

Social insurance

# Country Profile 2012

## Switzerland/

This Country Profile is created annually by AXA Winterthur and provides information about the social security and the pension system in Switzerland.



## Company Background AXA Winterthur /

AXA Winterthur is part of the AXA Group which is one of the world's leading insurance and asset management groups.

AXA Winterthur is also a leading insurance company in Switzerland with more than 1.83 million private and corporate clients. It has a diversified product line that includes non-life products such as property, liability, vehicle, credit and travel insurance, as well as life and pension solutions that can be tailored to the needs of individuals and corporate clients. With a market share of approximately 30%. AXA Winterthur is a leading life insurance provider in Switzerland. AXA Winterthur sells its products and services via its own sales channels and third-party distribution channels.

In 2011, AXA Winterthur had life and non-life premiums of approximately CHF 11.1 billion (USD 12,2 billion) and assets under management of CHF 79 billion (USD 86 billion). It is part of the global AXA Group, one of the world's leading insurance groups with total consolidated revenues in 2010 of EUR 91 billion (USD 121 billion) and approximately 95 million clients.

AXA Group has approximately 214,000 employees located in 61 countries throughout the world and is ranked in *Fortune Magazine's Global 500* as one of the ten largest corporations in Europe. AXA is listed on both the Paris and New York Stock Exchanges and has a Standard & Poor's rating of AA- (very strong).

### Key Products

#### Life

- Life
- Spouse's and Orphans' Pensions

#### Disability

- Accident and Sickness
- Long-Term Disability (as part of a Retirement Plan)

#### Pensions

- Insured Pensions

#### Other

- (BVG) Mandatory Occupational Pension Plans

AXA Winterthur is located on the internet at: [www.AXA.ch](http://www.AXA.ch)  
(Main information is available in German, French, Italian and English)

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# I. Summary of social security and private employee benefit plans

## A. Overview (Three Pillar System)

The Swiss Social Welfare System is built primarily on three pillars.

**First Pillar:** State Social Security: The first pillar provides Old Age, Disability and Survivors' Pensions, Supplementary Benefits, Income Compensation during military service, Maternity Benefits and Health Insurance.

**Second Pillar:** Occupational benefits insurance: The second pillar provides Old Age, Disability and Survivors' Pensions, accident insurance, extra-mandatory benefits and short term disability benefits.

**Third Pillar:** Private pension: The third pillar provides voluntary private pension plans and individual savings (tied pension 3a and flexible pension 3b).

	Pillar 1	Pillar 2	Pillar 3
Name	State pension ■ AHV/IV ■ EL (supplementary benefits)	Occupational benefits insurance ■ UVG (mandatory accident insurance) ■ BVG (mandatory occupational benefits insurance) ■ Extra-mandatory benefits	Private pension ■ Tied pension (Pillar 3a) ■ Flexible pension (Pillar 3b)
Purpose	Securing livelihood	Continuing the accustomed living standard	Individual supplement to close any pension gaps
Responsibility	The government	The employer	The individual
Contributions	■ AHV/IV – Employer and employee: each 50% – Self-employed persons and those not gainfully employed: 100% self-funded ■ EL Funded with federal and cantonal tax money	■ UVG – Employer: Occupational accidents – Employee: Non-occupational accidents ■ BVG – Employer and employee: Employer contributions must equal at least the total contributions of all employees – Self-employed individuals: 100% self-funded	100% self-funded
Components (not exhaustive)	■ Retirement pension ■ Child's pension ■ Disability pension ■ Disabled person's child's pension ■ Widow's/widower's pension ■ Orphan's pension	■ Daily benefits ■ Retirement pension/capital ■ Retired person's child's pension ■ Disability pension ■ Disabled person's child's pension ■ Widow's/widower's pension ■ Orphan's pension	■ Insurance or banking solution ■ Savings and assets in any form

## B. Social security (Mandatory)

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The social security integrates all mandatory insurances. In the following chapters only the (partly) Employer financed insurances are explained further.

