Pensions

# SWISS PILLAR 3 PENSIONS

## YOUR GUIDE TO UNDERSTANDING HOW PENSION PLANNING IS ABOUT MORE THAN JUST RETIREMENT

YOUR E-BOOK

*from United Advisers*

# ABOUT THIS GUIDE

## Who this guide is for

This guide is for both expats and Swiss nationals who want to understand more about the Swiss pension system and specifically the different options that are available to them within the Pillar 3 structure.

You may have an existing pension scheme, or just want to protect your pension income in the future.

If you'd like to understand the difference between the various schemes, as well as their advantages and disadvantages, this guide is for you.

## How this guide will help you

This guide will not only take you through Pillar 3 and the various options, it will also educate you about saving towards pensions and common misconceptions.

After reading this guide, you should be better informed about both Pillar 3 and pension schemes and feel more confident about booking an appointment with an independent financial adviser to discuss next steps.

When you meet your financial adviser, you'll be in a better position to ask the right questions and ensure the advice you receive suits your needs.

### Common Pillar 3 issue: product not suited to your needs

Expats and Swiss Nationals alike, often select the Pillar 3 solution offered by their bank. For some, this is the right solution, but many select this pillar 3 option without realising there are other options available. Taking the time to reflect on your financial goals will help you pick the best solution for you and your family.

# AT ANY AGE IT'S EASY TO FIND AN EXCUSE NOT TO SAVE FOR RETIREMENT

## Age 25

"We're just getting started. We'll save more when we're making more income."

## Age 40

"We’ve got house payments, car payments, and the kids—we just don’t have anything left to save."

## Age 50

"As soon as the kids are out of school, we’ll be able to save for retirement."

## Age 60

"Our expenses are so high and the amount we need to save is just more than we can afford."

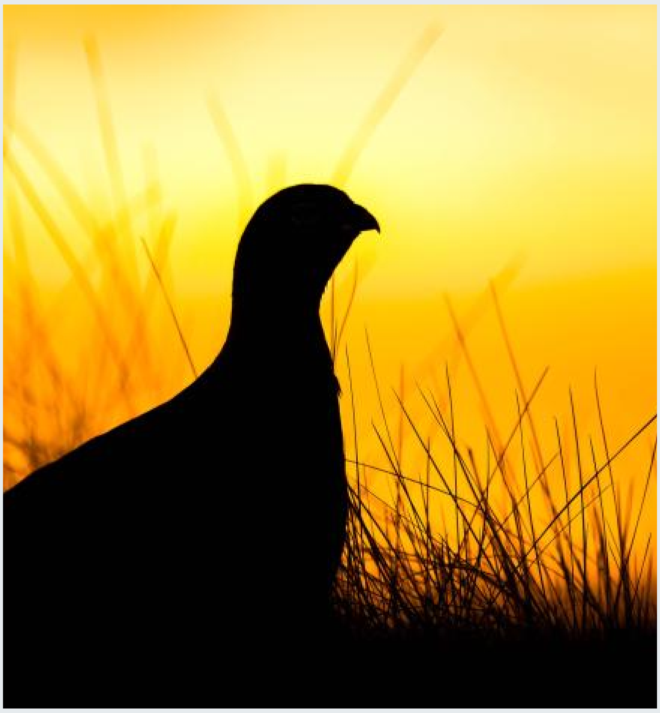
**PENSIONS TIP:**

THE BEST AGE TO START YOUR RETIREMENT SAVINGS IS NOW!

# WHY SAVING EARLY IS AN EXCELLENT IDEA

Unless you are exceedingly "independently wealthy", you will need to save on a regular basis to afford to fund life events like children's education, house deposit, that new car, the dream holidays, children's wedding expenses, and last but certainly not least, retirement.

Usually, neither the government nor your employer provides for an adequate pension, if they provide one at all and, in most cases, even if you have made some sort of personal provision for retirement the amount is usually woefully low.



## LIFE IS NOT A REHEARSAL

In recent years the responsibility for funding retirement has shifted from governments to individuals the world over, resting the responsibility of planning adequately for your retirement very firmly on your shoulders.

In other words; life, as they say, is not a rehearsal, and you need to take control; empower yourself, so that you can decide when and how you retire, rather than relying on any government, employer, or corporation.

As medical science advances, people live longer, meaning that governments around the world cannot sustain their pension-pot obligations. This pushes global retirement ages up, with 70 now being "the new 65" and beginning to become the new norm in many countries. As people live longer, increasing the numbers of retirees, this inevitably negatively impacts the State Pension Pot available to this, and future, generations.

As this progresses, Pension entitlements become much less generous with an increasing number of people facing severe risk of poverty in retirement. Imagine reaching retirement age, but not being able to retire because of insufficient income or savings.

