MOORE – RETIREMENT PACKAGE

CONTENTS

Forms and templates can be found in the flap at the back of this brochure.

RETIRE WITH PEACE OF MIND – THANKS TO SOUND PLANNING

Retirement is one of the most important moments in our lives – chronologically, socially and also financially.

To a certain extent, you are free to determine when to retire and how to use your saved pension assets. However, to make the most of this leeway, it is important to start planning your retirement well ahead of time.

When entering retirement you will need to make decisions of great financial significance – for example, whether to retire early or perhaps wait until after the statutory retirement age, whether to have your pension-fund assets paid out as a lump sum or draw them as an annuity, whether to pay off the mortgage on your home beforehand, and so on.

With sound planning and by making the right decisions, you can improve your income in retirement, reduce your tax bill and provide for your dependents.

This guide contains key information about planning the financial aspects of your retirement. In the first part, it contains a systematic overview of the regulations governing each of the three pillars – the old-age and survivors' insurance (OASI, including supplementary benefits), pension funds (PF) and Pillar 3a. In the second part, you will find our answers to the most frequently asked questions about retirement. The brochure concludes with a chart containing a summary of what you should do and when to ensure sound retirement planning.

In many respects, this guide can only point out the general approaches that are available. Often, our own personal circumstances are complex and make retirement planning very challenging. Should you wish to entrust your financial affairs and your future to experienced professionals, we would be delighted to advise and assist you in person.

We wish you every success with your retirement planning – and ultimately a carefree and enriching new phase of life.

1. INCOME FROM THE THREE PILLARS

1.1 OLD-AGE AND SURVIVORS' INSURANCE (OASI: 1ST PILLAR)

The ordinary retirement age is 64 for women and 65 for men. Entitlement to the OASI pension arises on the first day of the month following the birthday on which the statutory retirement age is reached. Under current law, insured individuals can draw their pension up to two years earlier or defer it for up to five years after reaching the statutory retirement age.

For example, the amount of your pension from the 1st pillar (the OASI) will depend on your average annual income from 1 January of the year after you turned 20 until the end of the last calendar year before you reached the statutory retirement age, as well as on your number of years of contributions. The maximum pension is only paid to those who have earned an average annual income of CHF 86,040 or more over the entire contribution period of 44 years (for men) or 43 years (for women) and have paid OASI contributions without interruption. When calculating the contribution, certain revaluation factors and any education and care credits are also taken into account.

The revaluation factors are designed to adjust earned income from years with low wage levels in line with the average wage and price trends. The applicable revaluation factor is determined by the first entry in the individual's account (however, this cannot be earlier than the calendar year in which they turned 21 years of age). For example, a revaluation factor of 1.136 is applied for a person whose first eligible entry was in 1972. For people whose first entry was in 1984 or later, the revaluation factor is 1.

The earned income and credits for the years in which a person was married or in a civil partnership are divided in half and credited to each partner; this is referred to as "splitting". Splitting takes place as soon as both partners have reached the regular OASI age, or in the event of divorce or separation, or if a widowed person is entitled to an old-age pension.

The retirement pension is not paid out automatically when the insured person reaches the retirement age. Anyone wishing to draw an OASI pension must first apply for it (see 1.1.4). It is advisable to apply for the pension at least three months before the desired start date – this will ensure that the relevant compensation fund has enough time to calculate the pension. Before applying for your pension, you will need to decide on the desired start date.

1.1.1 Höhe der AHV-Rente und Kontrolle

Individuals who have been insured without interruption for 44 years will receive a pension of at least CHF 1,195 (up to a maximum of CHF 2,390) upon reaching the statutory retirement age. Married couples will jointly receive a maximum of 150 per cent of the maximum pension, i.e. a maximum of CHF 3,585 (as at 1 January 2021). Retirees with children – who are either minors or aged under 25 and still in education – will receive an additional child benefit of up to CHF 956 per month per child (as at 1 January 2021).

Basis for the calculation:

- The decisive factor is the retirees's average annual income (as defined under social insurance law and on which OASI contributions were paid) that was earned between 1 January of the first year after they turned 20 until the end of the last calendar year before they reached the statutory retirement age.
- In addition, there are credits for bringing up children (education credits) and caring for relatives (care credits).
- Gaps in contributions may result in a reduction to the OASI pension of at least 2.3% per year. Any OASI contributions owed can be paid in arrears within five years of the occurrence of the gap. In addition, contributions earned as a teenager (i.e. from the age of 18 to 20) are used to cover gaps (if there are no gaps subsequently, these contributions are irrelevant).
- Pension splitting takes place in the case of married couples and civil partnerships, i.e. the partners' incomes are each divided in half and one half is credited to the other partner.
- There are also other calculation factors, such as an adjustment for inflation.

The pension of the partner who retires first is calculated on the basis of his or her own average annual income. The income earned during the marriage or registered partnership is not split until the second partner retires. Since earned income is usually unequally distributed between men and women, many male pensioners receive the maximum single pension until their partner retires. Female pensioners, on the other hand, often receive only the minimum pension until their partner retires.

If one partner dies, the surviving partner's retirement pension is recalculated. The surviving partner receives a pension like a single person, but with a widower's supplement of 20%, limited to a maximum of CHF 2,390 per month (as at 1 January 2021). Widowed persons who meet the requirements for an old-age pension will receive the higher of the two pensions.