### 1. Federal Old Age, Survivors' and Disability Benefits (AHV/IV, 1<sup>st</sup> Pillar)

All persons having a legal residence, earning their living in Switzerland, or who are Swiss citizens working abroad for Swiss employers are compulsory insured.

#### a) Contributions

Contributions are paid on total earnings (no ceiling) and are shared equally by employer and employee.

	<u>Employer</u>	<u>Employee</u>
Old Age and Survivors' Pensions (AHV)	4.20%	4.20%
Disability Pensions	0.70%	0.70%
Income Replacement Scheme (military service, etc.)	<u>0.25%</u>	<u>0.25%</u>
<b>Total</b>	<b>5.15%</b>	<b>5.15%</b>

#### b) Old Age Pension (AHV)

Normal retirement begins the first day of the month following attainment of age 65 for men and age 64 for women. The minimum pension for single persons is CHF 13,920 and the maximum pension is CHF 27,840. For married couples the Old Age Pension is topped at 150% of the maximum pension.

Benefits are increased every two years unless the cost of living index increases by more than 4% in one year; in which case, they are increased after one year.

#### c) Survivors' Benefits (AHV)

**Widow's pension:** 80% of the pension of the insured, payable to widow if caring for a child or more, or if age 45 and married at least five years when widowed. Childless widow under age 45: lump-sum only. If remarried before age 64 pension is cancelled.

**Widower's pension:** 80% of the pension of the insured if caring for a child or more under the age of 18. If remarried before age 65, pension is cancelled.

**Orphans' pension:** 40% projected/actual old age pension (if full orphan 80%, but not more than 60% of the maximum old age pension), payable up to age 18 or 25 if full-time student.

#### d) Sickness and Disability Benefits (IV)

Employers are required to pay full salary for three weeks of sickness during the first year of service. Generally, employers pay full salary for three to six months, then 80% for up to two years. If rehabilitation treatments have been unsuccessful, the State will pay a long-term disability pension equal to a percentage of the projected old age pension, depending on the degree of disability.

## 2. Medical Care (KVG, 1<sup>st</sup> Pillar)

A law, which came into force on January 1, 1996, provides for mandatory medical coverage for all residents in Switzerland.

The basic coverage, through individual policies (or more rarely, through an employer-sponsored program at same cost) is identical for everybody and includes the following benefits: hospitalization in a public ward, medical treatment, medicines, worldwide coverage, maternity, and accident (only if not already covered by the occupational accident law called UVG).

## 3. Family Allowance (1<sup>st</sup> Pillar):

The rules applying to this benefit vary from canton to canton. The employer pays all contributions for this benefit. An allowance is paid for each child until age 16 or until 25 if a student.

## 4. Employee Benefits Insurance (BVG, 2<sup>nd</sup> Pillar)

The Swiss Pension Fund Law requires all Swiss employers to operate private pension plans with certain minimum standards. Through successive steps, the Federal Occupational Retirement, Survivors' and Disability Pensions Act should eliminate the existing gaps in the field of employee welfare and enable aged persons to maintain their customary standard of living.

All employees are subject to mandatory employee benefit plans (BVG) whose salaries are in excess of CHF 20,880. The eligibility period begins on January 1 following age 17 for death and disability benefits, and on January 1, following age 24 for retirement benefits. The annual earnings are coordinated so that those taken into consideration are equal to the part of the AHV salary between CHF 24,360 and CHF 83,520. Therefore, the maximum salary insured amounts to CHF 59,160.

### a) Contributions

The total retirement contributions for the employer and employee are shown below. Employers are required by the Swiss Code of Obligations to pay at least 50% of the pension plan contribution.

<u>Men Age</u>	<u>Women Age</u>	<u>% of Coordinated Earnings</u>
25-34	25-34	7%
35-44	35-44	10%
45-54	45-54	15%
55-65	55-64	18%

### b) Retirement Benefits

The amount of the retirement pension is determined by the retirement credits increased with interest (effective January 1, 2012: 1.5%). The rate of conversion of retirement assets into a pension will be fixed by the Federal Council. This conversion rate will decrease gradually till 2014 from 7.2% to 6.8%.

