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Pension provision and home ownership: two topics – one plan

The path to home ownership can be an uphill climb. The sharp rise in real estate prices makes it more difficult for young people in particular to realize their dream of becoming home owners. Retirement capital can help in regard to this. To avoid unpleasant surprises and financial risks, however, retirement and purchasing a home should be planned strategically and jointly. People who systematically build up their Pillar 2 and 3 capital for these two important life events can optimize their overall wealth situation.

Zurich, 31 October 2019 – The UBS Pension Monitor 2019 shows that 18- to 39-year-olds expect a replacement ratio of only 49 percent from Pillars 1 and 2. This is significantly lower than the rate indicated by older respondents, who anticipate 62 percent. A higher retirement age would help to stabilize the replacement rate and maintain the prosperity of all generations. The representative survey also shows that raising the retirement age is currently more acceptable to younger people than to those aged 40 to 64. It is pleasing to note that more use is being made of the opportunities offered by long-term capital investments. The proportion of people who invest their Pillar 3a assets in securities rose from 28 percent in the previous year to 43 percent.

Pension provision smooths the path to retirement and home ownership

In view of the uncertainty in the mandatory pension system, increasing focus is being placed on the interplay between pension and home ownership planning. Hence, the latest study by the UBS Chief Investment Office (CIO) "Pension provision and home ownership: two topics – one plan" examines these two important life events together. Although the number and amount of withdrawals to finance residential property from Pillar 2 have fallen in recent years, this could change in the future. "Real estate prices have risen almost five times as fast as the average household income over the past ten years," says Matthias Holzhey, Head Swiss Real Estate, Chief Investment Office GWM. "Using pension capital makes it easier to overcome the higher financing hurdles."

Pillar 3a can also help here. If it is set up at an early stage, the deposit required to purchase property can be saved up. Even if people do not realize their dream of buying their own home, they benefit from tax savings and from the increased pension capital when they retire. If capital from the pension system is used to purchase real estate, however, the risks associated with doing so must also be taken into account. The pension is often lower, and usually, risk protection against disability and death prior to retirement is limited.

Long-term strategy optimizes total assets and reduces risks

The often lower running costs of owner-occupied property compared with the cost of a comparable rental property make a purchase appear advantageous in principle. In addition, the growing redistribution of assets within Pillar 2 from working people to pensioners is creating new incentives for people to withdraw their capital before retiring. However, no general conclusions can be drawn. "The people who benefit most are those who strategically plan their retirement capital and real estate purchases, taking into account their current and future circumstances," says UBS economist and pension expert Jackie Bauer. Since Pillar 2 not only allows insured members to withdraw money to finance home ownership but also permits them to make tax-privileged, voluntary contributions, they can determine the financially optimal contribution and payout periods depending on their age, tax situation and assets.

If younger people use their retirement capital to purchase a home, they would be well advised to set aside the resulting potential savings on running costs for their retirement. Closer to retirement age, the question often arises as to whether a pension or lump-sum payment is better. If the conversion rate is low, the return from rented or owner-occupied residential property may be an attractive investment in certain circumstances. However, this also entails major risks, so minimum living costs should be secured via other sources.

Factors that influence whether, how much and when retirement capital is used to purchase a home include job security, whether both partners have a pension fund and one or more 3a accounts, the coverage of risks such as disability and death during working life, as well as the health of the pension fund. "Every situation is unique and is best discussed with a pension advisor to ensure that individual needs are covered as best as possible," recommends Jackie Bauer.

You can find out more and read the whole study at: www.ubs.com/vorsorgeforum

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