Financial planning

Key aspects of planning for your retirement

Dear readers

The Genevan philosopher Jean-Jacques Rousseau claimed that "One should consider all seasons." In the same vein, ensuring suitable financial provisions in every stage of life is a key topic for us.

Careers are becoming increasingly dynamic and the traditional family unit is now complemented by countless new forms of cohabitation. When it comes to personal pensions, therefore, these varying life situations require tailored solutions.

In this brochure, you will find useful information on the three pillars of the Swiss pension system and a variety of helpful tips. Find out how you can ensure good financial planning whatever your life situation may be, how to close any gaps, and the effect of using pension capital to finance home ownership. In the last section, you will discover how you can optimize your tax situation and make arrangements for loss of decision-making capacity or death.

All the information in this brochure is correct as of 2023 and does not take account of the changes that will come into effect with the AHV 21 reform, which is expected to be implemented on January 1, 2024. An initial overview of the key changes in the AHV can be found in Chapter 1.10.

For the poet Dante Alighieri, it was clear:
"Some wait for times to change, others seize the moment and act."

Our experts would be delighted to support you in this matter.

Table of contents

The Swiss pension system

The Swiss pension system is based on three pillars. The aim of the three-pillar principle (Art. 111 of the Federal Constitution) is to maintain the accustomed standard of living for insured persons or their surviving dependents during retirement or in the event of disability or death.

First pillar
The first pillar of the Swiss pension system comprises Federal Old Age and Survivors' Insurance (AHV) and Federal Disability Insurance (IV), as well as any supplementary benefits (EL). The first pillar is mandatory for everyone and secures the basic standard of living in retirement or in the event of disability or death.

Second pillar
The second pillar is primarily governed by the Federal Act on Occupational Retirement, Survivors', and Disability Pension Plans (BVG), the Federal Act on Vesting in Pension Plans (Vested Benefits Act, FZG), and the Accident Insurance Act (UVG). Altogether, the first two pillars should cover at least 60% of the insured person's final salary, thereby enabling them to maintain their accustomed standard of living. The second pillar is compulsory for employees whose income is subject to AHV contributions and who meet the requirement of earning a certain amount per year.

Third pillar
The third pillar comprises privately financed personal provision and is voluntary. Unlike ordinary savings, it brings certain tax advantages. The third pillar enables the closing of specific pension gaps. If you are self-employed, you can compensate for not paying into the employee benefits insurance.

If you would like more information on the technical terms used, they are clearly explained in a comprehensive glossary at the end of this brochure.

Pensions

First pillar

State pension

Purpose:
coverage of basic needs

Guaranteed by:
- Federal Old Age and Survivors' Insurance (AHV)
- Federal Disability Insurance (IV)
- Supplementary benefits (EL)

Second pillar

Employee benefits insurance

Purpose:
continuation of the accustomed standard of living

Guaranteed by:
- Mandatory employee benefits insurance (BVG)
- Compulsory accident insurance (UVG)
- Extra-mandatory insurance

Third pillar

Private pension provision

Purpose:
individual supplement

Guaranteed by:
- Tied pension provision (pillar 3a)
- Flexible pension provision (pillar 3b)

1 Retirement, surviving dependents', and disability insurance (first pillar)

1.1 General information

The first pillar – the state pension – aims to cover a basic standard of living for pensioners, disabled persons, and surviving dependents. This forms the basis of the Swiss three-pillar principle and provides benefits during retirement or in the event of disability and death.

AHV supervision is organized centrally: The Federal Social Insurance Office ensures that legal provisions are applied uniformly across the board. The central settlement office in Geneva manages the overall bookkeeping for the AHV and also carries out further key tasks such as allocating individual insurance numbers.

The AHV compensation offices are primarily responsible for implementing the required measures and serve as a direct point of contact for insured persons and their employers. They determine and collect the contributions to be paid. They calculate AHV benefits and are responsible for paying them to the insured. In Switzerland, there are around 100 compensation offices for the Federal Government, the cantons, and professional associations.

The most important source of income for the AHV are the contributions received from the economy, employers, and the insured, as well as the Federal Government and the cantons. Since January 1, 1999, a share of VAT has been used to finance the AHV.

The AHV is generally financed by a pay-as-you-go system. This system is characterized by the fact that the benefits paid to pension recipients, disabled persons, and surviving dependents in one year are directly financed by the contributions received from the economically active population in the same year. This stands in contrast to the fully funded system used for employee benefits insurance (second pillar).

1.2 Who is insured under the AHV?

Generally, it is compulsory for the following to be insured under the AHV:

- All persons domiciled in Switzerland
- All persons gainfully employed in Switzerland

People who live abroad can voluntarily continue to contribute to the AHV under certain conditions. This helps them to avoid gaps in coverage that would lead to lower benefits later on. Differing rules can apply under treaties with the EU/EFTA or in relation to social security agreements between Switzerland and other countries. Special conditions also apply to gainfully employed persons domiciled abroad who work for an employer whose registered office is in Switzerland. Further information can be requested from AHV compensation offices, Swiss embassies, and consulates.

1.3 Who has to pay contributions?

Generally, everyone insured under the AHV must pay contributions to the AHV as per the table below. This includes both the gainfully employed and those not in gainful employment. Non-working spouses also have to contribute to the AHV. However, this contribution is deemed to have been paid if the other spouse is gainfully employed within the meaning of the AHV and pays at least twice the minimum AHV contribution on his/her salary. Individuals who take early retirement are also obligated to pay contributions until they reach the normal AHV retirement age.

	Gainfully employed persons	Persons who are not gainfully employed
Start of the obligation to pay contributions	From January 1 after reaching the age of 17	From January 1 after reaching the age of 20
End of the obligation to pay contributions	Upon giving up gainful employment, but at the earliest upon reaching the normal AHV retirement age (women 64 years, men 65 years)	Upon reaching the normal AHV retirement age (women 64 years, men 65 years)

1.4 Level of contributions (as of 2023)

Employee contributions are deducted by the employer from each salary payment and transferred to the compensation fund with the employer's contribution. Persons who are not gainfully employed and self-employed persons are responsible for reporting to the compensation fund and making all contributions.

Employed persons	AHV 8.7%, IV 1.4%, income replacement (EO) 0.5% of gross salary, with half paid by the employer and half paid by the employee
Persons who are not gainfully employed	Depending on assets plus annual pension income: min. CHF 514, max. CHF 25,700
Self-employed persons	AHV 8.1%, IV 1.4%, EO 0.5%. A lower contribution rate applies to persons with an annual income below CHF 58,800 (sliding contribution scale, but at least CHF 514)

1.5 When does the contribution period end?

For men, the maximum or full period for having paid contributions is 44 years. For women, it is 43 years. Contribution years are periods during which

- the person has paid contributions;
- the gainfully employed spouse has paid at least double the minimum contribution;
- parenting credits or credits for time spent caring for relatives can be calculated.

Persons wishing to check whether there are any gaps in their contribution period, or whether an employer has actually paid the deducted amounts to the compensation office, can send a written request for a free account statement (IC excerpt) to the compensation office managing their account.

1.6 Closing contribution gaps

In the AHV, contributions for missing years can be paid within five years of a specific gap. For example, contribution gaps of this sort may arise due to periods spent abroad or in education if no AHV contributions were paid during those periods. Contribution gaps that date back more than five years can be closed by parenting credits and credits for time spent caring for relatives, by crediting youth years, and by additional years. These three options are explained below.

Parenting credits and credits for time spent caring for relatives
For the purpose of calculating the retirement pension, parenting credit or credit for time spent caring for relatives may be awarded to an insured person for each year in which he or she had children aged under 16, or in which he or she looked after relatives requiring care in the same household. This equates to a contribution of CHF 44,100. Married persons each receive half of the credits earned during the marriage.

Youth years
For persons who paid contributions into the AHV before January 1 after their 20th birthday, this period of time is credited as youth years. These youth years can also be used to close any contribution gaps.

Creditable additional years
For contribution gaps that occurred before 1979 and during periods in which the person was actually or could have been insured, an additional one to three years may be credited depending on the number of contribution years until normal retirement. Finally, you will receive an additional year's credit if your salary is subject to AHV contributions during the calendar year in which you reach normal retirement age.

1.7 How is the AHV pension calculated?

The total amount of the AHV pension is determined by three factors:

- The contribution years that can be credited (see point 1.5)
- The income from gainful employment earned during the contribution years
- Any parenting credits and credits for time spent caring for relatives

Persons that have always paid contributions from the age of 21 receive a full pension.
In the event of any incomplete contribution period, only a partial pension is paid out, whereby an incomplete contribution year results in a pension reduction of at least 1/44. AHV contributions paid during marriage are halved and paid into the accounts of both spouses (splitting).

1.8 Benefits received upon retirement

Persons who have reached the normal AHV retirement age are entitled to a retirement pension. This is at 65 years of age for men and 64 for women. If both spouses draw a retirement pension, both pensions will be reduced to a maximum of 150% of the maximum pension (capped). Both spouses are entitled to their own retirement pension.

Minimum retirement pension	CHF	14,700
Maximum retirement pension	CHF	29,400
Maximum combined retirement pension of a husband and wife	CHF	44,100

In addition to the retirement pension, a child's pension amounting to 40% of the retirement pension will be paid out for each child under 18 years old or in education. The definitive amount of the retirement pension to be paid out can usually only be calculated upon reaching retirement age, as the parameters for calculation are not known before that time. If a person wants to draw their retirement pension, they must register their entitlement. It is recommended that the registration documents be submitted five to six months before retirement age is reached. Registration forms are available from the AHV compensation fund and their branches.

Calculate the amount of your pension upon retirement with our pension calculator at credit-suisse.com/pensioncalculators

1.9 Early retirement and pension deferral

Women and men can
- bring the AHV retirement age forward by one or two years, or
- defer the AHV retirement age by five years.

Whereas bringing the retirement age forward will result in a lifelong reduction of the retirement pension, deferral will increase the pension. In the case of married persons, each spouse can draw their pension early or defer their pension without affecting the other spouse.

Early retirement

Drawing the retirement pension one year early would result in a pension reduction of 6.8%; drawing it two years early would result in a reduction of 13.6%. The following points should also be noted:

- An early pension cannot be requested for a period of less than a year.
- No child's pensions are paid out during the early pension payment period.
- Widow's, widower's, and orphan's pensions replacing a retirement pension drawn early will be subject to the same reductions as the original pension.
- Drawing an early retirement pension nullifies the entitlement to a previous disability or survivor's pension.

Recipients of an early retirement pension must continue to pay AHV contributions.
However, these contributions no longer affect the amount of their retirement pension.

Pension deferral

Persons entitled to a retirement pension can defer the withdrawal of their pension by a minimum of one year and a maximum of five years. Child's pensions are also affected by a deferral. The pension can then be drawn at any time during the deferral period. The increase in the pension depends on the duration of the deferral and increases every month in which the AHV retirement pension is deferred.

1.10 AHV 21 reform: What will change from 2024?

On September 25, 2022, Swiss citizens voted in favor of the AHV 21 reform in a referendum. All the information in this brochure is correct as of 2023 and does not take account of the changes that will come into effect with the AHV 21 reform. The Federal Council is expected to implement the reform on January 1, 2024. This chapter will give you an overview of the key changes.

