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Early retirement: The path is becoming more difficult

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Dr. Nannette Hechler-Fayd'herbe
Head of Global Economics & Research
+41 44 333 17 06
nannette.hechler-fayd'herbe@credit-suisse.com

Dr. Sara Carnazzi Weber
Head of Policy & Thematic Economics
+41 44 333 58 82
sara.carnazzi@credit-suisse.com

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Authors

Dr. Jan Schüpbach
+41 44 333 77 36
jan.schuepbach@credit-suisse.com

Emilie Gachet
+41 44 332 09 74
emilie.gachet@credit-suisse.com

Contributions

Markus Kunz
Ewelina Krankowska-Kedziora
Tomasz Limberger

Editorial

Dear readers,

There is a widespread desire for early retirement in this country. But what, in reality, is the attitude of the Swiss population towards retirement? About half of Swiss citizens take early retirement. Early retirement from professional life is particularly common among men, single people, people with higher incomes and people living in western Switzerland. However, nearly a quarter of early retirements are involuntary.

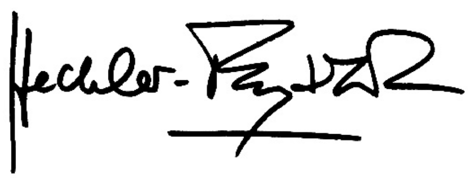
Early retirement generally results in a pension reduction over the course of a person's life. Using different scenarios, our study shows how the choice of when to retire affects pension income derived from AHV and employee benefits insurance. The losses are significant and the path to early retirement may become even more difficult, as the pension situation will deteriorate considerably in the future without far-reaching reforms. Our pension comparison across several generations of workers shows that early retirement from professional life will become much more difficult for future generations to finance.

At the same time, current political, economic and societal challenges are making early retirement more difficult; these challenges include, among other things, an aging society, the wave of baby boomers reaching retirement age that may well exacerbate the lack of specialists in several sectors, as well as the need to put the Swiss retirement provision system on a more sustainable foundation for future generations. The traditional concept of a three-stage life cycle – education, working life and retirement – must be reconsidered. In order to utilize the expertise of and work potential of older people more effectively, incentive structures must be adjusted for both companies and employees accordingly. It would be conceivable to raise and increase the flexibility of the statutory retirement age, whereby late retirement would correspond with a greater increase in salary and early retirement with a greater reduction in pension. Furthermore, new working time models (e.g. part-time or project work) and continuing education should increasingly be considered, with a view towards smoothing the transition into a longer working life.

In the future, anyone voluntarily wishing to withdraw completely and prematurely from the work force will need to take an even closer look at how to finance this step. To make this dream a reality, the importance of private savings will become even more significant.

We wish you an exciting read.

André Helfenstein
CEO Credit Suisse (Switzerland) AG



Nannette Hechler-Fayd'herbe
Head of Global Economics & Research

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The Swiss pension system is structured around a retirement age of 64 for women and 65 for men. It nevertheless provides for a certain flexibility, enabling workers to take retirement at an earlier or later point in time. The AHV retirement pension may be drawn one or two years early but may also be delayed by up to five years. Depending on the pension fund, retirement benefits can be drawn at the age of 58 at the earliest and, in the case of continued employment, at the age of 70 at the latest.

Early retirement: Often the heart's desire, sometimes hard reality
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Many Swiss citizens would like to take early retirement and a considerable proportion of them do indeed retire early. While only 8% of women and 10% of men draw their AHV pension before the normal retirement age, it is far more common to receive pension fund benefits early (women 43%, men 46%). In terms of the age at which a person describes themselves as retired, a good half of the population retires at least one year before the normal AHV retirement age (women 47%, men 56%). Early retirement from professional life is particularly widespread among single people, people with higher incomes and people living in western Switzerland. However, nearly a quarter of early retirements are involuntary, with those having a lower level of education or household income more often affected by involuntary early retirement.

Early retirement is becoming a more distant prospect
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Early retirement generally results in a reduction in pension from AHV and pension funds over the course of a person's life. Our scenarios using different retirement ages show how early retirement affects pension income derived from AHV and employee benefits insurance. For a man in the middle-income bracket, drawing AHV and pension fund benefits only two years early will result in an income reduction of approximately 14% over the course of his life. Drawing pension fund benefits at the age of 58 leads to a reduction of between 23% and 28%. Furthermore, these reduced pension fund benefits and, ideally, a bridging pension or the consumption of capital (private assets, Pillar 3a) must finance living expenses until AHV benefits are drawn – at the age of 63 at the earliest. Furthermore, AHV/IV/EO contributions must continue to be paid until the normal retirement age.

A comparison among generations shows that early retirement will become an even more distant prospect in the future, as the pension situation will deteriorate considerably if no countermeasures are taken. Adjusted for purchasing power, the real value of pensions in the middle-income bracket will fall from CHF 57,091 at normal retirement age in 2010 to approximately CHF 48,457 in 2025 – a loss of 15%. The early retirement scenarios show that, for future generations, the option of withdrawing from professional life appears to be considerably less realistic.

Timely planning and offsetting pension gaps are essential
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Anyone who would like to take early retirement must first examine the associated financial consequences. Pension gaps can be reduced by voluntarily purchasing additional benefits from the pension fund or by means of a bridging pension. In addition to this, it is advisable to start building up a private pension provision early on: a particularly strong compound interest effect can be obtained in light of the long-term investment horizon. Last but not least, opportunities for yield can be increased by using securities. Our analysis shows that those intending to take early retirement are well aware of the particular importance of private pension provision in this context: 67% of prospective early retirees make regular payments into Pillar 3a, compared to 58% of other workers in the same age group and 53% of the entire Swiss working population. Prospective early retirees also pay higher average contributions into Pillar 3a (over three quarters of them even pay in the maximum contribution) and they are much more likely to have several 3a accounts. This enables them to make staggered lump-sum payouts from Pillar 3a. Depending on the region, coordinated lump-sum withdrawals from the second and third pillars staggered over several years can result in substantial tax advantages: Through the staggered payment of a total of CHF 800,000 over four years in the main cities of the cantons of Basel-Landschaft, Schwyz and Zurich, a married couple can, for example, save between CHF 32,551 and CHF 43,653.

The Swiss pension system and flexible retirement

The Swiss pension system is structured around a retirement age of 64 for women and 65 for men. It nevertheless provides for a certain flexibility, enabling workers to take retirement at an earlier or later point in time.

Normal retirement at the age of 64 (women) or 65 (men)

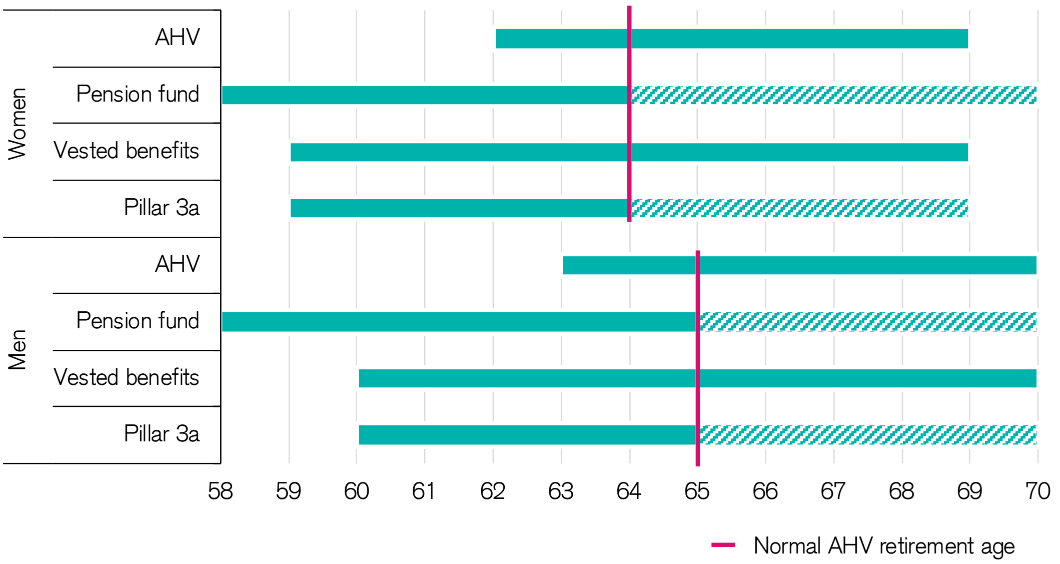
The statutory (normal) retirement age in Switzerland is 65 for men and 64 for women. Anyone reaching this age is entitled to draw the federal old age and survivors' insurance pension (AHV, first pillar). In principle, people reaching this age are also entitled to employee retirement benefits insurance (second pillar). Pension funds may nevertheless specify a different retirement age, which is why the respective pension fund regulations are always decisive. In this respect, a large majority of Swiss pension funds adhere to the normal AHV retirement age.[1] The payment of vested pension benefits and capital from Pillar 3a is also due, in principle, upon reaching the normal AHV retirement age. The Swiss pension system nevertheless offers some room for maneuver in retirement from professional life and the drawing of pension benefits, making these more flexible and, wherever possible, approaching them in staggered manner (see figure).

Early retirement

It is possible to draw the AHV retirement pension one or two years earlier. Women may therefore draw their AHV pension at the age of 62 and men when they turn 63. However, advance withdrawal is accompanied by a reduction in AHV pension over the course of a person's life. Insofar as the relevant pension fund regulations allow, withdrawals may also be made from the second pillar before the normal retirement age, in accordance with the federal law on employee retirement benefits insurance (BVG), but not earlier than 58 years old.[2]

Flexibility in withdrawing pension capital

Availability of pension benefits by age and sex; hatched area: deferral only possible in the event of continued gainful employment



Source: Credit Suisse

[1] In 93% of pension funds, the regulatory retirement age for men is 65, while lower ages (62 to 64) are rare. For women, 60% of pension funds provide for retirement at the age of 64, while this age is lower in 4% of cases (62 or 63). In 36% of pension funds, the retirement age for women is 65, just as it is for men (source: Swisscanto, Swiss pension fund study 2019).
[2] In the event of operational restructuring, early redundancy on the grounds of age can be implemented from the end of the 55th year.

The conversion rate for pension calculation is then accordingly lower in the case of a normal retirement. Depending on the pension fund, early retirees are entitled to a so-called bridging pension, which is paid until the normal retirement age or the payment of the AHV pension. In the case of (early) retirement, vested pension benefits and Pillar 3a funds can be drawn five years before the normal retirement age, i.e. from the age of 59 for women and 60 for men, regardless of the actual age of retirement.

