Guide to Swiss Pensions when leaving Switzerland

FORTH CAPITAL

Contents

Introduction 3

Realising the potential of your pensions on leaving Switzerland 4

- Your Pillar 1 Pension 4
- Pillar 2 and 3 Reimbursements for Expats 5

Optimising your Pillar 2 Pension contributions prior to withdrawal 6

Client Case Study 7

We're here to help 8

Introduction

The Swiss Pension Pillar System is regarded as one of the best in the world, but many British expats are not aware that having accrued Swiss pension assets whilst living and working in Switzerland, they can subsequently have these assets refunded or transferred if they leave Switzerland.

If you are planning to leave Switzerland therefore, or have already done so, it's important to realise the potential of the pension assets you generated whilst you were resident there. To help you navigate this challenge, our team of dual qualified international advisors and pension experts have created this guide to explain your options and help you optimise the value of your Swiss pension funds if you are leaving Switzerland.

Realising the potential of your pensions on leaving Switzerland

Your Pillar 1 Pension

As an expat, if you leave Switzerland and are relocating to a country that has a reciprocal social security agreement in place with Switzerland[1], whilst the value of the Pillar 1 Swiss State Pension contributions that you have accrued whilst working in Switzerland can not be refunded, your financial advisor can help you to define the transferred income benefit you will receive at retirement, as part of your holistic retirement planning.

If you re-locate to a country that does *not* have a reciprocal social security agreement in place with Switzerland, you can apply for the reimbursement of your Pillar 1 State Pension contributions. To qualify, you must have moved permanently away from Switzerland, paid into the pension for at least a year, and not made any withdrawals from it. Generally, you can only apply for a refund up to five years after leaving Switzerland and any lump sum payment will only cover the termination value of the State Pension. Married couples must make separate refund applications. Any refund will be paid into an overseas personal bank account.

[1] As at 1 February 2024 Switzerland has reciprocal social security agreements with the European Union states; Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden; the EFTA (European Free Trade Association) countries; Iceland, Liechtenstein and Norway; and also; Australia, Bosnia and Herzegovina, Canada, Chile, China, India, Israel, Japan, Macedonia, Montenegro, Philippines, San Marino, Serbia, South Korea, Turkey, **the UK**, the USA. and Uruguay.

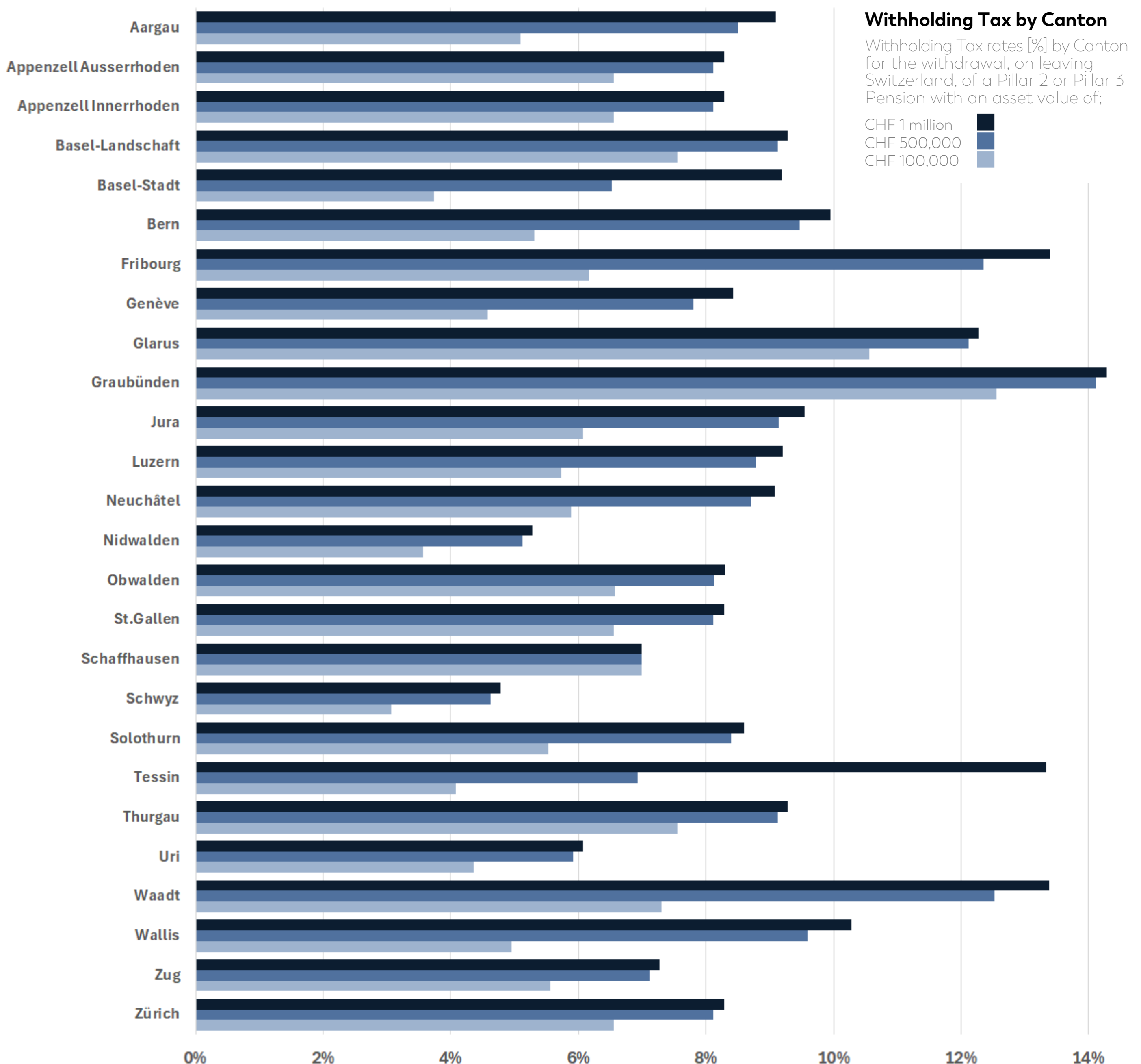
Pillar 2 and Pillar 3 Reimbursements for Expats