Reference age of 65 for men and women

The term "reference age" will now be used instead of "AHV retirement age." In the future, the reference age of 65 will apply to both men and women. Women born in 1960 are expected to be the last to still be able to take normal retirement at age 64. Thereafter, the retirement age for women will gradually increase by three months each year, up to the reference age of 65. The reference age for men and women will therefore not be the same until 2028.

Year	Year of birth	Reference age
2024	1960	64 years
2025	1961	64 years + 3 months
2026	1962	64 years + 6 months
2027	1963	64 years + 9 months
2028 and later	1964 and younger	65 years

Women who are about to retire are particularly affected by this transition period, which is why women born in the nine years of the transitional generation will receive lifelong pension supplements as a compensatory measure. All women born between 1961 and 1969 will be entitled to these supplements. The pension supplements will vary according to year of birth.

The basic supplement is as follows:

- CHF 160 for an average annual income of up to CHF 58,800.
- CHF 100 for an average annual income of between CHF 58,801 and CHF 73,500.
- CHF 50 for an average annual income of over CHF 73,501.

The lifelong supplement will apply only to women in the transitional generation who **do not draw their retirement pension early.** Furthermore, the extra payment will not be subject to the cap on the retirement pension for married couples and will not reduce the supplementary payments. Payments will also be made beyond the statutory maximum pension.

Year of birth	Reference age	Monthly pension supplement (as a % of the basic supplement)
1961	64.25 years	25%
1962	64.5 years	50%
1963	64.75 years	75%
1964	65 years	100%
1965	65 years	100%
1966	65 years	81%
1967	65 years	63%
1968	65 years	44%
1969	65 years	25%

Alternatively, women in the transitional generation will be able to continue receiving their retirement pension from age 62 as before. If they draw their AHV pension before they reach the reference age, they will benefit from a lower reduction rate according to their age and relevant annual income.

Age upon advance withdrawal	Reduction in income* <= CHF 58,800	Reduction in income* between CHF 58,801 and CHF 73,500	Reduction in income* >= CHF 73,501
64 years	0%	2.5%	3.5%
63 years	2%	4.5%	6.5%
62 years	3%	6.5%	10.5%

* Relevant average annual income according to AHV calculation

Flexibility in the choice of retirement date
Swiss citizens will now have more choice over when to draw their pension. Both sexes will be able to draw their pension at age 63 at the earliest and age 70 at the latest, from a month of their choice. Those who draw their pension before the reference age of 65 will receive a reduced pension. Those who draw their pension after age 65 will receive a supplement. The rates for advance withdrawal and deferral will be adjusted according to average life expectancy and reduced accordingly; an average annual income of ≤ CHF 58,800 will be subject to greater reductions. These new rates will not come into force until 2027 at the earliest and will be set by the Federal Council shortly before they are introduced.

Women in the transitional generation will be able to draw their pension from age 62 and benefit from lower reduction rates. If they do this, however, they will not be able to benefit from the pension supplement. Furthermore, the reform will allow pensions to be drawn in stages, whereby it will be possible to draw a freely selectable portion of the pension between 20% and 80% earlier and the rest later.

Incentives to work beyond the reference age
Those who work beyond the reference age currently do not pay AHV contributions on a gross salary of up to CHF 1,400 per month. People earning more than this amount are obliged to make contributions, but this does not result in them receiving a larger retirement pension, which makes working beyond the reference age less appealing. Once the AHV 21 reform enters into force, it will be possible to waive this exemption and, if desired, have any AHV contributions paid in after age 65 count toward pension calculations. This will enable workers to close any contribution gaps from earlier in their life while using the contributions made to increase their personal AHV pension further.

Adjustments to the BVG (second pillar)
Although the AHV 21 reform will primarily affect the first pillar, it will also necessitate a few adjustments to the BVG in the second pillar so that the pension system remains synchronized. In the future, it will be possible for people to draw their retirement benefits early from age 63, or defer them until up to age 70 with any pension fund. This is already possible with many pension funds on a voluntary basis. The pension fund will still be able to specify a lower age for advance withdrawal, generally starting at age 58 at the earliest.

Retirees’ ability to flexibly draw their pension in stages will also be standardized. It will be possible to draw retirement benefits in the form of a pension in up to three stages, although the pension fund may also allow more than three stages. It will be possible to draw retirement benefits in the form of a lump sum in no more than three stages. This will also apply if the salary earned from an employer is insured with multiple pension funds. A stage comprises all withdrawals of retirement benefits in lump-sum form within a calendar year.

Changes can also be made in the case of vested benefits. It is currently possible for people to defer drawing their pension by up to five years, even if they are no longer working. The Federal Council is discussing whether to restrict this deferral to persons working beyond the age of 65. We do not yet know whether the regulation will actually be changed in this way, or when this could enter into force. However, it could have implications for people who wish to draw their pension capital in stages and save on tax.

2 Employee benefits insurance (second pillar)

2.1 Objective

The Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) entered into force on January 1, 1985, with the intention of enabling people to maintain their accustomed standard of living in an appropriate way. Its aim is to provide, in combination with pillar 1 benefits, a pension income that corresponds to around 60% of the insured's final salary. Employee benefits insurance provides benefits during retirement, as well as in the event of disability or death. In addition, the Accident Insurance Act (UVG) governs the benefits received in the event of disability or death caused by an accident. For the most part, the minimum requirements for mandatory employee benefits insurance are fixed in the BVG (statutory BVG insurance). However, individual pension funds are free to offer benefits that go beyond those stipulated by law – referred to as extra-mandatory employee benefits insurance. The majority of pension funds offer extra-mandatory benefits. With extra-mandatory insurance, the law leaves the definition of financing, benefits, etc., to the pension fund. These must be outlined in the pension fund regulations. The information in this brochure generally relates to mandatory employee benefits insurance,
as stipulated by law.

2.2 Persons subject to mandatory insurance

It is mandatory for employees earning an AHV salary greater than CHF 22,050 to be insured under the second pillar. The risks of death and disability are insured from January 1 after the insured reaches the age of 17, and retirement benefits are also insured from January 1 after the insured reaches the age of 24.

Self-employed members may join the mandatory occupational benefits insurance voluntarily. Under certain conditions, unemployed persons who meet the criteria for daily unemployment benefits are also insured under the second pillar for the risks of death and disability.

2.3 Term of coverage

The mandatory occupational benefits insurance starts:

- At the beginning of the gainfully employed person's employment relationship
- On the first day that unemployed persons draw unemployment benefits

The obligation to pay contributions ends:

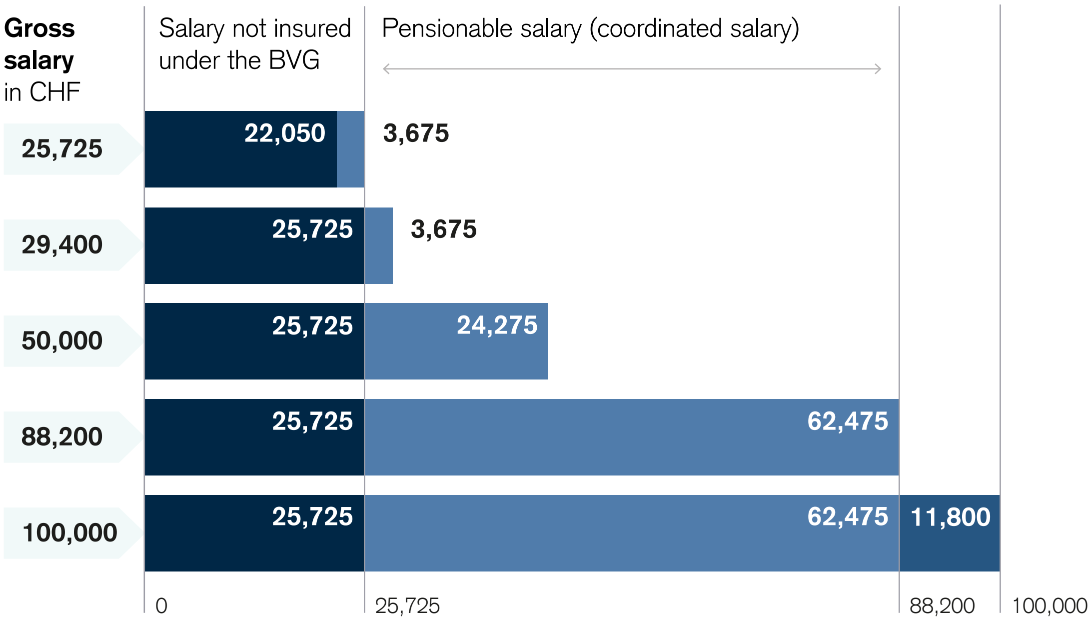
- As soon as an employment relationship is terminated
- Once the insured can claim retirement benefits
- In the event of death
- In the event of a claim to full disability benefits
- If the insured's salary falls below the minimum BVG salary
- If the payment of the unemployment insurance daily benefits is stopped

If the insurance relationship is terminated, the insured will remain insured against the risk of death and disability by the current pension fund for a further month.

2.4 Pensionable salary under statutory insurance

As part of the salary is already insured by the first pillar, statutory BVG insurance applies a coordination deduction. Thus salary components between CHF 22,050 and CHF 88,200 are insured minus a coordination deduction stipulated by law of CHF 25,725. If this calculation results in a negative pensionable salary or is less than CHF 3,675 per year, the figure is rounded up to CHF 3,675. In such cases, this amount is the pensionable salary. Salaries below CHF 22,050 are not insured under mandatory employee benefits insurance, but can be insured if the regulations of the pension fund allow for this. The same applies in cases in which the annual salary exceeds CHF 88,200.

Pensionable salary under statutory BVG insurance



2.5 Financing and contributions

In contrast to the first pillar, the pension fund is financed via the prospective benefits funding method. The contributions are accrued on your behalf during the financing period (retirement assets) and are paid out as a pension, lump sum, or a combination of the two when an insured event occurs. The retirement assets are used as a basis for calculating the retirement, surviving dependents', and disability benefits received by an insured under the mandatory occupational benefits insurance.

The retirement assets comprise:

- Annual contributions
- Any deposits, e.g. vested benefits or purchases of pension benefits
- Interest credited to the retirement assets

Retirement assets bear interest at the minimum interest rate stipulated by the Federal Council. The contributions for the pension fund paid by the employer and employee are calculated as a percentage of the pensionable salary:

Age for women/men (years)	**Retirement credit as % of the pensionable salary**
25 – 34	7%
35 – 44	10%
45 – 54	15%
55 – 64/65	18%

As far as benefits are concerned, we differentiate between two types of pension fund: funds with a defined contribution system and funds that are based on the defined benefit system.

Defined contribution pension fund
In the case of funds with a defined contribution system, pensions are based on the contributions paid into the fund. This means that a conversion factor – the conversion rate – is used to determine the amount of pension to be drawn from the accrued capital:

Contribution is defined → Benefits are the result

Defined benefit pension fund
Pension funds that are established according to the defined benefit system have target benefits that are defined as a percentage of the insured earnings, e.g. the pension should amount to 60% of the final salary. The contributions are determined so that this benefit target can be achieved:

Contribution is the result ← Benefits are defined

Advantages and disadvantages of the defined benefit and defined contribution systems
Both of the systems have specific advantages and disadvantages that can be assessed differently depending on the viewpoint. Whereas the defined contribution system possesses considerable advantages for the pension fund (easier to manage, predictable costs), it also features the disadvantage that it is more difficult for the insured to make plans for the future. Employees only find out the amount of their future pensions a short time before retirement. Furthermore, salary increases are not as well insured in the defined contribution system.

