

Risk coverage in the event of death or earnings incapacity



Strokes of destiny that result in disability or even death often inflict virtually unparalleled suffering. Matters become even worse if such events then lead to financial worries for the victims or those closest to them. This makes it important to consider and plan for such situations. Knowing one's own pension situation is essential in order to take the right action and protect oneself against the financial consequences. With this approach, strokes of destiny can be overcome – at least in financial terms.

Principle

Since 1972, pension provision in Switzerland has been organized on the basis of the "three-pillar principle" enshrined in the Federal Constitution. The three pillars ensure financial provision for the period after retirement; in addition, they cover financial hardship in the event of death, and the risk of earnings incapacity due to disability. Because benefits may be provided by several different social insurance organizations, it is essential to coordinate them in order to avoid over-insurance (for example). Benefits also vary greatly depending on the recipients' civil status and whether or not they have children. Due to these factors, calculating the expected benefits is often a complex undertaking that calls for in-depth technical expertise.

The following overview provides brief explanations of the three pillars of the pension system.

First pillar (State Pension Provision, AHV (Old Age and Survivors' Insurance)/IV (Federal Disability Insurance))

- The purpose of the first pillar is to secure a minimum standard of living in case of death or earnings incapacity.
- You can receive information on your expected pension from the AHV compensation office by asking for a pension forecast, or it can be calculated using individual values (income, credits for time spent raising children and caring for relatives, and contribution period). In the event you become disabled, your degree of disability will also be a determining factor.
- If the earnings incapacity is likely to be permanent, a disability pension is paid. If there are children (up to the age of 18, or 25 if in education/training), a child's pension will also be paid. Child's pensions are 40% of the disability pension per child.
- In the event of your death, the benefits depend on your civil status. In the case of married couples, the widow receives a lifetime widow's pension if the couple has children or if she was at least 45 years old and married for at least five years. Widowers receive a widower's pension only if the couple had children. In the case of registered partnerships, the surviving partner is treated the same as a widow/widower. For co-habiting partners, the first-pillar system does not provide for any survivors' benefits. In addition to survivors' benefits for spouses and registered partners, each child is entitled to an orphan's pension of 50% of that amount.

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 supplementary provision

Guaranteed by:

Tied Pension Provision (Pillar 3a)
Flexible Pension Provision (Pillar 3b)

Second pillar (Employee Benefits Insurance, BVG (Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans) and Accident Insurance, UVG (Accident Insurance Act))

- The second pillar is intended to help maintain the accustomed standard of living.
- The individual insurance certificate and the pension fund rules must be consulted for details of the benefits.
- The Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) stipulates minimum benefits (statutory BVG insurance). All benefits payable to the employee in excess of the statutory benefits are permitted and may (to a limited extent) be freely defined by the pension fund. For this reason, a general statement regarding pension fund benefits in case of risk events would not reflect the individual nature of each case. There are more than 2,000 pension funds and countless personal situations that make individual examination essential.
- Accident insurance (UVG) also falls under the second pillar. At present, it insures a maximum gross salary of CHF 148,200. For higher incomes, it is essential to note whether the pension fund insures these salary components in case of accidents, or whether the employer has taken out supplementary accident insurance (UVG-Z).
- If pension benefits together with the first pillar exceed 90% of the presumed loss of earnings, the survivors' and disability benefits may be reduced by the second pillar social insurance organizations (coordination).

Third pillar (Voluntary Private Insurance)

- The third pillar is used to cover pension gaps not covered by the first and second pillars, either by means of tied pension provisions (Pillar 3a) or flexible pension provisions (Pillar 3b).
- If there are gaps in pension provision in case of death, term life insurance (life insurance) may be taken out. It may cover one life or two lives (for cohabiting couples or families) and may offer a constant benefit over a specified term (pension) or a constant or decreasing lump sum payable at death. On death, the benefit is paid directly to the beneficiaries, who can be selected freely in pillar 3b. The possible beneficiaries under pillar 3a are limited by law.

- Gaps due to earnings incapacity may be closed by insuring a disability pension or a lump-sum payment in the event of disability, although most people choose a pension. The benefit structure and elimination periods can be chosen according to personal requirements.
- In case of over-insurance, benefits may be reduced in accordance with the general terms and conditions of the relevant company. This makes it important to calculate the requirement as well as the insured benefits under the first and second pillars so that appropriate insurance can be arranged for any gaps that are revealed.
- Premiums for policies taken out under pillar 3a can be deducted from taxable income (note the maximum contributions).

Summary

- Start out by considering the minimum requirement that you would have to cover in case of death or earnings incapacity.
- Given the complexities, the benefits from the various social insurance organizations must be considered in detail and added together.
- As there are regular changes to the legal basis in the pension sector, it is worthwhile reviewing your situation about once every five years. It is also advisable to check your benefits in case of major personal changes that impact pension provision, such as a change of job or civil status.

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

Data as of 02/2023 **Source:** Credit Suisse, unless otherwise specified.

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