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News Release

Newcomers must actively lay the foundations for their retirement provision

Most of the approximately 2.2 million foreign citizens in Switzerland moved to here between the age of 20 and 39, i.e. in the middle of their working lives. Those who seek their fortunes abroad when they are of working age usually forget to think of their standard of living in old age, yet its foundations should be laid early on.

Zurich, 09 December 2019 – The Swiss social security system is based on three pillars. Each one of them with its own pitfalls and peculiarities – especially for those new to the country. Both entering the Swiss workforce and leaving it again involves challenges that should not be underestimated. That's because, in addition to its peculiarities, our retirement savings system is facing an uncertain financial future due to an aging society.

Furthermore, the current investment environment does not accommodate expectations of high returns. Consequently, the current pension level will hardly apply to future generations. Early planning – particularly entering the Swiss labor market later in life – is therefore particularly important.

Each pillar has its own peculiarities

Contributions to Pillar 1 can only be made retroactively for five years and only if the person was insured in Switzerland during this period. This is rarely the case for newcomers, which in turn reduces the government pension payments they can expect. "By contrast, the pension in Pillar 2 can be retroactively improved by tax-privileged purchases," explains Emmanuel Ullmann, retirement planning expert at UBS.

One restriction remains, however: If someone has not been part of the Swiss social security system before, purchases into occupational retirement planning during the first five years is restricted to a maximum of 20 percent of the insured salary annually. This prevents excessive tax deductions by those who may only spend a few years in Switzerland.

Retroactive purchases into Pillar 3 are not possible under the current legislation – neither for Swiss nor foreign citizens. However, immigrants can make equivalent use of it during their working lives in Switzerland. Thanks to the associated tax benefits, it provides a good option for accumulating private retirement capital.

Tax implications of departure

If the immigrant leaves Switzerland for good, their pension from Pillar 1 is paid upon retirement, provided that Switzerland has a social insurance agreement with the corresponding destination country.

Either a pension or retirement capital can be drawn from Pillar 2 upon retirement. However, in the event of drawing on pension benefits early, depending on the country moved to, only the extra-mandatory portion may be withdrawn, while the mandatory portion remains with a vested benefits foundation up to retirement.

The 3a balance must be withdrawn in full. All capital payments are subject to a withholding tax deduction in Switzerland. "The tax burden on the retirement capital can differ, depending on the country moved to, and on whether the two countries have concluded a double taxation agreement or not," says UBS economist Sibille Duss. If no such agreement exists, the retirement capital may be taxed twice. Consequently, those considering moving away should review early on what the situation is for them. In general, it is advisable to take an interest in one's financial situation in old age early enough – no matter where you're from.

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