The defined benefit system creates more transparency for the insured, as the final benefits are defined. This system, however, is associated with relatively high costs for the employer, as each salary increase has to be financed.

In practice, the defined contribution system has become extremely common for retirement pensions today and is favored by over 95% of all pension funds.

2.6 Pension fund benefits

Retirement benefits
The insured usually receives a retirement pension from the pension fund. Upon reaching retirement age, the assets saved in the pension fund by the insured are converted into an annual retirement pension using the conversion rate. Once the pension amount has been determined via a set conversion rate, it will never be reduced, even if the conversion rate decreases further at a later date. Current retirement pensions will therefore remain unaffected. You can find out which conversion rate will apply in your current pension fund regulations. Potential benefits during retirement can be found in the table below:

Type of benefit	Prerequisites	Benefit
Retirement pension	Reaching the normal retirement age (65 for men, 64 for women)	The amount of the annual retirement pension depends on the applicable conversion rate
Child's pension	▪ Retirement pension paid ▪ The child must be younger than 18 or still be in education (up to a maximum age of 25)	20% of the retirement pension per child per year
Pension and/or lump sum	Reaching the normal retirement age (65 for men, 64 for women)	▪ Legal entitlement to a lump-sum withdrawal of up to 25% of the BVG retirement assets ▪ If regulations allow, the insured may withdraw the entire retirement benefit in the form of a single lump-sum payment

Disability benefits
In the case of disability, benefits are only paid out from the pension fund if the disability was caused by illness. If the disability was caused by an accident, the accident insurance bears primary liability. The possible benefits in the event of disability are shown in the table below:

Type of benefit	Prerequisites	Benefit
Disability pension	Entitlement to a pension above a minimum degree of disability of 40%. Where a person's degree of disability is 40% to 69%, the percentage is calculated on a graded basis; they are entitled to a full disability pension from 70% onwards.	The amount of the annual disability pension depends on the projected retirement assets and the applicable conversion rate
Child's pension	▪ Disability pension paid ▪ The child must be younger than 18 or still be in education (up to a maximum age of 25)	20% of the annual disability pension
Lump-sum payment	Entitlement to disability benefits if provided for by the pension fund regulations	One-time lump-sum payout

Death benefits
In the event of death, the statutory BVG insurance provides the following benefits:

Type of benefit	Prerequisites	Benefit
Survivors' pension	▪ Surviving spouse with dependent children ▪ Spouse without dependent children if they are 45 or older and the marriage lasted at least five years ▪ Divorced persons: The marriage lasted at least ten years and the divorced surviving spouse was granted a pension or lump-sum payment for a life annuity as part of the divorce decree. If the amount in the divorce decree is lower than that provided by the BVG calculation, the former will apply. ▪ Registered partners have the same legal status as the surviving spouse	60% of the retirement pension paid or the full disability pension
Lump-sum payment	Surviving spouse has no entitlement to a survivors' pension	One-time payout equal to three annual pensions
Orphan's pension	▪ Under 18 years of age ▪ Or currently in education (but under 25 years old) ▪ Or at least 70% degree of disability (but under 25 years old)	20% of the full disability or retirement pension

The regulations of the pension fund may allow death benefits to be paid for persons who are not married. Provided that the conditions of the regulations are observed, a cohabiting partner may also receive the benefits in this case.

According to the regulations of the pension fund, the beneficiaries are entitled to the lump sum and/or pension after the death of an insured person. This is generally a spouse or registered partner, children, or another relative or partner. It is strongly recommended that you consult this provision in the pension fund regulations.

2.7 Options for advance withdrawal of pension fund capital

The advance withdrawal of the pension fund capital is only possible in very few statutory cases, including:

- Purchasing your own residential property
- Change to self-employment
- Permanent departure from Switzerland*

Purchasing your own residential property is the most common reason for the advance withdrawal of pension fund capital.

Promotion of home ownership (WEF) using pension fund assets
The BVG and the Ordinance on the Encouragement of the Use of Vested Pension Accruals for Home Ownership (WEFV) allow equity to be used for owner-occupied residential property. These grant the insured the legal entitlement to use their retirement savings in two ways:

- As an advance withdrawal of pension fund assets
- As a pledge to pension fund claims

Assets for financing residential property taken from the second pillar can be used for the purposes described below (up to a maximum of three years before retirement).

For the purchase and construction of owner-occupied residential property in the form of:

- Sole ownership
- Condominium
- Co-ownership of 50% each for married or cohabiting couples
- Ownership in common for married couples
- For a separate and perpetual ground lease
- For investments in residential property
- For mortgage repayments
- For participations in residential property (e.g. participation certificates in a cooperative housing association)

In contrast, assets from employee benefits insurance may not be used to finance standard maintenance outlays on residential property (e.g. repairs) or to pay mortgage interest. The advance withdrawal may also not be used to settle taxes due on it.

The insured must provide the pension fund with written proof that they have fulfilled the corresponding prerequisites for the pledging or withdrawal of assets. If the insured is married or lives in a registered partnership, the spouse or registered partner must provide written agreement. The pension fund is also responsible for providing the insured with information about the following points in the case of pledging or an advance withdrawal of assets:

- Reduction in benefits in the event of a potential realization of the pledge
- The option of supplementary insurance for the risk of death and disability

In the case of **pledging,** the following aspects must be taken into consideration:

- The amount of your mortgage will remain unchanged (interest costs remain the same)
- There will be no tax effects when pledging
- Pension benefits remain the same (if the pledge is not realized)
- Disability and mortality risks must be covered by a risk policy
- Possibility of a mortgage over 80%, therefore more borrowed capital
- If the pledge is realized, the benefit in an insured event (death, disability, retirement) will be reduced

* If an insured person moves to an EU/EFTA country in which they are subject to mandatory insurance coverage for retirement, disability, and death, cash payments are only possible for the amount of the extra-mandatory part of the vested benefits capital.

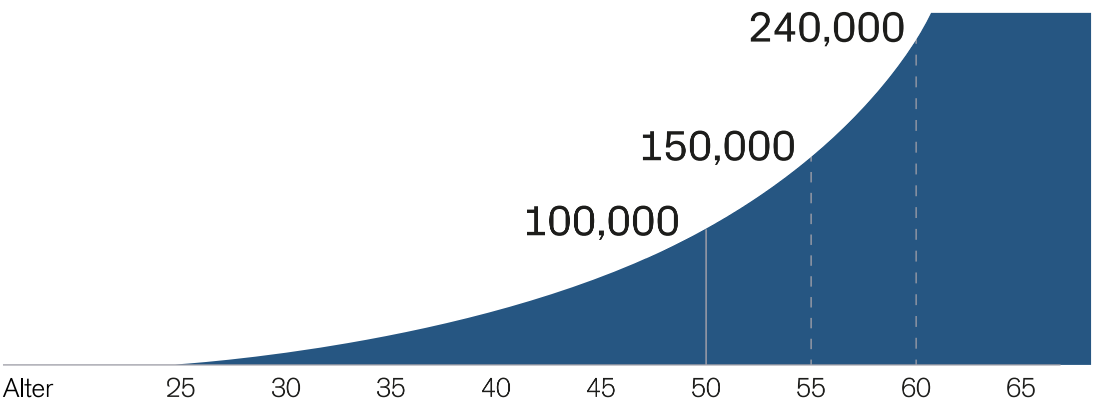
In the case of an **advance withdrawal,** the following points are important:

- The amount of your mortgage decreases as your retirement savings can be used as equity
- Any capital withdrawn must be taxed
- You will have a reduced pension (pension gap) unless you repay the assets withdrawn
- Disability and mortality risks must be covered by a risk policy
- The minimum withdrawal amount is CHF 20,000

An advance withdrawal may result in a pension gap. The advance withdrawal should therefore be paid back before the age of retirement or a pension solution is found that compensates for the gap. In any case, we recommend you consult a pensions advisor before making a decision.

Please note that both advance withdrawals and pledging are restricted once you reach the age of 50. Either the amount of the vested benefits at the age of 50 can be withdrawn or half of the current vested benefits (depending on which is higher).

Advance withdrawal of vested benefits



Advance withdrawal up to the age of 50
At most in the amount of the vested benefits

Advance withdrawal after the age of 50
Half of the current vested benefits or the vested benefits at the age of 50

Using an example with three different ages, this would mean:

Age 50	Vested benefits	CHF 100,000
	Maximum amount available for advance withdrawal	CHF 100,000
Age 55	Vested benefits	CHF 150,000
	Maximum amount available for advance withdrawal (vested benefits at the age of 50)	CHF 100,000
Age 60	Vested benefits	CHF 240,000
	Maximum amount available for advance withdrawal (half of the current vested benefits)	CHF 120,000

The question as to whether advance withdrawal or pledging is the better option cannot be conclusively answered and must be considered on an individual basis. The main advantages and disadvantages are as follows:

Pledging pension fund assets

Advantages	Disadvantages
▪ No reduction in capital/benefits (on the provision that the pledge is nullified) ▪ Higher tax-deductible mortgage interest ▪ No tax effects on the pension fund capital ▪ Pension benefits can still be purchased	▪ Increased living costs ▪ The full mortgage interest burden for the homeowner will remain the same

Advance withdrawal of pension fund assets

Advantages	Disadvantages
▪ Lower mortgage and therefore lower monthly living costs ▪ Advance withdrawal prevents tax progression (in the case of a payout of the pension fund assets upon retirement, as the payment amount will be reduced by the advance withdrawal amount at this point)	▪ Capital withdrawn must be taxed and funds must be available to pay this tax ▪ Reduced pension/capital upon retirement (lost interest and compound interest can be significant) ▪ Reduced benefits in the event of disability or death ▪ Obligation to repay the amount withdrawn if the criterion for owner-occupied residential property no longer applies (in this case, it is possible to reclaim the tax paid) ▪ Pension benefits cannot be purchased (until the advance withdrawal has been repaid)

2.8 Early retirement

Pension funds have allowed early retirement for some time now. However, this is voluntary and pension funds with minimum BVG benefits do not have to offer this option. The statutory minimum age for taking early retirement is 58. Exceptions are only permitted in the event of corporate restructuring or for professions that may only be carried out up to a certain age for safety reasons.

In the event of early retirement, the conversion rate will be lower than for normal retirement due to a pension being drawn for longer, and fewer retirement assets will have been accrued due to the shorter time in which to make contributions and build up interest. This results in a smaller retirement pension. The size of this reduction is dependent on the respective pension fund regulations. The pension fund will provide information in regard to this situation.

Persons taking early retirement must also be aware that they must continue to make contributions to the old age and survivor's insurance and the federal disability insurance until they reach the normal AHV retirement age. Contributions for persons not gainfully employed will be calculated on the basis of their assets as well as their annual pension income multiplied by 20.

Around a third of the individual pension fund income is established in the last five contribution years. This shows how important the last five years are in order for you to be able to enjoy your future free time. And as the savings contributions are at their highest in the last years prior to retirement, the resulting reduction in pension can soon amount to a few hundred francs a month.

