1e pension solutions

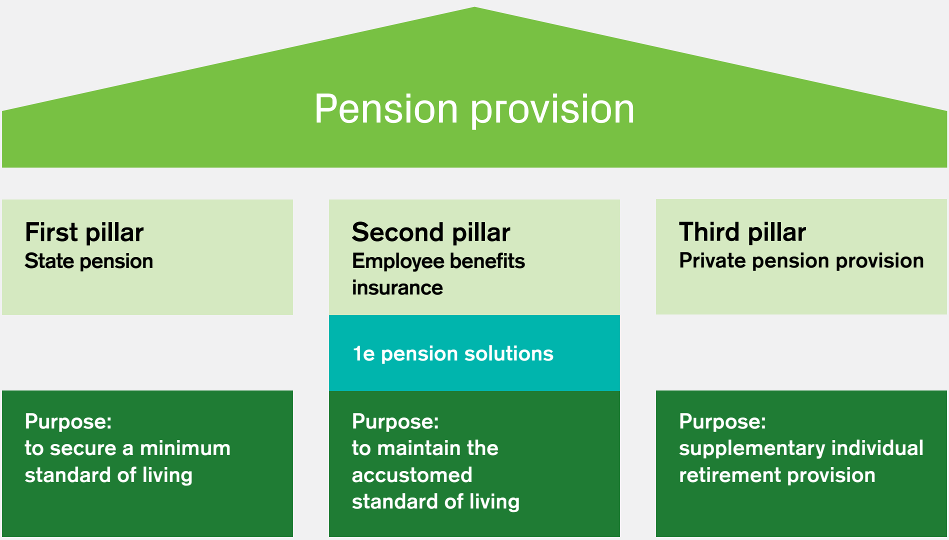
Credit Suisse

New opportunities for wealth accumulation

The Swiss pension system

The Swiss pension system is based on three pillars. The three-pillar principle aims to maintain people's accustomed standard of living in old age or in the event of disability and for surviving dependents in the event of death.

The three pillars of the Swiss pension system



First pillar

The first pillar, or the state pension, comprises Federal Old Age and Survivors' Insurance (AHV) and Federal Disability Insurance (IV), as well as any supplementary payments (EL). The first pillar is mandatory for everyone. It secures a minimum standard of living upon retirement and in the event of disability or death.

Most people hold the majority of their assets in their pension fund. However, the environment in which Swiss pension funds operate has changed significantly since statutory BVG insurance was introduced in 1985. More than anything else, the aging of the population presents a challenge for the pension funds from a demographic perspective. Due to this demographic trend, the ratio of employed persons to pensioners is decreasing in Switzerland. Accordingly, a redistribution effect exists which is incompatible with the system, which is why the Swiss pension system, particularly the employee benefits insurance, is facing major challenges.

Second pillar

The Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) entered into force on January 1, 1985, with the intention of enabling people to maintain their accustomed standard of living in an appropriate manner. Together with the first pillar benefits, it aims to provide a pension income of around 60% of the final salary. For the most part, the minimum requirements for the mandatory part of the employee benefits insurance are fixed in the BVG (statutory BVG insurance). However, individual pension funds are free to offer pension benefits that amount to a higher proportion of the salary. This is referred to as extra-mandatory employee benefits insurance.
Customized 1e pension provision solutions allow you to take advantage of the changes to employee benefits insurance. This allows you to create an appealing, modern setup for the extra-mandatory portion of your pension provision for salary components currently at or above CHF 127,980.

Third pillar

The third pillar covers individual private pension provision and is voluntary. Unlike ordinary savings, it involves certain tax advantages. It can be used to systematically close pension gaps. It can be used by the self-employed to compensate for the lack of employee benefits insurance.

1e pension plans

“1e plans” meet the growing requirements for more flexibility and individualization of pension provision: They allow the insured the freedom to individually choose their investment strategy according to their risk capacity and risk tolerance and have the potential to circumvent the challenges of the Swiss pension system.