The cantonal compensation office will provisionally calculate your future OASI pension in advance upon request. This gives you an idea of what to expect so you can plan more easily. You will find the form for the "Application for a pension projection" in the flap at the back of this brochure or at https://form.ahv-iv.ch/ahv/jsp/front.jsp?app=AHV-IV&form=318_282_v4&lang=de.

The OASI pension is based on a complex set of calculations. In some cases, the compensation offices may inadvertently overlook pension splitting, care credits or individual incomes. It is therefore advisable to have your pension calculation verified by qualified experts.

1.1.2 Early withdrawal of the OASI pension

Early withdrawal is only possible by one or two full years, not by individual months. You should submit your application for early withdrawal of your retirement pension about three to four months before reaching the age at which you wish to make the early withdrawal. The application must be submitted no later than the last day of the month in which you reached the relevant age. Otherwise, the early pension can only be drawn with effect from your next birthday. Retrospective applications are not accepted.

Drawing your OASI pension two years early will cause the pension value to decrease by 13.6 per cent. If drawn one year early, it will decrease by 6.8 per cent. Child benefits will not be paid out during the early withdrawal period. Any current disability insurance and survivors' pensions will also lapse.

If the OASI pension is drawn early, OASI contributions must continue to be paid until the statutory retirement age is reached, even if these contributions no longer affect the amount of the OASI pension. This obligation to contribute will only be waived if your partner pays an annual contribution of at least twice the minimum amount, which is currently CHF 1,006 (as at 1 January 2021).

Whether drawing your OASI pension early – and thus accepting a lifelong reduction in its value – is financially worthwhile will depend on your life expectancy as well as your personal income, assets and tax situation. It is often preferable to use private savings, such as a savings account or the third pillar, to bridge the income gap in the event of early retirement.

1.1.3 Deferral of the OASI pension

Deferral of the OASI pension is possible up to five years after reaching the statutory retirement age. The OASI pension increases by 5.2 per cent if deferred by one year, up to a maximum of 31.5 per cent if deferred by five years. However, deferral only increases the value of your own pension, not your partner's old-age pension. However, the survivor's pension is increased.

Anyone who continues to work after reaching the statutory retirement age must continue to pay OASI contributions (tax-free amount: CHF 16,800 per year as at 1 January 2021), whereby this will have no effect on the size of their pension. Anyone who has multiple jobs and is paid separately for them can claim the tax-free allowance for each activity.

If you wish to defer your pension, you cannot simply wait and apply for it later, otherwise you will only receive the normal pension without a supplement. Applications to defer the OASI retirement pension must be submitted no later than one year after reaching the statutory retirement age. Once the deferment has been registered, the pension can be claimed from the compensation office at any time using a form, as it is not necessary to announce in advance by how many years the pension will be deferred.

A larger pension will only be paid at the earliest after a deferment period of one year. Within this period, the deferment can be revoked and the regular pension drawn retrospectively from the time the insured person reached retirement age. After expiry of the first year of pension deferment, it is no longer possible to revoke the deferment and claim the pension retrospectively.

Apart from the fact that deferring the OASI pension can increase the pension's value by up to 31.5 per cent (and thus substantially improve it), from a financial point of view a deferral is usually only worthwhile for people with a longer-than-average life expectancy. According to the Swiss Federal Statistical Office, the average life expectancy is around 82 years for men and just under 86 years for women.

1.1.4 Application for OASI pension / registration

The OASI pension (early withdrawal, ordinary withdrawal and deferral) is applied for using the form "Application for a retirement pension". You will find the form in the flap at the back of this brochure or at https://form.zas.admin.ch/ahv/jsp/front.jsp?app=AHV-IV&form=318_370_v5&lang=de.

To receive a regular pension, you must submit the completed registration form to the compensation office to which you last paid contributions by the last day of the month before your 64th (for women) or 65th birthday (for men). For insured persons whose spouse or civil partner already receives a pension, the form should be sent to your partner's compensation office. Submit your application at least three months before the pension's start date to ensure that the compensation office has enough time to calculate your pension.

For the early withdrawal or deferral of the OASI pension, use the same registration form and indicate via the corresponding code whether the pension is to be withdrawn early or deferred. It is advisable to apply for early withdrawal at least three months before your 62nd or 63rd birthday (for women) or 63rd or 64th birthday (for men). Your application must be submitted no later than the last day of the month in which you reach the relevant age, and for a pension deferral no later than one year after you reach the statutory retirement age.

The following enclosures must be sent with your application:

- Copies of the identity cards of all family members (e.g. family booklet, ID or foreigner's identity card)
- Copies of the children's birth certificates, confirmations of life, death certificates
- Evidence of employment abroad showing contribution periods to foreign social security schemes (employment certificates and pay slips)
- Signed agreements by the parents regarding the granting of education credits
- Divorce and separation decrees or decisions by the child and adult protection authority (KESB).

1.2 SUPPLEMENTARY BENEFITS (SB)

1.2.1 Entitlements

In Switzerland, the vast majority of people will be unable to live on an OASI pension alone. Even the maximum pension of CHF 2,390 is often only enough to cover the cost of rent, utilities and insurance. Supplementary benefits (SB) to the OASI pension and disability insurance (IV) can help in cases where pensions and income do not cover the minimum living costs. Especially for people with low or no 2nd pillar pensions or with high care costs, supplementary benefits are of the utmost importance.