Under Swiss pension rules, the assets held in the Pillar 2 or Pillar 3 Pensions belong to you, as the individual holding the account, and as such you can claim a cash refund before leaving Switzerland, or from overseas, at any time.

Claims for Pillar 2 and Pillar 3 Pension refunds should go to the provider of the respective schemes. You will need paperwork to prove your date of departure from Switzerland and if you are married, written agreement from your spouse to close the scheme.

It's important to understand that the location of the pension provider has the potential to make a significant difference to the tax you pay on your lump-sum pension withdrawal. Because Switzerland is a confederation divided into 26 Cantons, with each Canton having the power to set its own tax rate, what you pay when you cash in your Pillar 2 or Pillar 3 Pension depends on the Withholding Tax rate set by the Canton where the pension provider is based [detailed below]. Expats often live and work in the higher taxed Cantons, like Geneva and Zurich, but you have the right to move your pension to a lower taxed Canton before moving your money overseas.

To find out how much you could save, use our online Withdrawal Comparison Calculator.



Optimising your Pillar 2 pension contributions prior to withdrawal

Pillar 2 Buybacks

'Buying back' Pillar 2 contribution years offers a significant financial planning opportunity, as the buy back amount is set off against your tax bill for that year, and for high earners this is tax efficient.

Pillar 2 buybacks provide the opportunity in principle to 'catch up' on missed contributions. Simply put, if you are currently 50 years old and have a salary of CHF 200,000, you can retrospectively make additional contributions to your Pillar 2 pension to a level commensurate with having contributed to your Pillar 2 from a 200,000 CHF salary since you were 18[2].

The buyback calculation is subject to certain conditions and depends on your personal circumstances, but once your 'buyback capacity' [i.e. the total amount you can buy back] has been confirmed, your financial planner can then work with you to agree the optimal approach to utilise this opportunity.

You can implement a buyback strategy at any age, but it's important to note that if you have already taken benefits from an occupational fund then a three-year restriction applies, precluding any capital withdrawal from the pension within three years of the buyback contribution being made.

[2] Minus 20% of insured salary in first five years.

Client Case Study

The Client's Challenge

As an expat working in Geneva, Switzerland, our client had built up a CHF 3,000,000 Pillar 2 Pension. On leaving Switzerland in 2022 he was aware that these funds would be moved into a 'vested benefits account' which would generate negligible growth, and that if he transferred the funds abroad he could be liable to pay Geneva Cantonal Withholding Tax of 8.7%.

