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Pension or lump sum?

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

A central decision – the optimal form for drawing pension benefits

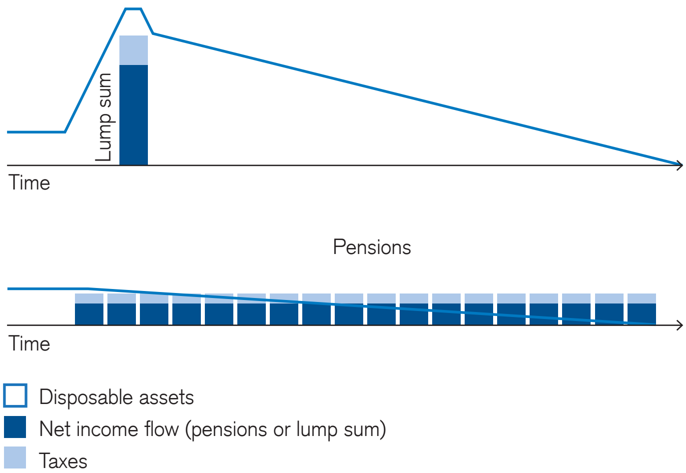
The question of how best to draw pension assets is one of the most important points in retirement planning. As this decision has a lasting influence on your financial situation and income level, it is particularly important to give careful consideration to this topic. Which factors are key in making this decision? What are the advantages and disadvantages of both options?

Influencing factors – personal situation and legal framework conditions

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

To put it briefly: A person who lives considerably longer than statistics predict is better served by a pension solution.

In addition to your personal situation, there are also legal, and regulatory framework conditions to consider. Besides applicable laws, the basic principles of the pension fund regulations are also of central importance. In this context, it is especially important to mention capital withdrawal restrictions and application deadlines for a lump-sum payout.



Tax conditions also play a role in the overall view. A lump-sum payout is taxed at a reduced rate at the time of payment, while regular pension payments are subject to ordinary income tax. Since other factors – particularly life expectancy and your personal situation – strongly influence the decision, tax considerations should not be weighted too heavily.

Source: Credit Suisse, unless otherwise specified.

Finally, the psychological element must also be considered. In the case of a lump-sum payout and corresponding investment of the funds, there may be greater fluctuations in the value of the assets that have to be tolerated, depending on the carefully selected strategy. By contrast, of course, there are additional return opportunities. If you want security and regular income, opting for a pension solution may help you to sleep more soundly.

Comparison

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

Drawing a pension – advantages and disadvantages
Those who decide to draw a pension can look forward to regular payments for life, without having to worry about capital investments. Furthermore, it is possible for married pension recipients to also be entitled to a life-long surviving spouse's pension.

Since investment decisions are not made individually and pension payments are not organized personally, the pension fund's financial situation also has to be taken into account. As the provider of benefits, it plays an important role, possibly in conjunction with an insurance company. It is responsible for making the regular pension payments, as well as any cost-of-living adjustments and special one-time payments.

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

Special caution is called for, because the funds must last until death. Investment risks must therefore be limited. Asset depletion must be strategic and restrained if necessary.

Personal preferences and the decision
There is no general answer as to which is the better solution. In actual fact, you do not have to fully commit to either alternative. You also have the option to choose a combination of partial lump sum or a pension, an option that is now enjoying growing popularity. It is possible, for instance, to draw the portion required to supplement the AHV pension and other fixed income to cover basic expenses in pension form. The remaining portion can be withdrawn as a lump sum to create a certain financial leeway.

After analyzing the influencing factors and weighing the advantages and disadvantages, you can make a sound decision that considers your own preferences and priorities. The pension fund must be notified of a lump-sum payout in good time (often several years in advance).

Contact us
We will be happy to arrange a personal consultation.
Call us at 0844 200 111;* Mon.–Fri., 08:00–20:00.

For further information, visit our website at:
credit-suisse.com/financialplanning

* Telephone calls may be recorded.

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SMMI 3 4194 01.2020