# HOW DOES THE SWISS PENSION SYSTEM WORK?

## The Swiss pensions system has three pillars

### Pillar 1

Swiss State Pension.
Mandatory.
Meant to provide individual and survivors pensions to cover basic needs following retirement.

### Pillar 2

Occupational Pensions.
Compulsory for all employed individuals.
Funded by employer and employee contributions. Intended to provide a ‘comfortable’ income after retirement.

### Pillar 3

Optional Pensions.
Voluntary.
Funded by individual’s contributions. Designed to augment Pillar 1 and 2 pensions with the aim of maintaining the lifestyle you want post-retirement.

Diversification, or 'not putting all your eggs in one basket', forms the foundation of the Swiss pension system. The OECD in a paper on the Swiss system called Switzerland’s multi-pillar pension system a “Triumph of Common Sense.”

## There are two types of Pillar 3 pensions

3a.

### Pillar 3a

Tied pensions.
Long-term plans.
Capital locked into the retirement plan. Annual contributions restricted.
With occupational benefits plan: CHF 6,768.00* (2017 caps)
Without occupational benefits plan: CHF 33,840* (2017 caps)

3b.

### Pillar 3b

Flexible pension plans.
No statutorily prescribed term.
Capital available at any time.
No financing restrictions.

# 7 KEY BENEFITS OF A PILLAR 3

## 1.

### Solution tailored to your needs and goals

Unlike Pillar 1 and 2 pensions, Pillar 3 solutions can be completely tailored to cater to your circumstances. Pillar 3 gives you the opportunity to craft an optimum investment strategy forged around your needs, goals, attitude to risk, investment time frame, and security requirements.

## 2.

### Maintaining the lifestyle you want

For many, Pillar 1 and 2 pensions won't provide sufficient income during retirement to support their envisaged lifestyle. A Pillar 3 solution helps bridge that gap by tailoring a solution that ensures you can afford the lifestyle you want to lead when you retire.

## 3.

### Investment diversification

When it comes to investment, it's always a smart idea to mitigate risks from market movements by diversifying; avoiding putting all your eggs in one basket. Using Pillar 3 pensions gives you the opportunity to diversify your investment, so optimising returns, liquidity, capital protection, and coverage for risk.

## 4.

### Flexibility

Many people think that a signed pension policy can't be changed until the end of the contract. Many pillar 3 plans, however, can be changed and adapted as your circumstances evolve without any significant disadvantage, so your pension plan grows with you, for you.

# 7 KEY BENEFITS OF A PILLAR 3

## 5.

## Maximising tax relief

Tax relief is probably the most widely known advantage of contributing to both Pillar 2 and 3 pensions. Payments made to Pillar 3a plans are tax deductible and payment at maturity is taxed at a reduced rate, making it well worth considering reducing your annual tax bill by paying the maximum you can into a Pillar 3 pension.

## 6.

## Reducing risk and maximising return

Superior pensions and investment products have evolved over recent years, and those available now enrich the investment experience by offering innovative concepts for minimising risk and enhancing returns. Most include:

Dynamic capital accumulation with higher return targets
Investment profiles for any investment strategy
Planned disbursement
Capital availability
Options for a lump sum death payment or occupational disability pension

## 7.

## Security and peace of mind

Pillar 3 insurance solutions offer advantages like guaranteed capital at maturity, occupational disability protection, protection for your loved ones if you should die and, by law, payment protection.
There are a considerable variety of insurance products that combine protection with capital growth. These can be adapted to suit any lifestyle, and designed to focus on your future.

# HAVE YOU GOT THE RIGHT PILLAR 3?

## How do you choose the right Pillar 3 option for you?

Researching the many pillar 3 options available can be a time-consuming and confusing undertaking.  Broadly, however, these fall into two categories; solutions offered by banks, and those provided by insurance companies.

When it comes to deciding what the best Pillar 3 solution is for you, your personal circumstances and what you want to achieve in the future are the most important things to consider.

Before choosing the right option for you, it is essential you seek advice from an adviser who fully focuses on you, your family, and your goals; who can fully understand your current circumstances and your future desired lifestyle to help you design and navigate a path between the two.

No-one knows for certain what might happen in the future. It makes a lot of sense to identify private pensions that resonate with your financial goals and individual circumstances.

## Why choose a Pillar 3 banking solution?

If you have no-one you need to protect financially, like a partner or children, a banking solution may be right for you.

Contributions are entirely voluntary and not tied to defined times and amounts, so a banking solution may suit you if you don't want the structure a savings plan brings.

As there are no contract terms, no payment obligations, and it's possible to change banks when you want, the key incentive for adopting an unstructured banking solution is flexibility.

