Purchase of insurance years for insured persons

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Information for insured persons

By making a voluntary payment to their pension fund, insured persons can close shortfalls in their pension under the regulations and thus increase their retirement assets and consequently their insurance benefits as well. The voluntary purchase of occupational pension benefits thus improves the insured persons' insurance cover and provides favourable tax optimisation opportunities.

Principle

Shortfalls in pensions under the regulations can be completely or partially closed by means of voluntary payments into the pension fund (purchases). Moreover, these purchases also have tax advantages.

When is a voluntary purchase advisable for an insured person?

Pension shortfalls occur, for example:

- as a result of a substantial pay rise
- as a result of a career interruption to have children, spend time abroad or study or due to a period of unemployment (missing years of contributions)
- as a result of joining a pension fund after the age of 25.

Good to know

- Any funds paid in can be withdrawn prematurely in certain cases specified by law after a three-year exclusion period.
- The legislation on pensions does not allow the benefits purchased to be paid out in a lump sum within three years of purchase (e.g. in the event of retirement, to finance residential property or for cash payouts if the insured person becomes self-employed or leaves Switzerland).
- If occupational pension assets have already been used to purchase a home, the withdrawal must be repaid in full before additional benefits can be purchased.
- Persons relocating to Switzerland from abroad who have never belonged to a Swiss pension scheme may not voluntarily purchase additional benefits totalling more than 20% of their insured salary within the first five years of enrolling in a Swiss pension scheme.
- The maximum purchase amount is reduced by any amount by which pillar 3a assets exceed the maximum possible amount as specified by a table published by the Federal Office for Social Insurance.
- Assets with further pension funds, in vested benefit accounts or from vested benefit policies are also taken into account when calculating the maximum permissible purchase amount.

The above rules do not apply to any purchase that makes up for pension shortfalls resulting from a pension settlement due to a divorce or the dissolution of a registered partnership.

Tax treatment of purchases

Purchases are certified by the relevant pension fund and are deductible from direct taxes levied by the federal, cantonal and local governments.
The assets including purchases are exempt from wealth, income and withholding taxes until withdrawal. The assets are not taxed until disbursement – at a preferential rate if the assets are withdrawn as a lump sum. When a pension is drawn, it is taxed together with other income.

However, the tax authorities do not permit purchases to be deducted if capital is withdrawn from the occupational pension plan within three years of the purchase. Most tax authorities take an overall view of an individual's 2nd-pillar pension arrangements. Thus, it doesn't matter if the capital is withdrawn from the same pension fund into which the voluntary payment was made. The tax deduction claimed on purchases is subsequently annulled by setting it off against the insured person's taxable income.* The tax deductibility of purchases and the tax implications of capital withdrawals within three years of purchase are assessed by the tax authority responsible for insured person. The pension fund has no influence on the assessment and decision of the tax authority and can accept no liability for it.

Additional benefit on death (optional)

In accordance with a provision in the pension plan, which must be agreed by the responsible **Pension Commission**, the purchases made can be paid out as a lump sum on the death of the insured person before retirement separately and independently of any other survivors' pensions.
On death before retirement, these assets are paid out to the survivors in addition to any survivors' pension or lump-sum death benefit.

On retirement, the purchases made are paid out as a lump sum or converted into a retirement pension together with the saved retirement assets.
Purchases are elective retirement assets and are taxed accordingly during the insurance term.

Procedure

- Have someone check that you fulfil the prerequisites for a purchase and ask them to calculate the maximum permissible amount in your case.
- Complete the form entitled «Application for buying into the pension fund».
- Do not pay in the purchase amount until you have received your personal purchase calculation, and do not pay in any more than the maximum amount stated in the calculation.
- You will receive a statement for the tax authorities once your payment is received.

* You will find further information in the form entitled «Application for buying into the pension fund».