Supplementary benefits can be claimed by anyone who receives an OASI or IV pension. In principle, these benefits are designed to close the gap between the recipient's income and their recognised expenditure on daily necessities. In the case of SB, a distinction must be made between the monthly money flow and the allowance for illness and disability costs.

A person's income includes everything they earn or receive. This may mean pensions from the OASI, IV or pension funds, family maintenance contributions (alimony), pro rata earned income, daily allowances from insurance companies and even the imputed rental value of an apartment. In addition, income and assets that have been waived (such as advance inheritance or gifts) as well as part of the assets (consumption) that exceed CHF 30,000 for single persons and CHF 50,000 for married couples are also taken into account. On the other hand, support from relatives and public/private welfare and social assistance benefits are not included in the relevant income.

The recognised expenses consist of an officially defined basic amount to cover living expenses, rent and health insurance. As at 1 January 2021, the flat-rate basic amount is CHF 1,634 per month for single persons and CHF 2,451 for couples (without children). The eligible rent depends on the insured person's region of residence and ranges between CHF 1,210 – 1,370 per month for single persons and a maximum of CHF 1,740 – 1,960 for married couples with two or more children. In the case of owner-occupied properties, the imputed rent is the imputed rental value, whereby the ancillary costs are fixed at CHF 2,520 per year. The contribution to the health insurance fund corresponds to the actual premium, however this is limited to the average cantonal or regional premium.

1.2.2 Applications

Supplementary benefits (SB) must be applied for. In principle, an entitlement to SB exists from the month in which the application is submitted – provided that the eligibility requirements are met. As a rule, the application for SB must be submitted to the OASI branch office at the applicant's place of residence.

The entitlement to SB will expire at the end of the month in which one of the prerequisites is no longer met. SB paid out after 1 January 2021 must be repaid after death if the amount of the estate exceeds CHF 40,000 and the residual amount of the estate thus does not fall below CHF 40,000.

You can find out quickly and easily online whether you are entitled to SB using the OASI calculation module at: https://www.ahv-iv.ch/de/Sozialversicherungen/Ergänzungsleistungen-EL/Berechnung-Ergänzungsleistungen.

The SB offices are also able to provide information. As a rule, they are located at the cantonal compensation office in your canton of residence (with the exception of BS, GE and ZH which have separate authorities for SB).

1.3 OCCUPATIONAL BENEFIT PLAN (BVG/PENSION FUND: 2ND PILLAR)

The 2nd pillar of the Swiss pension model is regulated in principle in the federal law on occupational retirement, survivors' and disability pension plans (BVG); however, the pension funds (PFs) have some leeway when it comes to defining the specifics. The details that apply in individual cases are set out in each pension fund's regulations, which vary considerably in some cases.

According to the law, the same retirement age applies

for both the PF and the OASI. This means that men will receive their pension at 65 and women at 64 (as at 1 January 2021).

The regulations for the employer's PF are decisive with regard to possible PF withdrawals. These regulations determine whether and when early retirement or deferred retirement or pension claims are possible in addition to ordinary retirement. Under the law, the minimum retirement age for both men and women is 58 and the maximum is 70.

The value of the retirement assets and the annual pension are stated in the pension certificate that the insured person receives annually from the PF. The amount of the pension depends on the conversion rate by which the existing retirement assets are multiplied. For example, retirement assets of CHF 300,000 and a conversion rate of 6.8 per cent result in an annual pension of CHF 20,400. The conversion rate for the compulsory part of the retirement assets is regulated in the BVG and is currently 6.8 percent (as at 1 January 2021). The pension funds are free to set the conversion rate for the supplementary retirement assets as they see fit.

1.3.1 Early retirement and pension deferral

As a general rule, early retirement is always associated with a reduction in benefits, i.e. a smaller pension. The PFs typically reduce the conversion rate by about 0.2 per cent per year. For example, if the rate is 6 per cent at the statutory retirement age, it will drop to 5.6 per cent if you retire two years earlier. A precise calculation can be requested from the relevant PF. If you want to avoid a reduction to your pension, you must pay additional contributions into the PF for the missing contribution years.

Some employers encourage early retirement by paying bridging pensions until the normal retirement age is reached (see 2.3)

Conversely, deferring your pension will result in a larger pension for life. Whether people insured by pension funds must continue to pay contributions during their deferral period depends on the respective PF's regulations. As a rule, reduced contributions will be owed. PFs can also allow partial retirement with a gradual reduction of the retiree's workload (see 2.3).

Applications

If you "do nothing" before retirement you will automatically receive a pension upon reaching the statutory retirement age.

However, anyone wishing to arrange early withdrawal or deferment of their pension must clarify the next steps directly with the PF. Caution: if you postpone your retirement, many funds will only allow you to draw an annuity later on, i.e. a lump-sum withdrawal will no longer be possible.

If a lump-sum withdrawal is desired, the pension fund must be notified accordingly ahead of time. In the case of married couples, the spouse's written consent is required for a lump-sum settlement. The application deadline is determined by the applicable regulations; many PFs require a three-year notice period for lump-sum withdrawals. People nearing retirement should therefore clarify the respective application deadlines with their pension fund at an early stage – to ensure that there is enough time to weigh up the advantages and disadvantages of a lump-sum withdrawal versus an annuity, and then to make their final decision. Once made, this decision cannot be reversed.