The client was repatriating to the UK, so he was also concerned about paying Capital Gains Tax [CGT] on the growth of the capital invested, once back in the UK.

Finally, he was conscious that in the event of his death the funds would form part of his estate for Inheritance Tax [IHT] purposes, and their value when passed on to his family would therefore be greatly reduced, having been subject to IHT at up to 40%.

Our Solution

We were able to confirm that because he was leaving Switzerland permanently, he could withdraw all of his Swiss Pillar 2 Pension funds, and we drew up a solution for him to:

- minimise the amount of withholding tax he incurred when moving the funds from Switzerland;
- optimise the tax-efficient growth of the funds whilst they remained invested;
- access the funds and make ongoing tax-efficient withdrawals; and
- ensure the funds passed to his family in the most tax efficient way, in the event of his death.

How the Client Benefitted

- Because we moved the client's funds from their vested benefit account [domiciled in Geneva] to a regulated Swiss pension plan domiciled in the Swiss Canton that would charge the lowest rate of Withholding Tax when they subsequently made the lump sum withdrawal, instead of paying Withholding Tax of CHF 262,938, they paid just CHF 143,838, reducing their tax liability by 45% and increasing the value of their retained pension assets by CHF 119,100.
- By moving the capital into an investment strategy aligned with the client's risk profile - in this case a diversified portfolio of investments, the 'Morningstar Next Generation Growth Fund' [one of Forth Capital's award-winning, low-cost, risk-rated investment strategies], we were able to generate a 11.2% return for the client in 2023.
- We structured the client's investments in the most tax efficient manner to maximise the value of the funds that would be passed to his beneficiaries in the event of his death, addressing his concerns about IHT and providing peace of mind.

We're here to help

From our offices in Switzerland and the UK, Forth Capital's dual qualified advisors can provide expert advice on the transfer, reimbursement, and reinvestment of your Swiss Pension assets to maximise their value.

We have a unique understanding of the complexities of expat life – and the challenges facing expats in Switzerland moving to another country. Having a trusted advisor in your corner who truly knows the ins and outs of what you're going through, and how to optimise your international finances and investments, is the best way to ensure you're making the most of your money – and afford you peace of mind every step of the way.

Our dual qualified financial planners and pension experts provide continuity of advice at every step of your journey meaning that we're with you wherever you go.

To discuss your Swiss pensions and how we could help you, contact us today.

Contact Us

Email us at:
enquiries@forthcapital.com

or call us on:
Switzerland +41 22 311 1441
UK +44 131 6000 625
Australia +612 9248 0169
Europe +353 1 640 1984
USA +1 346 245 8824
Hong Kong +852 3589 5510

Forth Capital Advisers Limited is authorised and regulated by the Financial Conduct Authority (FCA) Registration Number 811535.

Forth Capital (Genève) is authorised and regulated by FINMA as an Insurance Intermediary Registration Number F01197232 and SO-FIT Registration Number 574. All Forth Capital (Genève) Advisers are listed on the ARIF (Association Romande des Intermediaries Financiers) public register for regulated Financial Planners in Switzerland, as required under the Swiss Financial Services Act (FinSA).

Forth Capital (USA), LLC, is an Investment Advisor registered with the State of Texas, License Number 804610907.

Forth Capital (Hong Kong) Ltd is regulated by the Hong Kong Insurance Authority No. FB1231 and is a Member of the Hong Kong Confederation of Insurance Brokers (HKCIB).

Forth Capital (Australia) Pty Ltd with ABN 38 627 432 875 is a corporate authorised representative ("CAR") of Shartru Wealth Management operating in Australia under AFSL: 422409.

Forth Capital (Europe) Limited is regulated by the Central Bank of Ireland. Our Central Bank reference number is C133357.
Where advice is provided outside of Ireland, the advice is given from Ireland via the Insurance Mediation Directive on a cross border basis.

We are also a member of the Federation of European Independent Financial Advisers (FEIFA). The Federation is not available to all IFA companies. By only admitting members following a rigorous vetting and due diligence procedure, FEIFA provides consumers with an independent assessment of the regulatory and legal status of its Member companies.

Forth Capital (Europe) Limited is a member of PIBA (Professional Insurance Brokers Association) in Ireland. PIBA is the largest Broker representative body in Ireland and currently has a membership of approximately 890 Brokerage firms.