Partial retirement and reduced level of employment as alternatives

Pension fund regulations can also provide for so-called partial retirement, facilitating a gradual transition into retirement. In this case, the insured person reduces their level of employment before the normal retirement age (e.g. from 100% to 60%) while at the same time receiving part of their pension fund benefits (40% in this example). Like early retirement, partial retirement can be taken no earlier than at the age of 58. Depending on the pension fund, it is also possible for a person to reduce their level of employment from the age of 58 without the advance withdrawal of pension benefits, whereby the pension provision continues on the basis of the previous insured salary (maximum of 50% for salary reductions).

Deferred retirement

Retirement can also be deferred. For the AHV, a maximum deferral of five years is possible (i.e. until the age of 69 for women and 70 for men), which is accompanied by a corresponding increase in pension provision. A deferral can be applied regardless of whether the person is still gainfully employed or not. However, for the employee retirement benefits insurance, the relevant pension fund regulations apply. These may provide for the continuation of the pension fund until the end of employment, but not beyond completion of the age of 70. The drawing of vested benefits and capital from Pillar 3a can be deferred for up to five years after normal retirement age. Continued pension provision in Pillar 3a after the normal AHV retirement age however requires that the person remains gainfully employed.

In the section entitled “Early retirement is becoming a more distant prospect”, we present the financial impacts of early or deferred retirement in detail.

The glossary on page 26 explains some important key terms used in the text in relation to retirement provision.

Often the heart’s desire, sometimes hard reality

Many Swiss citizens would like to take early retirement and a considerable proportion of them do indeed retire early. Early retirement from professional life is particularly widespread among single people, people with higher incomes and people living in western Switzerland. Not every retirement is welcome, however: nearly one in four people goes into early retirement involuntarily.

Early retirement – a dream for many

According to surveys, every second working person would like to take early retirement. The financial planners at Credit Suisse estimate that in customer meetings, approximately 80% state that they would accept early retirement if given the opportunity. Many are nevertheless also aware of the high costs. They therefore call on financial planning to shape the third phase of their life in accordance with their personal vision and to analyze the financial feasibility of early retirement.

43% of women and 46% of men draw pension benefits before the AHV retirement age

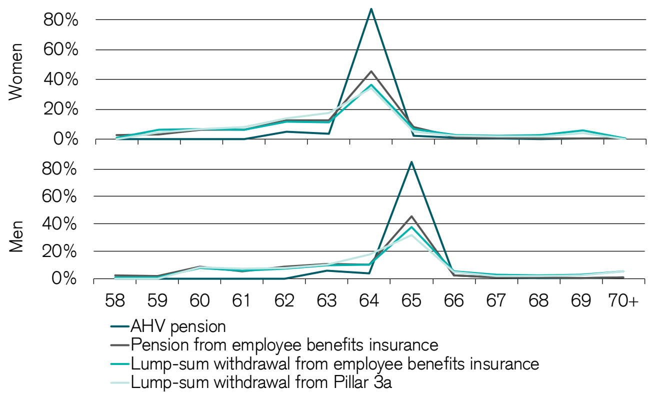
The desire for early retirement is thus widespread. What, however, are the retirement practices of the Swiss population in reality? A glance at the new pensions statistics from the federal Statistical Office shows the extent to which the possible ranges presented in the previous chapter are actually used by insured people when withdrawing pension capital (see figure). It should be noted that these figures only provide relevant information about when pension benefits are first drawn (pension provision approach). They do not, however, provide any indication as to when a person effectively retires from the labor market (labor market approach). According to the statistics on new pensions, AHV pensions are rarely drawn early or deferred: 87% of women and 85% of men who first received an AHV pension between 2015 and 2018 were 64 or 65 years old at the time. Only in 8% (women) or 10% (men) cases was the first AHV pension benefit paid before the normal retirement age. However, the situation is somewhat different with regard to employee retirement benefits insurance: in 41% of cases, new retirement benefits from the second pillar – pension or lump-sum withdrawal – were drawn at the normal AHV retirement age. About 43% of women and 46% of men who received their first employee pension benefit during the period in question had nevertheless not yet reached the statutory retirement age.

38% of working people leave the labor market early

However, initial withdrawal of pension benefits does not necessarily coincide with effective retirement from the labor market. The so-called early retirement rate according to the labor market approach (see figure), which is based on data from the Swiss Labour Force Survey (SLFS), indicates how often Swiss citizens give up their gainful employment before the statutory retirement

AHV pensions are rarely drawn early

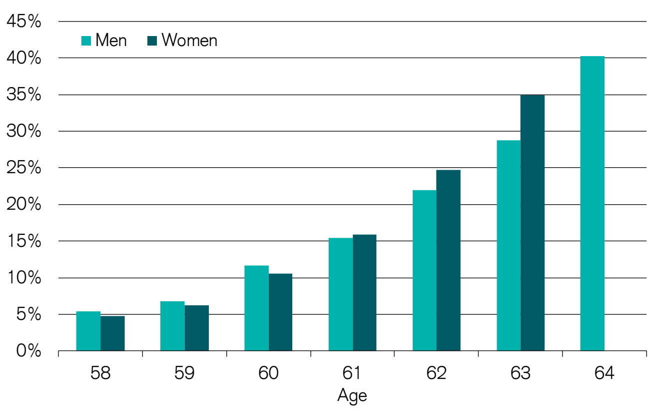
New pensions or lump-sum withdrawals relating to retirement, distribution according to retiree age, 2015 – 2018



Source: Swiss Federal Statistical Office (statistics on new pensions) Credit Suisse

Retiring before the AHV retirement age is nevertheless widespread

Early retirement rate according to the labor market approach (see definition in the text), by age and sex, 2015 – 2017



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse

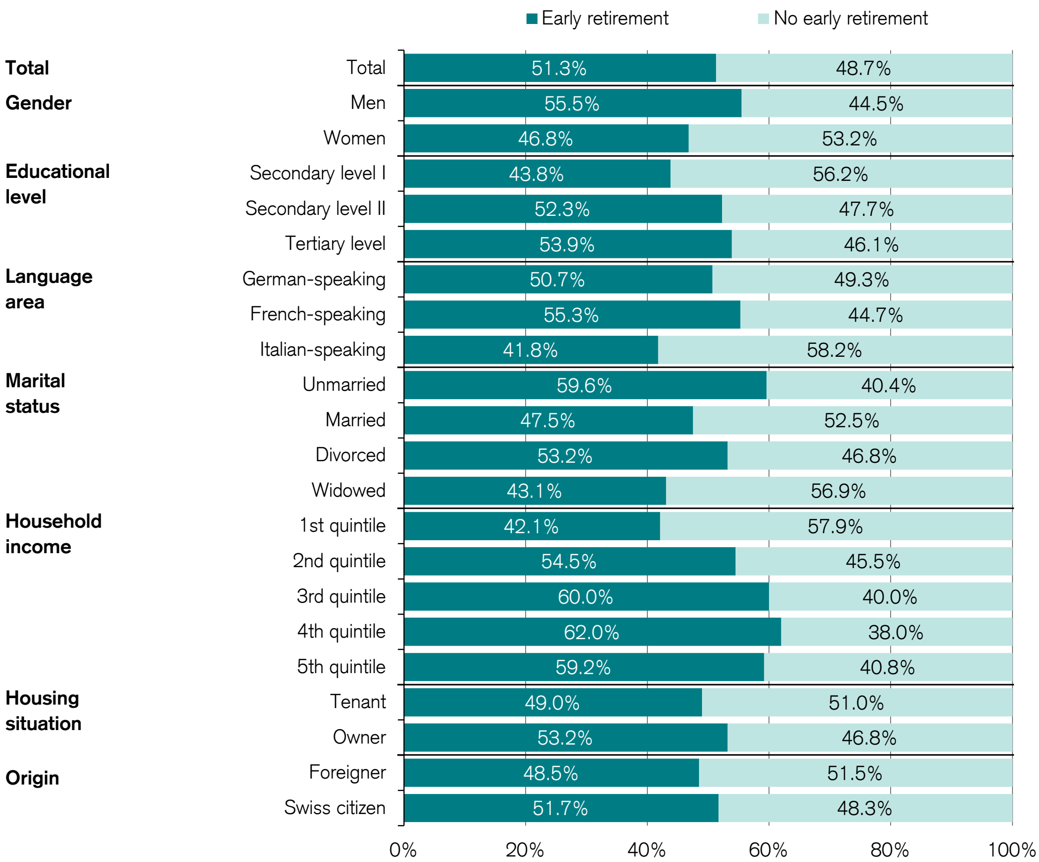
age. For the purpose of this indicator, people are considered to have taken early retirement if they were employed until at least the age of 50 but are no longer gainfully employed despite having not yet reached the normal retirement age and if they list retirement, invalidity or health concerns as their reason for giving up gainful employment. People who continue working or start working again (even with a minimum level of employment) after taking early retirement are not counted as early retirees according to this definition. The early retirement rate is calculated by dividing the number of early retirees by the number of people who were gainfully employed until at least the end of their 50th year. In the three years from 2015 to 2017, the early retirement rate one year before the normal retirement age was 40% for men (aged 64) and 35% of women (aged 63). Some 12% of men and 6% of women had already left the labor market five years before the statutory retirement age. These figures confirm that early retirement is not unusual in Switzerland. Over the past decade, the rates were nevertheless declining: Over the period from 2006 to 2009, the early retirement rate one year before the AHV retirement age was 47% among men and 43% among women.

Self-declaration: About half of current retirees took retirement before the AHV retirement age

Data from the "Social Security" module of the Swiss Labour Force Survey 2019 also provide information about retirement habits in Switzerland, whereby the definition of the retirement age is based on the self-declaration of the survey participant. In this statistic, the issue of whether retirement refers to the time when pension benefits are first drawn or to the effective withdrawal from labor market is therefore inconclusive. Of all people who described themselves as retired in 2019, 51% took retirement at least one year before the normal AHV retirement age (see figure).

Over half of people took retirement before the normal AHV retirement age

Proportion of retirees who indicate that they took retirement before the normal AHV retirement age applicable at the time of retirement, 2019



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse

Among women, the corresponding percentage is 47%, while the figure is 56% for men. Approximately one quarter of these respondents nevertheless do not consider themselves to have taken early retirement, possibly reflecting the fact that many employers and their pension funds used to (and in some cases still do) provide for a retirement age below the statutory AHV retirement age.