### c) Disability Benefits

The long-term disability pension is 100% of the retirement assets without interest projected to age 65 for men and 64 for women, multiplied by the conversion rate.

### d) Death Benefits

Death benefits are based on the projected disability pension. The spouse's pension equals 60% of the projected disability pension, and the orphans' pension equals 20% of the same for each child.

e) **Cost of Living Adjustments**

The adjustment for cost of living is compulsory for Survivors' and Disability Pensions up to age 65 for men and 64 for women.

f) **Law on Promotion of Home Ownership**

In order to buy a house for their own use or to amortize an existing mortgage, insureds have the right to ask for the anticipated payment of the total amount of the portable credit accrued up to age 50. Insureds older than 50 are able to use half of the portable credit at the time of request or the portable credit accrued at age 50.

**5. Accident Insurance (UVGo, 2<sup>nd</sup> Pillar):**

Benefits have been provided through the National Accident Insurance Program since January 1, 1984. Coverage is compulsory either with a public carrier for workers in engineering and building trades, manufacturing industries, forwarding companies, etc., or with a private carrier for companies that are not compulsory insured with a public carrier. The insurance covers occupational and non-occupational accidents, as well as occupational diseases. There is no minimum qualifying period.

The employer pays the entire cost for occupational accident insurance, and rates vary by industry risk. For non-occupational accidents, the total premium or a part of it may be charged to the insured person. The various benefits provided include: permanent disability, temporary disability, widow's and orphans' pensions, funeral grants, and medical benefits.

The applicable salary ceiling is CHF 126,000 per year

**6. Unemployment Insurance (ALV, 2<sup>nd</sup> Pillar):**

Since April 1, 1977, unemployment insurance has been mandatory for all employees according to federal law. The applicable salary ceiling is CHF 126,000 per year. Equal contributions of 1% are made by each, the insured person and the employer.

Benefits are paid for a period ranging from 90 to 400 days (520 days under certain circumstances) depending on the age, income and number of children of the unemployed person. The benefit level is equal to 70%-80% of covered salary. Benefits are payable after a five-day waiting period.

**C. Private Employee Benefit Plans (Voluntary)**

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**1. Group Insurance/Pension Plans (BVGz, 2<sup>nd</sup> Pillar)**

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a) **Retirement Benefits**

A retirement pension for all eligible employees is payable from normal retirement age for as long as the insured is alive. The pension can be set up as either a defined benefit or, as is becoming increasingly common, a defined contribution plan.

b) **Pensionable Salary**

In order to integrate the Social Security pension with private group plans, the private contracts use a Social Security offset expressed as a certain percentage of the Social Security old age pension for single persons.

Employee contributions vary between 5% and 8% of pensionable salary.

c) **Survivors' Benefits**

Spouse's Pension - A pension is payable to the spouse from the time of the insured's death (before or after retirement) until the widow or widower's death or remarriage. In case of remarriage, a lump-sum equal to three annual spouse's pensions is paid.

The normal spouse's pension is equal to 60% of the projected retirement pension. Very often a pension plan includes a special clause saying that the spouse's pension is reduced by 1% to 3% for each complete year over ten that the widow or widower is younger than her/his spouse.

Survivors' benefits apply automatically for every male or female insured under the plan, regardless of marital status or number of children. The premium is on an average basis and is payable until the death or retirement of the male or female employee.

Orphans' Pension - An orphans' pension is payable upon the insured's death to each minor child until they reach age 18. However, the annuity is payable until age 25 if the child is still studying or if the child suffers from a presumably persistent disablement and has already been disabled for the same cause at age 18.

