires a very broad approach when it comes to managing income and expenses. For this reason, occupational benefits institutions that intend to manage mandatory insurance plans under the BVG must meet the following requirements:

- Entry in the register of occupational benefits providers of the relevant supervisory authority
- Legal form: Foundation or cooperative, i. e. recognized as an institution under public law
- Transparency, loyalty and integrity of all parties involved

Employees and employers must have equal representation in the board, the occupational benefits institution's decision-making body.

Affiliation

In general, employers become affiliated with a pension fund in order to manage their occupational benefits insurance. At the same time, every employer is free to set up its own independent pension fund. Employers without a pension fund become affiliated with the National Substitute Pension Plan foundation (see also page 18), which manages the mandatorily prescribed benefits.

Audit

The auditor reviews the institution's management, accounts and investments annually. Furthermore, the auditor must perform regular checks to ensure that the occupational benefits institution can meet its obligations at all times.

There is a clear trend: Fewer and fewer occupational benefits institutions insure an increasing number of gainfully employed persons.



Guarantee Fund

The purpose of the Fund for all of Switzerland:

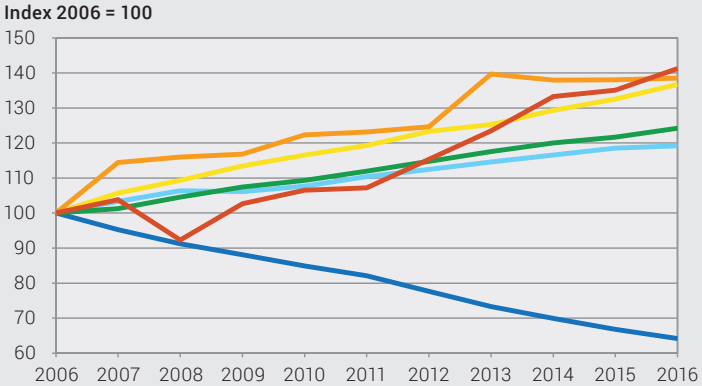
- Guarantee the benefits of occupational benefits institutions or funds that have become insolvent.
- Re-establish contact between insured persons and their occupational benefits institutions (central Pillar 2 office).
- Provide subsidies for occupational benefits institutions with an unfavorable age structure. Such a situation arises if the total of all retirement credits exceeds 14% of the total of pensionable salaries.
- Compensate the National Substitute Pension Plan for costs incurred from performing its statutory duties.

Fiscal treatment

The law stipulates the following:

- Institutions that manage occupational benefits are exempt from direct federal, cantonal and local taxes, as well as from inheritance and gift taxes.
- Employer contributions to an occupational benefits institution are regarded as a business expense by the federal, cantonal and local tax authorities.
- Contributions by employees or self-employed persons to occupational benefits institutions pursuant to the statutory or regulatory provisions can be deducted from direct federal, cantonal and local taxes.
- Insured persons who purchase additional regulatory benefits can, as a rule, deduct the amount of the purchase from their taxable income. The tax authorities consider lump sum withdrawals made within three years after the purchase date as tax evasion. Such cases are likely to lead to unfavorable tax consequences.
- Benefits received from an occupational benefits institution are fully taxable.
- Reversionary claims to benefits from an occupational benefits institution are tax exempt.
- Early withdrawals for purchasing residential property must be declared, whereby any taxes paid are refunded, without interest, if the amount is repaid.

Trends in occupational benefits



1 not including technical reserves arising from reinsurance operations
2 Pensions und lump sums.

Source: FSIO 2017



National Substitute Pension Plan

The National Substitute Pension Plan, which is a foundation, is responsible for:

- Compulsory affiliation of employers who have neither founded an occupational benefits institution nor are affiliated with one
- Affiliation of employers at their request
- Acceptance of voluntarily insured persons, such as
  – self-employed individuals and Swiss nationals living abroad
  – employees who work for several employers
  – employees who are no longer part of the mandatory insurance but who wish to continue their coverage.
- Payment of mandatory benefits to an employee or his/her survivors if the employer is not affiliated with an occupational benefits institution despite the legal obligation
- Administration of vested benefits that cannot be transferred
- Management of occupational benefits for unemployed persons

Other important ordinances

- Swiss Civil Code (Art. 89bis, 122 et seq. SCC)
- Code of Civil Procedure (Art. 279 et seq.)
- Swiss Code of Obligations (Art. 331 et seq. SCO)
- Swiss Federal Law on Vesting in Pension Plans (FZG)
- Various ordinances, in particular Ordinance 2 on the BVG (BVV 2)

Interested in additional publications in this series?

- Pillar 1: State pension
- Pillar 2: Occupational benefits
- Pillar 3: Private pension
- Social insurance: Pension system in Switzerland
- Current legislation on Pillar 2*
- Pension fund and residential property: Promotion of home ownership

*in German, French and Italian

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