Income as the driving factor

Evaluating these data according to sociodemographic and socioeconomic characteristics shows that the probability of early retirement generally rises with the level of education and income. Some 59% of people living in a household situated in the top 20% income bracket (5th quintile) took early retirement. In the 3rd and 4th quintiles, this figure is clearly more than in the 1st quintile (42%). Income distribution after retirement is naturally not the same as before retirement and, unfortunately, the data do not allow for an examination of the income situation before retirement. It can nevertheless be assumed that people were more likely to opt for voluntary early retirement if they were still financially well-off in their old age. Controlling for all factors simultaneously by means of a regression analysis, it can be observed that household income is the driving factor behind early retirement.

Differences between regions and civil status

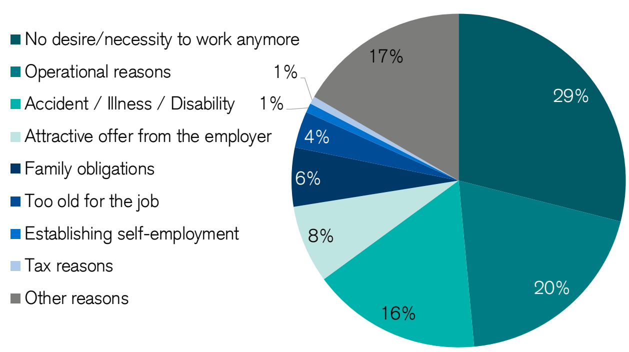
A number of striking differences can be seen from a regional standpoint: In French-speaking Switzerland, a higher proportion of people (55%) took early retirement than in German-speaking Switzerland (51%), with the Italian-speaking area of Switzerland trailing far behind with 42%. The share of people taking early retirement is significantly lower among people who are married, divorced and widowed than among single people. Housing situation and origin, however, play a minor role.

Almost one quarter of early retirements are involuntary

When asked about the reasons for taking early retirement, 29% of survey participants answered that they no longer had any desire or (financial) need to work. One fifth stopped working for operational reasons (company restructuring or closure) while 16% retired for health reasons (accident, illness or invalidity). It is also clear from the statistics that not all early retirements are voluntary: almost one quarter of early retirees stated that they went into early retirement involuntarily (see figure). At 34%, involuntary early retirements were significantly more widespread among people with a highest education level of secondary level I than among people with a tertiary education (18%). Involuntary retirements are also correlated with lower household income: among the 20% of households with the lowest income (1st quintile), involuntary early retirements are far more common than in the higher income quintiles. Whereas about half of early retirements due to operational or health reasons are involuntary, self-employed people and those who simply no longer want to work largely see their early retirement as voluntary.

Almost one in three people no longer want to work while one fifth of people retire due to restructuring or closures

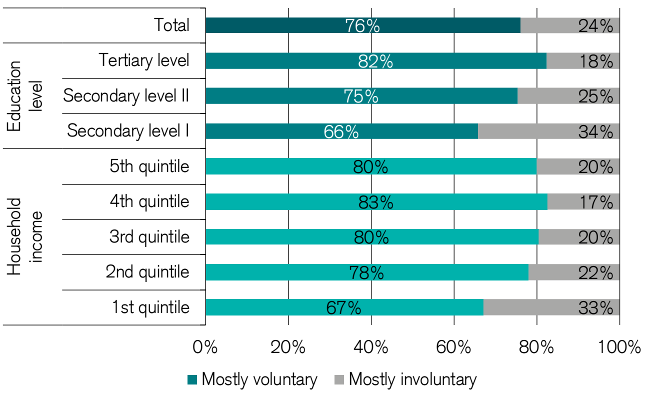
Reason for early retirement, 2019



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse

Involuntary early retirements are significantly more common among people with lower education levels

Self-declaration whether early retirement was voluntary or involuntary, by education level and household income, 2019



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse

Early retirement is becoming a more distant prospect

For the most part, early retirement results in a reduction in pension from AHV and pension funds over the course of a person's life. Because many pension funds are aligning the regulatory retirement age with the AHV retirement age and are reducing pension benefits, it will probably become significantly more difficult to finance early retirement in the future. Our scenarios show what this means for the various income brackets.

The previous chapters have shown that Swiss citizens make full use of the flexibility afforded by the pension system in determining when to take retirement. Early retirement is nevertheless generally associated with financial losses, which must be examined in detail. This chapter provides a more in-depth insight into the scale of these pension reductions.

Drawing an early pension involves taking considerable losses

In the second pillar, depending on the pension fund regulation, pensions may only be drawn from the end of the 58th year and no later than the age of 70 (see the chapter entitled "Overview of retirement options"). AHV pension is generally only paid once the normal retirement age has been reached – at the age of 64 for women and 65 for men. However, on request, pensions can nevertheless be drawn one or at most two years in advance. It is also possible to defer pension benefits for a maximum of five years, whereby it is also possible to draw intermediate benefits. The point at which the AHV pension is to be drawn must be communicated to the relevant compensation office three to four months in advance. Unlike with the second pillar, this can be determined independently of gainful employment. The table below shows the impacts of deferring or drawing pension benefits in advance in the first and second pillars (see table).

Advance withdrawal reduces AHV and pension fund pensions over the course of a person's life

Reduction or supplement for a man when deviating from the normal retirement age of 65 in both the first and (using an example) second pillar

	Reduction for advance withdrawal							Normal retirement	Supplement for deferral				
Age	**58**	**59**	**60**	**61**	**62**	**63**	**64**	**65**	**66**	**67**	**68**	**69**	**70**
AHV pension						–13.6%	–6.8%	0.0%	5.2%	10.8%	17.1%	24.0%	31.5%
Pension from employee retirement benefits insurance*	–15.8%	–14.0%	–12.0%	–9.9%	–7.7%	–5.3%	–2.7%	0.0%	2.9%	6.0%	9.4%	13.0%	16.9%

* Average reduction or increase in conversion rates for retirement taken between 2020 and 2027, according to the pension fund regulations of the Pension Fund of Credit Suisse Group (Switzerland)

Source: AHV/IV information point, Federal Social Insurance Office, Pension Fund of Credit Suisse Group (Switzerland)

Pension fund: Missing contribution years and reduction in the pension conversion rate

The effects on the second pillar are based, by way of example, on the regulations of the Pension Fund of Credit Suisse Group (Switzerland). If a person takes early retirement at the age of 58, the conversion rate or pension is reduced by approximately 15.8% in comparison to retirement at the age of 65. Furthermore, there are fewer retirement assets saved, as savings and interest are not accrued for several years. Because salaries are generally higher towards the end of a career than during the early years and as retirement credits increase with age (in accordance with the BVG mandatory contribution from 7% at the age of 25 to 18% from the age of 55 onward; many employers voluntarily make significantly higher contributions), the years with the highest BVG contributions are therefore often omitted. Consequently, pension reductions can be quite considerable.

AHV: Pension reduction and prolonged obligation to pay contributions

Drawing an AHV retirement pension early results in a pension reduction – and this for the only lifelong inflation-indexed pension. Currently, this reduction is 6.8% for each year in advance of the statutory retirement age. If there is no significant reduction in life expectancy due to health reasons or if a person is not prematurely reliant on the AHV pension for financial reasons, this pension should only be drawn at the statutory retirement age. If the AHV pension is deferred, a supplement of up to 31.5% is awarded. As the average income earned across an entire career and the number of years of contribution, among other things, are used to calculate the AHV pension, early retirement from gainful employment can also lead to a reduction in the AHV pension, even if the AHV pension is not drawn in advance. Furthermore, AHV/IV/EO contributions must continue to be paid until the normal AHV retirement age. The contributions correspond to those for individuals who are not gainfully employed and, depending on pension income and assets, total between CHF 496 and CHF 24,800 per year.[3] When considering early retirement, it is essential to take the financing of these contributions into account.

Scenarios related to the impacts of early retirement

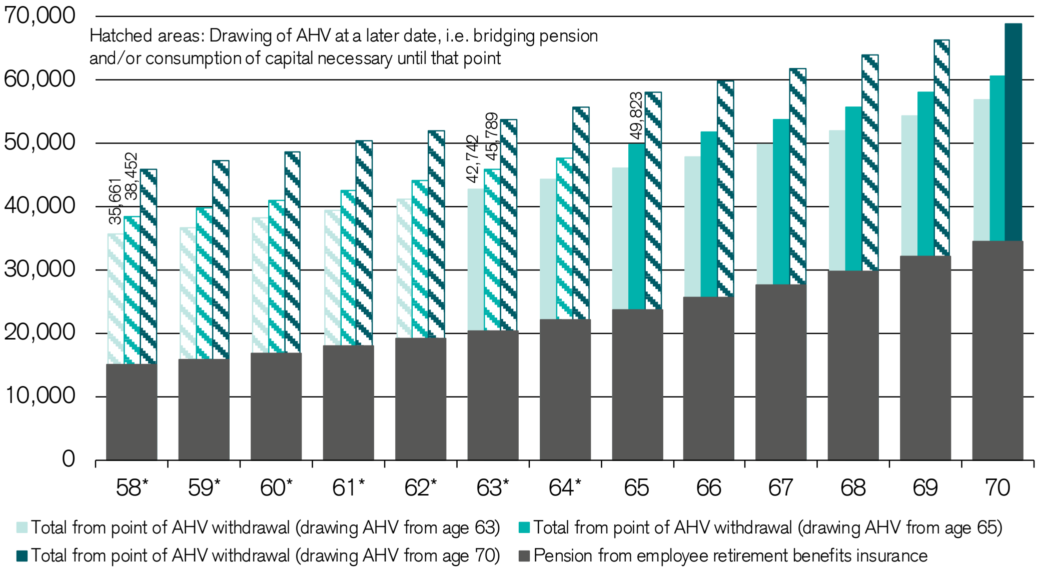
We have calculated various scenarios in order to illustrate the financial impacts of early retirement. The starting point is a model which estimates the expected pension payments from the first and second pillars for different generations and different income brackets. To reflect reality as closely as possible, often neglected factors such as wage and interest rate development and falling pension conversion rates are taken into consideration.[4]

Middle income: In extreme cases, there is a risk of a pension reduction of almost 30%

First, let us examine scenarios involving different retirement ages of a man in the middle-income bracket (e.g. a teacher) who has been working since 1985, has never taken any career breaks, has always worked full-time and would normally retire in 2025 at the age of 65. We assume a certain salary increase throughout his career, calculated on the basis of a realistic salary for the year 2010. In 2010, the starting salary for a teacher aged 25 was approx. CHF 70,000, realistically climbing to CHF 100,000 at retirement.[5] Using nominal salary growth, a nominal salary development can be approximated for an arbitrary period of gainful employment. In the case of our teacher, who will retire in 2025 at the age of 65, he will receive annual pension fund benefits of almost CHF 24,000, assuming a conversion rate of 5.36% (see figure). If he also draws his AHV pension at this point in time, he will receive a total income of CHF 49,823 per year, i.e. approx. CHF 4,151 per month.