1.3.2 Vested benefit credits

Anyone who has retirement capital in a vested benefits account can only withdraw it in the form of a lump-sum payment (not as a pension). The earliest possible withdrawal of vested benefit credits is at the age of 59 for women and 60 for men. The latest possible withdrawal is at the age of 69 for women and 70 for men. Refer to the pension fund regulations or the relevant insurance company for information about the specific procedure and the best time to apply for the various withdrawal options.

1.4 PILLAR 3a

1.4.1 Pillar 3a – Banking solution

If you have a Pillar 3a solution with a bank, either in the form of a bank account or a fund, you can withdraw your retirement assets at the age of 59 (for women) or 60 (for men) at the earliest. Women must withdraw their assets by their 64th birthday and men by their 65th birthday at the latest. As an exception to this rule, should you continue to work you will not need to withdraw anything and can also continue paying in to your retirement assets. This is possible up to the age of 69 for women and 70 for men.

Therefore, there is only a need for action in Pillar 3a if you wish to withdraw your savings before reaching the statutory retirement age. If you wish to keep your savings account, it is advisable to obtain confirmation of your continued employment from your employer and send this to the bank.

Please refer to our tax tip in Section 2.6.

1.4.2 Pillar 3a – Insurance solution

Anyone saving in Pillar 3a by means of a life insurance policy will have already agreed on an end date with the insurer. As a rule, this means that the contractually agreed capital will be paid out upon reaching the statutory retirement (64 for women, 65 for men). The payout date is specified in the policy. The insurance company only needs to know to which account the credit should be transferred.

Such insurance contracts should not be terminated before the expiry date, as this will entail financial losses – the earlier the early withdrawal, the higher the loss.

2. FREQUENTLY ASKED QUESTIONS

2.1 WILL I HAVE ENOUGH INCOME AFTER RETIREMENT?

Due to low interest rates and higher life expectancy, pension-fund annuities have fallen drastically in recent years. For some time now, the combined OASI and pension-fund benefits have not covered 60 per cent of the retiree's last earned income, as was originally intended by the legislator.

And future retirees can expect even lower pensions. This makes it all the more important to draw up a budget at an early stage, including a comparison of your expected income and expenditure after retirement. Experience shows that certain expenses will decrease, while others will increase. The bottom line is that the expenses are usually higher than the expected income.

You can see relatively quickly whether you will be able to maintain your current standard of living after retirement by creating a detailed budget calculation to compare the expected retirement income from the OASI, the pension fund, Pillar 3a and any other sources of income with your expected expenses.

Bear in mind that you may live for a very long time, unforeseen expenses may arise and your financial investments may not pay out as much as you hope. If you identify an income gap, determine how much additional capital you will need to close it.

The earlier you identify a future income gap, the more opportunities you will have to improve your situation, e.g. by increasing your pension through voluntary purchases into the pension fund or by saving assets in a tax-efficient manner via the third pillar.

If the income gap can no longer be filled, you may be eligible for supplementary benefits (see 1.2). If possible due to your work situation and health, you can also increase your future pension income by postponing your planned retirement date or taking partial retirement (see 1.1.3 and 1.3.1).

2.2 SHOULD I WITHDRAW MY PENSION-FUND ASSETS AS AN ANNUITY OR A LUMP SUM?

"Annuity or capital?" This is the key question when drawing occupational pension benefits. Depending on the PF regulations, the savings balance can be drawn either as a one-off capital payment or as a monthly annuity; mixed variants are also possible. The law stipulates that you can have at least a quarter of your compulsory retirement assets paid out as a lump sum. Most PFs will grant a 100% withdrawal of the pension assets in the form of a lump-sum payment upon request.

There is no universal answer to the question of whether a pension or an annuity is the better choice. The type of withdrawal will affect both the amount and security of your retirement income as well as your dependents' financial flexibility, tax burden and financial security. It is therefore important to understand the differences and carefully consider which solution best suits your personal circumstances.

With an annuity, your retirement income is secured for life. It also has the significant advantage that you don't have to worry about investing the money; the PF takes care of that for you. However, the PFs convert existing pension assets into increasingly smaller annuities. And in the event of your death, the remaining pension assets typically go to the PF rather than to your surviving dependants.

A lump-sum withdrawal is also more attractive than an annuity from a tax point of view and makes you more financially flexible – because you can determine the amount of the withdrawals yourself and also withdraw a larger amount once in a while, e.g. to pay off your mortgage or give your children an early inheritance. In addition, it is often easier to provide financial security for surviving dependants if you withdraw your assets as capital. The biggest disadvantage of lump-sum withdrawals compared to annuities is that the capital can be depleted, while an annuity will run for life.

The advantages of an annuity are security and convenience

- A pension offers a high level of security. It will last for the rest of your life.
- This means you won't have to worry about investing your PF capital when you retire. A pension is paid monthly, quarterly or annually into the specified account.
- On average, women retire earlier than men and have a longer life expectancy. They therefore tend to fare better with a pension.
- Couples with a significant age difference should (as a rule of thumb) opt for a pension. This is because, upon the death of the first partner, the surviving partner will receive a widow's or widower's pension of 60 per cent of the deceased's retirement pension for life.

There are therefore two main points in favour of drawing a pension – the pension income is guaranteed until the end of one's life and there is no need to worry about investing large amounts of capital.

The primary disadvantage of drawing a pension is the reduced benefits for any surviving dependants. The surviving spouse or civil partner typically receives only 60 per cent of their deceased partner's pension-fund annuity. Combined with the reduction to the OASI pension, the surviving partner's income shrinks so much that he or she often has to make considerable financial cuts. And any adult children who have completed their education usually get nothing at all. In addition, upon the death of the pensionable person, the remaining retirement capital is often forfeited in favour of the pension fund.