# WHY CHOOSE A PILLAR 3 INSURANCE SOLUTION?

## Insurance solutions offer guaranteed capital when they mature

If your focus is protecting your financial future, and that of your family and dependents, then an insurance solution is for you.

Alongside guaranteed capital on maturity, Insurance solutions offer occupational disability protection, protection for your loved ones if you should die and, by law, payment protection. In short, the byword for insurance solutions is 'security'.

Because insurance products combine protection with capital growth, they are the most popular, and widely used, solutions.

> There are a vast variety of insurance products that can be adapted to suit any lifestyle, and designed to focus on your future.

Whether you want the flexibility offered by a banking solution or the security offered by an insurance solution, your decision should always be based on your circumstances both now and in the future, as well as your goals and the lifestyle you expect to follow in retirement.

Properly analysing where you are now, determining where you want to be in the future, and planning how to get there is no mean feat and not one we recommend executing on your own but sharing with your financial adviser.

# WHEN IS THE BEST TIME TO START SAVING?

The short answer is “Right now!”

Imagine if your parents set up a pension plan for you from birth. How much would it be worth now? Enough for you to retire today? Probably!

For the years you could have saved, you've already lost substantial compounded growth and time in the market. We're all living longer, however, and with life expectancy now over eighty for both men and women it’s not unreasonable to say that if you start investing now, you stand a chance of regaining some of that loss.

## WHAT THIS LOOKS LIKE IN NUMBERS

**Today, a couple wishing to live a comfortable retirement will require a lump sum of €1 million to fund annual expenditure of €40,000.**

In the next twenty years, the cost of living is likely to double so, by the time you want to retire, inflation will substantially increase the amount you need to save to fund an annual expenditure equivalent to today’s €40,000.

As an example of how time affects savings, let's assume you want to stop work at fifty and retire on a monthly income of €4,000. Assuming you live thirty years in retirement, and your investment grows by 5% a year, you would need a retirement fund of €757,713 to support a monthly income of €4,000.

To reach a retirement fund of €757,713 by the time you reach fifty, you would need to save €1,288 every month from age twenty-five. If you started saving at the age thirty, rather than at age twenty-five, you would need to save an additional €571 every month to achieve the same €4,000 monthly income.

# HOW DOES A TYPICAL SAVINGS PLAN WORK?

When you invest, your minimum target should be to beat inflation each year.

To maximise returns, the ideal solution is to use a savings account that puts your investment into high-grade investment funds, rather than keeping money in a bank where, in real terms, you will lose money every year as the rate of inflation eats into the buying power.

Historically, over the long term, funds outperform all other asset classes including, cash, bonds, property, and commodities; a fund simply holds an extensive collection of different equities that, because you buy into the fund, you then own part of.  A fund can offer the diversity you need to ensure your “eggs” are not all in the same basket.

**Your adviser can help you find suitable products you can use to save for retirement, and those that are suitable for saving for life’s other expenditures, like that new kitchen, new car, your children’s education expenses, and wedding expenses.**

Having said that funds are an efficient way to go, it’s wise to bear in mind that past performance of individual funds is not a guarantee of future performance.  The only investors who shouldn't diversify are those who are right 100% all the time, and we’ve never met anyone with that level of insight!

It is impossible for anyone to predict which investments will deliver the best returns every year into the future, but creating an investment portfolio diversified across different asset classes and geography allows you to maximise returns, and reduce risk.

It is important to note here though that you are saving for your retirement.  This is, therefore, a long-term investment that performs over time. This type of investment is NOT intended, and should never be viewed, as a short-term investment you can access to pay for that new kitchen or a new car.

# WHY WORK WITH UNITED ADVISERS?


United Advisers Group have provided much-needed guidance to expats across Europe. As independent financial advisers, we offer unique packages and solutions to our clients.

## Clients tell us that what they value the most is the personal service we offer

When working with United Advisers you will have a close relationship with your Wealth Manager. Your adviser will always start by talking with you about your goals, and what you want to achieve in short, medium, and longer terms. We work with you to ensure continuing collaboration that effectively organises your finances to help you achieve your goals.

1. Crafting a comprehensive plan based on a clear understanding of your needs
2. An appropriate legal framework to hold and transfer assets
3. An effective trust and strategy for reducing inheritance tax liabilities
4. An institutional class investment service, low cost and risk managed
5. Clear and concise communication
6. Complete cost transparency

# LEGAL



The information provided in this publication is intended for guidance only.  While the Information within it is correct at publication, Pensions Legislation changes regularly and, although we make every attempt to keep such guidance up to date, in the event of revised legislation, there may inevitably be transitory inaccuracies while we republish the guide to include new rules, and their impact. The factual information regarding various options described is provided on the basis of current legislation and is subject to an individual's personal circumstances.   We recommend, in all cases, seeking specialist advice so that your individual circumstances can be fully considered.



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