An orphans' pension is normally fixed at 20% of the projected retirement pension.

d) **Lump Sum Death Benefit**

This benefit is provided to all unmarried males and all females in case of death before normal retirement age and, in most cases, as compensation for the absence of a survivors' benefit. The lump-sum normally equals 100%-200% of the retirement credits. However, there is a growing trend for widower's pensions to be provided under private benefit plans.

e) **Disability Benefits**

A disability pension, graduated to the degree of disability, is payable in case of inability to work due to sickness or accident. The benefits commence on the day the waiting period specified in the contract has lapsed. The duration of the waiting period may be 3, 6, 12 months or, if a separate short-term disability plan exists, 24 months. The normal disability pension is based on the retirement assets without interest projected to age 65 for men and age 64 for women and multiplied by the conversion rate. The children's' pension is normally fixed at 20% of the projected disability pension.

f) **Vesting Rights**

Due to a law, which became effective January 1, 1995, full vesting is applied on BVG benefits, as well as on any benefits over BVG limits. For defined contribution plans, employees leaving their place of employment will receive the amount of total contributions paid on their behalf including interest. For defined benefit plans, the vested amount will be determined by the present value of the accrued pension. Additionally, employees must transfer the vested amount to their new employer's pension fund, which will buy back "years of service."

At the request of the employee, a cash payment can be made in the following cases:

- i. If an insured employee is leaving Switzerland and not moving permanently to an EU country (effective June 2007 bilateral agreement between EU and Switzerland)
- ii. If an insured employee becomes self-employed

**2. Extra-mandatory Accident Insurance (UVGz, 2<sup>nd</sup> Pillar)**

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The Employer can provide complementary coverage for his Employees in case of an accident.

**3. Short Term Disability Plan (KKTG, 2nd Pillar)**

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Compensation of lost salary is generally the responsibility of the employer, who may choose to insure its staff unless union agreements compel it to do otherwise. Insurance is by far the most commonly adopted solution.

## II. Economics /

### A. Introduction

Switzerland is a neutral state composed of 2636 communities within 26 provincial divisions called cantons. The federation has a strong decentralized economic and political system with the cantons and communities on the local level enjoying considerable autonomy. Each canton has its own constitution, laws, government, taxes, and education system.

The population of Switzerland is 7.870 million of which 25% are foreigners, 21% of the residents are under age 20, 62.2% are age 20 to 64, and 16.8% are age 65 or older. The population density is 195 per sq. kilometer.

Linguistically, Switzerland is divided into four main regions. The largest group, speaking Swiss German (a regional dialect), represents 63.7% of the population, French-speaking 20.4%, Italian-speaking 6.5%, and Romansch, a language derived from Latin specific to the Grison region, is spoken by less than 1% of the population. The other 9% represents the foreign community working in Switzerland who speaks Spanish, Portuguese, English, and other languages.

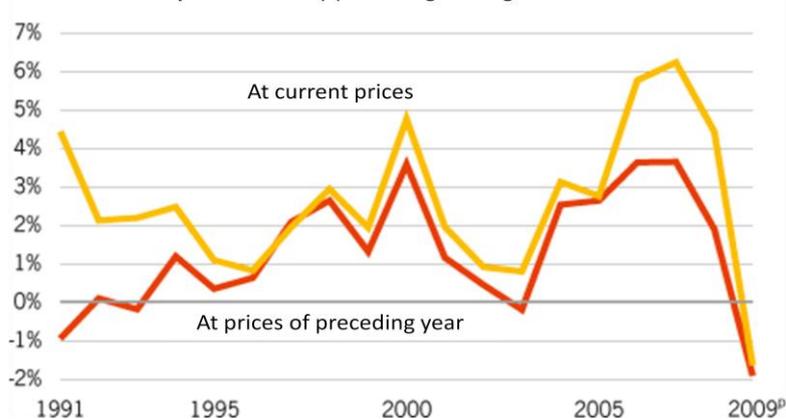
The European policy of Switzerland is marked with an angle of pragmatism. The Federal Council drew this conclusion from the vote on the popular initiative "Yes to Europe" which was turned down by the Swiss people. In the short run, the Federal Council will give priority to the implementation of the bilateral agreements signed (with the European Union) in June 1999, and which became effective on April 1, 2002. Furthermore, the Government approved the launch of Bilaterals II with negotiations on 10 key areas, including taxation and Swiss admission to the open border policies of the EU. Part of the bilateral Agreements II became effective on April 1, 2006, the remaining on December 31.