The advantages of a lump-sum withdrawal

- If you have experience in investing money, you can earn a higher return on your capital than the annuity paid out by the PF.
- Homeowners can use the pension-fund capital to pay off their mortgage and then cut their cost of living.
- Single men with a life expectancy that is not significantly above the average will typically benefit more by withdrawing their capital.
- The capital remaining after their death can be bequeathed.
- As a rule, lump-sum withdrawals also entail a lower tax liability.

In the case of a lump-sum withdrawal, the amount and security of the income will depend on how the money is subsequently invested. In contrast to a pension, the retiree alone bears the investment risk.

The main advantage of a lump-sum withdrawal is that you can freely dispose of your money and use it in accordance with your needs. In addition, any money left over at the time of the insured person's death will belong to their surviving dependants and improve the latter's financial situation, provided that they are the primary beneficiaries under marital and inheritance law. In addition, in the long run a lump-sum withdrawal will be more attractive than a pension from a tax viewpoint.

Making the right decision is not easy. After all, nobody knows for how long they will live and for how long the saved capital will need to last. Therefore, a mixed withdrawal is a good solution in many cases. In this case, some of the retirement assets are drawn as a pension and the rest is paid out. The pension serves to safeguard the retiree's livelihood into old age, while the capital payment can be used for specific purposes at any time. As a rule of thumb, you should be able to cover your current fixed costs with regular income from pensions, interest payments and other sources.

2.3 CAN I AFFORD EARLY RETIREMENT?

Early retirement is an expensive proposition. The costs of early retirement at 64 instead of 65 correspond to about one year's salary (adjusted for the lower income taxes and the OASI contributions that must continue to be paid until the statutory retirement age).

Whether early retirement is feasible in individual cases depends on whether enough money was saved during the retiree's working life and whether they can make ends meet financially, even with a lower pension. This is because both OASI and pension funds reduce pensions for life if you draw them earlier. The OASI reduces its pension by 6.8 per cent per year (see 1.1.2) and most pension funds reduce the conversion rate by 0.2 per cent per "early withdrawal year" (see 1.3.1).

Most pension funds provide the option of compensating for the reduction in benefits due to early retirement through voluntary purchases of pension benefits.

It is important to realise that PF benefits and the OASI pension do not have to start at the same time. Even in the case of early retirement, the OASI pension does not necessarily have to be withdrawn early. Many pension funds offer the option of a bridging pension until the statutory retirement age to ensure financial stability during this period. This is financed by either the employee buying into "early retirement" alone or together with their employer. From a financial point of view, however, a bridging pension is only attractive if the employer contributes towards it, or if the beneficiary has reason to believe that they have a significantly reduced life expectancy. In most cases, it is better to bridge the years until ordinary retirement with private savings (e.g. Pillar 3a or securities assets).

OASI contributions with early retirement

Early retirees must register with the competent OASI branch office as "non-employed persons" and must continue to pay contributions to the OASI until they reach the statutory retirement age – even if they are already receiving an OASI pension. In practice, the social security authorities do not automatically ask anyone to pay these contributions. However, at the latest when the application is made to draw the pension, the missing payments and thus also the gap in contributions will be determined and the contributions for the missing years (up to a maximum of the last five years) will be claimed in arrears.

In the case of non-employed persons, these contributions are based on their assets and pension income. The minimum contribution is CHF 503; the maximum is CHF 25,150 per year (as at 1 January 2021). If one partner takes early retirement and his or her gainfully employed partner pays at least CHF 1,006 in annual OASI contributions (including employer contributions, as at 1 January 2021), the non-employed partner is no longer obliged to make contributions. This also applies if the employed partner has already reached the statutory OASI retirement age.

Step by step towards retirement

Many professionals would like to stop working earlier, but shy away from the high costs of early retirement or worry about handling the abrupt transition from working life to the "quiet life". After all, when a person retires their entire daily routine changes at a stroke and they are forced to change many of their familiar habits literally overnight. Not infrequently, this leads to conflicts with partners, and in some cases the struggle to adapt can even trigger a personal crisis. Gradually reducing one's workload is cheaper and offers numerous other advantages, and is therefore often the optimal solution. It allows you to stay active, still have more time for your family and hobbies and slowly get used to the next phase of your life.

People who stop working step by step can continue to build up pension capital through part-time employment and remain insured against death and disability until they retire completely. In addition, if your workload is at least 50% of the full-time equivalent and you work for nine months per year, you will not have to pay the corresponding OASI contributions as a non-employed person. If you take on a smaller workload, the compensation office will compare the contributions owed as a non-employed person with the contributions from earned income including employer contributions. If the contributions from earned income are higher than half of the contributions as a non-employed person, your obligation to pay contributions is met and no additional deductions are due.

Gradual retirement can also be worthwhile from a tax perspective since you are allowed to pay into Pillar 3a for longer and/or withdraw your retirement assets as a lump sum on a staggered basis (see 2.6). The main advantage, however, is that your pension will be reduced significantly less in the case of partial retirement than with early retirement.

Many pension funds allow a partial PF withdrawal at the age of 58 – 65 or 70 (for men and women). For example, you can draw 30 per cent of your pension-fund benefits or a pro-rata annuity if you reduce your workload from 100 to 70 per cent. Retirees who reduce their workload in the years before retirement have up to three options, depending on the pension fund:

a) Reduction of the insured salary without drawing PF benefits

The income gap is bridged with savings or by paying out 3a assets or life insurance policies. The conversion rate for the PF pension is not reduced.