2.9 Pension deferral

Deferred retirement is also possible for insured persons who continue working beyond the normal retirement age. Deferment is not a statutory obligation, however, and must, therefore, be provided for in the regulations. Only in this case can an insured person request to remain insured with the pension fund until the end of gainful employment, at the latest until the age of 70. In the event that a person decides to defer their pension, both the conversion rate and the retirement assets are higher than those at a normal retirement age. This results in a higher retirement pension.

2.10 Pension or lump sum?

The insured can choose to receive a minimum of a quarter of the available BVG retirement assets as a lump-sum payment. Pension funds are free to decide whether to allow the insured to withdraw more than this amount, or even all of their retirement capital, in the form of a lump sum. This, however, is voluntary and has to be stipulated in the pension fund regulations. Despite the option of having pension fund assets paid out as a lump sum, most pensioners still choose a retirement pension in employee benefits insurance.

Persons wishing to receive a lump-sum payment must in principle inform the pension fund in good time, bearing in mind that some pension funds require up to three years' notice prior to retirement. Specific details can be found in the regulations of the respective pension fund.

The decision to opt for a pension, lump sum, or a combination of the two is determined by family, health, and financial circumstances. Each option has its advantages and disadvantages:

Pension

Advantages	Disadvantages
▪ Constant income for the rest of your life ▪ Secure, convenient solution	▪ Surviving spouse's pension of only 60% ▪ Pension is 100% taxable ▪ Heirs get nothing ▪ Inflexible ▪ Cohabiting partners usually do not receive any benefits

Lump sum

Advantages	Disadvantages
▪ Taxation can be optimized ▪ Better protection for the surviving spouse ▪ The surviving dependents will inherit the residual capital ▪ Partners can be taken into account ▪ Money available when you need it	▪ Lifelong income is not guaranteed ▪ The longevity risk has to be borne entirely by the insured ▪ Assets need to be actively and cautiously managed

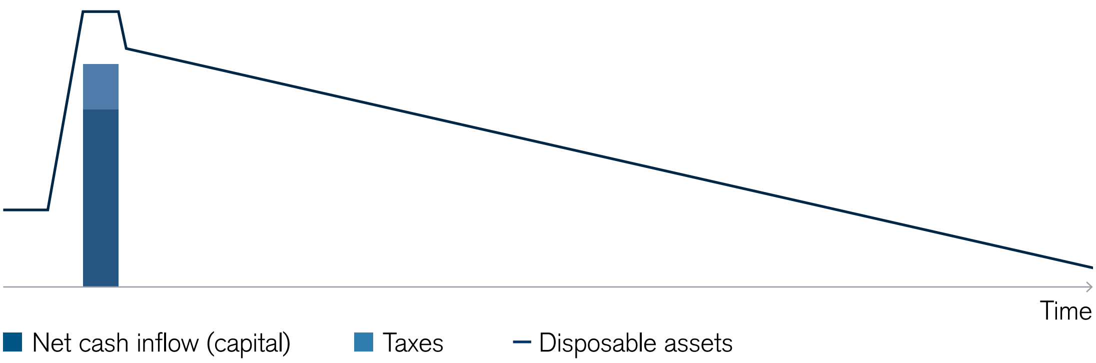
Use the following statements referring to a wide range of real-life situations in the table below to help you decide on the right solution for you.

Which statements apply to you?	Drawing a pension	Drawing a lump sum
Long-term security is my highest priority.	■	
My spouse and my children should inherit something after my death.		■
I do not have any further assets and rely on a regular income.	■	
I live with my partner and would like to leave them something in the event of my death.		■
I come from a long-living family and am in perfect health.	■	
I want to have free disposal of my capital.		■
I am 65 and my wife is 45. After my death, she should receive a pension for the rest of her life.	■	
I am financially secure, currently pay a relatively large amount of tax, and am looking for ways in which to optimize the situation.		■
I do not want to have to worry about managing my assets.	■	
I would like a tailor-made pension concept.		■ (or combined solution)

Diagram comparing lump-sum withdrawal and pension
In the case of a lump-sum withdrawal and an associated investment of funds, it is possible to invest the retirement capital in line with your specific needs, to factor in your appetite for risk, and to take advantage of the additional prospects for returns. However, depending on the strategy you choose, there may be larger fluctuations in the value of the assets, which will need to be absorbed. As the capital is normally depleted over the years, the disposable assets decrease accordingly over time.

From a tax perspective, the lump-sum withdrawal is attractive to individuals who have accrued a large amount of pension fund capital. Unlike a pension, with a lump-sum withdrawal it is possible to optimize the tax burden through the choice of investment strategy.

Lump-sum withdrawal

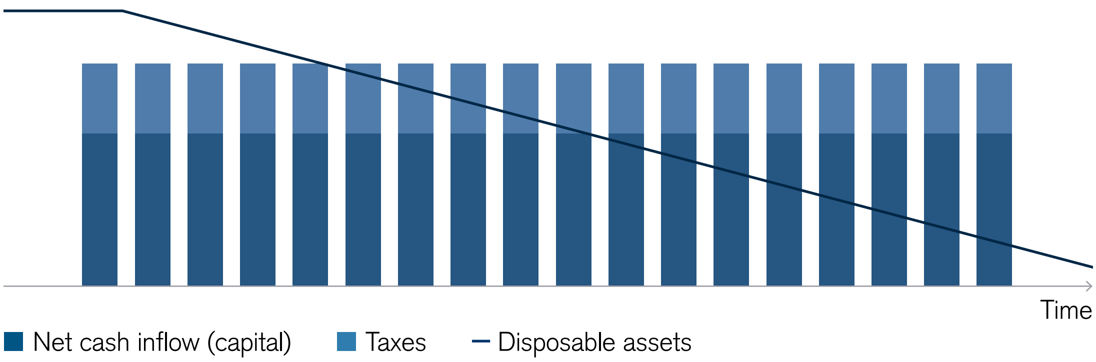


For illustrative purposes only

Those who decide to draw a pension can look forward to regular payments for life, without having to worry about capital investments.

Furthermore, it is possible for married pension recipients to also be entitled to a life-long surviving spouse's pension.

Pension payments



For illustrative purposes only

There is no absolute answer as to which is the better solution. However, you do not have to fully opt for just one of the options. There is also the opportunity to choose a combined solution involving a partial lump-sum withdrawal and a pension – a solution that is now increasing in popularity.

As a rule of thumb, persons with pension fund assets in excess of CHF 500,000 should seriously consider the option of a lump-sum or partial lump-sum withdrawal.

In any case, we recommend that you analyze your own post-retirement situation with an expert in good time. Credit Suisse advisors will be happy to help you reach the decision that is right for you by means of a systematic approach.

2.11 Vested benefits

If you take a career break and opt out of the pension fund, the employee benefits coverage must remain in place as stipulated by the Federal Act on Vesting in Pension Plans dated December 17, 1993. The assets from the pension fund must in this case be transferred to a vested benefits foundation.

When do vested benefits become relevant for you?

- You are changing jobs and do not have to transfer your vested benefits to your new employer's pension fund immediately – or you only have to transfer part of those benefits.
- You will not be starting a new job in the near future (e.g. career break to start a family, period spent abroad, or further education or training).
- You are becoming self-employed and do not want to have your retirement savings paid out in cash.
- You are getting divorced (any vested or termination benefits accrued during the marriage are generally shared equally between the two spouses).
- You are losing your job and will be unemployed.

The vested benefits capital can be placed in a vested benefits foundation in the form of a bank or insurance solution. The following is an overview of the key differences:

	Insurance Vested benefits policy	**Bank** Vested benefits account	Vested benefits safekeeping account
Interest rates	At least 60% of the minimum BVG interest rate	Better interest rate than on the usual savings products	Non-guaranteed returns from securities-based savings
Benefits	Lump-sum payout in the amount of the vested benefits brought into the fund plus interest	Lump-sum payout in the amount of the vested benefits brought into the fund plus interest	Lump-sum payout in the amount of the current equivalent value of the securities investment

The termination of a vested benefits policy or a vested benefits account is clearly governed by law. Vested benefits capital is paid out for the following reasons:

- You are using the capital to finance the purchase of owner-occupied residential property.
- You receive a full disability pension from the Federal Disability Insurance.
- You become self-employed and are no longer subject to mandatory occupational benefits insurance.
- Your annual pension fund contribution is higher than your current vested benefits capital.
- You are leaving Switzerland permanently.*
- In the event of death, the pension capital passes to the beneficiaries.

In the event of death, the payment is made as per the Ordinance on Vesting in Pension Plans. Those entitled to this payment are primarily the surviving spouse, the surviving registered partner, or orphans. The regulations may be amended to a limited extent. Please consult your vested benefits institution.

2.12 1e pension solutions

Customized 1e pension solutions allow entrepreneurs and companies to take full advantage of the changes in employee benefits insurance. Under the changes, companies can set up attractive and modern pension plans for their employees that provide extra-mandatory coverage for salary components in excess of CHF 132,300, and entrepreneurs can do the same for their own pension provision. This means that each insured person can influence how part of their retirement assets are invested by choosing from a range of investment strategies. The 1e pension plans meet the growing requirement for more flexibility and individualization of pension provision. They give insured persons the freedom to independently choose their investment strategy in line with their risk ability and risk tolerance.

2.13 Taxes

In the case of direct taxes from the federal government, the canton, and the municipality, contributions to employee benefits insurance can be deducted from taxable income. From this standpoint, purchases of pension benefits are particularly interesting, as these can be deducted in full from taxable income. It should be noted that the benefits financed by such purchases may not be withdrawn in lump-sum form for the following three years.

Taxation on retirement pensions
In the case of direct taxes from the federal government, the canton, and the municipality, pensions are usually taxed in full, together with any other income.

Taxation on lump-sum payouts
The federal government, cantons, and municipalities tax lump-sum payouts from the pension fund at a reduced rate and separately from any other income.

* If an insured person moves to an EU/EFTA country in which they are subject to mandatory insurance coverage for retirement, disability, and death, cash payments are only possible for the amount of the extra-mandatory part of the vested benefits capital.

Tax treatment depends on the individual circumstances of each client and may vary accordingly.

