Private pension

All you need to know about Pillar 3



Tied and flexible pensions (Pillars 3a and 3b) in Switzerland
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Pillar 3 of the Swiss pension system

The Swiss pension system is divided into state pensions, occupational benefits insurance and private pensions. The financial security of every person and their relatives rests on these three Pillars once they retire or in the event of their death.

Under Switzerland's statutory three-pillar pension system, Pillar 3 is the flexible and individual addition to mandatory benefits insurance.

Its purpose is to close possible gaps if coverage under Pillars 1 and 2 proves to be inadequate. Because of the increasing importance of private pensions, federal and cantonal provisions include attractive tax advantages that are aimed at promoting Pillar 3 plans.

The statutory framework makes a clear distinction between tied and flexible pensions, referred to respectively as Pillar 3a and Pillar 3b.

Switzerland's pension system



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	

Reliable pension coverage

Persons who want to maintain their accustomed living standard upon retirement or in the case of disability will need more money than they can expect from the AHV and their pension fund. The same applies in the event of death: the relatives of the deceased person are usually faced with a substantial provision gap.



Security-oriented goals

- Retirement provision
- Financial protection in case of occupational disability
- Closing pension gaps for family or partner

Retirement provision

The higher the earned income, the greater the pension gap at retirement age. That is why it makes sense to take out a Pillar 3 pension plan when earning a medium-sized income.

Pension gaps due to illness

The Pillar 2 offers sufficient insurance coverage to cover the financial risks arising from disability or death as the result of an accident. However, according to statistics, illness is a more frequent cause of pension gaps than accidents. In the event of an illness, these risks are insufficiently covered by the state. Here, an individual Pillar 3 plan can be used to close whatever gaps there may be.

Family and spouse

With the birth of the first child at the latest, a family's pension requirements will change. Without any form of individual protection, the loss of earned income, let alone the death of a parent, is likely to lead to severe financial consequences. These losses can be compensated by means of a private pension. Even in the case of divorce, provisions can be aligned specifically to the divorce settlement.

Cohabiting partners

Those living together like man and wife without actually being married cannot rely on AHV/IV and UVG/BVG (mandatory) benefits. Under inheritance law, too, there are no cohabiting relationships: each partner leaves his/her estate to his/her legal heirs. Unless the partner will inherit part of the freely disposable share of the estate under an inheritance contract or a will, he/she will not get anything. Taking out private pension insurance is therefore an ideal option for the mutual protection of cohabiting partners.



Pillar 3a and 3b provisions

Private pensions are divided into two categories:

- **Tied pension (Pillar 3a)**
  Long-term plans in which the capital is locked into the retirement plan.
- **Flexible pension (Pillar 3b)**
  Flexible plans without a statutorily prescribed term. The capital is available at any time.

Restrictions

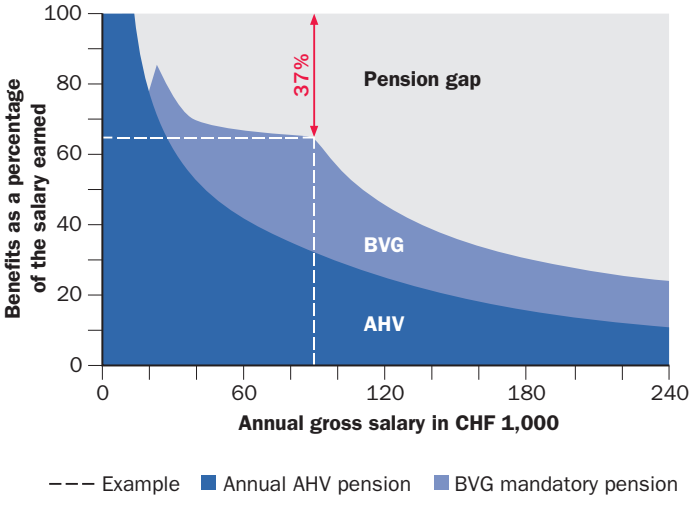
No restrictions apply when it comes to financing a flexible Pillar 3b plan. The amount that can be paid into a tied Pillar 3a plan, however, is restricted by law. Currently the following applies:

- CHF 6,768 for gainfully employed persons with an occupational benefits plan.
- CHF 33,840 for gainfully employed or self-employed persons without an occupational benefits plan.

