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Promoting home ownership using funds from occupational pension plans

Information for insured persons

Pillar-2 pension capital can be used to finance an owner-occupied home. For this purpose, insured persons may withdraw pension benefits early or pledge their benefits (at the latest three months before the benefits fall due).

Basic principle.

Under the Swiss Federal Act on the Promotion of Home Ownership using Occupational Pension Benefits, insured persons may withdraw their vested benefits (cash disbursement) as late as three months before the benefits under the regulations fall due, or they may opt to pledge their vested benefits or pension benefits.

Pension plan assets can be withdrawn early or pledged for:

- The purchase or construction of residential property in sole ownership, co-ownership or joint ownership, provided the insured person is to reside there on a permanent basis. This covers single-family houses and apartments, but not holiday homes or second homes.
- The purchase of unit certificates in a housing cooperative or of similar holdings, provided the property financed in this way is occupied by the insured person.
- The repayment of mortgages on owner-occupied property.
- Investments made to enhance or maintain the value of existing residential property.

Pension assets cannot be used to finance the normal upkeep of residential property, the purchase of building plots, amounts paid for reservations, taxes on early withdrawals or mortgage interest. Residential property is considered to be owner-occupied if it is used by the insured person at his/her domicile or customary place of residence. It is immaterial whether the domicile is located in Switzerland or abroad.

Insured persons who are fully incapacitated are not permitted either to pledge their pension benefits or make early withdrawals; if they are still able to work part-time, only that portion of the vested benefits may be pledged or withdrawn early that corresponds to their percentage ability to work.

Early withdrawal or pledge?

In the case of an early withdrawal, the insured person is primarily accessing funds that have been saved for their retirement. The insured person instructs the pension fund to disburse a certain amount from his/her personal pension assets. The early withdrawal thus serves to increase the insured person's equity base.

Unlike an early withdrawal, the purpose of a pledge is to use the insured persons' pension entitlements to secure the claim of a creditor. Where necessary, a pledge can be used to secure more favourable conditions for debt financing or to defer repayments on a mortgage loan.

Note: In many cases a pledge is likely to be a more interesting proposition for the insured person than an early withdrawal.

Pledging.

Variants
Pledging may cover:
- the entitlement to pension benefits on retirement or in the event of disability or death (without limits in terms of amount)
  or
- the permissible amount of the vested benefits.

Minimum amount
No minimum amount applies when vested benefits are pledged.

Maximum amount
Insured persons below the age of 50:
- Pledge up to the amount of the vested benefits.

Insured persons aged 50 and over:
- The vested benefits they would be entitled to at age 50, or half the current vested benefits.

Effects
The pension benefits to which you are entitled serve the mortgage creditor as security. The pledge enables you to procure additional debt financing. The insured person can agree either on a higher mortgage loan with the creditor, the deferment or waiver of the repayment of an existing mortgage loan, or a lower interest rate on a subordinate loan.

Insurance cover
Unless the pledge is realized, it has no effect on the pension insurance cover.

Taxes
Taxes are payable only in the event that the pledge is realized. The same rules then apply as for early withdrawals.

The additional debit interest owing to the higher loan amount can be deducted from the insured person's taxable income.

Restrictions
A pledge restricts the options available to the insured person under the pension regulations. The pledge holder's consent is required if:
- the vested benefits are disbursed in cash
- the pension benefits are disbursed
- part of the vested benefits is transferred (e.g. following a divorce)

Departure
If an insured person who has pledged his/her vested benefits or pension benefits joins another pension or insurance scheme, the previous pension scheme must inform both the new pension scheme and the pledge holder of this fact.

Payment of benefits
The pledge holder's consent is required before benefits can be paid to the insured person or their dependants in the event of disability or death.

Retirement age
Once the insured person reaches retirement age, the pledge on the vested benefits expires because the retirement assets are used to finance the retirement benefits.

Divorce
The pledge holder's consent is required both to transfer part of the vested benefits in the case of divorce and to withdraw benefits early in order to finance the purchase of residential property.

Early withdrawal.

Basic principle
Early withdrawals are possible every five years and, at the latest, three months prior to normal retirement age. Where purchases have been made, the resulting benefits cannot be withdrawn as a lump sum within the following three years.

Minimum amount
The minimum amount of an early withdrawal is CHF 20,000 (except where unit certificates or similar holdings are being purchased or in the case of vested benefit accounts/policies).

Maximum amount
Insured persons below the age of 50:
- Early withdrawal up to the amount of the vested benefits.

Insured persons aged 50 and over:
- The vested benefits they would be entitled to at age 50, or half the current vested benefits.

Effects
Both the future retirement benefits and the vested benefits are reduced by the amount of the early withdrawal. Depending on the type of pension plan, the benefits payable on death and disability are also reduced.

Insured persons are advised to analyse their personal pension situation before making a withdrawal. After receiving your written application, we will calculate the reduction in your benefits and, if you wish, can offer you supplementary insurance.

Guaranteeing the intended use
In the event that a pledge is realized or an early withdrawal is made, the intended use is secured by means of a note in the Land Register (restriction on sale), the cost of which is borne by the insured person. This note sets down that the amount of the early withdrawal is to be repaid to the pension fund in the event that the residential property is sold.

Taxes
The amount withdrawn early is a capital payment from a pension plan and, as such, must be taxed in accordance with the federal and cantonal provisions in force at the time of withdrawal. As a rule, it is taxed separately from other income.

It is not possible to finance this tax debt by increasing the amount of the early withdrawal.

Departure
If the insured person joins another pension scheme, the latter is informed of any early withdrawals made. Any (mandatory or voluntary) repayments are made to the new pension scheme, which credits the amounts in question to the insured person's retirement account.

Divorce
In the event of a divorce, the courts treat an early withdrawal like a vested benefit, i.e. it must also be divided equally between the ex-spouses.

Repayment obligation
The amount of the early withdrawal must be repaid as soon as the prerequisites for the withdrawal no longer apply (e.g. if the residential property is sold).

If the pension fund is unaware of a ruling of the Swiss Federal Disability Insurance Office when it executes an early withdrawal (in particular because the insured person disregarded his/her duty to notify the pension fund of the ruling), the insured person must repay the amount withdrawn.

Right of repayment
In addition, the insured person may repay the amount of the early withdrawal at any time up to three months before retirement.

Procedure.
Your advisor will be happy to discuss with you whether you meet the requirements for financing residential property with funds from your occupational pension plan.

Simply fill in and return the «Application for early withdrawal or pledge» form. Please note that insured persons who are married or living in a registered partnership (even if they have separated) must have their spouse or partner sign the application form as well.

Costs
The Land Register costs as well as any costs incurred to procure current excerpts from the Land Register or proof of domicile are borne by the insured person. We also charge an appropriate administration fee for processing your application.

Effects of an early withdrawal or pledge.
- Retirement benefits and possibly also survivor benefits may be reduced accordingly.
- The insured person bears the risk of the residential property losing value and thus of any financial deficit.
- The insured person is responsible for having the note removed from the Land Register at a later date.
- The insured person must retain the invoices for the tax paid on the early withdrawal for the purposes of later reimbursement.