Due to the lower income, the insured salary and thus the pension-fund benefits with respect to old age, death and disability decrease. Anyone who chooses this option should make timely purchases into the pension fund to ensure that the required amount of retirement capital is accumulated. It should be noted that there is a three-year lock-up period for capital withdrawals after each purchase; otherwise taxes will be levied retrospectively.

b) Reduction of the insured salary while drawing PF benefits

Many pension funds allow partial retirement in their regulations, combined with the possibility of drawing early retirement benefits (pension or lump sum) to the same extent. The partial withdrawal goes some way towards compensating for the lost income due to the retiree's reduced workload. In the case of a lump-sum withdrawal in stages, less tax may be due than if the entire retirement assets were paid out in the same year.

It is important to check in advance whether this option is permitted under the pension-fund regulations – and will also be accepted by the tax authorities. The main disadvantage compared to option a) is that in the case of a partial early withdrawal – whether as a lump sum or an annuity – the pension will be lower for life.

c) Continued insurance of the previously earned salary

People who reduce their workload from the age of 58 – and ensure that their annual salary does not fall by more than 50 per cent – can continue to insure their previous salary with some pension funds, although they often have to finance the employer's contributions for the "fictitiously insured" part themselves. On the one hand, this has the advantage that they do not suffer any loss of retirement capital and, on the other, that they can deduct the additional contributions in a tax-efficient manner.

If you are considering early or staggered partial retirement, be sure to consult your employer in good time. Many companies are flexible and offer part-time working models. The various pension funds have different rules regarding partial retirement, so it is a good idea to clarify the available options with them ahead of time. The tax consequences associated with partial retirement will vary depending on your canton of residence – find out exactly what you need to know before making any decisions.

2.4 WHAT HAPPENS IF I LOSE MY JOB SHORTLY BEFORE RETIREMENT?

When companies downsize, often their first step is to oblige their oldest employees to take early retirement. Experience shows that unemployed people over 55 years of age struggle to find a new job and will remain unemployed for prolonged periods. This can have devastating consequences for retirement planning. Those affected must decide whether they want to remain insured with their previous pension fund, draw their pension early or transfer their retirement assets to a vested benefits account.

However, early withdrawal of the capital or pension is only possible if you have reached the minimum retirement age stipulated by the pension fund. Furthermore, this should only be done as a last resort because it means that your pension will be lower for life. In addition, your pension is taken into account and deducted when calculating your daily unemployment insurance benefits.

If you transfer your pension-fund assets to a vested benefits account and are unable to find a new job, you can usually only withdraw the assets in the form of a lump-sum payment when you reach the statutory retirement age, and not as a retirement pension. This disadvantage can be avoided by continuing your insurance scheme with your previous employer. In accordance with the law (Art. 47a BVG), as at 1 January 2021 this option has been open to anyone who has reached the age of 58 and received notice of termination from their employer. Anyone who finds themselves in this situation can choose whether to maintain their risk insurance or also their retirement savings scheme. The main disadvantage of this variant is that those affected must finance both the employee and employer contributions themselves. In addition, depending on the pension fund, after two years they will lose the right to withdraw at least part of the credit balance as a lump sum.

The federal government has also recognised the problem of unemployment in old age and has introduced a law that guarantees bridging benefits for unemployed persons who have reached the age of 60. The prerequisite for this support is that

- the persons concerned have at least 20 years of OASI contributions, of which at least five years were after the age of 50 on the basis an annual income that was at least equal to the BVG entry threshold (currently CHF 21,510 as at 1 January 2021)
- there is no entitlement to a disability pension
- the total assets are less than CHF 50,000 for single persons or CHF 100,000 for married couples
- and the recognised expenses exceed the eligible income (see 1.2.1).

The bridging benefit is a means-tested benefit, which is calculated on the basis of the supplementary benefits (SB). An important difference to the SB is that the bridging benefit is less narrowly limited, namely to 2.25 times the general living expenses (including reimbursement of medical expenses). This means that single persons will receive a maximum of CHF 43,762 and married couples a maximum of CHF 65,644 as a bridging benefit (as at 1 January 2021).

The bridging benefit is only paid until the insured person reaches the statutory retirement age. If it is foreseeable that an entitlement to SB will arise alongside the normal retirement pension, the retiree's entitlement to bridging benefits will, however, expire at the time of early withdrawal of their retirement pension. The details of this recently enacted law will be regulated in the form of an ordinance that is expected to come into force in the second half of 2021.

Some employers opt to cushion the financial impact of involuntary early retirement with severance pay. If this severance payment is of a pension-like nature – which is assumed to be the case if the person concerned is at least 55 years old, there is a definitive cessation of gainful employment and this results in a pension gap – the severance payment is subject to privileged taxation just like a lump-sum payment in Pillar 2 or Pillar 3a. If the conditions for privileged taxation are not met, it may make sense to pay this amount into the pension fund and thus "neutralise" the severance payment for tax purposes.

2.5 WHAT HAPPENS TO MY MORTGAGE WHEN I RETIRE?

Many people in Switzerland own a property with the aim of living cheaply within their own four walls in old age. Under certain circumstances, however, the property may no longer be financially sustainable after retirement if the owner's income shrinks. In this case, any necessary conversions or renovations are often no longer feasible. Furthermore, a property can even become problematic for the owner's heirs if, for example, the majority of the estate assets consist of this single property, which must be sold before they can divide the inheritance.