Drawing a pension two years early results in a 14% reduction in income over the course of a person's life

Annual pensions drawn from the first and second pillars after giving up gainful employment (= pension drawn from employee benefits insurance) between the ages of 58 and 70; AHV pension drawn from the ages of 63, 65 or 70; male, middle-income bracket (teacher)



* The AHV pension may be drawn from the age of 63 at the earliest. AHV/IV/EO contributions for individuals without gainful employment must nevertheless continue to be paid until the normal AHV retirement age.

Example: When retiring at the age of 63 and simultaneously drawing the AHV pension, the total annual pensions would be CHF 42,742. If the AHV pension were only drawn at the age of 65, the employee benefits pension of approx. CHF 20,000 would have to suffice, along with any bridging pension and/or consumption of capital. From the age of 65, pensions totaling CHF 45,789 would be paid – a lifetime pension reduction of approx. CHF 4,000 per year compared to the case of gainful employment until the age of 65. Early retirement at the age of 58 – drawing the AHV pension at the age of 65 – reduces the annual pension income to CHF 38,452.

Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Credit Suisse

[3] See the contribution tables for individuals who are not gainfully employed, AHV/IV/EO, Federal Social Insurance Office: https://sozialversicherungen.admin.ch/de/d/6139.
[4] For a detailed description of the scenarios and the underlying assumptions, see Credit Suisse (2019), Second pillar: Growing divide between the generations.
[5] The income brackets in this chapter loosely correspond to the following examples: teacher with teaching qualification and no management position, retail salesperson with vocational training but no management position; legal counseling attorney with university degree and senior/middle management position toward the end of their career (source: Salarium – Individual salary calculator 2016, Federal Statistical Office). Salary developments based on the Swiss Salary Index of the Federal Statistical Office.

If the teacher retires at the age of 63, the pension fund benefits will be reduced to about CHF 20,000. Drawing the AHV pension at the same time, he would receive about CHF 42,742 (CHF 3,562 per month) – a reduction of 14% compared to if he would draw the AHV pension and pension fund benefits from the age of 65. If he were to defer drawing the AHV pension until the age of 65, his pension benefits would increase to CHF 45,789 per year. Retiring even earlier would result in even more significant reductions in pension income from the second pillar: Drawing pension fund benefits at the age of 58 would result in a reduction in income between 23% and 28%. Furthermore, these reduced pension fund benefits and, ideally, a bridging pension or the consumption of capital (private assets, Pillar 3a) must finance living expenses until AHV benefits are drawn.

Higher income: Early retirement accessible despite a higher percentage of pension reductions

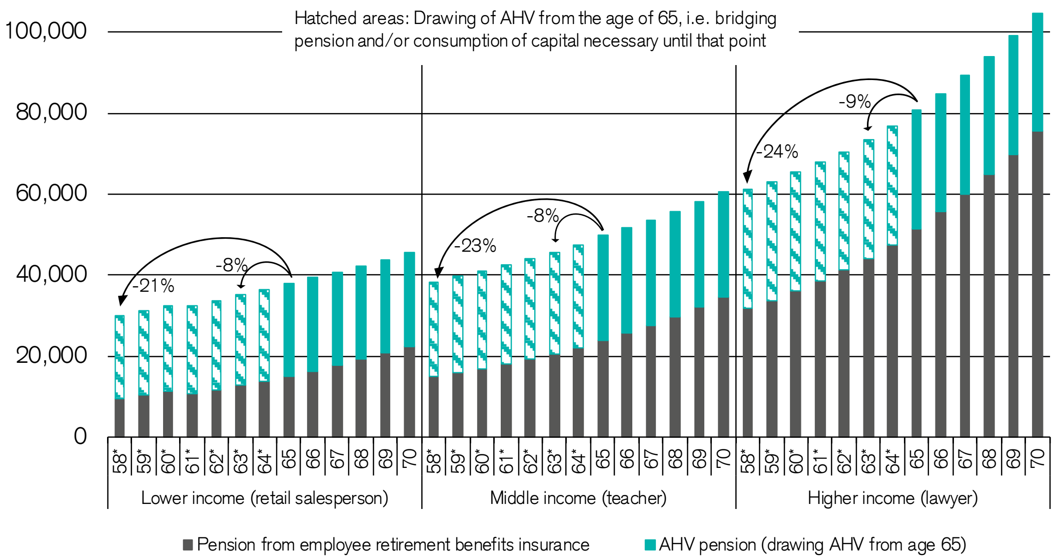
What is the impact of early retirement on lower and higher income brackets? To illustrate these cases, we use a retail worker (estimated salary development from a nominal starting level of CHF 50,000 in 2010 to CHF 70,000 at retirement) and a lawyer (salary development from CHF 95,000 to CHF 200,000). Because this is clearer and the vast majority only draw their AHV pension from the normal AHV retirement age, we subsequently assume that the AHV pension is drawn from the age of 65. When giving up work at 63, the lawyer will have to suffice with a lifelong pension income of about 9% less from the time he draws the AHV pension at the age of 65 than if he would retire at the age of 65 (CHF 73,395 compared to CHF 80,804). If he retires at the age of 58, his pension income will fall to CHF 61,181 per year – a reduction of 24%.

Lower income: Little scope for early retirement without additional sources of income

For lower income brackets, the percentage of pension reduction in the event of early retirement by two or seven years (8% and 21% respectively) is lower than for high incomes. However, for this income bracket the key issue is whether the person can or wants to accept the lasting reduction in pension income from CHF 38,112 to CHF 35,137 or CHF 30,062 (approx. CHF 2,900 or CHF 2,500 per month compared to almost CHF 3,200 when retiring at 65). Bridging the years until the AHV pension can be drawn would also represent a major obstacle, unless there is another source of income in the household (partner, investment income, etc.). These scenarios show that early retirement results in pension reductions that must be carefully considered and which must be offset as well as possible by means of appropriate compensation measures.

Potential reduction in income of over 20% over the course of a person's life

Annual pensions drawn from the first and second pillars, per income bracket; retirement (= pension drawn from employee benefits insurance) between the ages of 58 and 70; AHV pension drawn from the age of 65; male



* AHV/IV/EO contributions for individuals without gainful employment must continue to be paid until the normal AHV retirement age.

Example: When retiring at the age of 65 and simultaneously drawing the AHV pension, the total annual pension incomes for a retail worker would be CHF 38,112. Early retirement taken at the age of 63 or 58 (AHV pension drawn at the age of 65) reduces total lifelong pension income to CHF 35,137 or CHF 30,062 per year – a reduction of 8% or 21% respectively over the course of a person's life.

Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Credit Suisse

In the future, early retirement will become a more distant prospect

Low yields and falling conversion rates

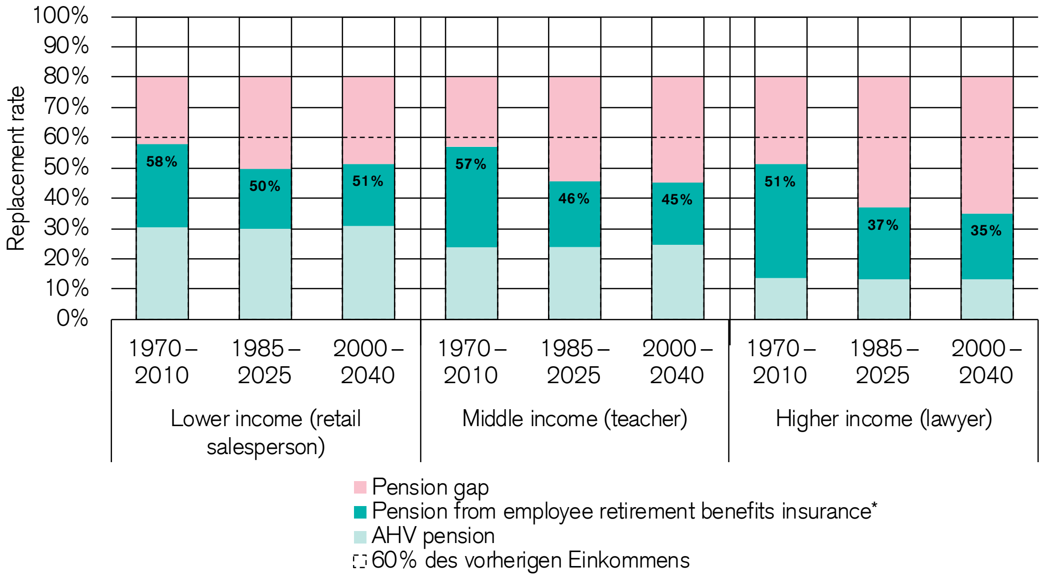
Today's pensioners benefit from decades of high yields in pensions from employee benefits insurance and conversion rates that, from today's perspective, were excessive from an actuarial standpoint. The asset accumulation of current workers, however, has been significantly curbed as a result of the low interest rate environment. What is more, a proportion of the yield must be used to finance the excessive pension payments pledged to current pensioners. Finally, conversion rates in the extra-mandatory area are falling across the board – a trend that is likely to continue in the coming years.

The pensions of future generations will fall significantly

Published in October 2019, our pension comparison[6] across several generations of workers showed that the pension situation in the future will deteriorate considerably if no countermeasures are taken: The replacement rates, i.e. the pension benefits from the first and second pillars in relation to the last salary income, are falling for people in the middle-income bracket from an estimated 57% in 2010 to approx. 46% starting in 2025 – and this without taking early retirement (see figure). In the lower income bracket, replacement rates will fall by 7 to 8 percentage points if no countermeasures are taken because pensions from the second pillar constitute a smaller proportion than the AHV and the minimum conversion rate plays a stabilizing role. In the high-income segment, however, pensions from employee benefit insurance account for the majority of revenue in old age. The decrease in replacement rates will be correspondingly significant, falling from 51% on retirement in 2010 to 37% in 2025. Conversely, the pension gap, i.e. the difference between the replacement rate and the financial needs, is growing in all income brackets.[7]

Without countermeasures, replacement rates will fall significantly

Pension incomes from the first and second pillars in relation to the last income, compared between generations for different income brackets



* To calculate the pension from employee benefits insurance, a minimum conversion rate of 7.0% at retirement was assumed for the low-income segment in 2010 and 6.0% starting in 2021, while for the middle and high-income segments, a conversion rate of 6.74% (2010), 5.36% (2025) and 5.09% (2040) was adopted.

Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Credit Suisse

Real pensions are also decreasing significantly, …

What are the implications for the early retirement scenarios considered above (see p. 13 ff.), which outline the situation for the second generation (employed from 1985 to about 2025)? To provide a clearer picture of whether the pension situation permits early retirement, we examine pension income in a comparison between generations, adjusted for purchasing power. Adjusted for purchasing power, the pensions for the second generation will be significantly lower than those of the first, who retired at the normal age of 65 in 2010. According to our estimations, the real value of pensions in the middle-income bracket (teacher) will fall from CHF 57,091 at normal

[6] For the complete pension comparison across four generations of workers and for different income brackets, see Credit Suisse (2019), Second pillar: Growing divide between the generations.
[7] Financial needs differ from person to person. Depending on the performance target of the mandatory employee benefits insurance, the AHV and pension fund should cover approx. 60% of the last salary. As a general rule of thumb, it is often assumed in financial planning that 80% of the previous income is needed after retirement.

retirement age in 2010 to approximately CHF 48,457 in 2025 at retirement in 2025 – a loss of 15% (see the red diamonds in the figure below). The pensions of the generation retiring at a normal age in 2040 will likely be even slightly lower.

… making it even more difficult to finance early retirement

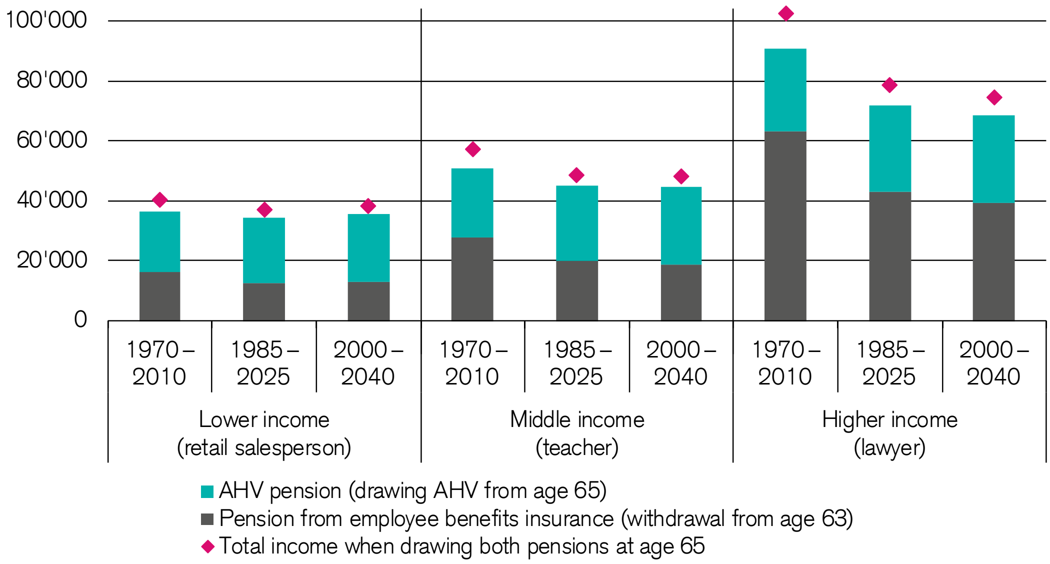
In light of this significant reduction in pensions – and the growing pension gaps – early retirement is becoming unachievable for an increasingly large proportion of the Swiss population. The columns in the figure below show how retiring at the age of 63 (only drawing the AHV pension from 65) might impact the pension situation of the three generations: While retiring two years early was perhaps still feasible for the first generation considered, (voluntary) early retirement would be far less realistic for the second and third generations.

Only a quarter of people over the age of 54 intend to take early retirement

Our analysis of the expected retirement age of future retirees – also based on the Swiss Labour Force Survey 2019 – could suggest that those concerned are well aware that early retirement is becoming an increasingly distant prospect. People over the age of 54 were asked when they expected to retire: 19% of women and 29% of men stated an age below that of the current statutory AHV retirement age of 64 and 65 respectively. In comparison to current pensioners (see p. 10: women 47%, men 56%), the far lower proportion of early retirements might reflect the fact that it is difficult to predict a precise retirement age. Involuntary early retirements (e.g. for operational or health reasons) and spontaneous early retirements ultimately result in a higher early retirement rate. Above all, however, a key factor is that pension funds have clearly increased their regulatory retirement ages in recent years, thereby increasing the costs of retiring before the AHV retirement age. Furthermore, the challenges faced by the Swiss retirement provision system must be acknowledged, at least by the relevant age group. The deteriorating pension situation and the range of measures being discussed to safeguard pensions on a sustainable basis – not least of which being the urgent long-term necessity of increasing the normal retirement age – are likely to cloud the prospects for early retirement.

Future pensioners must expect significantly lower pensions anyway – there is even less leeway for additional reduction due to early retirement

Annual pension incomes (expressed in real terms in CHF 2010*) from the first and second pillars compared across generations, comparison in the event of early retirement at 63 (columns) and a retirement age of 65 (red diamonds), whereas the AHV pension is always drawn at the age of 65



* Assuming continued low inflation of approx. 0.5% p.a.

Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Swiss Federal Statistical Office (National Consumer Price Index, LIK, to 2019), Credit Suisse

Political, economic and societal challenges make early retirement more difficult in the long run

Both in politics and society, better integration of older people in the labor market is increasingly being discussed. The growing lack of specialists in certain sectors can, in part, be overcome by allowing people to work beyond the age of retirement (see box). Although early retirements are entirely possible due to closures or restructuring in the event of an acute economic crisis related to the coronavirus pandemic, long-term developments would tend to argue against early retirements (see box on the following page). In the future, anyone who wants to make their dream of early retirement come true will need to examine the financial issues in greater detail.

Who will replace the future (early) retirees on the Swiss labor market?

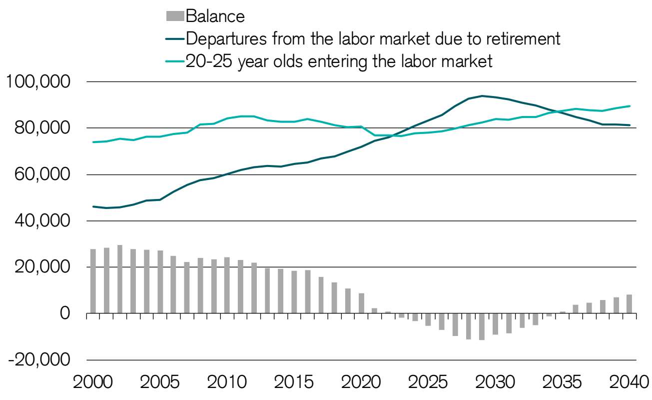
The wave of retirements among baby boomers (the generation born between 1946 and 1964) began in 2010 and will continue to gather momentum in the years to come. While about 92,000 people reached the normal AHV retirement age in 2019, the peak of the wave in 2029 could see over 123,000 retirements. In total, approximately 1.1 million people will reach retirement age between 2020 and 2029. Assuming that the participation of older people remains at current levels in the future labor market and the relevant age groups retire at the normal age of 64 or 65, an estimated 827,000 workers will retire from the labor market by 2029. Taking early retirements into account, part of the upcoming wave of retirements will be brought forward in time.

As a result of demographic change, there will soon be more people leaving the labor market than entering it. Comparing the amount of retirements to the number of 20 to 25-year-olds who may enter the work force in the coming years, it is clear that the number of people exiting the labor market will outweigh arrivals within only a few years (see figure). In sectors which are already suffering to some degree from a lack of specialists, the wave of retirements among baby boomers means an additional lack of staff, which can in turn result in bottlenecks. The lack of specialists will be all the more pronounced the greater the dependence on older employees (see figure), the stronger the growth dynamics and the smaller the leeway in the sector to offset missing specialists through improved efficiency and automation. This could be particularly problematic for the healthcare sector.

One option for closing the looming personnel gaps is to continue employing workers beyond retirement age. In 2019, only about 15% of men and 9% of women were employed beyond the statutory retirement age. In order to utilize the expertise of and work potential of older people more effectively, incentive structures must be adjusted both for companies (demand side) and employees (supply side) accordingly. It would be conceivable to raise and increase the flexibility of the statutory retirement age or to subject early retirements to more severe financial punishment while rewarding deferred retirements benefits. Accordingly, also from the labor market perspective, there is evidence that early retirement will become an increasingly more distant prospect.

There will soon be more departures than arrivals on the labor market

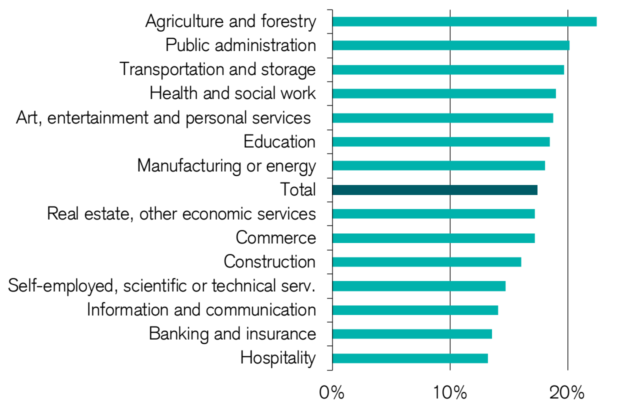
The number of workers (Credit Suisse estimations); retirement = reaching the normal AHV retirement age (64 for women and 65 for men)



Source: Federal Statistical Office, Credit Suisse

The impact varies from sector to sector

Proportion of people aged 55 to 64 in the working population in 15 years, 2019



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse

Swiss retirement provision: Coronavirus crisis exacerbates the difficulties

The economic consequences of the coronavirus pandemic find the Swiss pension system in a delicate phase: on the one hand, life expectancy in Switzerland has increased significantly in recent decades, and on the other, the low interest rate environment of the employee benefits insurance, which is funded through a prospective benefits method, has been a matter of concern for some years. While an estimation of the long-term impacts of the pandemic on the AHV and employee benefits insurance is still subject to numerous uncertainties, political discussion relating to the need for reform is likely to intensify.[8]

These discussions are expected to focus on the stabilization of the AHV, which has become even more difficult to finance, at least in the short term, than previously generally expected. While the excess mortality caused by the pandemic among those over 65 is relatively small and limited in time, the reduction in payroll resulting from job cuts and the subsequently lower salary contributions –which make up the majority of current pension funding – might be more severe and longer lasting. Furthermore, the AHV could suffer from a deterioration of other sources of funding: The equalization fund yield could fall, value added tax revenue could shrink and the immigration of foreign workers could decline somewhat.