2.14 Continuation of second pillar for older unemployed persons aged 58 or over

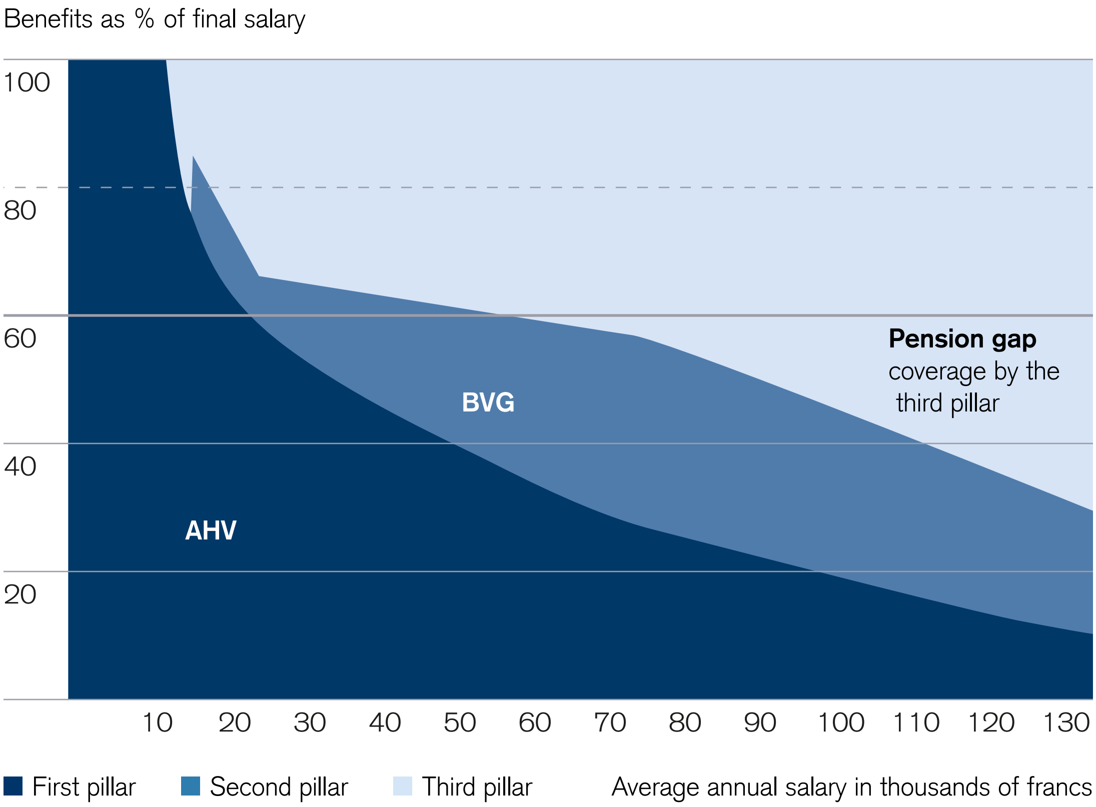
As part of the reform of supplementary benefits, a new second-pillar provision came into force on January 1, 2021. Since then, employees aged 58 or over whose employment has been terminated by their employer can continue their employee benefits insurance at the existing level if they wish; this enables them to retain their entitlement to further interest, a pension on retirement, as well as disability and death benefits. A pension fund can also offer this option from age 55. During the period of continued insurance, the employee can continue to increase the retirement provision through savings contributions, although both employer and employee contributions have to then be paid. It also remains possible to make voluntary purchases to improve pension benefits. In addition, the pension fund can stipulate in its regulations that it is possible, at the insured's request, to insure a lower salary than the current one for the entire benefits or just the retirement benefits.

If the continuation of insurance lasts more than two years, the insurance benefits must generally be drawn in the form of a pension. In this case, the termination benefit can no longer be withdrawn early or pledged for owner-occupied property. This does not apply to extra-mandatory benefits for which the regulations stipulate payment only in the form of a lump sum.

3 Private pension provision (third pillar)

In accordance with the Federal Constitution, the first and second pillars together should enable the continuation of the accustomed standard of living. The aim of these two pillars is to provide pension income that corresponds to around 60% of the insured's final salary subject to the BVG. Regardless of the question as to whether the accustomed standard of living can be maintained with 60% of the insured's final salary, this level can only be achieved with moderate salaries. As shown in the following chart, the benefits from the first and second pillars are no longer sufficient to cover 60% of the final salary for an average salary of CHF 60,000. In addition, experience has shown that more is needed – namely around 80% of the final salary – to maintain the current standard of living.

Benefits and pension gaps in relation to annual salary



For illustrative purposes only

In the case of early retirement, which is associated with corresponding reductions in AHV and pension fund benefits, 60% of the final income can no longer be achieved even for persons on lower salaries. The chart also shows that the pension gap becomes larger as income increases. Persons who would like to take early retirement or who earn a higher salary should therefore make their own provisions in order to maintain their standard of living upon retirement.

To ensure a worry-free retirement, 80% of your final income must be at your disposal. This means that if you earned a salary of CHF 100,000, you must have CHF 80,000 at your disposal upon retirement. In conclusion, people have to start saving in good time to ensure that sufficient capital is available. In light of this, the third pillar has an important role to play.

3.1 Tied and flexible pension provision

In principle, the third pillar can be split into tied pension provision – pillar 3a – and flexible pension provision – pillar 3b. Tied pension provision is oriented toward the long term and is subject to the statutory requirements relating to deposits, availability, and the beneficiary clause. In return, the state supports this form of private pension provision by providing tax advantages. Flexible pension provision is versatile and is usually not subject to any statutory requirements, but, with a few exceptions, does not have any tax advantages.

Tied pension provision (pillar 3a)
Tied pension provision is supported by the federal government by means of fiscal policy measures and the promotion of home ownership. It enjoys a number of tax benefits, but is tied to statutory requirements. For example, only persons with income subject to AHV contributions may profit from tied pension provision.

An overview of tied pension provision:

- Payments into pillar 3a can be deducted from taxable income up to a specific maximum amount.
- No withholding tax or wealth tax applies throughout the entire term.
- Upon being paid out, the retirement capital is taxed at a reduced rate and separately from your other income.

The maximum deductible amounts from 2023 are as follows:

	Maximum amount	
Gainfully employed person with second pillar	CHF	7,056
Gainfully employed person without second pillar: 20% of net earned income, max.	CHF	35,280

Tied pension provision is appealing because the contributions to pillar 3a can be deducted directly from taxable income. The two different pension contributions in the following examples highlight how much tax can be saved per year by making a payment (CHF 3,000 or CHF 7,056) into pillar 3a:

Example 1
(single person, Protestant, taxable income: CHF 60,000, 2023 maximum amount, 2022 tax rate, city of Zurich)

	Without pillar 3a		**With pillar 3a** part payment		**With pillar 3a** maximum amount	
Annual payment			CHF	3,000	CHF	7,056
Total tax	CHF	7,192	CHF	6,554	CHF	5,764
Annual tax saving			CHF	638	CHF	1,428

Example 2
(married couple, Protestant, taxable income: CHF 120,000, 2023 maximum amount, 2022 tax rate, city of Zurich)

	Without pillar 3a	**With pillar 3a** part payment	**With pillar 3a** maximum amount
Annual payment	CHF	CHF 3,000	CHF 7,056
Total tax	CHF 18,023	CHF 17,264	CHF 16,247
Annual tax saving	CHF	CHF 759	CHF 1,776

Pillar 3a is one of the most interesting saving methods thanks to the tax savings associated with it and the attractive interest rates and potential returns, and forms the basis on which you can make provisions for the future and cover any pension gaps.

Flexible pension provision (pillar 3b)
Flexible pension provision comprises all savings, savings accounts, bonds, investments on the money market, equities, shares in investment funds, residential property, etc. and is open to everyone. The capital that has been saved can generally be accessed at any time. Unlike tied pension provision, flexible pension provision does not generally enjoy any tax privileges. The only exceptions to this rule are life insurance policies and equity investments, which enjoy tax advantages upon adherence to specific conditions.

An overview of flexible pension provision:

- Deposits cannot be deducted from taxable income.
- Any interest and returns generated during the term are not tax-free (exceptions under certain conditions with life insurance policies and equity investments).
- As a general rule, flexible pension provision can be withdrawn at any time.
- The term of the pension provision can be freely selected.
- In the event of death, beneficiaries can be freely designated, subject to the statutory compulsory portions.

Tax treatment depends on the individual circumstances of each client and may vary accordingly.

Payment from tied pension provision
Claims from pillar 3a provision generally mature once the normal AHV retirement age is reached, and the capital must be withdrawn by this time at the latest, unless the insured can prove that they are still gainfully employed. Employed persons can delay withdrawal of pillar 3a retirement benefits until they stop working, but only for a maximum of five years until the age of 69 (women) or 70 (men), and they can continue to make tax-deductible payments into pillar 3a accounts. The funds in pillar 3a remain tied and, except for the early withdrawal options listed below, cannot be withdrawn until five years before reaching the retirement age. The law permits an early payout of the capital in pillar 3a in the following situations:

- Purchasing property for your own use
- Repaying a mortgage for owner-occupied residential property
- Becoming self-employed
- Changing sector while self-employed
- Permanently leaving Switzerland (emigration)
- Purchasing pension benefits
- Drawing a full disability pension from the Swiss Federal Disability Insurance
- In the event of the account holder's death, the pension capital goes to the beneficiaries

In the event of the account holder's death, the Ordinance on the Fiscal Deduction of Contributions to Recognized Pension Plans (BVV 3) governs the order of beneficiaries for both bank and insurance solutions. This is as follows:

1. The surviving spouse or surviving registered partner
2. Direct descendants and, under certain circumstances, supported persons and partners
3. Parents
4. Siblings
5. Any other heirs

As stated in Section 2, the account holder can specify beneficiaries and their entitlements. Please ask your insurance provider or bank for the necessary forms.

Securities solutions in tied pension provision (pillar 3a)
Generally, in addition to the well-known pension account, pension foundations also offer the opportunity to invest in securities, known as Saving with securities – 3rd pillar. Whereas the pension account is aimed at account holders who do not want to take any risks or who have an investment time horizon of up to five years, the securities solution is suitable for account holders who have a medium to long-term investment time horizon. The tax advantages are similar for both options, however there are higher potential returns from saving with securities than from a conventional savings account. Depending on the return expectations and the risk profile, a wide range of securities solutions are offered that differ according to the equity weighting. The securities solutions in pillar 3a are managed according to the same stringent conditions as those that also apply for the pension funds. Although securities are naturally subject to price fluctuations, they also offer opportunities to develop the pension assets on a long-term basis.

3.2 Overview of the third pillar

	Pillar 3a – tied pension provision	Pillar 3b – flexible pension provision
Persons eligible	Persons with an income subject to AHV contribution	Everyone
Term	▪ Generally has to be paid out upon reaching AHV retirement age ▪ Possibility of advance withdrawal five years beforehand at the earliest ▪ Deferral for a maximum of five years if still in gainful employment	Freely selectable
Withdrawal	Only possible in the cases prescribed by law	Possible at any time
Beneficiary clause	Order of beneficiaries based on Article 2 of the Ordinance on the Fiscal Deduction of Contributions to Recognized Pension Plans (BVV 3) – see page 28	Freely selectable (inheritance law must be taken into consideration)
Pledging	Only possible for owner-occupied residential property	Possible for all purposes
Deduction of deposits	Payments can be deducted from taxable income	Not possible
Taxation during the term	No wealth, income, or withholding tax	▪ Normally subject to income tax (exception: life insurance and capital gains) ▪ Wealth tax ▪ Withholding tax (exception: life insurance)
Taxation for a lump-sum payout	At a reduced rate, separate from other income	Normally tax-free (special regulation for life insurance)

Although the majority of people entering into retirement in Switzerland have a good financial cushion, there will always be people who have a low income after retiring. This group of people mainly comprises working women, widows and widowers, and divorced persons. As women often do not work for many years while bringing up children – if they do, it is normally in a lower-paid part-time job – they usually miss several creditable full insurance years, which later becomes painfully apparent in the amount of their pension benefits. Due to this mainly female phenomenon of "patchwork" careers in favor of their families, women tend to have a much lower income than men upon retirement, although they continue to stay gainfully employed afterwards more frequently than men do. Receiving early clarification of their pension situation is extremely important for this group of people and it should be combined with professional advice.

4 Side note: identifying and closing pension gaps

4.1 Example of normal retirement

The benefits received from the first and second pillars are used to calculate the income to be expected in the case of normal retirement. For the following example calculation, we assume that the first pillar does not contain any gaps in terms of the obligatory AHV contributions and that the insured has been paying into the AHV since the age of 20. The maximum AHV pension amounts to CHF 29,400 from January 1, 2023. In the case of the second pillar, we estimate that the pension fund will pay out a pension amounting to CHF 30,000 (the pension fund insurance certificate shows the actual amount of benefits received from the second pillar).