It is therefore important to consider whether to keep or sell a property in old age. This crucial question must be answered by every homeowner, taking into account his or her personal circumstances.

Low accommodation costs and the desire to live in your own home for the rest of your life – and then to bequeath it to your descendants – are all arguments against selling up. When considering whether to move or stay put, it is important to bear in mind that the property may not be suitable for the elderly and that the location may not meet your needs in old age (shopping facilities within walking distance, proximity to public transport, medical care facilities and leisure facilities). In addition, the majority of the owner's assets are often invested in the property, resulting in a "cluster risk" and considerably limiting the financial leeway in the event of unforeseen expenses. If, for example, a sudden spike in maintenance costs means the property must be sold at short notice, experience shows that the proceeds are likely to be significantly lower compared to a sale that was planned further in advance.

Many homeowners don't realise that their mortgage may no longer be sustainable if their income drops after retirement or the death of their partner. Only four in ten homeowners are still able to meet the banks' affordability criteria even when no longer gainfully employed. A mortgage is only considered affordable if the interest and ancillary costs do not exceed one third of the holder's regular income. Banks calculate affordability at retirement age in different ways, however when performing the affordability check they typically ignore the current, historically low mortgage interest rates and instead use an imputed interest rate of five per cent. After retirement, the mortgage is often no longer deemed affordable based on these criteria.

Therefore, before reaching the age of 55, homeowners should check whether the affordability of their mortgage is also guaranteed after retirement by discussing the matter with their lender. One possible solution is to save enough money by retirement to either pay off the mortgage or reduce it to a sustainable level.

2.6 HOW CAN I PAY LESS TAX WHEN DRAWING OASI, PF AND THIRD-PILLAR BENEFITS?

The process of entering retirement often involves moving large sums of money, which may result in large tax bills. If you understand the most important rules, you can reduce your tax liabilities accordingly.

Annuities

Anyone drawing a pension from the OASI or a pension fund must pay tax on 100 per cent of the received amount – in this way it is no different to an employee's salary. Supplementary benefits, on the other hand, are exempt from income tax.

Lump-sum payments

Anyone withdrawing capital from an occupational pension scheme or Pillar 3a must pay a one-off tax on the amount withdrawn, and usually at a significantly lower tax rate than is applied to ordinary pension income. In the long run, a lump-sum withdrawal is therefore often more attractive from a tax perspective – provided that the capital is invested in a tax-optimised manner.

The taxation of lump-sum payments is regulated very differently from canton to canton. As a rule, it is paid separately from other income in the form of an annual tax. The tax on lump-sum pension benefits is progressive at the federal level and in most cantons. In other words: the higher the capital payment, the higher the tax rate.

After the withdrawal of the second and third-pillar capital, the credit balance must be taxed as assets, depending on the canton. However, property taxes are much lower than income taxes.

If you move your residence abroad and then withdraw the pension capital, you pay withholding taxes in Switzerland. These also vary in their amount depending on the canton. Anyone who is also liable to pay tax abroad on the lump-sum withdrawal can reclaim the withholding tax in accordance with the applicable double-taxation agreement.

From a tax perspective, the following rules apply when planning your retirement:

Rule 1: Do not accumulate pension with salary

People who work and receive a pension at the same time pay income tax on their entire income – at a higher tax rate due to progressive taxation. People who continue to work after the statutory retirement age therefore fare better from a tax perspective by deferring their pension.

Rule 2: Withdraw your capital in tranches

Capital from the 2nd and 3rd pillars should not be withdrawn in the same year. The tax rates on capital payments are mostly progressive. When calculating the applicable tax rate, the income from one year is usually added together – typically including your partner's income. There is sufficient leeway here for a staggered withdrawal: Pillar 3a assets and vested benefits can be paid out up to five years before the statutory retirement age.

When it comes to bank savings in Pillar 3a, it may therefore pay to open several accounts. For example, if you have two 3a accounts, you can close the first account at age 63, close the second account at age 64 and withdraw all or part of your pension-fund assets at the retirement age of 65. Thanks to the three-part payout and the lower rate of progressive taxation, you would pay tax on these withdrawals at a lower rate than would have applied had all assets been paid out in the same year.

Rule 3: Partial retirement

If you reduce your workload gradually as you approach retirement, many pension funds also permit you to stagger your capital withdrawals and thus benefit from a lower capital-tax rate.