In the second pillar, which depends more on funding through yields achieved on the financial market, market correction since the end of February 2020 has, as expected, had a drastic impact: in Q1 2020, retirement fund assets fell by 7.4%. While investment results should recover in the medium term, the current situation once again illustrates that pension funds have only limited means of counteracting the risk of a shortfall due to the promised interest rates and the associated pressure on yield.

Proposed reforms do not provide clear incentives for gainful employment beyond the retirement age, while the path to early retirement will likely become more difficult

Without any political countermeasures, the means of financing the AHV and employee benefits insurance is in jeopardy and a further reduction in benefits may become inevitable. To ensure long-term sustainability of the old-age pension provision system, the conversion rates and thus the pension payments must be reduced even further; the retirement age should also gradually be brought into line with demographic developments. The AHV finances would be doubly unburdened, as contributions would be paid in over a longer period of time while pensions would not be drawn for as long. For the second pillar, this would simultaneously extend the savings phase while shortening the average duration of pension payments. Last but not least, it is important to create conditions within the framework of the three-pillar system in order to keep pension gaps to a reasonable level. In light of this, private pension provision for those aiming to take early retirement will become even more important.

The proposed reforms currently under discussion include measures which are particularly relevant with regard to planned early retirement. In the first and second pillars, the retirement age for men and women shall be harmonized at 65. The AHV stabilization reform package (AHV 21)[9] provides for a flexible retirement age of between 62 and 70. Men could therefore draw the AHV pension one year earlier. Additionally, there would be a decrease in the reduction rate in the event of a pension being drawn early as well as in the increase rate for pension deferrals. This is justified by the fact that pensions will be adjusted over a longer period of time due to increased life expectancy.

	Reduction rate for pensions drawn early			Increase rate for deferred pensions				
	3 years	2 years	1 year	1 year	2 years	3 years	4 years	5 years
Current:		–13.6%	–6.8%	5.2%	10.8%	17.1%	24.0%	31.5%
AHV 21:	–11.1%	–7.7%	–4.0%	4.3%	9.0%	14.1%	19.6%	25.7%

[8] See Credit Suisse (2020), Switzerland as a Financial Center 2020, chapter entitled "Pension funds: Time is pressing for reforms" (p. 29 ff.) and Avenir Suisse (2020), Coronavirus Challenges Swiss Social Security.
[9] For more detailed information on the proposed AHV stabilization reform (AHV 21), see: https://www.bsv.admin.ch/bsv/de/home/sozialversicherungen/ahv/reformen-revisionen/ahv-21.html.

The AHV contributions paid in after the age of 65 would now be taken into consideration in the pension calculation – pensions could be improved and pension gaps closed. Last but not least, it shall be possible for pensions to be drawn early or deferred also in part, in order to facilitate part-time employment and a gradual transition into retirement.

The possibility of improving the AHV pension by working beyond the reference retirement age would be a welcome incentive to continue working. Simultaneously and significantly reducing the reduction as well as the increase rate is nevertheless a step in the wrong direction: deferring a pension would become less attractive while drawing a pension early would become more so. Furthermore, the allowance up to which no AHV contributions must be paid in the event of employment beyond the normal retirement age is to remain set at CHF 1,400, thereby making prolonged gainful employment less attractive.

In the second pillar, the consultation draft of the employee benefits insurance reform provides for the reduction of the minimum conversion rate from 6.8% to 6.0%.[10] To offset the pension reductions, a lump-sum monthly pension supplement is planned, which would be paid out lifelong to people who retire in the first fifteen years after the reform takes effect – independent of income. This would be funded by a 0.5% increase in salary contributions on all income that is subject to AHV. The undesirable redistribution from workers to pensioners in the second pillar would thus be further exacerbated. Overall, the focus is on revenue-side measures, including a slight increase of pension contributions (via an increase in contribution rates or a reduction of the coordination deduction).

With a view to the third pillar, the Council of States agreed a motion in September 2019 designed to facilitate a retroactive purchase in Pillar 3a if the maximum amount in individual years has not been exhausted. This type of retroactive payment option would first and foremost help to reduce 3a payment gaps resulting from work interruptions, for example for maternity leave or training. However, many non-paying or low-paying individuals would also benefit from this, including many young people (see box entitled “3a payment behavior in Switzerland” on p. 23).

[10] For more detailed information on the employee benefits insurance reform, see: https://www.bsv.admin.ch/bsv/de/home/sozialversicherungen/bv/reformen-und-revisionen.html.

Timely planning and offsetting pension gaps are essential

Anyone who would like to take early retirement must first examine the associated financial consequences. Pension gaps can be reduced by means of voluntary purchases into the pension fund, a bridging pension and the early development of a private pension provision. Furthermore, it is also important to use the tax benefits that result from a staggered withdrawal of pension capital.

Careful planning of the retirement age is becoming more important

As pension benefits will probably fall further in the future, careful financial post-retirement planning is becoming more important – in particular when considering early retirement. A realistic retirement age must be determined that is adapted to the person in question while addressing the associated pension gaps as effectively as possible. People should start planning for (early) retirement no later than at the age of 50, because there is still room for maneuver at that point. A number of key questions must be addressed when assessing your personal situation:

- Where do I want to spend my retirement?
- What are my AHV, pension fund and private pension provision entitlements?
- How do I calculate my current budget and plan my future budget?
- Am I ready to adapt my lifestyle?

The detailed analysis of these points makes it possible to determine the extent of the pension gap between expected income after retirement and financial needs. The latter are estimated from experience as they generally remain relatively unchanged. To offset any pension gaps, measures must be examined on a case-by-case basis for the second and third pillars.

Making use of flexible solutions in the second pillar

Voluntarily buying into the pension fund

There is often the option of voluntarily buying into the pension fund. Such payments may be made for several reasons, e.g. due to salary increases, changes in the level of employment, maternity leave or a reduction in the retirement capital due to a divorce or advance withdrawal within the framework of promotion of home ownership. These gaps, which can quickly become larger than the annual maximum payment in Pillar 3a, can be filled by a one-off payment or – generally more effective in tax terms – a payment distributed over several years. As payments can generally be deducted from taxable income, they are ideally made in high-income years in which no other major deductions, such as property renovations, can be taken. Furthermore, no lump-sum withdrawal should be made within three years of a purchase.

Bridging pension until payment of the AHV pension

Depending on the pension fund, it is possible to draw a bridging pension which complements the pension fund benefits until the AHV pension is also paid. The format nevertheless varies from one pension fund to another: some employers provide financial support for early retirement but, for the most part, it is financed from the pension fund capital that has been saved. This can result in a reduction retirement pension over the course of a person's life. Often, such reductions can be absorbed by voluntary payments into an early retirement savings fund. According to SLFS 2019, more than one third of people who took early retirement made use of such bridging pensions worth approx. CHF 2,300 per month on average.

Private provision

Prevent income and pension gaps with Pillar 3a

When making financial plans for early retirement, private pension provision is also very important. Private capital saved over the years – e.g. in the tax-privileged tied pension provision Pillar 3a – can help reduce income and pension gaps. As already mentioned, Pillar 3a funds can be drawn up to five years before the normal AHV retirement age. Anyone who is gainfully employed may pay up to the maximum legal contribution into Pillar 3a. For employees and self-employed persons who are insured with a pension fund, the maximum payment is currently CHF 6,826 per year. Employed persons without employee benefits insurance may pay in up to 20% of their net earned income, up to a maximum limit of CHF 34,128 per year.

It is worth beginning with Pillar 3a at an early date

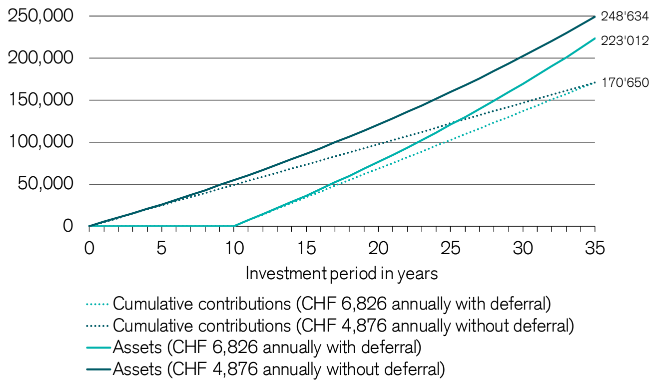
It is generally worth initiating 3a savings as early as possible, even without paying in the maximum amount. Those who save over a long period achieve higher final assets at the same yield due to the compound interest effect. This is explained using the following simple calculation example (see figure): Person A pays about CHF 4,876 p.a. into Pillar 3a over a period of 35 years. Person B begins to save ten years later, but pays the current maximum annual amount of CHF 6,826. While they both pay an identical amount, the "early bird" (person A) achieves an end capital more than CHF 25,000 greater than the "late bloomer" (person B), assuming an average annual interest rate of 2%.

Take advantage of yield opportunities by making use of securities

The second figure shows the impressive extent to which the yields obtained impact the compound interest effect and thus the capital generation in Pillar 3a. According to the Swiss National Bank (SNB), the average interest rate for 3a pension accounts is currently at the record low of 0.15% (as at May 2020). If this rate is applied over an investment horizon of 35 years and assuming annual payments of the current maximum amount, it will result in cumulative interest income of CHF 6,532 and an end capital of CHF 245,472. With an average interest rate of 1%, interest income increases to CHF 48,307 and, with a yield of 4%, the end capital is twice as high as in the scenario with the current low interest rates. The yield opportunities in Pillar 3a can be increased by making use of securities – history would suggest that securities are more profitable than interest accounts. This is nevertheless associated with higher risks and fees. Generally, the investor should match the share component to his risk tolerance and the remaining investment horizon. To lower the risk of selling securities at an unfavorable time, the security share should be reduced in good time before the planned withdrawal and be reconciled with the planned investment strategy for the period following (early) retirement.[11] Further considerations with regard to the withdrawal of 3a capital are examined in greater detail on page 24.