Tax advantages

The government supports private pensions by granting tax advantages with a view to lowering the overall tax burden. The tax aspects of Pillar 3a are of particular interest. Payments into the plan are tax deductible, allowing for an annual tax advantage up to CHF 2,000. Furthermore, the amount that falls due on maturity is taxed not as regular income but at a special rate. The deduction limits are generally reviewed and adjusted every two years so as to optimize the tax burden.

Example of pension gaps at retirement



Gross salary while employed		CHF 85,000 = 100%
AHV/IV	CHF 28,200	
BVG mandatory pension	CHF 25,000	
Annual pension from Pillars 1 + 2		CHF 53,200 = 63%
Pension gap after retirement		**CHF 31,800 = 37%**

Key figures:

Insured person, born in 1978 (age 40) without contribution gaps	
Annual gross salary	CHF 85,000
Maximum AHV pension	CHF 28,200
BVG mandatory pension:	
Maximum pensionable salary	CHF 84,600
Coordination deduction	CHF 24,675
Maximum BVG pensionable salary	CHF 59,925
Interest	1.25%
Conversion rate	6.8%

(Status 2018)

There is no standard value or universal benchmark for pension needs. The decisive factors in calculating what is needed are financial obligations and requirements with regard to standard of living as well as the person's retirement age. A comparison of effective needs and benefits from Pillars 1 and 2 provides an optimal decision-making basis for sensible planning for Pillar 3.

Targeted capital accumulation

Saving and investing are part of every type of future planning and hence also of private insurance. Financial possibilities, concrete goals, a timeframe and a personal need for security lead to an optimum strategy for capital accumulation within Pillar 3.

Capital-oriented goals

- Secure capital accumulation
- Earnings-oriented investment
- Early retirement
- Purchase of residential property

Private insurance is varied

- Assets/savings in savings accounts
- Bonds, shares, money market investments or units in investment funds
- Purchase of residential property
- Valuable collections
- Pillar 3a bank account
- Life insurance (Pillars 3a or 3b)

Savings capital

- As regards payments, a bank account offers complete freedom, but there are no guarantees that the personal savings target will be reached.
- Life insurance financed with premiums involves regular payment periods and comes with a standard or optional feature, depending on the product, that exempts the person from premiums in case of occupational disability from an illness or accident. These properties ensure that the intended amount in capital is in fact reached. In addition, special pension privileges apply, such as free choice of beneficiaries (Pillar 3b) or with respect to inheritance, debt enforcement and bankruptcy.

Investing capital

Those who speculate on the stock market may make considerable profits – but they also carry the entire risk of loss themselves. With a performance-oriented life insurance, protective mechanisms are, depending on the specific product chosen, included in order to compensate for or exclude capital losses due to negative price developments. However, no investment can meet its target fully as regards security, yield, and liquidity. Nevertheless, in the case of imminent or, where applicable, early retirement, the security of the investment should be thoroughly investigated.





Assessment of the return

The assessment of earnings prospects without taking into account the tax situation often heavily distorts the benefits offered by an investment. For this reason, earnings should, as a general rule, always be assessed after tax. All in all, retirement products actually yield more profit than one might think based on a comparison of interest earned only.

Purchase and repayment of residential property

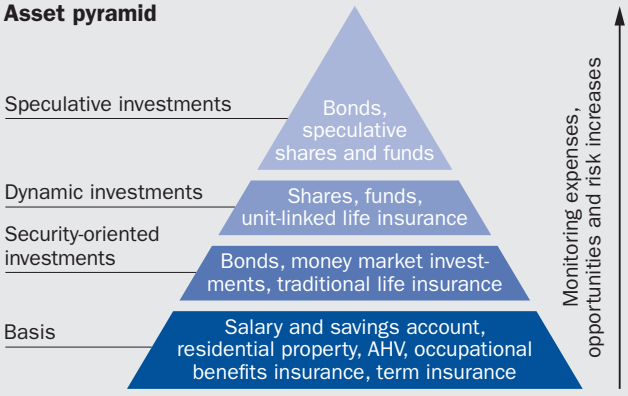
When it comes to financing residential property, Pillar 3 (especially Pillar 3a) and Pillar 2 are suitable instruments, since the capital can be withdrawn early or pledged.