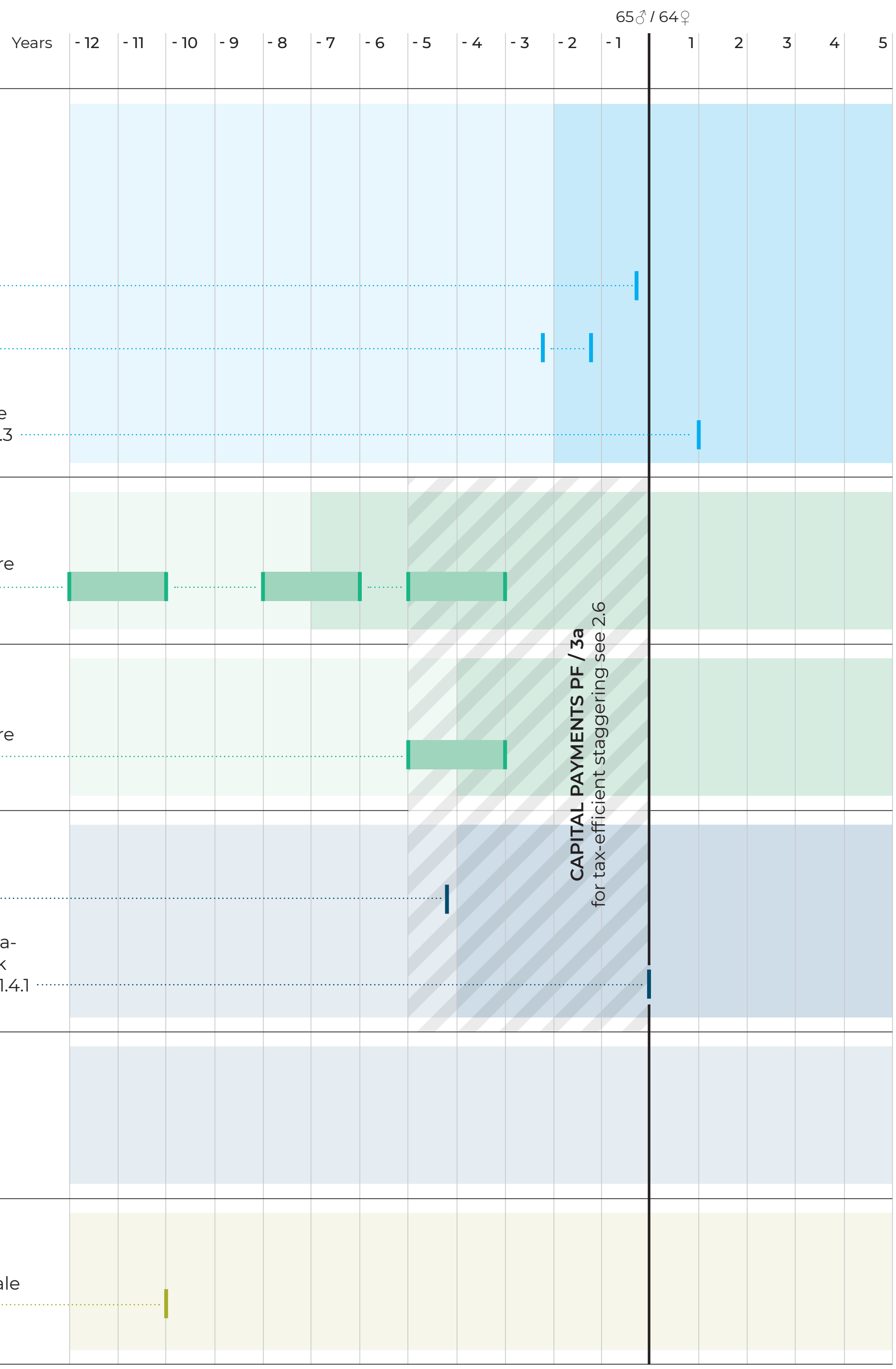
However, staggered retirement depends on your employer's consent – the pension fund must also allow this model in its regulations (see 2.3).

Rule 4: Think about your place of residence

Retirees may also be able to save a lot of tax by changing their place of residence, as the tax burden typically varies significantly from canton to canton. Experience shows, however, that criteria other than taxes, such as proximity to family and friends or attachment to the home and familiar surroundings, etc., are decisive factors when deciding where to live.

Should you nevertheless consider a change of residence from a tax point of view, it is important to consider all the financial implications. For example, in locations with tax advantages, property prices and rents are often significantly more expensive. Moreover, remember to pay attention not only to the rate of income tax, but also to the applicable property taxes. And finally, inheritance and gift taxes also vary greatly from canton to canton. They range from complete exemption to a very high burden, which may be decisive when planning your estate.

3. WHAT DO I NEED TO DO AND WHEN?



OASI

Submit your application no later than the last day of the month in which the desired retirement age was reached; see 1.1.4

RECOMMENDATION: act in plenty of time:
at the latest 3 months before your planned retirement date

Early pension
(max. 1 or 2 whole years); see 1.1.2

Pension deferral (max. 5 years): submit your application no later than 1 year after reaching the statutory retirement age. Retirement age; see 1.1.3

PENSION FUND

RECOMMENDATION:
Clarify your options with the PF 3–5 years before your planned retirement; see 1.3.1

VESTED BENEFIT CREDITS

RECOMMENDATION:
Clarify your options with the PF 3–5 years before your planned retirement; see 1.3.2

3a BANK

In the event of an **early withdrawal**, notify the bank at least 3 months in advance.

In case of **deferred retirement**, submit confirmation of your continued employment to the bank and draw benefits by +5 years at the latest; see 1.4.1

3a INSURANCE

No action necessary, payment is made in accordance with the insurance policy; see 1.4.2

MORTGAGE

RECOMMENDATION:
Think about (partial) amortisation / property sale 10 years in advance; see 2.5

The diagonal stripes indicate the statutory withdrawal periods

“WE ARE AT YOUR SIDE.”

MOORE Zürich AG
Europa-Strasse 18
CH-8152 Glattbrugg/Zurich

Phone	+41 (0) 44 828 18 18
Fax	+41 (0) 44 828 18 80
E-Mail	info@moore-zurich.com
Website	moore-zurich.com

MOORE

www.moore-global.com