An early start is worth it – even with small contributions

Development of capital in Pillar 3a with regular payments (at the beginning of each year) of CHF 4,876 as well as the current maximum amount (CHF 6,826) beginning 10 years later; average interest rate/yield: 2% p.a.

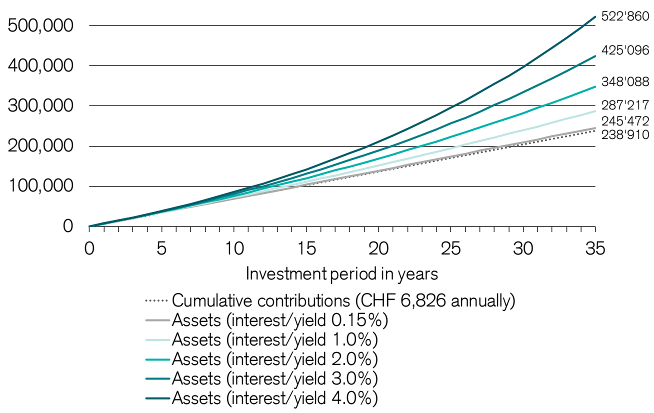


Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Credit Suisse

Interest rate/yield decisive in creating wealth

Development of capital in Pillar 3a with regular payments (at the beginning of each year) of the current maximum amount (CHF 6,826) with different assumptions about the average interest rate/yield



Past value performance or financial market scenarios are not a reliable indicator of future performance.

Source: Credit Suisse

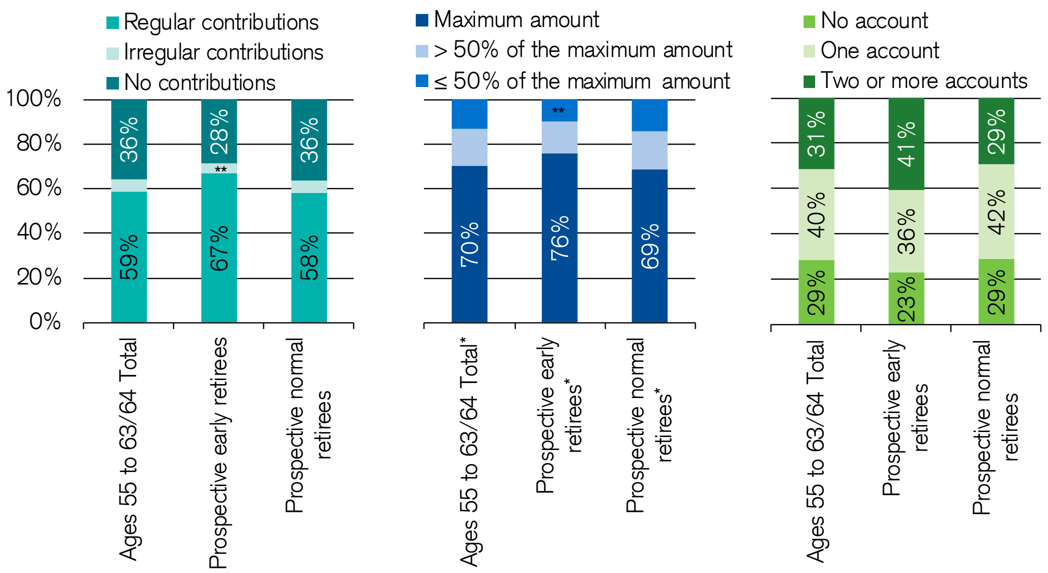
[11] These points should be noted when considering any vested benefits.

Prospective early retirees pay more and more frequently into Pillar 3a

Using the SLFS data for 2019, we have analyzed the Pillar 3a payment behavior of prospective early retirees. Prospective early retirees are workers over the age of 54 whose probable retirement age (according to their self-declaration) is below the current statutory retirement age of 64 or 65. The results of this analysis indicate that prospective early retirees examine the financial consequences of early retirement and are well aware of the importance of private pension provision in this context (see figure). 67% of prospective early retirees make regular payments into Pillar 3a, compared to 58% of other workers in the same age group and 53% of the entire Swiss working population (see box on the next page entitled “Attitudes on 3a payments in Switzerland”). In addition, employees who are prospective early retirees also pay higher Pillar 3a contributions on average – over three quarters of them pay the maximum amount. The differences with their peers also remain significant when controlling for other factors such as sex, income and region. The analysis also shows that prospective retirees are far more likely to have several 3a accounts, thereby enabling them to make staggered lump-sum payouts from Pillar 3a (see p. 24).

Those planning for early retirement makes above-average use of Pillar 3a

Payment behavior of workers aged 55 to 63/64 with regard to Pillar 3a, proportions %, 2019; prospective early retiree = the prospective retirement age is below the normal retirement age (64 for women and 65 for men)



Source: Swiss Federal Statistical Office (SLFS), Credit Suisse; * only people paying into Pillar 3a and insured with a pension fund.
** The results should be interpreted with caution in light of the small sample size.

3a payment behavior in Switzerland

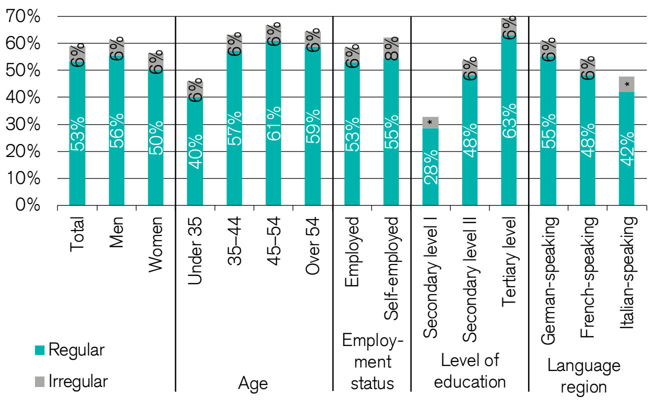
According to SLFS 2019, a total of 53% of Swiss workers between the age of 18 and the normal retirement age make regular payments into Pillar 3a. A further 6% make irregular payments. Compared to an earlier survey from 2015, the situation has not changed fundamentally: 55% of workers made regular contributions and a further 6% made irregular contributions to the associated private pension provision. The main reason for non-payment into Pillar 3a (i.e. in 44% of cases) is the lack of financial means, while 15% of those who do not pay in state that they have never thought about it or are not aware of this possibility. Among workers who pay into Pillar 3a and are insured with a pension fund, 55% pay in the maximum annual amount and a further 19% pay in more than half of that amount. Despite the potential tax benefits (see p 24), it is not particularly widespread to hold several 3a accounts: Only 36% of workers with a Pillar 3a state that they have several 3a accounts.

When evaluating the data according to sociodemographic characteristics, certain key differences can be observed (see figure). At 50%, for example, the share of working women who make regular payments into Pillar 3a is smaller than among men (56%). A regression analysis nevertheless shows that under identical conditions (e.g. same age, same education and income levels, similar family situations, etc.), women would actually invest slightly more often in Pillar 3a than men. The main motivation for payments into Pillar 3a is income, unsurprisingly. The fact that the share of women paying into 3a is effectively lower than that of men can, for the most part, be explained by income inequality between the sexes.[12] At 40%, the percentage of workers under the age of 35 making regular payments into Pillar 3a is also below average. In addition to insufficient financial means as a reason for non-payment, this age group cited a lack of know-how in regard to this instrument at an above-average frequency (22%).

In recent years and decades, the Swiss Pillar 3a market has grown steadily (see figure). At the end of 2018, the 3a assets held by insurance companies and banks totaled more than CHF 123 billion. Despite a slight increase in recent years, the penetration rate of securities in this figure is relatively low. In 2018, the Federal Social Insurance Office estimated that nearly 24% of 3a assets held by banks were invested in securities, compared to nearly 20% in 2013.

Approximately 60% of workers pay into Pillar 3a

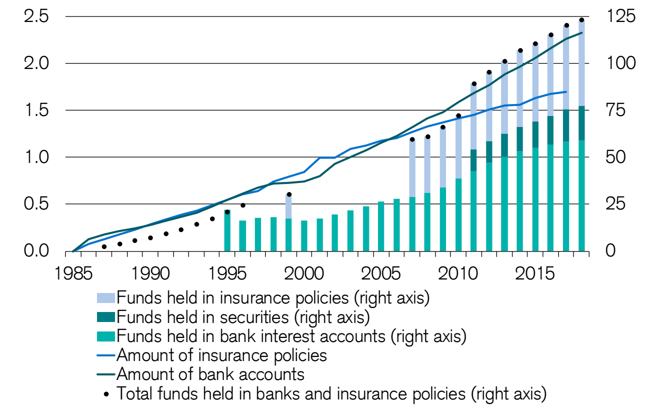
Payment of contributions into Pillar 3a, as a % of the working population between the age of 18 and the normal AHV retirement age (64 for women / 65 for men), according to selected sociodemographic characteristics, 2019



Source: Federal Statistical Office (SLFS) Credit Suisse; * The results should be interpreted with caution in light of the small sample size.

Pillar 3a: Penetration of securities remains relatively low

Pillar 3a: Number of bank accounts and insurance policies in millions, assets in CHF billion (banks: estimated assets in securities only available from 2011; insurance companies: data not available for all years)



Source: Federal Social Insurance Office, Credit Suisse; last data point: 2018

[12] For further information, see Credit Suisse (2019), "Mind the Gap: part-time, timeout, pension gaps".

Tax benefits through the coordination of lump-sum withdrawals

Begin planning staggered withdrawal of pension capital at an early date, …

When planning for retirement – and not only in the case of early retirement – it is important to consider when the capital will be withdrawn from the second and third pillars.[13] When withdrawing pension capital, this is taxed separately from other income at a reduced rate. All lump-sum payouts in a calendar year are taxed together, i.e. any payout from the pension fund capital or from vested benefits in the same year are accumulated with the Pillar 3a assets. Amounts withdrawn by spouses or registered partners are also counted together. As it is at the federal level, taxes on lump-sum payouts are subject to progression in most cantons: high lump-sum payouts are subject to proportionally higher tax. Accordingly, the staggered withdrawal of capital over several years offers considerable tax benefits in a number of cantons. A staggered withdrawal must nevertheless be planned in advance – not least because tax practices differ considerably from one canton to another.

