

Voluntary Purchases of Pension Benefits



Making voluntary purchases of pension benefits pays off. In addition to tax savings, there are other aspects that you need to consider, such as the structure and financial situation of the pension fund. Comparing flexible pension provision with tied pension provision reveals further important influencing factors that need to be taken into account along with your own preferences and priorities.

Expand Your Retirement Plan and Save Taxes

Setting aside money for your retirement plan and making voluntary contributions to the pension fund can be worth it – provided they comply with the relevant regulations and legislation. First, retirement capital increases considerably, meaning retirement benefits are higher as well. Second, the tax savings resulting from deposits can be significant depending on the individual's personal tax situation. But to make a sound decision, the issue needs to be fully thought through.

Influencing Factors – From Your Investment Strategy to Your Retirement Date

Paying assets into the pension fund has various effects. Besides the pros and cons that have to be taken into account, personal needs and individual priorities play a crucial role.

Investment Strategy

Investment decisions for pension fund assets are the responsibility, in compliance with statutory requirements, of the Investment Committee of the pension fund. The ability of an individual to influence these decisions is very limited. Moreover, as pension funds are not immune to investment losses. Because not all income and profit earned are actually passed on directly to the insured, there is a dependency on the pension fund with regard to investment risk and return.

Withdrawal Options

Assets that are already included in the pension cycle – particularly voluntary contributions – can only be used for personal needs before you reach retirement age under certain conditions (e.g. acquiring residential property or when becoming self-employed). One factor to consider is that after purchases are made, no lump-sum withdrawals are permitted within the next three years (tax law restriction). In addition, any (purchase and) withdrawal periods as set out in the pension fund rules must be observed.

New Participants

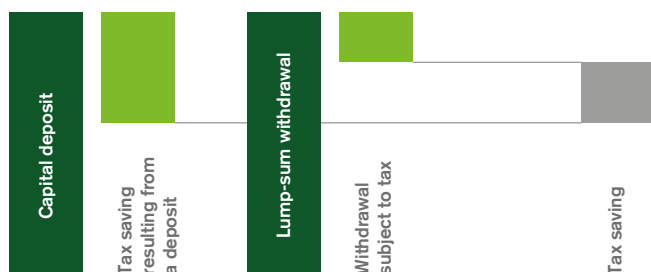
For new participants who have never belonged to a Swiss pension fund, purchases during the first five years may not exceed 20% of the statutory pensionable salary (exception: transfers from a foreign pension fund).

Pension Fund

The structure and financial position of the pension fund is crucially important for the decision. In addition to the expected increase in retirement benefits, the changes in death and disability benefits must also be considered. For example, it is important to know to what extent disability and death benefits will increase when purchases are made. In addition, a pension fund can be underfunded. Underfunding occurs when the pension fund's assets do not completely cover its obligations (pension claims of the insured). Regulatory financial rehabilitation measures then often involve a reduction in the interest rate on the retirement capital of the insured, which leads to lower returns. If the pension fund is either partially or fully liquidated (e.g. due to a significant reduction in the number of employees) there is even the danger that a portion of the paid-in capital will be lost.

Tax Considerations

Purchase amounts can be deducted from taxable income for the calculation of direct taxes for the federal government, the cantons, and the municipalities. In addition, investment income in tied pension provisions are tax free and not subject to wealth tax. Lump-sum payouts are separated from other income and taxed at a lower rate. In contrast, retirement pensions are fully taxed together with other income.



Date When You Retire

As purchases for early retirement may only exceed the regulatory benefit target by 5% if early retirement is renounced, thorough planning is necessary, particularly with regard to purchases for its funding. In addition, voluntary purchases restrict the option of choosing between a pension and a lump-sum payout because of the three-year lock-up period (see withdrawal options). This can have unpleasant consequences, particularly in the event of early retirement.

Comparison – Tied Pension Provision in the Pension Fund and Flexible Pension Provision

| | Tied Pension Provision | Flexible Pension Provision |
|----------------------------|--|--|
| Investment strategy | Decided by the pension foundation | Individual based on personal risk profile |
| Withdrawal options | Only under certain circumstances | Available at any time |
| Pension fund | Structure and financial status are very important | Not important, as capital remains in disposable assets |
| Tax considerations | Deposit is tax deductible, income is tax free, no wealth tax, withdrawals are subject to tax | Usually investment income is subject to tax and capital gains are tax free |
| On death | Lump-sum death benefit or beneficiary benefits (according to pension fund rules) | Estate assets |

Personal Preferences and the Decision

After analyzing the influencing factors and weighing the pros and cons, you can make a sound decision that considers your own preferences and priorities.

Contact us

We will be happy to arrange a personal consultation. Call us at 0844 200 114*; Mon.–Fri., 08:00–20:00. For more information, visit our website at: [credit-suisse.com/financialplanning](https://www.credit-suisse.com/financialplanning)

* Telephone calls may be recorded.

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