Situation before retirement

Annual salary	CHF	100,000

Situation after retirement

AHV benefits (first pillar)	CHF	29,400
Pension fund benefits (second pillar)	CHF	30,000
Total	CHF	59,400

If we assume that 80% of the final income is required to maintain the accustomed standard of living, in this example we would need CHF 80,000.

Calculating the pension gap

Requirement	CHF	80,000
Benefits from the first and second pillars	CHF	59,400
Pension gap per year	CHF	20,600

In this case, the annual gap amounts to CHF 20,600, which must be covered by individual savings. On average, men live for another 20 years after retirement, which equates to a gap of more than CHF 410,000 that needs to be covered:

Total pension gap

20 years × CHF 20,600	CHF	412,000

The next section uses a calculation example to show the effect of early retirement on the AHV pension.

4.2 Example of early retirement

As we have already seen in a normal retirement scenario, substantial amounts need to be saved in advance to cover pension gaps. In the case of early retirement, the amounts needing to be saved are even more substantial. Early retirement is not explicitly regulated by law in terms of employee benefits insurance. The respective pension fund regulations apply. If early retirement is taken, both the conversion rate and the retirement assets are usually lower than they would be in the case of normal retirement. This results in a reduced retirement pension. In the following example, we assume that the insured has started to draw the AHV pension and the retirement pension two years early:

Situation before retirement

Annual salary	CHF	100,000

Situation upon retirement two years early

AHV benefits (pension reduced by 13.6%)	CHF	25,402
Pension fund benefits in accordance with regulations	CHF	25,500
Total	CHF	50,902

The reduction of the benefits from the second pillar is determined on an individual basis by each pension fund. A reduction of 15% has been assumed in this example.

We will once again assume that 80% of the final income is required to maintain the accustomed standard of living.

Calculating the pension gap

Requirement	CHF	80,000
Benefits from the first and second pillars	CHF	50,902
Pension gap per year	CHF	29,098
Total pension gap: 22 years × CHF × CHF 29,098	CHF	640,156

Due to the advance withdrawal of two years, this annual gap must now be covered for 22 years, which equates to a pension gap of more than CHF 640,000. This figure does not even take into account the AHV contributions that have to be paid up to the normal AHV retirement age.

This demonstrates that the time after retirement must be planned carefully and in good time so that retirement can be enjoyed without any worries. Planning should begin at the latest at 55, thus ensuring that any measures can still be implemented.

There are a wide range of options available for closing the pension gap:

4.3 Paying into tied pension provision

Tied pension provision is the basis for ensuring a carefree retirement, not least because of the tax advantages already highlighted. The preferential interest rate on the pension account and the potential market-related returns that can be realized when saving with securities make tied pension provision an attractive method of saving. It is important that you start saving as early as possible, as the effect of compound interest allows a person who starts saving earlier with a low initial investment to achieve a higher final capital than another person who pays more money into the account at a later date. This shows that it is worth starting to pay into tied pension provision at an early stage.

4.4 Purchasing pension benefits

Providing that the pension fund regulations permit, and there are coverage shortfalls, purchasing pension benefits in the second pillar is a tried-and-tested way of making provisions and saving tax at the same time. The amount you are permitted to purchase depends on your individual coverage shortfall and can be found out by inquiring with the pension fund. Purchases can only be made once any advance withdrawal for the promotion of home ownership has been paid back in full. In addition, any assets from vested benefits accounts must be transferred to the pension fund first. Benefits resulting from any such purchases may not be withdrawn from your pension as a lump sum for the next three years. If lump-sum withdrawals are made during this period, the tax benefit will generally be reversed through a supplementary tax.

Purchasing pension benefits serves to improve retirement benefits, and contributions can be deducted from tax in the same year. In the event of a larger coverage shortfall, it is recommended not to make the purchase all at once, but rather to stagger purchases over several years, so that you are always able to take advantage of the largest tax deductions possible. The experts at Credit Suisse will be happy to provide you with advice on this.

4.5 Saving in flexible pension provision

There are a wide range of options available in flexible pension provision which allow you to save capital for retirement either with a bank solution or an insurance solution. A Credit Suisse expert can advise you in this regard.

5 Side note: saving on taxes at the time of payment

Most people know that pension provision allows you to save tax when purchasing benefits. However, not many people know that tax can also be saved when pension benefits are paid out if you plan early and follow a few tips:

- Plan payouts from the second pillar and pillar 3a so that they occur in different tax years.
- Open several pillar 3a pension accounts.

By implementing these two simple measures, you can reduce the tax progression at the time of the lump-sum payout, resulting in noticeable savings on tax, as shown in the following example calculation*.

Assumptions:

Second pillar lump-sum payout (pension fund or vested benefits)	CHF	400,000
Pillar 3a lump-sum payout (first pension account)	CHF	150,000
Pillar 3a lump-sum payout (second pension account)	CHF	150,000
Total lump-sum payout	CHF	700,000

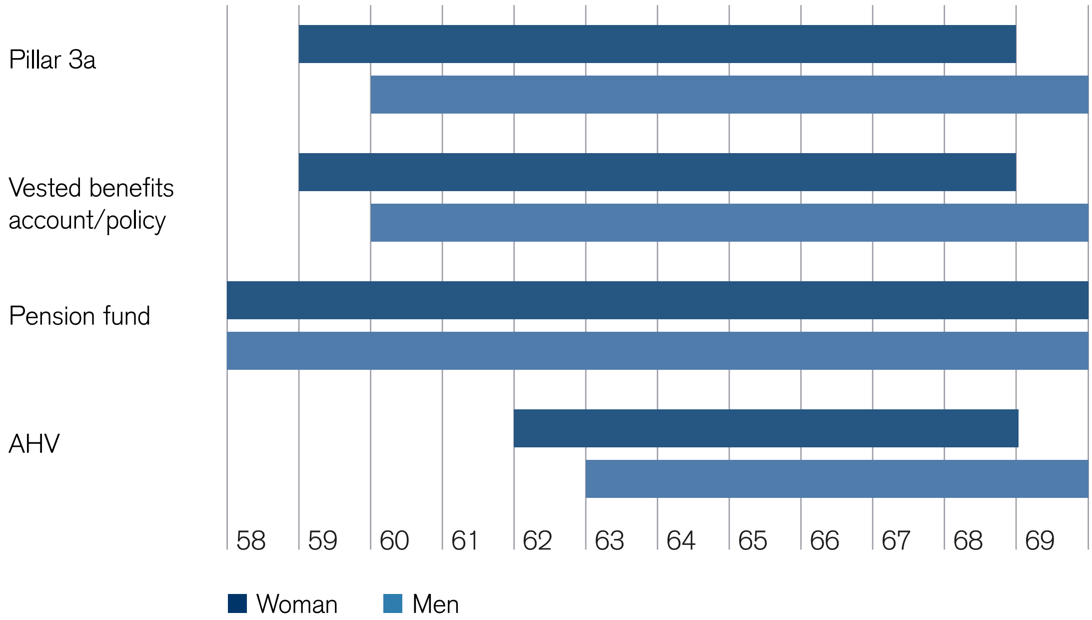
Multiple lump-sum payouts in the same year
If the lump sums are drawn from the second and third pillar in the same year, these pension benefits are added together and taxed as a whole. The following shows the tax burden of a married person of Protestant denomination who lives in the city of Zurich at the 2022 tax rates:

Lump-sum payout	CHF	700,000
Minus tax burden	CHF	47,432
Payout after tax	CHF	652,568

* The way in which taxation is handled differs from canton to canton and must be checked separately in each case. Tax treatment depends on the individual circumstances of each client and may vary accordingly.

Multiple lump-sum payouts over different years
In principle, multiple 3a pension accounts can be held, which makes it possible to close pillar 3a pension accounts in different years and thus reduce the tax progression. We therefore recommend opening two or three pension accounts. The payout from the second pillar or from any other vested benefits solution can also be made in a different year. The chart below shows the maximum periods in which the benefits from the different pillars are available.

Availability of benefits when withdrawing pension capital



Year 1	Pillar 3a withdrawal (first pension account)	CHF	150,000	minus tax burden	CHF	8,052
Year 2	Pillar 3a withdrawal (second pension account)	CHF	150,000	minus tax burden	CHF	8,052
Year 3	Second pillar lump-sum pay-out (pension fund or vested benefits account/policy)	CHF	400,000	minus tax burden	CHF	25,952
		Total tax due			CHF	42,056
		Payout after tax			CHF	657,944

Withdrawing the pension benefit from the second and third pillars in different tax years reduces the tax burden by CHF 5,376.

6 Side note: individual arrangements in the event of loss of decision-making capacity or death

6.1 Marital property law and inheritance law

The Swiss Civil Code includes standard regulations for marital property law and inheritance law. These legal provisions often prove to be useful for many married and unmarried couples. If this is not the case, the regulations on marital property law and inheritance law may be individually adapted to the extent permitted by law. The various configuration options within inheritance law can often be combined with marital property law agreements, based on family circumstances and the origin of the assets.

Marital property law
Marital property law governs the financial circumstances of spouses during marriage and the claims of both spouses when the marriage is dissolved. A marriage is dissolved in the event of divorce or death. In the event of the death of a married person, the marital property regime has a direct impact on what share of the marital assets goes to the surviving spouse and what share becomes part of the estate of the deceased.

Inheritance law
Inheritance law regulates what happens to a person's assets in the event of their death (whether they are married or not). As the surviving spouse is always the heir, he/she has a claim both under marital property law and under inheritance law.

Registered partnership
The same applies to property law (marital property law) under the Federal Act on the Registration of Partnerships for Same-Sex Couples and inheritance law with regard to registered partnerships between persons of the same sex.

Cantonal differences
The only cantonal differences are related to the procedural regulations and the authorities, offices, and courts that deal with marital property law and inheritance law. Depending on the canton and the type of request, these include the courts, notaries, or local authorities. Normally, the last place of residence is used to determine the effective place of local jurisdiction. Inheritance tax is also regulated at a cantonal level. Cantons frequently regulate gift and inheritance tax in the same way, meaning that this tax is also imposed on lifetime gifts. For tax purposes, surviving spouses – and, in many cantons, descendants – are tax-exempt. Exemptions or exemption limits often also apply to heirs who are subject to tax.