- The capital from the pension fund cannot be withdrawn over several years. Partial retirement provides one exception to this rule (for details, see box on page 25).
- Vested benefit accounts and 3a accounts can also only be paid out in full. When withdrawing from the pension fund, the money can be divided between two different vested benefit facilities and several accounts can be opened in Pillar 3a. Vested benefit accounts and 3a accounts can be withdrawn up to five years after the normal retirement age. With 3a accounts, proof of continued gainful employment must be provided. For this reason, it makes sense to withdraw 3a accounts before normal retirement and any vested benefit accounts afterwards.
- Home ownership promotion offers a further possibility for withdrawing retirement capital: Depending on the situation, it may be prudent to make withdrawals from Pillar 3a or the pension fund to amortize, renovate or convert your own home. In the course of a home ownership promotion, Pillar 3a can be activated every five years. Up to five years before reaching normal retirement age, partial withdrawals can also be made from the 3a assets. After this, only the total assets can be withdrawn in a one-off transaction. It is therefore sensible to hold several 3a pension accounts. In principle, unlimited withdrawals from the pension fund are possible until you reach the age of 50. After this, either the assets available in the pension fund when you reach the age of 50 or half the current assets – the higher of the two amounts – can be used for your own home. Early withdrawals and pledges are generally permitted up to three years before the normal retirement age. Before pension capital can be used for home ownership, the financial pension situation should be examined in detail so that there is no risk of pension gaps during retirement.

… as the tax benefits are considerable depending on the canton

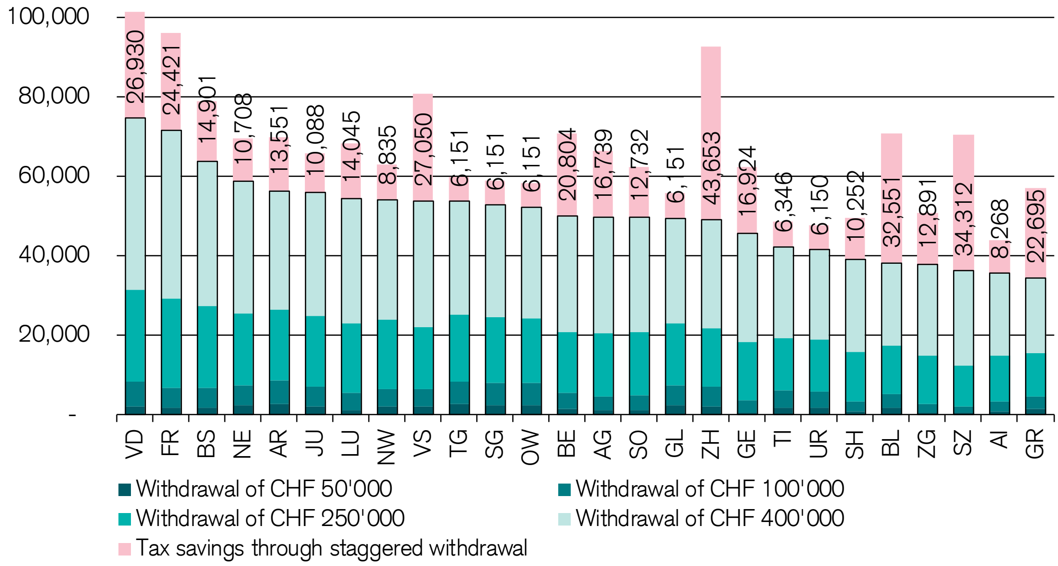
The tax benefits available through the staggered withdrawal of pension capital are substantial, depending on the region.[14] In the example below, through the staggered withdrawal of a total of CHF 800,000 over four years in the main cities of the cantons of Basel-Landschaft, Schwyz and Zurich, a married couple can, for example, save between CHF 32,551 and CHF 43,653 (see figure on p. 25). The cantons of Glarus, Obwalden, St. Gallen, Thurgau and Uri apply a single tax rate, regardless of the amount of capital withdrawn. In these cantons, there is less advantage to staggered withdrawal as only the federal portion of the tax is subject to progression. If a large amount of capital has been saved, it might be a good idea to plan a change of residence to a region with lower disbursement taxes, depending on your personal situation. This is especially the case if you wish to move into a smaller home or a holiday home. In this case, the focal point of your life must be shifted to the new place of residence and must remain there for a given period of time.

[13] The issues of how widespread lump-sum withdrawals from employee benefits insurance are, which factors must be taken into consideration in the "pension or capital" decision and the significant way this irreversible decision can impact the income available at retirement age, according to place of residence and tax situation, were explored in the following study: Credit Suisse (2018), Employee benefits insurance: capital or pension? Available online in PDF format at: https://www.credit-suisse.com/ch/de/unternehmen/unternehmen-unternehmer/aktuell/die-frage-nach-der-form-des-bezugs-des-altersguthabens.html

[14] The taxation treatment depends on the individual circumstances of each customer and may change over time. This document contains no tax advice of any kind. The general tax-related information contained in these documents in no way replaces comprehensive personal tax advice. Consult a professional tax adviser if you think it is necessary.

Great potential for tax savings through staggered lump-sum withdrawals

Taxes on lump-sum withdrawals taken over four years (e.g. CHF 50,000 and CHF 100,000 from Pillar 3a, CHF 250,000 and CHF 400,000 from the second pillar) compared to a single lump-sum withdrawal totaling CHF 800,000; married couple with two children; cantonal capitals; 2020



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Source: TaxWare, Credit Suisse

Partial retirement and reduced level of employment as alternatives worth exploring

An alternative to a costly early retirement is the option of taking partial retirement, i.e. gradually reducing professional activity. This avoids any sudden exit from professional life and the financial consequences are more manageable. Depending on the pension fund, the level of employment can be reduced in one or more phases once you reach the age of 58, with reductions of at least 20% permitted. The income reduction resulting from the reduced level of employment means that there will be fewer retirement credits in the remaining years than if the level of employment had not changed. Certain pension funds nevertheless allow you to continue paying in retirement credits on the basis of the previous salary even after a reduction in the level of employment. This avoids a reduction in the pension provision, although the employee must generally pay additional contributions.

Usually, when opting for partial retirement, the insured person has the choice of whether to take the pro rate pension fund assets as a lump-sum payment or as an annuity, or to defer the withdrawal until the normal retirement age. Accordingly, a staggered withdrawal of retirement capital is possible in the second pillar which can be incorporated into the strategy for staggered withdrawal of pension capital. If the pension fund is planning to reduce the conversion rate considerably in the near future, it could make sense to select an annuity as an early partial pension withdrawal. On the other hand, a higher conversion rate may be achieved when the last partial retirement step is taken as an annuity, despite the downward trend for conversion rates, because the conversion rate is not reduced due to early retirement.

In the first pillar, AHV contributions must continue to be paid on part-time income to ensure that there are no payment gaps. Depending on the case, the average annual salary obtained across the entire professional life may be reduced, which can result in a lower AHV pension. In the first pillar, a partial withdrawal of the AHV pension is not permitted, otherwise the usual rules concerning early withdrawals apply (see p. 12f.). It is advantageous that it remains possible to continue paying into Pillar 3a in the event of partial retirement.

Glossary

AHV	Old age and survivors' insurance. The AHV represents the first pillar of the Swiss pension system (mandatory state employee benefits insurance). It serves to secure the minimum subsistence level in old age or in the event of a death.
AHV/IV/EO contributions	Contributions to the old age and survivors' insurance (AHV), disability insurance (IV) and income replacement (EO), half of which are paid by the employer and the other half by the employee. For self-employed people, the income generated during the contribution year serves as the calculation basis. People who are not gainfully employed must also pay AHV/IV/EO contributions. The contribution is based on the level of assets and/or annual pension income.
Retirement assets	The aggregate sum of retirement credits, transferred vested benefits and voluntary purchases, including interest.
Retirement credit	Amount credited every year to the retirement assets of an insured person. The rates are established as a percentage of the coordinated (insured) annual salary and depend on the age of the insured person. The retirement credit is financed jointly by the employer and employee. Synonyms: pension fund contribution, BVG contribution.
Employee benefits insurance	Employee benefits insurance comprises the second pillar of the Swiss pension system. Together with the first pillar, the second pillar provides for the usual standard of living, within reason.
BVG	The Federal law relating to occupational old-age, survivors and disability provision took effect in 1985.
Coverage ratio	Ratio between the pension assets and the required insurance-related pension capital of a pension fund. If the coverage ratio is below 100%, a shortfall exists.
Purchase	Insured people have the option of closing gaps in employee benefits insurance by way of additional contributions (voluntary purchases). The maximum purchase possible is determined according to the pension fund regulation.
Vested benefit	Retirement assets transferred to the insured person in the event of a withdrawal from a pension fund (e.g. when changing jobs, termination benefit) and which must be paid into the new pension fund as a vested benefit brought into the fund on joining. Anyone who does not join a new pension fund must transfer the vested benefit to a vested benefit fund (either by means of an insurance policy or a bank account).
Coordination deduction	Amount deducted from the annual salary to determine the insured salary. The deduction totals seven-eighths of the maximum AHV pension (currently set at CHF 24,885).
Minimum conversion rate	Minimum conversion rate that the pension funds must apply to the mandatory part of the pension capital (currently 6.8%) at normal retirement age.
Mandatory/extra-mandatory benefits	The minimum old-age, death and disability benefits defined in the BVG are referred to as the mandatory segment while any additional benefits are referred to as the extra-mandatory benefits.
Normal AHV retirement age	Entitlement to an AHV retirement pension begins on the first day of the month after normal retirement age has been reached. The normal retirement age is currently 64 for women and 65 for men.

Pillar 3a

Voluntary private pension provision forms the third pillar of the Swiss pension system. It serves as an individual complement to the state pension provision and employee benefits insurance. Within the third pillar, a distinction is made between tax-privileged tied pension provision (Pillar 3a) and voluntary pension provision (Pillar 3b). The tied provision is only available to the working population.

Conversion rate

Percentage used to calculate the annual retirement pension to be paid from the retirement assets upon retirement over the course of a person's life.

Shortfall

A shortfall exists if, on the balance sheet date, the required insurance-related pension capital calculated by employee benefits insurance experts is not covered by the available pension assets. See also coverage ratio.

Pension fund

Institution of employee benefits insurance which pays recurring pension, disability and survivors' benefits. Every employer must have either their own pension fund or be associated with an existing pension fund, collective or common institution. Synonym: Pension fund.

A comprehensive glossary regarding retirement provision can be found on the website of the Federal Social Insurance Office (FSIO): https://www.bsv.admin.ch/bsv/de/home/glossar.html

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CH-8070 Zurich
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