Meaning and objectives of occupational pension funds (second pillar)

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Index

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LPP (Law on occupational pension schemes) benefits

Occupational pension funds, also called the 2nd pillar, complete the basic 1st pillar AVS/AI/APG system (old age, disability, loss of income). Together, these two insurance systems should ensure that retired people to a large extent maintain their former standard of living. i.e. they should jointly provide approximately 60% of the last salary.

Origins and characteristics of the 2nd pillar

The first pension funds were set up over one hundred years ago in the machine industry. Only persons whose employer had instituted such a system were covered - unlike today, insurance was optional and depended on the employer's good will. Persons not gainfully employed had no insurance whatever and no means of making provision for their old age: in this respect they had to look entirely after themselves. The AVS system was created much later, in 1948.

The occupational pension scheme system was embodied in the Constitution in 1972. It is the second element of a three pillar system and is defined as complementary to the 1st pillar.

The federal law on occupational pension schemes, and the relevant old age, survivors' and disability benefits, which came into force on 1 January 1985, is based on this constitutional provision. Although the system set up by the lawmakers was largely inspired by the structure of existing pension funds, they also wanted to introduce the principle of minimum provision guaranteed by the law. This is the mandatory part of the occupational pension fund system. The LPP defines minimum benefits in the event of old age, death, and disability. But pension funds are free to provide benefits going beyond the statutory minimum (these are called "over-obligatory" benefits). In principle, in both cases the law lets pension funds freely choose the form of organisation they prefer, their design of benefits, and the ways of financing them.

Who is insured?

The LPP is mandatory for salaried persons already subject to the AVS, with an annual income of at least CHF 21,060. This is the threshold of the obligatory pension fund scheme.

The obligation to take out insurance sets in with gainful employment, after reaching 17 at the earliest. During a first period, contributions cover only the risks of death and disability. As of the age of 25, the insured person also contributes to old age pension benefits. Certain groups of people are not subject to the mandatory scheme: the self-employed, salaried persons with a job contract that does not exceed three months, family members

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of a person operating an agricultural establishment in which they are employed, persons who are disabled to at least 70 % according to the provisions of the AI.
If they want to, such persons may take out minimal insurance on an optional basis.

Old age insurance

Old age insurance under the 2nd pillar is based on individual savings. The savings process sets in when the insured person reaches the age of 25 and presupposes an annual income over the established threshold (CHF 21,060). The savings process comes to an end when the insured person reaches retirement age. The savings assets accumulated by the insured person on his individual savings account over the years serve to finance the old age pension. The constituted capital is converted to an annual old age pension on the basis of a conversion factor (conversion factor for 2013 of 6,85% for men and 6,80 % for women; conversion factor for 2014 of 6,80% for men and women; with the 1st revision of the LPP, the conversion factor will be reduced progressively to 6,80 % in 2014, for both women and men).

The LPP provides or the following benefits

Old age benefits	**Conditions**	**Sum**
Old age pension	To have reached ordinary retirement age (65 for men and 64 for women)	Old age pension corresponding in 2014 to 6,80% of the assets accumulated by the insured person.
Child's pensions	Paid to recipients of an old age pension (may be an early pension in certain cases); In the event of the death of the old age pension recipient, the child or children qualify for an orphan's pension The pension is paid until age 18 or 25 at the latest if studies or apprenticeship	20 % of the old age pension per child and year.
Special cases Early retirement/ deferred retirement	*According to the provisions of the pension fund*	In the event of early retirement, the pension is in principle smaller (except if the pension fund regulations

		specify more favourable terms) In the event of deferred retirement, the pension is higher
Capital benefits and/or pension	Capital payment of a part of the old age benefits, the rest being paid in the form of a pension. According to the provisions of the pension fund, capital payment instead of a pension.	One-off payment Capital equal to one fourth of assets Capital payment equal to the totality of the old age assets

Under the LPP, as in the 1st pillar, old age benefits may be received before the insured person reaches regular retirement age. However, the insured persons may take early retirement only if the pension fund regulations contain such a provision. In practice, insured persons may receive benefits during the 5 years preceding ordinary retirement age, if they stop working. Pensions are reduced in the event of early retirement: since in theory the old age assets have not been constituted entirely, a lower conversion rate is used to calculate the old age pension.
The insured may also request that a quarter of their assets be paid out as capital. Moreover, the pension fund may grant a capital payment instead of a pension if this less than 10 % of the minimal AVS old age pension in the event of old age or disability, less than 6% for widows/widowers' pensions, less than 2% for an orphan's pension. The pension fund may also rule that all old age, survivors' or disability benefits may, upon request, be paid as capital, even if the sum is more than one fourth of the assets. Insured parties must keep the deadline set by the pension fund to request a cash payment.
Capital constituted in order to finance old age benefits is called old age assets. These assets are made up of annual old age bonuses on which an interest rate of at least 2.0% (2009-2010), 1.5% (2012) and 1.5% (2014) is paid. These old age bonuses are calculated as a percentage of the coordinated salary according to the age and sex of the insured person.

The following rates apply

Age		**Percentage of the coordinated salary**
Men	**Women**	
25-34	25-34	7%
35-44	35-44	10%
45-54	45-54	15%
55-65	55-64	18%

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Each pension fund is free to choose its means of financing the annual old age bonuses, with the LPP providing but a few general indications. The LPP is based on the principle of collective financing: the contribution of the employer must be at least equal to the sum of contributions paid by all the employees. Similarly as for the AVS, all payments are made by employers (their own part, and the employee's part, which is deducted directly from the salary).