The same applies to the repayment of a mortgage:

- In the case of direct repayment, the mortgage is paid off on an ongoing basis.
- Indirect repayment involves investment in a pension account or a pension policy with a pledge to the loan company. This means that the mortgage, the interest payable and the tax deductions remain constant.

Within every portfolio the relationship between opportunities and risks can be realistically optimized through private pensions.

Asset pyramid



Characteristics of Pillars 3a and 3b

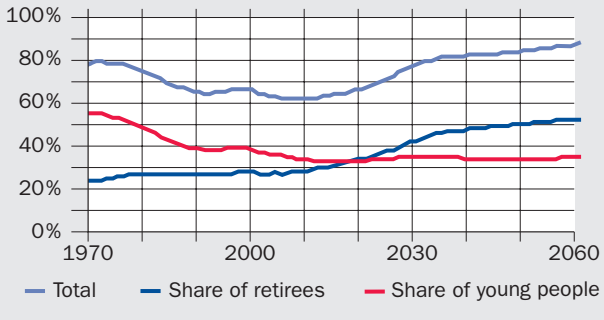
	Tied pension (Pillar 3a)	Flexible pension (Pillar 3b)
Summary	■ Long-term approach to securing the financial resources needed in order to maintain the desired living standard after ordinary retirement ■ Clearly defined rules with regard to payments, availability and beneficiaries ■ Tax relief	■ Freely selectable term for reaching a particular objective ■ No statutory provisos on payments, availability and beneficiaries ■ Tax relief by observing certain requirements
Products	Life policies, pension accounts, pension custody accounts.	Life policies, investment funds, accounts, securities, residential property, valuable collections, etc.
Group of persons	All gainfully employed persons in Switzerland who pay AHV contributions.	All persons living in Switzerland.
Annual payments	Statutory maximum amounts: ■ Gainfully employed persons with occupational benefits insurance: CHF 6,768 ■ Employed/self-employed persons without occupational benefits insurance up to 20% of their AHV income: max. CHF 33,840	No restrictions.
Availability/ redemption	Withdrawals at the earliest 5 years before reaching regular AHV retirement age, or sooner in the following cases: ■ Becoming self-employed ■ Leaving Switzerland for good (emigration) ■ Purchasing benefits from a Pillar 2 occupational benefits institution ■ Financing owner-occupied residential property ■ In certain cases in the event of disability Deferral in the case of employment past the regular retirement age: ■ Women up to max. age 69/men up to max. age 70 (additional benefit purchases possible as permitted by law)	Payment/contract term is fully flexible.
Beneficiaries in the event of death	Statutorily prescribed order of beneficiaries: 1. The surviving spouse or the surviving partner 2. The direct descendants and any natural persons who were supported to a considerable extent by the decedent, or the person with whom the decedent lived in a domestic partnership for the last five years prior to death without interruption or who is responsible for supporting one or more joint children. 3. The parents 4. The siblings 5. The remaining heirs The insured person can appoint one or several beneficiaries among those named under paragraph 2 and define their entitlement in detail. In paragraphs 3–5, the insured person has the right to change the order of beneficiaries and describe their entitlements in greater detail, and also to appoint others as beneficiaries, provided these persons are also heirs.	Can be freely selected and changed at any time. Most insurance policies include a sample order of beneficiaries in their general insurance conditions.
Debt enforcement and bankruptcy privilege	Entitlement to insurance benefits can neither be pledged nor included in the bankrupt estate before the policy matures.	If the spouse, registered partner or the children are the beneficiaries, entitlement to insurance benefits can neither be pledged nor included in the bankrupt estate before the policy matures.
Pledges	A pledge is possible only for owner-occupied residential property.	Possible for any purpose.
Tax advantages	For all forms of pensions.	For all pension products.
Withholding tax	Earnings (interest and bonuses) are exempt from withholding tax during the term.	Earnings (interest and bonuses) from insurance products are exempt from withholding tax during the term.



