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The Pillar 3a – Retirement Savings Account

The Pillar 3a Retirement Savings Account was created to supplement both State and Occupational pensions. This is critical in **bridging the gap between your former salary, and your annuity at retirement**. The Pillar 3a also offers several other benefits in taxation, and asset protection. Assuming full contributions to your State and Occupational pensions from the age of 18 and 25 respectively, your annuity will, assuming an average income of CHF 85'000 per annum, only represent **60% of your salary** at retirement. **The higher your salary, the worse the gap.**

Most Swiss residents have a Pillar 3a, either with a bank or insurance company. While the current need for individual retirement savings is clear, the evolution of both Swiss and International pension systems is of great concern. With decreasing birth rates in the developed world, an unstable global economy, and ever-increasing life-expectancy, both social security and occupational pension plans are increasingly unable to meet their obligations.

How It Works

The structure is simple: encourage tax-efficient savings and investment to increase your assets at retirement.

This savings is permitted to a maximum annual amount of 8% of the maximum OASDI (First Pillar) contributable salary, for employees with an occupational pension. In other words, 8% of 85'320 in 2020, so **CHF 6'826 per annum**. Why the complexity? Because OASDI state pensions are annexed to the cost-of-living. Hence, so is the Pillar 3a. As such, the above amount can change slightly each year. If you are an independent, without an occupational pension, the maximum annual amount is 20% of annual revenue, not to exceed **CHF 34'128 per annum**.

Amounts can be paid in either monthly or yearly with insurance companies, or at any time with a bank. One can have up to 3 separate pillar 3a's (bank and/or insurance), provided the total amount does not exceed the maximum contribution limit.

Key Benefits

- ✓ Your annual contributions are deducted from your highest taxable income rate.
- ✓ Your pension shortfall is continuously reduced – the Pillar 3a offers guaranteed minimal returns (insurance 3a only).
- ✓ Your contributions are exempt from wealth tax, and any interest/investment gains achieved are also tax-exempt.
- ✓ You can use your Pillar 3a to amortize a mortgage, start your own business, or buy back into your occupational pension.
- ✓ Your Pillar 3a is protected against seizure in cases of bankruptcy (insurance 3a only).
- ✓ Your Pillar 3a is taxed at a significantly reduced rate when cashed out at retirement.

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Bank vs. Insurance

Pillar 3a private pensions are offered today by both banks and insurance companies. Which solution is best for you very much depends upon your personal situation, the time you plan to spend in Switzerland, whether you own property (or plan to), and your family situation.

A bank pillar 3a offers **great flexibility**, allowing you to pay in whenever you choose, but offers **no additional benefits** in the event of disability, or death. It also does not offer a guaranteed minimum return. Funds deposited are insured only up to CHF 100'000 in cases of default, as is standard with any Swiss bank account.

An insurance pillar 3a offers **life insurance** and **disability benefits**, and **cannot be seized in cases of personal bankruptcy**, however is more rigid in its structure, requiring regular, scheduled payments. It also offers **total capital protection** by law, even if the insurer is in default. Insurance Pillar 3a's also contain redemption penalties, if not held until retirement age.

The Infamous Small Print

Funds paid into a Pillar 3a are locked in until retirement age. There are however some exceptions to this, as follow:

- ✓ You leave Switzerland permanently (generally a departure of more than 3 years).
- ✓ You start your own company.
- ✓ You buy a primary residential property (not a secondary residence or investment property).
- ✓ You are unable to work and draw a full invalidity benefit from your First and Second Pillars.
- ✓ You buy back years of your Second Pillar occupational pension.
- ✓ You choose early retirement (up to 5 years before the official age of retirement)