Disability insurance

In the event of disability under the terms of the AI, resulting from an accident or illness, the pension fund pays the insured party a disability pension, and a children's pension if applicable. These pensions continue to be paid when the insured party reaches retirement age.
The disability pension is calculated by extrapolating the final old age assets: the sum of old age bonuses to be generated in years to come is added to the old age assets acquired when entitlement to the pension sets in (without interest).

The LPP provides for the following benefits

Disability benefits	**Conditions**	**Sum**
Disability pension	To be disabled to at least 40 %. - 40 % disability: quarter pension. - 50 % disability: half pension. - 60 % disability: three quarters pension. - 70 % disability: full pension.	The annual disability pension corresponds to 6,80% of the extrapolated old age assets in 2014.
Child's pensions	Paid to disability pension recipients; At the death of the recipient, the child is entitled to an orphan's pension The pension is paid until age 18 or 25 at the latest if studies or apprenticeship	20 % of the disability pension per year.
Special cases Cash bene-	*According to the provisions of*	One-off payment

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fits/capital	*the pension fund regulations:* possibility of a lump sum payment	

Survivors

The surviving spouse (man or woman) who is in charge of a child or children, or who is al east 45 years old and has been married five years or more, is entitled to a survivor's pension.
Surviving spouses who meet none of these requirements receive a one-off payment corresponding to three annual pensions. The right to a survivor's pension becomes void when the surviving spouse remarries.
At the death of an ex-spouse, the divorced spouse (man or woman) is also entitled to a survivor's pension, if the marriage lasted at least ten years and if the divorced spouse received a alimony, or a capital payment instead of a life annuity pursuant to the divorce settlement. The pension is however limited to the alimony pension.
The insured person may designate as the beneficiary of survivor's benefits his or her non-married partner, if the couple lived together for 5 years prior to the death of one partner, or if they had to contribute to the upkeep of their common child or children.

The LPP provides for the following benefits

Survivors' benefits	**Conditions**	**Annual amount**
Surviving spouse's pension (widow or widower)	To be a widow or widower, to have a child (children) in charge or be at least 45 years old and have been married at least five years. Divorced persons are entitled to survivors' benefits at the death of their ex-spouse if the marriage lasted at least ten years, or if they received a pension or cash payment (instead of a life annuity pursuant to the divorce settlement).	60 % of the old age pension or of the complete disability pension
Cash benefits for the Surviving spouse	To lack entitlement to a surviving spouse's pension	The equivalent of three annual pensions as a one-off cash payment
Survivors' benefits for	To have lived together for at least 5 years prior to the death of one the partners; Or to support	Amount established according to the

unwed couples	their common child or children; Compliance with the conditions established by the pension fund regulations.	provisions of the pension fund.
Orphan's pension	To be an old age pension recipient, to have one child or children less than 18 years of age, still in school or training, or disabled to at least 70%. The pension is paid until age 18 or 25 at the latest if studies or apprenticeship	20 % of the full disability or old age pension
Special cases: Capital payment	According to the provisions of the pension fund regulations : possibility of a capital payment	One-off payment

Overpayment of benefits

When an insurance case involves different insurance schemes: accident insurance (LAA), military insurance (LAM) and the LPP, the benefits of accident and military insurance are always due first. Disability and survivors' benefits under the LPP are due only if added to the benefits from other schemes, all benefits amount to not more than 90% of the income of which the insured person is presumably deprived. Over this threshold, LPP disability and survivors' benefits are correspondingly curtailed. This provision is intended to prevent that the benefits paid by different insurance schemes improve the financial status of the insuree.

Maintaining insurance provision

The insured person leaving a pension fund for a reason other than old age, death or disability, is entitled to a withdrawal benefit, also called a vested benefits. This is the case when insured employees change their employer, whether or not they have a new job after leaving the pension fund. When an employee changes employer, the pension fund transfers the vested benefits to the new employer's pension fund. Insurees who do not take a new job must indicate the pension fund to which institution it should transfer the vested benefits. The insured person can choose between a personal movable credit account with a bank or a vested benefits policy in his or her name with an insurance company. Insurance provision is maintained, since to receive capital payment the insured person must meet certain precise conditions.
If the insured person fails to inform the pension fund of his or her intentions, the latter must transfer the withdrawal benefit (vested benefits) to the suppletive institution no later than two years after the benefit has been granted.

Insured persons who undertake a search for dormant assets should contact the 2nd Pillar Central Office ("Centrale du 2e pilier"). This institution will inform them of the institution(s) that may hold assets or vested benefits accounts or policies in their name. Pension funds and institutions that manage vested benefits accounts or policies have the obligation to inform the 2nd Pillar Central Office of unclaimed assets at least once a year.

Unemployed insurees continue to be subject to mandatory insurance for death or disability, to the extent that the unemployment fund pays them daily benefits or compensation (after a waiting period that is usually set at 5 days) and if their daily income is over CHF 80,90. The contributions are paid in half by the unemployed person, in half by the unemployment fund. The insurance is managed by the suppletive institution. Insured persons who have not found work and are insured on an optional basis with their original pension fund, may be freed of this obligation.

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