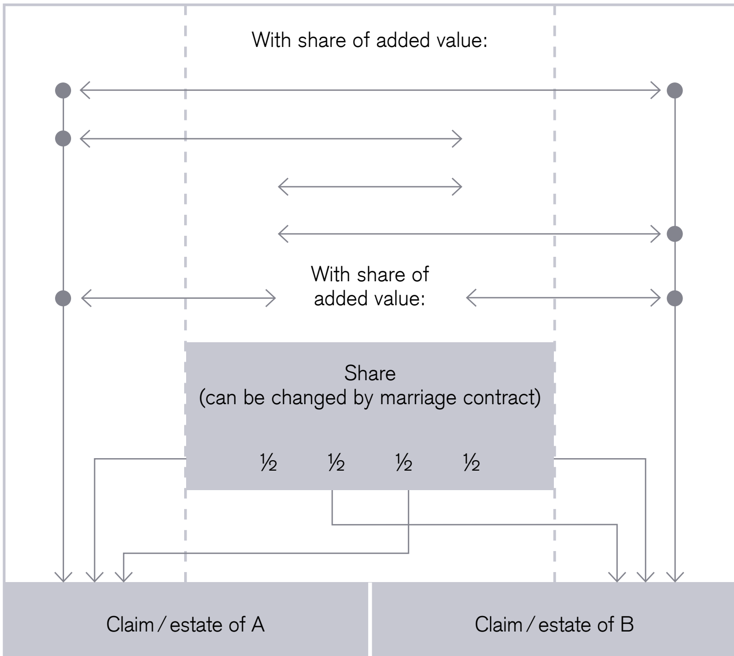
I. Statutory marital property regime

Participation in acquired property

	Spouse A		Spouse B	
Body of assets	**Own property** Assets owned before the marriage and acquired free of charge during the marriage Plus any own property created as a result of the marriage contract (bulk redistribution)	**Acquired property** Assets and income acquired against payment and income earned on assets Minus any own property created as a result of the marriage contract (bulk redistribution)	**Acquired property** Assets and income acquired against payment and income earned on assets Minus any own property created as a result of the marriage contract (bulk redistribution)	**Own property** Assets owned before the marriage and acquired free of charge during the marriage Plus any own property created as a result of the marriage contract (bulk redistribution)
Use, management, and disposal during the marriage	**alone**	**alone**	**alone**	**alone**

Division of marital property;
reciprocal settlement of debts and compensation claims

Division of marital profit



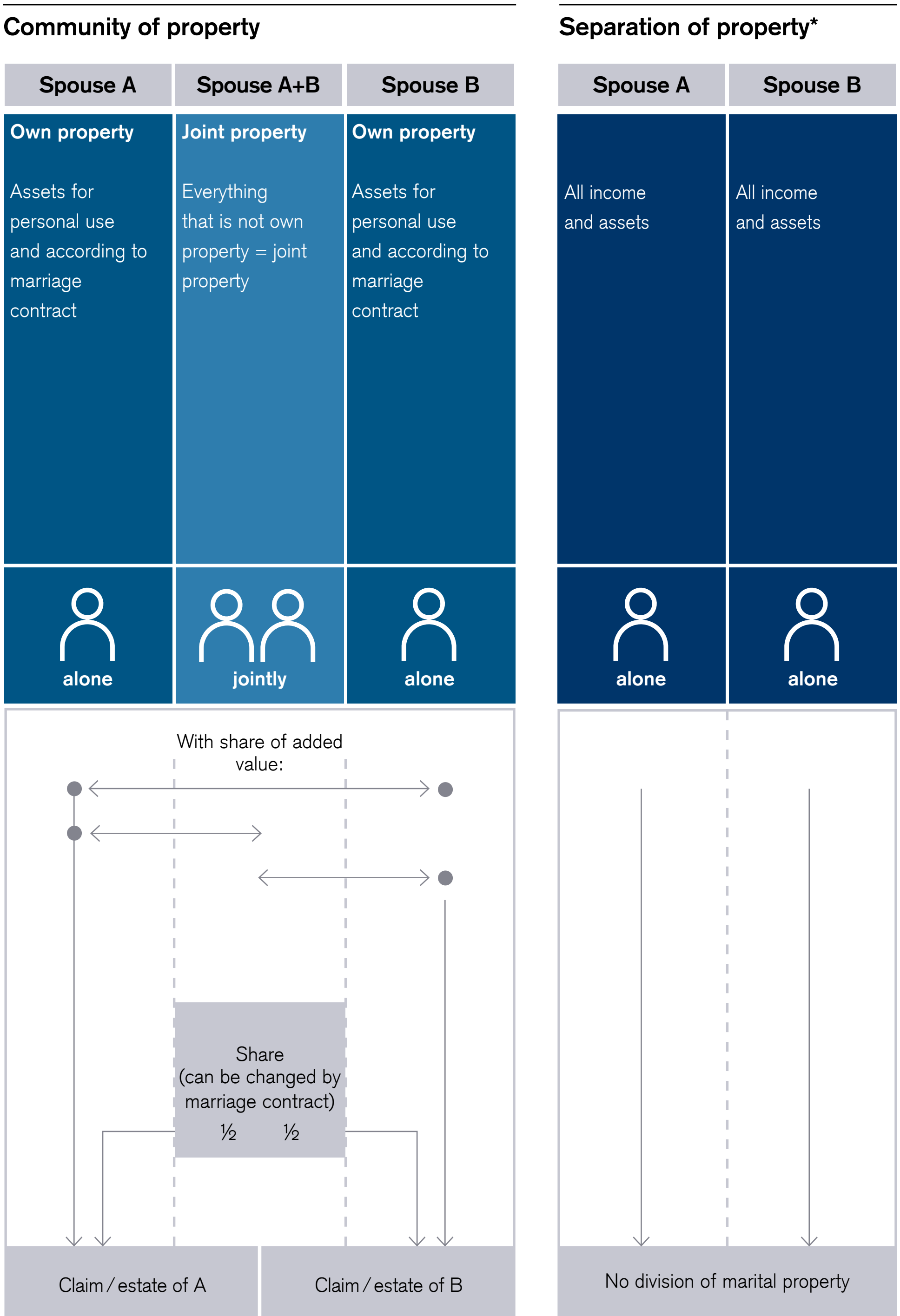
Married spouses are automatically subject to the provisions of the sharing of acquired property. This is thus referred to as the ordinary marital property regime. Engaged couples or married spouses can use a marriage contract to adapt their marital property regime for the sharing of acquired property or to switch to a marital property regime of community of property or separation of property (contractual marital property regimes).

Body of assets

Use, management, and disposal during the marriage

Division of marital property;
reciprocal settlement of debts and compensation claims

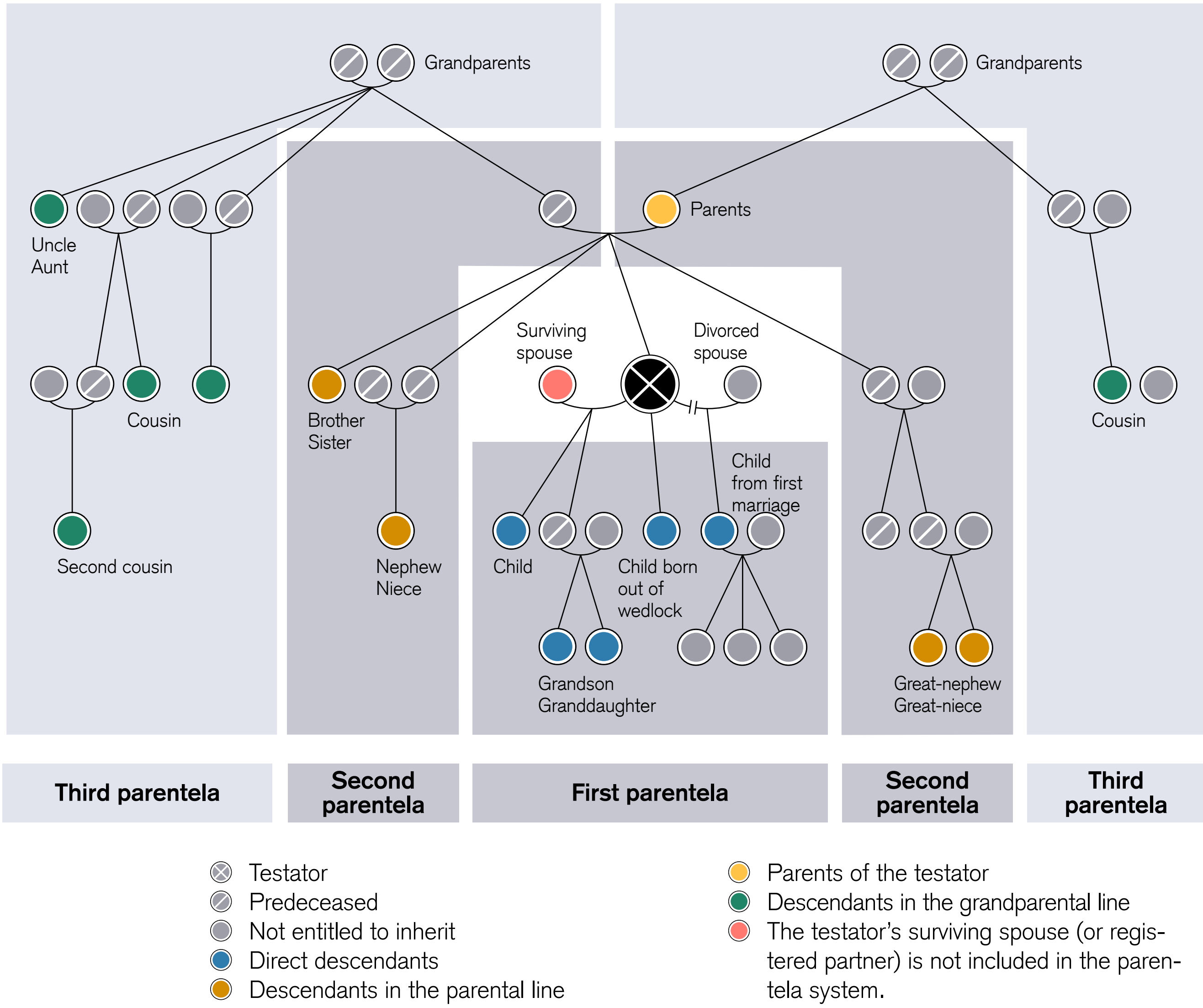
Division of marital profit



Registered partnership
The statutory marital property regime for registered partners is the separation of property. They can adopt the regime of participation in acquired property in a property agreement, but they cannot adopt the community of property regime.

* also extraordinary separation of property by order of the court or by law.

Parentela system



Every parentela excludes the parentela further removed.

The legal heirs are the direct relatives and the surviving spouse or surviving registered partner. The image depicts a diagram of Swiss inheritance law. If there are no descendants in the first parentela, relatives from the second or third parentela inherit the assets – in all branches per stirpes. The spouse's or registered partner's share of the inheritance varies depending on which relatives receive an inheritance.

6.2 Marriage contract, will, and inheritance contract

The statutory provisions can be amended within the framework of the legal restrictions (e.g. protection of the statutory portion). It is possible for married persons to use a marriage contract to adapt the marital property regime for the sharing of acquired property (it is common for all of the surplus to be transferred to the surviving partner), or to agree on the marital property regime for the community or separation of property. The marriage contract requires public authentication to be legally enforceable (involvement of notary/public official).

With regard to the law of succession, individual arrangements can be stipulated in a last will or inheritance contract. There are two forms of will: a holographic will or a public will made in the presence of two witnesses. These two forms also apply to inheritance contracts. Examples of useful inheritance provisions include arrangements for the division of inheritance, determination of the attributable values, and the appointment of an executor. It may also make sense to transfer assets during the person's lifetime or to amend the order of beneficiaries for pension assets accordingly. In this case, however, the impact on the future division of an estate (e.g. protection of the statutory portion) must be taken into account.

Information on employee benefits insurance and tied and flexible pension provision
For many people, pension assets represent a substantial portion of their total assets. The beneficiary regulations for pension capital are therefore an important aspect of estate planning.

