

Occupational pension plan explained

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Occupational pension plan in Switzerland

A quick and simple introduction

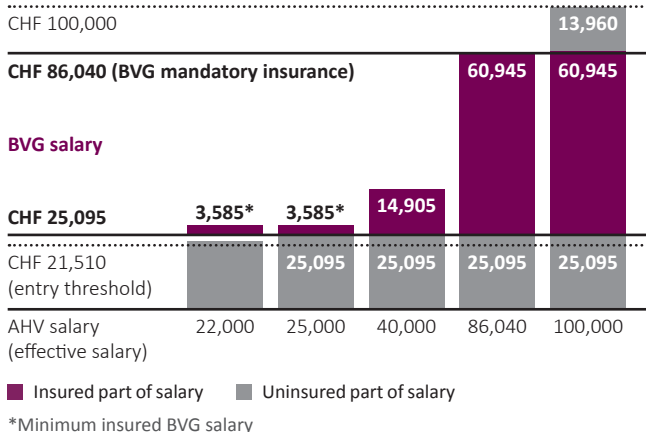
What is the purpose of an occupational pension plan?

AHV, IV and occupational pension plans have a common goal: To enable policyholders and their dependents to maintain in a reasonable manner their accustomed standard of living after retirement or in case of disability or death.

Which employees are covered by mandatory insurance?

All employees who are subject to AHV deductions are covered for the risks of disability and death starting on January 1 following their 17th birthday and for retirement benefits beginning on January 1 following their 24th birthday. The insurance covers annual salaries exceeding CHF 21,510, which is the entry threshold for BVG mandatory insurance.

Insured annual salary (BVG mandatory insurance)



The mandatory insurance covers annual salaries between CHF 25,095 and CHF 86,040. This «coordinated salary» (BVG salary) may not exceed CHF 60,945. The insurance cover pays out a minimum of CHF 3,585 for an annual salary exceeding CHF 21,510.

What benefits are provided by mandatory pension plans?

Mandatory pension plans include retirement benefits as well as survivor's and disability benefits, which are generally paid out as annuities.

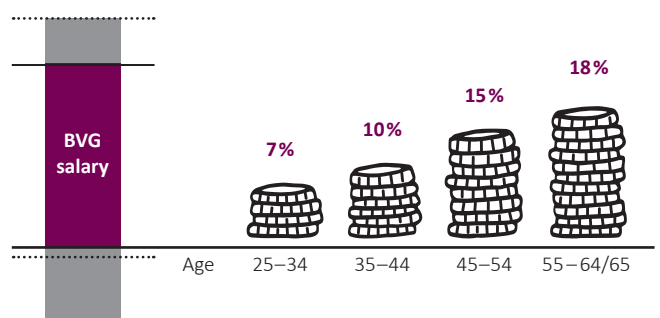
How are retirement pensions calculated?

Two factors determine the amount of the pension:

- the retirement assets
- the conversion rate

The retirement assets consist of annual retirement credits that accrue from January 1 following the insured's 24th birthday until the day of retirement. Retirement credits rise with the insured's age in a staggered fashion. Retirement savings capital earns interest at the minimum interest rate specified each year by the Federal Council until retirement.

Retirement credits in % of the BVG salary



Upon reaching retirement age (64 years for women, 65 years for men), the retirement savings capital is converted into an annual retirement pension using a «conversion rate».

Example of how annual pension benefits are calculated:

A conversion rate of 6.8% would convert retirement assets of CHF 100,000 into an annual pension of CHF 6,800.

In addition to the retirement pension, insurance coverage also includes a pension for spouses and for retired persons' children.



AHV

Swiss Federal Old Age and Survivors' Insurance.

IV

Swiss Federal Disability Insurance.

BVG

Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans.

Retirement credit

Annual credit on the retirement account, staggered by age and defined as a percentage of the coordinated salary.



Coordinated salary (BVG salary)

Under BVG, the portion of the annual salary falling between CHF 25,095 and CHF 86,040 must be insured. This portion is referred to as the «coordinated salary».

If the annual salary is between CHF 21,510 and CHF 28,680, the coordinated salary is rounded up to CHF 3,585 a year.

BVG conversion rate

Retirement assets are like a pie. The conversion rate states the size of the pieces cut out of the pie each year. The lower the conversion rate, the longer the pie will last, and vice versa. The current statutory conversion rate is 6.8%.