	Tied pension (Pillar 3a)	Flexible pension (Pillar 3b)
Income tax	■ Contributions into a pension plan can be deducted from taxable income. The law specifies the maximum amount that can be deducted. In the case of married couples where both partners are gainfully employed and both have taken out a tied pension policy, the contributions of both partners can be deducted from the taxable income ■ Earnings (interest and bonuses) are exempt from income tax during the term ■ The lump sum paid out is taxed at a special reduced rate Retirement pensions are taxed at 100% by the federal and cantonal government.	Tax-free: ■ Periodically financed endowment life policies ■ Single premiums, provided the following conditions are met: – The policy was signed before the insured person's 66th birthday – The insured person has completed age 60 when the amount is redeemed – The policy is redeemed at the earliest after 5 years – The policyholder and the insured person are identical Income tax: Retirement pensions are taxed as income by the federal and cantonal government at only 40%.
Wealth tax	No wealth tax is a levied during the term.	The value (the surrender value of insurance policies) is subject to wealth tax.
Special case of indirect repayment of a mortgage	The mortgage loan is not repaid as usual by means of installments to the creditor (bank or insurer). Instead, the amount accrues in a tied pension facility. Upon maturity, the amount of the benefit that has accrued is used to repay the loan. This creates some interesting savings opportunities in terms of income tax because the mortgage debt remains fixed and the premiums can be deducted from taxable income up to the limit set by the government.	Flexible pension plans in the form of a life insurance policy are also suitable for indirect repayment of a mortgage loan – the same principle applies as in the case of tied pensions. Policyholders benefit from tax savings because the mortgage debt remains fixed. Although the premiums of this type of pension cannot be deducted from income tax, the benefit paid out upon maturity is tax free.

Private pensions are becoming increasingly important: By 2019, there will be more retirees than young people per gainfully employed person.

Ratio of age groups



Source: BFS 2010

Pillar 3a bank and insurance solutions compared

Personal requirements are decisive when it comes to choosing a suitable provider of a Pillar 3a plan. While neither a bank nor an insurer can provide only advantages, a general comparison shows that life insurance has clearly more to offer than a pension account.

Legal background

Only two types of tied Pillar 3a pensions are recognized under the law:

- Pension account with a banking foundation
- Pension policy with an insurer

Banks offer flexibility

A Pillar 3a bank account is a good choice for anyone who does not need to protect a life partner or child financially and prefers not being forced into a savings plan or having to meet payment deadlines. Payments are voluntary and can be made at any time.

The main argument for a Pillar 3a bank account is flexibility:

- No contract term
- No payment obligations
- Change of bank possible at any time

Insurers offer protection

Life insurance is the obvious choice when it comes to financial protection. The broad range of products makes it possible to select options in detail so as to effectively meet pension requirements and individual capital targets. A good solution exists for every life situation.

The main argument for Pillar 3a life insurance is security:

- Guaranteed capital on maturity
- Protection in case of death or occupational disability
- Steady accrual of pension capital
- Payments are fully protected (by law). This applies even if the insurer goes bankrupt.

Adjustable policies

There is a common misconception that once a pension policy is signed its terms are written in stone and cannot be changed until the contract ends. The truth is that a plan can easily be adjusted if life circumstances change, and mostly without any disadvantages.

Advantages from combined options

It always pays off to diversify in order to minimize the foreseeable and unforeseeable risks arising from market trends. As in the case of all other investment decisions, this applies also when accruing Pillar 3a capital: Combining offers leads to advantages:

- Optimized return
- Optimized liquidity
- Optimized capital protection
- Optimized risk coverage

Capital protection

Financial and banking crises always raise the question of how secure money really is when invested with a bank or insurer.

Bank

The Swiss Federal Law on Banks and Savings Banks has provisions for protecting depositors, whereby each customer gets up to CHF 100,000 before any other creditor if the bank goes bankrupt. Banks with government backing are in a special situation, and many cantons offer guarantees on deposits of CHF 100,000 or more with their cantonal banks.

Insurance

In order to cover the liabilities arising from their customers' life insurance contracts, insurers must form sufficient reserves and secure them as tied assets. The polices of a life insurance company licensed by the Swiss Financial Market Supervisory Authority (FINMA) that faces financial difficulties will therefore not be liquidated but handed over to another insurer or substitute benefits institution, which will pay the amounts that are due in accordance with the contract terms. Unlike in the case of a bank account, this type of assurance goes beyond CHF 100,000 and applies to all the accrued capital, including the interest and any bonuses that have been allocated.