### B. Economic Overview

Since 2004, the Swiss economy is thriving on a growth path. GDP at previous year prices in 2004 grew by 2.5%. The strong growth of GDP continued in 2005 with a continued increase of 2.6% (at prices of preceding year). This positive result is mainly due to continued strong domestic demand and investments. The years 2006 and 2007 then reached an extraordinary growth of 3.6%. The year 2008 was dominated by the initial impact of the financial crisis on the economy. The difficulties of financial services, especially banks, had an impact on the growth, which still reached 1.8%. In addition, the rest of the economy showed a slight slowdown after two years of strong growth.

This slowdown was aggravated in 2009 and the Swiss economy experienced a marked decrease in GDP of -1.9% (in comparison to 2011 1.9% at prices of preceding year). While the export industries suffered from the deterioration of the world's economy, the financial institutions still felt the impact of the financial crisis.<sup>1</sup>

Gross domestic product: Yearly percentage change



<sup>1</sup> Source: Bundesamt für Statistik

Percentage change over previous year:

	2009	2010	2011
<b>At current prices</b>			
Gross domestic product	-1.6	2.8	2.6
Domestic demand	-0.7	3.2	2.1
<b>At prices of preceding year</b>			
Gross domestic product	-1.9	2.7	1.9
Domestic demand	-0.3	2.9	1.7

Ratio in %

	2006	2007	2008p
Government deficit in relation to GDP	0.8	1.7	2.3
<b>Savings quote</b>			
Savings in % of gross disposable income of households adjusted of mandatory saving	16.6	17.7	17.0
Mandatory savings in % of gross disposable income of households adjusted of mandatory saving	8.6	8.7	9.3
Voluntary savings in % of gross disposable income of households adjusted of mandatory saving	8.0	9.0	7.7
Savings in % of national income <sup>2</sup>	33.0	30.7	25.3
External balance of goods and services in % of GDP	8.3	10.3	11.4

In Swiss francs per person, at current prices

	2006	2007	2008p
Final consumption expenditure of households and NPISH per inhabitant	37'892	38'956	40'024
Final consumption of households and NPISH	41'968	43'127	44'269
Disposable income of households and NPISH per inhabitant	41'541	43'234	43'753
Adjusted disposable income of households and NPISH per inhabitant	45'616	47'405	47'998

<sup>2</sup> National saving in % of gross national income: indicates the part saved of the national income

## III. Social security system /

### A. Federal Old Age, Survivors' and Disability Benefits (AHV/IV, 1<sup>st</sup> Pillar)

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#### 1. Eligibility

All persons having a legal residence, earning their living in Switzerland, or Swiss citizens working abroad for Swiss employers are compulsorily insured.

#### 2. Contributions

Contributions are paid on total earnings (no ceiling) and are shared equally by employer and employee. They are a percentage of total earnings:

<u>Employer</u>	<u>Employee</u>	
Old Age and Survivors' Pensions (AHV)	4.20%	4.20%
Disability Pensions	0.70%	0.70%
Income Replacement Scheme (military service, etc.)	<u>0.25%</u>	<u>0.25%</u>
<b>Total</b>	<b>5.15%</b>	<b>5.15%</b>

#### 3. Retirement Date

First day of the month following attainment of age 65 for males and age 64 for females.

#### 4. Pensionable Salary

Minimum Salary = CHF 1

Maximum Salary = unlimited

#### 5. Old Age Pension

Normal retirement begins the first day of the month following attainment of age 65 for men and age 64 for women. The minimum pension for single persons is CHF 13,920 and the maximum pension is CHF 27,840. For married couples the Old Age Pension is topped at 150% of the maximum pension.

Benefits are increased every two years unless the cost of living index increases by more than 4% in one year; in which case, they are increased after one year.