Vested benefits

Vested benefits are the assets that insured persons have saved up with the pension fund. When they leave the company, the assets are transferred to the new employer's pension plan or to a vested benefits account.

BVG minimum interest rate

Statutory interest earned on retirement savings capital under the occupational pension plan.

Lump-sum payment or annuity?

Retirement benefits are generally paid out in an annuity. Insured persons can also receive one-quarter of their retirement assets in a lump-sum payment.

What risk benefits are insured?

The risk insurance covers death and disability. It commences on January 1 following the insured's 17th birthday.

Death and disability benefits

If insured persons become disabled, they will receive a disability pension after a 12-month waiting period. The full disability pension is equal to the sum of the available retirement assets and future retirement credits (without interest), multiplied by the applicable BVG conversion rate.

Sample disability pension calculation (100% disability):

Available retirement assets of CHF 100,000
+ future retirement assets of CHF 250,000
= CHF 350,000,
CHF 350,000 x 6.8% (BVG conversion rate)
= CHF 23,800 annual disability pension.

Disabled persons are exempt from paying contributions but still enjoy insurance coverage (death).

If an insured person passes away, the surviving spouse is entitled to a spouse's pension of 60% of the full disability pension insofar as the surviving spouse has to pay for a child's living costs or is more than 45 years old and the marriage lasted for at least five years. Divorced spouses may also be entitled to benefits in certain circumstances. Registered partners are treated as equivalent to a spouse.

If the insured person has children, the children are entitled to a child's pension (disabled person's child's pension or orphan's pension) amounting to 20% of the full disability pension.

Under occupational pension plans, disability and death benefits are paid out in the event of illness and accident. In the event of death or disability following an accident, accident insurance (LAI) is the primary insurance, and BVG is secondary.

What happens to the retirement savings capital if employment is terminated?

Resigning employees are entitled to vested benefits amounting to the available retirement assets. These assets are transferred to the new employer's pension plan.

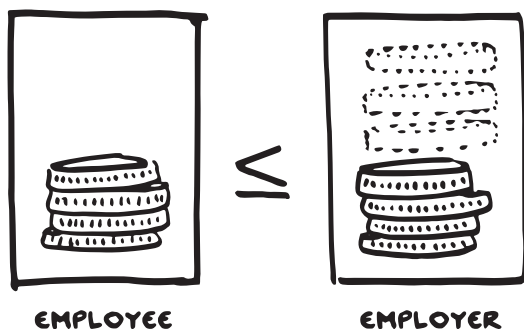
A cash payment is also possible in the following cases if requested by the resigning employee:

- permanent departure from Switzerland (provided the person is not leaving for an EU or EFTA member country)
- commencement of self-employment
- the termination benefit is less than one year of contributions for the insured person

How are occupational pension plans financed?

The total contribution is made up of savings contributions and risk insurance premiums. There are also BVG supplementary costs comprising contributions to the BVG security fund and contributions for the inflationary adjustment of statutory survivors' and disability pensions.

Employee contributions are defined in the pension regulations. Contributions are generally split equally between employees and employers, although the law allows employers to bear a larger share.



Interest payments on retirement assets

Retirement assets in occupational pension plans earn interest. The BVG minimum interest rate is determined each year by the Federal Council.

Early withdrawal for home ownership

Pension assets may be used to purchase or build owner-occupied residential property, acquire a holding in residential property or repay mortgages. Starting at the age of 50, the amount is limited to the pension assets accumulated up to that time.

Taxes

Contributions to occupational pension plans are tax-deductible just like AHV contributions. Purchases of occupational pension benefits are also tax-advantaged.

Pensions – whether old-age, disability or widow's or widower's pensions – are fully subject to direct taxes along with all other income. Lump-sum payments must be reported separately from other income and are subject to a reduced tax rate.

Occupational pension plans for the self-employed

Self-employed persons can voluntarily affiliate themselves with their staff's pension plan, an association insurance plan or the BVG substitute occupational benefit institution. If they do not participate in a pension plan, they can pay into pillar 3a. In this case, the maximum permissible deduction is 20% of their income or CHF 34,416 a year, whichever is less.

Additional pension provision

A company can set higher insurance benefits than those prescribed in the BVG. This can help ensure that employees set aside enough for retirement – particularly if they have higher incomes.

Do you have questions about occupational pension plans?

You and your employees can contact the Help Point BVG (phone 0800 80 80 80) Monday through Friday from 8 a.m. to 6 p.m. for any questions about occupational pension plans.