What does the offer include?	Insurance		Bank
	Classic Pillar 3a life insurance	Innovative Pillar 3a life insurance	3a pension account
Capital security			
Full capital protection in case the provider goes bankrupt	Yes (total amount defined by law)	Yes (total amount defined by law)	Only up to CHF 100,000
Guaranteed lump sum on maturity	Yes	Yes	No
Risk coverage			
Guaranteed lump sum on death	Yes	Yes	No
Occupational disability pension	Option	Option	No
Flexibility			
Flexible term	No	No	Yes
Switch between 3a/3b possible	Yes	Yes	No
Exemption from premiums in case of occupational disability	Yes/Option*	Yes/Option*	No
Premium financing	Yes	Yes	Yes
Financing through a single premium	Yes	Yes/Option*	Yes
Premium holiday	Up to 4 years	Up to 4 years	Yes
Withdrawal without loss possible at any time	No	No	Yes
Return			
Guaranteed minimum interest	Yes	Option*	No
Surplus participation	Yes	Yes	No
Choice and switch of fund category	No	Yes	Yes
Higher earnings potential	No	Yes	Yes
Legal privileges			
Tax advantages *	Yes	Yes	Yes
Inheritance privilege*	Yes	Yes	No
Debt enforcement and bankruptcy privilege	Yes	Yes	Yes
Advance withdrawal or pledge under the promotion of homeownership scheme (WEF)	Yes	Yes	Yes (all savings)
Total (maximum = 19)	**14 – 15**	**16 – 17**	**9 – 10**

* Depending on the product

Life insurance as Pillar 3

Private pension insurance does not necessarily have to take the form of life insurance. However, due to its product variety and the possibility of an individualized combination of pension protection and capital accumulation, this form of pension provision is one of the most widely used solutions.

Classic products

There is a large selection of products for financial planning for the future and targeted hedging of the selected risks. The following list of the most common forms of life insurance is not exhaustive.

Endowment insurance

- Providing for relatives in the event of death and at the same time accruing pension capital for retirement
- Traditional life insurance with guaranteed interest or with a unit-linked alternative



Whole life insurance

- Financial security for surviving dependants
- Direct payment of the lump-sum death benefit to the beneficiaries – not into the estate

Occupational disability insurance

Supplement to Pillar 1 and Pillar 2 accident and/or daily sickness benefits or disability pensions

Retirement pension

A life-long or temporary pension, as required, in addition to Pillar 1 and Pillar 2.

Long-term orientation is one of the most reliable success factors in accumulating capital.



Innovations

The new generation of pension and investment products offers a range of interesting concepts for reducing risk and boosting profitability. As a rule, they feature the following aspects:

- Dynamic capital accumulation with significantly higher profitability targets
- An investment profile that suits any investment strategy
- Disbursement according to a plan
- Capital available at any time
- Option to include a lump sum payable on death or an occupational disability pension

In addition, some products offer an attractive combination of high earnings opportunities and all the guarantees of a traditional life insurance policy.

Waiver of premiums

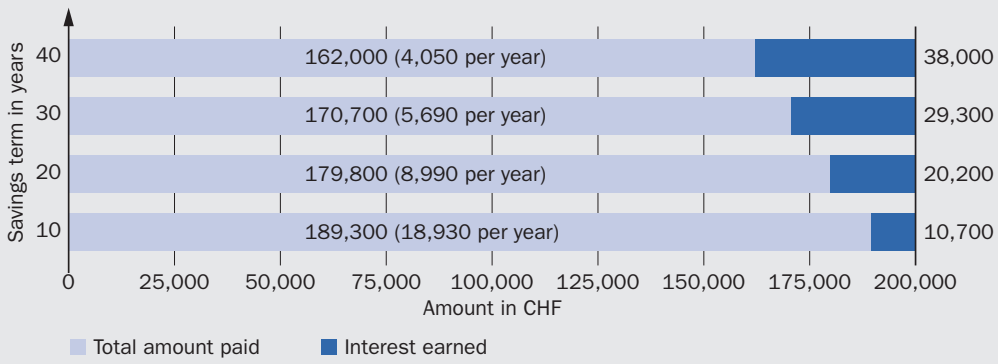
This is an optional or integrated advantage of many life insurance policies to secure financing: in the event of an occupational disability through accident or illness, the insurance company will pay the outstanding premiums. This guarantees that the capital target is reached on maturity.

Premium account

Those who would like more flexibility will find the premium account to be the ideal addition to a pension policy because it allows you to make any number of regular and irregular payments. The annual premiums are booked automatically, and any outstanding amounts are invoiced if the account has insufficient funds.

