

Insurance and pensions in Switzerland

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A company that employs staff in Switzerland pays into a three-pillar pension system. Knowing how it works lets you budget the true cost of Swiss employees and use the tax advantages the system offers owners and executives.

1 The three pillars

The Federal Constitution establishes the three-pillar system (Art. 111 BV). The first pillar is the state old-age and survivors' insurance (AHV/AVS), financed by contributions from employers and employees on the entire salary. The second pillar is occupational pension provision under the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), compulsory for employees above a salary threshold (Art. 2 BVG). The third pillar is voluntary private saving; contributions to the tax-privileged pillar 3a are deductible up to an annual ceiling.

2 The occupational pension as a planning tool

Pension funds may insure salaries well above the compulsory minimum. Voluntary purchases into the pension fund are deductible from taxable income (Art. 79b BVG; Art. 33 para. 1 lit. d DBG), and benefits taken as a lump sum are taxed separately at a reduced rate (Art. 38 DBG). For owners and senior executives this is one of the most effective legal ways to lower the Swiss tax burden. Lump-sum withdrawals within three years of a purchase are not tax-privileged (Art. 79b para. 3 BVG).

3 Foreign employees leaving Switzerland

Employees who leave Switzerland permanently can have their vested benefits paid out in cash (Art. 5 para. 1 lit. a FZG). Where they move to an EU or EFTA state and remain compulsorily insured there, the compulsory

part stays in Switzerland until retirement age; for moves to China, Hong Kong and other states outside Europe the whole amount can be withdrawn.

4 Insurance in wealth planning

Life insurance policies with an investment component, issued by insurers supervised by FINMA under the Insurance Supervision Act, are used to hold bankable assets, protect them and pass them on. Their treatment depends heavily on the tax law of the policyholder's country of residence.

5 What pays off in practice

- **Choose a pension plan that insures salaries above the minimum** for owners and key staff.
- **Plan purchases into the pension fund** over several years before retirement or departure.

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