The designation “1e plans” refers to Article 1e of the Ordinance on Occupational Retirement, Survivors’ and Disability Pension Plans (BVV 2). 1e pension assets are fully segregated from other pension fund assets, meaning that every insured person saves into their own “pool,” similar to the third pillar. This has the advantage of allowing the insured to choose their investment strategy themselves.

Depending on their risk profile, the insured can select from up to ten investment strategies, at least one of which must be low risk. In this way, the insured can benefit from potentially higher returns and become fully involved in the success of the investments.

In addition, they don’t need to accept any redistribution between employed persons and pensioners, which is incompatible with the system. Unlike other pension solutions, the insured fully bears the investment risk alone and receives the capital paid out upon retirement. In addition, it is possible to have a direct effect on investment costs – which, over the long term, is a critical factor in accumulating wealth.

The Credit Suisse Collective Foundation 1e
The Credit Suisse Collective Foundation 1e was founded in 2018 and insures employees of affiliated employers, self-employed members of a professional association, and self-employed persons together with their staff who earn an income that is subject to AHV and is above a specific amount (currently CHF 127,980). The Credit Suisse Collective Foundation 1e offers low administrative costs, attractive insurance premiums, and proven, cost-effective investment solutions.

Businesses, too, can benefit from 1e pension plans: Companies that are subject to International Financial Reporting Standards or US GAAP are required to create risk provisions for pension funds in Switzerland, which tie up equity capital. 1e is the only way to avoid these provisions and thereby free up equity.

1e plans have four main benefits for the employer. First, there is no risk of covering asset losses or restructuring costs on a portion of the pension assets. Second, there are no long-term pension obligations to the 1e pension assets, as these are normally paid in the form of a lump sum. Third, this equity capital relief in the balance sheet may prove to be particularly beneficial for companies that report in accordance with international accounting rules. Fourth, executive plans represent a solution for achieving a tax-optimal transfer of corporate assets to private assets in the context of income and asset structuring for entrepreneurs.

The solution for employees

Advantages

- Protection against redistribution, because the pension assets are managed separately
- Because there is an option to choose the investment strategy individually, the risk/return potential can be optimized for each individual life situation
- Direct participation in the success of the investments; the return on pension assets is fully allocated to the retirement assets
- Attractive and transparent pricing of the employee benefits insurance
- Investments can be adjusted monthly based on personal circumstances and plans
- Personal advice on all aspects of employee benefits insurance

Disadvantages

- The investment risk must be borne by the insured themselves
- The maximum possible purchase amount can be lower when compared to a traditional solution
- Losses can occur if withdrawal (retirement, change of employer, unemployment) takes place in an unfavorable stock market environment

Example for employees
Options for retirement provision, compared

Below, the new 1e solution is compared to private savings and the private pension provision (traditional pension fund solution).

Accordingly, individuals ask themselves how best to save for retirement – private savings in disposable assets or purchase of pension benefits. The following calculation is based on an annual investment of CHF 50,000 over 8 years – up to 3 years before the planned retirement date (total CHF 400,000) with the result that buying into a 1e solution provides nearly 30% more capital when compared with private savings and almost 15% more when compared to a traditional pension fund solution.

Calculation criteria

Town/city	8000 Zurich
Civil status	married
Taxable income canton 2018	350,000
Marginal tax rate in 2018	39%

Private savings (investment strategy “Growth,” returns before taxes 3.85%)

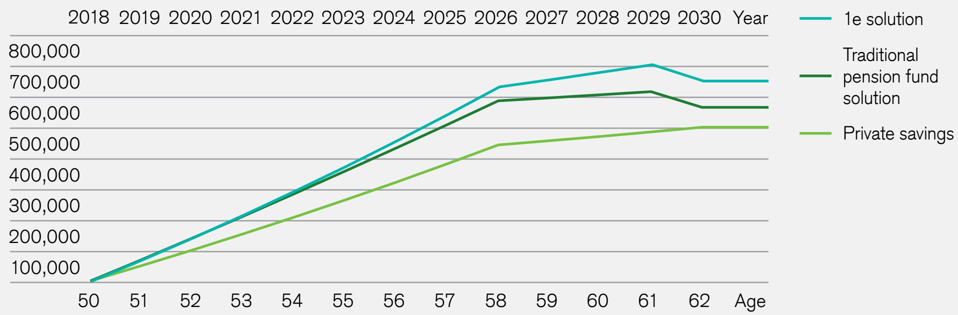
	Private savings	Purchase of pension benefits
Investments	CHF 400,000	
Income (after taxes)	CHF 104,891	
Investments tax savings 2nd pillar		CHF 157,120
Income (after taxes)		CHF 41,412
Total long-term assets	**CHF 504,891**	**CHF 198,532**