Example with a savings goal of CHF 200,000 and an interest rate of 1%: in order to reach the same savings goal, CHF 27,300 less needs to be invested if the savings term is 40 as opposed to 10 years.

Compound interest



The right concept improves every Pillar 3 plan

Investing in Pillar 3 is gaining in importance every year. After all, no one knows what the future holds for you personally or economically. It therefore makes good sense to explore the many options available in private pensions, which can accommodate virtually any financial goal or life circumstance.



How much to pay in?

There is only one right solution for your current life situation, budget and plans for the future. As a rule of thumb, you should invest 10% of the household budget consistently into a private pension plan as early as possible.

Tip

If you have a Pillar 3a insurance plan, use a premium savings account to get the same flexibility as a bank can offer.

Pillar 3a has priority

If at all possible, you should invest the statutory maximum amount into Pillar 3a every year. Doing so will help you to optimize not only your retirement provision but also your tax bill. If the budget permits or someone outside of the family must be included as a beneficiary, taking out a Pillar 3b plan is always a good choice.

Tip

Study the options of a premium holiday before you purchase such a plan. This would exempt you from your premium obligations for several years if need be, for example during maternity leave, a stay abroad or while on a training program.

Life partner and family

Most families continue to divide the roles of the members, whereby one parent is the main breadwinner while the other one mainly looks after the children and household, has no own income, and is insured only indirectly through the spouse.

Tip

Make sure that only one payment per year falls due and spread out larger amounts in accruing capital over several policies with different maturity dates.

Residential property

As tempting as it may seem to pledge your Pillar 2 and/or Pillar 3 assets in order to purchase the house of your dreams, the negative consequences of such a decision can easily and quickly outweigh the advantages.

Tip

Never make a decision of this nature without first calculating the impact of reduced retirement benefits. Here we recommend that you get professional advice from a pension expert.

Independence

Self-employed persons without a pension fund can pay a much higher amount into their Pillar 3a account than gainfully employed persons who are already paying into a Pillar 2 plan. In case a self-employed person starts working for another employer again or joins a pension fund, a Pillar 3a pension policy can be used to purchase Pillar 2 benefits.

Tip

If you become self-employed and are no longer insured with a pension fund, you should invest all or at least some of your vested benefits into a Pillar 3 plan. It is essential that your income is secure in case you become occupationally disabled through an accident or illness. Furthermore, purchasing term life insurance offers the ideal mutual protection among business partners.

Divorce

If no separation of property was agreed before the marriage, each spouse is entitled to half of the other's pension capital that accrued during the marriage. Such an arrangement, however, is contingent on a legally valid divorce decree. The tied assets cannot be paid out and must be transferred to a Pillar 2 or Pillar 3a benefits institution. Having the amount paid out in cash is possible only if an application for an advance withdrawal is filed in accordance with statutory provisions.

Pillar 3a pension policies can be adjusted in detail to the divorce settlement. For example, this may involve a declining death lump sum until the children have completed their professional training or a guarantee for alimony payments until support obligations as defined by the court end.

Tip

A customized Pillar 3 plan is worthwhile not only when things are going well. Especially after a divorce, it is important that alimony payments and childcare are secure also in case of disability or death – especially for your children.

Alimony as basis for livelihood

Divorced housewives are often at a disadvantage. The pension fund assets from the divorce settlement are mostly inadequate. In addition, Pillar 2 and Pillar 3a are only available to the gainfully employed.

Tip

Regardless of how tight the financial situation might be, we recommend that you invest even small amounts long-term into a Pillar 3b plan.

Payment on maturity

When accruing pension capital, people often neglect to think about the tax aspect when the amount matures. In most cases, it makes sense to plan in phases. Any payments from pension capital that may be due must therefore always be included in such a plan. Planning the maturity dates intelligently can quickly add up to five-digit amounts in tax savings.

Tip

Make sure that only one payment per year falls due and spread out larger amounts in accruing capital over several policies with different maturity dates.

Reinvestment

Once a life insurance contract matures, you will invariably face the question of what to do with the amount you receive. The beneficiary can decide to reinvest the assets or use them for other purposes. As regards retirement, you can also take out a suitable disbursement plan for your investment.

Tip

Avoid losing valuable time between the payment and the reinvestment date by informing yourself about your options as early as two years in advance.

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- Pillar 2: Occupational benefits
- Pillar 3: Private pension
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