

Pension or Lump Sum?



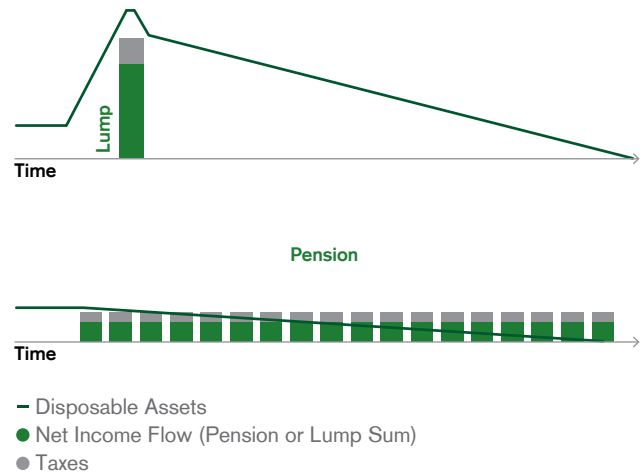
The question of how best to draw pension assets is not only vitally important, it also depends on many factors. The personal situation, including the individual financial matters, is just as decisive as the legal framework conditions. With our wealth planning we help you to make this strategic personal decision, taking into account the main advantages and disadvantages.

A Central Decision – The Optimal Form for Drawing Pension Benefits

The question of how best to draw pension assets is one of the most important points in retirement planning. As this decision has a lasting influence on one's financial and income situation, close study and discussion of this topic are particularly important. Which factors are key in making this decision? What are the advantages and disadvantages of the two alternatives?

Influencing Factors – Personal Situation and Legal Framework Conditions

One of the most important influencing factors is one's personal situation. For instance, very good health and a long life expectancy clearly favor drawing a pension. Family relationships, the desire to influence investments, and the need for a regular income are further aspects that must be individually considered and prioritized. Financial circumstances, taking into account existing assets such as real estate, company holdings, etc. also play an important role. A lump-sum withdrawal requires a very comfortable financial situation, so that financial resources are not used up too soon. Each additional year of life also results in an increase in cumulative living costs, so in this context longevity constitutes a financial risk. The graphs show the differences between the two options.



To put it briefly: A person who lives considerably longer than statistics predict is better served by a pension solution. In addition to one's personal situation, legal and regulatory framework conditions must also be considered. Besides applicable laws, the basic principles of the pension fund regulations are also of central importance. In this context, it is especially important to mention capital withdrawal restrictions and application deadlines for a lump-sum payout.

Tax conditions also play a role in the overall view. A lump-sum withdrawal is taxed at a reduced rate on the reference date, while repeated pension payments are subject to ordinary income tax. Since other influences – particularly life expectancy and personal financial situation – strongly influence the decision, tax considerations should not be weighted too heavily.

Finally, the psychological element must also be considered. In the case of a lump-sum withdrawal and corresponding investment of the funds, there may be, depending on the carefully selected strategy, greater fluctuations in the value of the assets that have to be absorbed. On the flip side, of course, there are additional return opportunities. If security and regular income are desired, the pension solution may allow one to sleep better under certain circumstances.

Pension – Pros and Cons

A person who opts for a pension can look forward to regular payments for life, without having to worry about investments. In addition, for married retirees, a lifelong surviving spouse's pension is potentially also part of the policy.

Since investment decisions are not made individually, and pension payments are not organized personally, the pension fund's financial circumstances must be considered.

As a service provider, it plays an important role, potentially along with an insurance company. It is responsible for regular

payments, as well as any cost-of-living adjustments and special one-time payments.

Comparison

	Drawing a BVG Pension	Drawing a Lump Sum
Income	Regular, until death, dependent on conversion rate	Irregular, dependent on investment yield
Investment decisions	Made by the pension institution	Made by the individual
Flexibility	No flexibility	Flexible availability
Capital erosion	Systematic	As required
Death (inheritability)	Reduced benefit (surviving spouse's pension); no benefit for non-spousal surviving dependents	Remaining capital goes to the estate
Taxes	Pension 100% subject to tax	One-time taxation at pension rate (varies by canton); investment yields are taxable

Lump Sum – Pros and Cons

If pension assets are drawn as a lump sum, investment decisions can be made individually. This allows retirees to invest the retirement capital according to their own needs, considering their personal appetite for risk, and to profit from their own potential yields. It also offers great flexibility in using their capital. Savings can be used individually as part of targeted asset depletion. Any remaining capital goes to the estate.

Special caution is called for, because the funds must last until the end of one's life. Consequently, investment risks must be limited. Asset depletion must be targeted and, if necessary, restrained.

Personal Preferences and the Decision

There is no general answer as to which is the better solution. As it happens, you don't have to fully commit to either alternative. You also have the option to choose a combination of lump sum and pension, an option that is now enjoying growing popularity. It is possible, for instance, to draw in pension form the portion required to cover basic expenses along with the AHV pension and other fixed income. The remaining portion can then be withdrawn in lump-sum form to create a certain financial leeway.

After analyzing the influencing factors and weighing the pros and cons, you can make a sound decision that considers your own preferences and priorities. A lump-sum withdrawal must be reported to the pension fund in good time (often several years in advance).

Contact us

We will be happy to arrange a personal consultation. Call us at 0844 200 114*; Mon.–Fri., 08:00–20:00. For more information, visit our website at:

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CREDIT SUISSE (Switzerland) Ltd.

P.O. Box 100

CH-8070 Zurich

[credit-suisse.com](https://www.credit-suisse.com)

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