Saving for retirement with a traditional pension fund solution with average interest of 1%

Pension provision	Private savings	Purchase of pension benefits
Assumed interest		1.00%
Purchasing gap in 2nd pillar		CHF 400,000
Remaining pension assets in year of disbursement		CHF 800,000
Total 2nd pillar pension and assets	**CHF 504,891**	**CHF 568,060**
Advantage over "private savings"		CHF 63,169

Saving for retirement with a 1e solution [1]

Pension provision	Private savings	Purchasing pension benefits
Assumed return (investment strategy "Growth")		3.85%
Purchasing gap in 2nd pillar		CHF 400,000
Remaining pension assets in year of disbursement		CHF 800,000
Total 2nd pillar pension and assets	**CHF 504,891**	**CHF 652,257**
Advantage over "private savings"		CHF 147,366
Advantage over "traditional pension fund solution"		CHF 84,197



Source: Credit Suisse, unless otherwise specified

[1] It should be noted that, when comparing a 1e solution to a traditional pension solution, the purchase gap may be lower due to different legal calculation principles. These forecasts are not reliable indicators of future performance. This is an indicative asset allocation that may change over time.

Independently create
wealth. With our
1e pension solutions.

The solution for your company

Advantages

- Exemption from financial obligations that arise from the increase in life expectancy
- Underfunding of the employee benefits fund is impossible, because the insured bear responsibility for risks and opportunities based on their own preferences
- Accounting treatment as a defined contribution plan means the reserves required for covering asset losses in employee benefits insurance can be reduced (under IAS 19)
- Systematic advice provided to employees on all aspects of employee benefits insurance

Disadvantages

- Increases the complexity of employee benefits insurance
- The restructuring capacity may be influenced

Example of company risk reduction (IFRS)

Recognizing the 1e solution as contribution-oriented leads to removal of the pension assets and pension liabilities from the balance sheet. In doing so, the settlement can be entered relevant to success and can lead to extraordinary profit. This is explained in detail in the example below.

BVG 1e pension solution [1]

Initial situation
Uniform pension plan for all employees

BVG 1e pension solution
The company decides to introduce a 1e solution for all insured with an annual salary above CHF 130,000. Proportional to the salary, retirement assets of CHF 13 million will be transferred to the new pension solution.

Pension fund

Retirement assets:
CHF 20 million

Defined benefit obligation:[2] CHF 24 million

1e pension provision

Retirement assets:
CHF 13 million

Defined benefit obligation:[2] CHF 0 million

CHF 853,200

Basic plan

Retirement assets:
CHF 7 million

Defined benefit obligation:[2] CHF 8 million

CHF 130,000

	Pension fund	Difference	Basic plan	1e plan
Total DBO[2]	CHF 24 million	CHF -16 million	CHF 8 million	–
Retirement assets	CHF 20 million	CHF -3 million	CHF 7 million	CHF 13 million
Net DBL[3]	**CHF 4 million**	**CHF -3 million**	**CHF 1 million**	**–**

Source: Credit Suisse, unless otherwise specified

1 This is an indicative asset allocation that may change over time.
2 DBO (defined benefit obligation): Performance-related obligation from company retirement provision
3 Net DBL (defined benefit liability): DBO minus retirement assets plus any asset ceiling effect assumptions: Discount rate 0.7% Income increase: 1.50% Inflation 1.00% Interest rate 1.40% Mortality BVG 2015 GT lump-sum withdrawal upon retirement 20%.

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