- Claims on employee benefits insurance institutions and vested benefits institutions (second pillar) are not subject to inheritance law. After the death of the insured person, entitlement immediately passes to the beneficiaries as per the applicable regulations, policy, or the Ordinance on Vesting in Pension Plans.
- For tied pension provision (pillar 3a), the beneficiaries are stipulated by the Federal Ordinance on the Fiscal Deduction of Contributions to Recognized Pension Plans (BVV 3). As in the case of the second pillar, the claims are not included in the estate but are subject to reduction in the amount of the surrender value settlement vis-à-vis statutory heirs.
- With flexible pension provision (pillar 3b) insurance policies, the policyholder is ultimately free to designate the beneficiaries. Upon the death of the insured person, the beneficiary has a direct claim, which must be added to the estate in the amount of the surrender value for any reduction claims of statutory heirs.

If permitted by law or stipulated in the regulations of the pension fund, it may be useful to amend the order of beneficiaries.

6.3 Adult protection law

Guardianship legislation was replaced with new child and adult protection laws in 2013. The most important changes included the introduction of specialist agencies, measured government action, efforts towards strengthening family solidarity, and the promotion of the right of self-determination. The new law stipulates regulatory measures only if, in the event of loss of decision-making capacity, support provided by the family or the legal partner representation is not sufficient and the person concerned has not made their own provisions. This right of self-determination can be exercised in the form of an advance directive and a living will. It is recommended that you make your own provisions, particularly if you do not have a partner or if you want these duties to be entrusted to a specific person.

6.4 Advance directives and living wills

Advance directives
A person with legal capacity can appoint a natural person or a legal entity to assume their personal or financial care in the event of their incapacity and to represent them in all legal matters. The advance directive must contain a description of the tasks to be delegated to the representative, and can also include precise instructions in this regard. The advance directive must be written in one's own hand or certified by a notary public.

Living wills
A mentally competent person can draw up a living will stating which medical treatment they consent to in the event of their loss of decision-making capacity. They can also appoint a natural person to discuss medical procedures with the treating doctor and make decisions on their behalf should they become mentally incapacitated. They can also issue instructions to this person. It is advisable to discuss your living will with your doctor and to re-sign and date it every two years, even if nothing has changed.

It is recommended that you seek the advice of an expert in marital property law, inheritance law, and adult protection law.

7 Glossary

Accident Insurance Act (UVG)
In accordance with the Accident Insurance Act (UVG), all employees must be insured against occupational accidents, non-occupational accidents, and occupational illnesses. Part-time employees who work for an employer for less than eight hours per week are only insured against occupational accidents. When calculating the minimum working time, the working hours for two or more employers cannot be added together.

Advance withdrawal (of benefits for residential property)
In the case of an advance withdrawal, the available retirement capital is fully or partially withdrawn in cash. An advance withdrawal can be effected every five years and, under the second pillar, at the latest three years prior to the normal retirement age. As a result of an advance withdrawal, the insured's pension benefits from the second pillar will be reduced upon retirement, in the event of disability, and in the event of death.

AHV/IV (first pillar)
The first pillar of pension provision in Switzerland comprises Federal Old Age and Survivors' Insurance (AHV) and Federal Disability Insurance (IV), as well as supplementary benefits. As the compulsory state pension, it secures a basic standard of living in retirement, or in the event of disability or death. Basically, everyone who lives or works in Switzerland is covered.

BVG (second pillar)
Mandatory occupational benefits insurance is governed exclusively by the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). The act contains individual provisions on extra-mandatory components. The provisions of the Swiss Code of Obligations primarily apply. The aim of the BVG is, in combination with the first pillar, to enable continuation of the accustomed standard of living up to a certain level of income.

Conversion factor/conversion rate
The conversion factor/conversion rate refers to the percentage with which capital is converted to a pension. The level of the conversion rate for the mandatory occupational benefits insurance is determined in the BVG.

Coordination deduction
The coordination deduction refers to any amount deducted from the gross salary (effective salary) in order to calculate the insured BVG salary (pensionable salary). The deduction serves to coordinate between the first and second pillar. The amount equates to 7/8 of the maximum single AHV retirement pension.

Defined benefit system
In the defined benefit system, the retirement pension is calculated from the last pensionable salary. The benefits in this system are determined as a percentage of the pensionable salary. The funding risk is borne by the pension fund. A fixed pension is guaranteed, regardless of the way in which the financial markets and demographic structures develop. The opposite to this system is the defined contribution system.

Defined contribution system
The benefits from the pension fund are calculated in the defined contribution system according to the contributions paid by the employer and employee. These contributions are credited to the individual insured and, together with interest, vested benefits brought into the fund, and purchases of additional benefits, they form the retirement capital. Upon retirement, the retirement capital – notwithstanding a lump-sum payment – is converted into a lifetime retirement pension using the conversion rate. The opposite to this system is the defined benefit system.

Early retirement (AHV/BVG)
Women and men can draw their AHV pension one or two years early. If the pension is drawn early, a reduction rate is applied for each year. Interest in early retirement must be submitted to a compensation fund in writing and using the relevant application form at least three months in advance. The retirement benefits from the pension fund (BVG) can be drawn at 58 at the earliest. This is governed solely by the pension fund regulations, which stipulate the earliest possible retirement age. In accordance with the Federal Act on Occupational Retirement, Survivor's and Disability Pension Plans, the option of early retirement is not compulsory, but rather depends on the provisions in the pension fund regulations.

Flexible pension provision (pillar 3b)
Flexible pension provision is available to all. Pillar 3b covers the entire spectrum of individual saving, in the form of savings deposits, investment in securities and real estate, and life insurance. The capital that has been saved can generally be accessed at any time.

Order of beneficiaries
The order of beneficiaries determines to whom – and in some cases in which order – pension capital is paid out following an insured event. The order of beneficiaries may be amended or extended within the framework laid down by law. In the event of death, the funds from the second pillar and pillar 3a will be paid out in accordance with statutory requirements on the order of beneficiaries. In the case of pillar 3b insurance, the policyholder can determine in the beneficiary clause the person(s) to receive the insurance benefits. This can be amended in writing at any time during the term of the policy, unless it has been explicitly specified as being irrevocable.

Pay-as-you-go system
The pay-as-you-go system is a mode of financing benefits that is used in the AHV. In this system, the benefits for the persons entitled to a pension are covered directly by the incoming contributions in the same period of time. In this way, the older generation is financed by the young, who themselves will be financed by the next generation in the future. This system is the opposite to the prospective benefits funding method.

Pension deferral (AHV/BVG)
Women and men can defer the drawing of their AHV retirement pension for up to five years. The insured must register their wish to defer their pension at the latest upon reaching the normal retirement age. The length of the deferral does not have to be specified in advance. The minimum deferral term is one year, after which the pension can be drawn at any time on a monthly basis. The pension amount increases as a result of the deferral. The BVG pension may also be deferred, however this depends on the provisions in the pension fund regulations. Pension fund regulations may allow retirement to be taken at the latest five years after reaching the normal AHV retirement age.

Pension gap
In most cases, the pension received when someone retires is lower than the (net) income they earned prior to retirement. A pension gap is said to exist when the benefits from the state pension and employee benefits insurance are insufficient to maintain living standards after retirement. One of the options for closing this gap is by making voluntary savings into the third pillar.

Pensionable salary
The pensionable salary that must be insured under employee benefits insurance is also referred to as the BVG salary.

Pledging (of benefits for residential property)
The mortgage holder pledges the pension claims as collateral. In contrast to an advance withdrawal, the second pillar retirement benefits and insurance coverage remain intact in their entirety, provided the collateral is not required.

Promotion of home ownership (WEF)
Retirement assets can be used to finance owner-occupied residential property. The insured is legally entitled to use retirement capital to finance owner-occupied residential property. The advance withdrawal and pledging of pension capital are possible only if the residential property located at the insured's main place of residence is being used by the insured.

Prospective benefits funding method
The prospective benefits funding method is a method for the financing of benefits. Employee benefits insurance is financed primarily by the prospective benefits funding method. Unlike the AHV, in which the pensions are financed by contributions in a pay-as-you-go system, pension benefits are saved individually in advance in the pension funds. The financing is carried out by means of contributions from the insured and the employer, as well as through investment income (interest and compound interest).

Purchase of pension benefits
Purchases of pension benefits serve to increase the pension benefits. If the pension fund regulations allow for this and the insured has coverage shortfalls, purchases of pension benefits are permitted. The amount for which benefits can be purchased depends on the individual coverage shortfall and can be found out by inquiring with the pension fund.
The coverage shortfall is the difference between the maximum retirement assets possible and the insured's available retirement assets at the time of the calculation.

Registered partnership
A registered partnership is a domestic partnership between two persons of the same sex in accordance with the Federal Act on the Registration of Partnerships for Same-Sex Couples. Registered partners have the same rights as spouses in terms of social security legislation, tax law, and inheritance law.

Retirement assets in the pension fund
The retirement assets in the pension fund are also known as pension fund capital or pension fund benefits, and refer to the total accrued retirement credits including any purchases, vested benefits brought into the fund, and interest.

Saving with securities
With the saving with securities solution, the retirement assets are invested in one of several investment products, which are managed in strict compliance with the conditions of employee benefits insurance. Securities generally offer higher potential returns, but are also subject to price fluctuations, especially in the short term. As a result, saving with securities is better suited to a medium to long-term investment time horizon.

Splitting
In order to determine the retirement pension of married, widowed, and divorced persons, the income received by the two spouses during their marriage is divided and each spouse is credited with half.

Statutory BVG insurance/mandatory occupational benefits insurance
The BVG defines the obligatory minimum benefits. The pension funds are obliged to guarantee these at all times, e.g. the minimum interest rate for retirement credits which is reviewed by the Federal Council every two years.

Supplementary benefits (EL)
The supplementary benefits for the first pillar secure the basic standard of living guaranteed in the Constitution for persons drawing AHV/IV benefits. The amount of benefits received is determined according to individual circumstances and is continually amended to meet the changing situation. Supplementary benefits are not insurance benefits in the traditional sense, but rather needs-based pensions that secure the minimum income needed for the beneficiaries to live.

Surviving dependents
In legal usage, surviving dependents denote the former spouse or registered partner and/or children of the deceased.

Tax progression
Tax progression refers to the increase of the tax rate as the income or assets to be taxed increase. This causes a disproportionately greater tax burden in the case of increasing income/assets.

Tied pension provision (pillar 3a)
The tied pension provision is voluntary and individual. It is available only to persons with earned income subject to AHV contributions, and it enjoys particular tax privileges. Contributions to pillar 3a may be deducted from taxable income up to a maximum amount per year. Pillar 3a pension capital can also be utilized for the purchase of owner-occupied residential property.

Vested benefits (second pillar)
The term “vested benefits” refers to the amount that an insured person is entitled to receive from the pension fund as a termination benefit when they leave. Vested benefits comprise all savings contributions paid by the employer and the employee, deposits from previous pension funds, voluntary purchases, and all interest.

Voluntary or extra-mandatory occupational benefits insurance from the pension funds (BVG)
Pension funds can insure benefits other than those prescribed in the mandatory occupational benefits insurance, on a voluntary basis, in the extra-mandatory occupational benefits insurance. For example, extra-mandatory occupational benefits insurance covers salary components that are greater than the maximum effective BVG salary. In the extra-mandatory area, the pension funds determine the interest rate for the retirement assets, as well as the conversion rate, at their own discretion.

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