#### 6. Survivors' Benefits

Widow's pension: 80% of the pension of the insured, payable to widow if caring for a child or more, or if age 45 and married at least five years when widowed. Childless widow under age 45: lump-sum only. If remarried before age 64 pension is cancelled.

Widower's pension: 80% of the pension of the insured if caring for a child or more under the age of 18. If remarried before age 65, pension is cancelled.

Orphans' pension: 40% projected/actual old age pension (if full orphan 80%, but not more than 60% of the maximum old age pension), payable up to age 18 or 25 if full-time student.

## 7. Sickness and Disability Benefits

By law, employers are required to pay full salary on sickness for at least three weeks during the first year of service, prolonged accordingly for longer service.

If rehabilitation treatments have been unsuccessful, the State will pay a long-term disability pension equal to a percentage of the projected old age pension, depending on the degree of disability.

Degree of Disability	Benefit Payable
40 - 49%	25% of Old Age Pension (OAP)
50 - 59%	50% of Old Age Pension (OAP)
60 - 69%	75% of Old Age Pension (OAP)
more than 69%	100% of Old Age Pension (OAP)

## 8. 10th Amendment of AVS/AHV (State Old Age System)

The main features of the 10th Amendment of the Social Security Law, which became effective on January 1, 1997, are as follows:

- a) A married couple's pension is replaced by two individual pensions and paid separately on a 50/50 basis, although a couple can request a single payment.
- b) The formula for the calculation of the pensionable salary.
- c) The extension of the allowance for disability requiring assistance (50% of minimum Old Age Pension).
- d) The method used to calculate the Old Age Pension for each spouse of a married couple takes into consideration the individual pensionable salary before marriage and 50% of pensionable salary during marriage. However, the maximum Old Age Pension cannot exceed 150% of the maximum Old Age Pension for a single person (CHF 41,760 in 2011).
- e) A widower's pension is payable provided that the beneficiary has dependent children.
- f) Since January 1, 2001, the retirement age for women has increased in steps to age 64 (effective January 1, 2005).
- g) Social Security – Reform Status: In a popular referendum held on May 16, 2004, Swiss citizens rejected the proposed reforms on the 11<sup>th</sup> revision of the social security pension program (AHV/AVS). The rejection of the proposed reforms in the referendum implies that the retirement age for women will be age 64 under the AHV/AVS program (effective from 2005), which is not in line with the age 65 retirement age under the mandatory pension program (BVG/LPP). The introduction of a flexible retirement age from age 59 and important changes to “modernize” widows' pensions under the AHV/AVS program will not be implemented.

## **B. Employee Benefits Insurance (BVG, 2<sup>nd</sup> Pillar)**

Compulsory "Second Pillar" legislation, the Swiss Pension Fund Law (effective January 1, 1985), requires all Swiss employers to provide private pension plans with certain minimum standards.

The main features of this legislation (also known as BVG) are as follows:

### **1. Objectives (Art. 1 BVG)**

Through successive steps, the Federal Occupational Retirement, Survivors' and Disability Pensions Act should eliminate the existing gaps in the field of employee benefits and enable aged persons to maintain their customary standard of living.

### **2. Persons Eligible for Insurance (Art. 2-7 BVG)**

All employees subject to 1st Pillar (Old Age, Disability, and Survivors' Pensions) whose salaries are in excess of CHF 20,880 are eligible. The eligibility period runs from January 1 following age 17 for death and disability benefits, and from January 1 following age 24 for retirement benefits. Insurance may also become compulsory for certain categories of self-employed persons.

### **3. Coordinated Earnings (Art. 8-9 BVG)**

Annual earnings taken into consideration are equal to that portion of gross salary between the coordination offset of CHF 24,360 and CHF 83,520, and are therefore, subject to a maximum insured salary of CHF 59,160 (CHF 83,520 minus CHF 24,360). The Federal Council may adjust the earnings limits.

### **4. Retirement Benefits (Art. 13-17 BVG)**

The amount of the retirement pension is determined by the retirement credits increased with interest (effective January 1, 2012: 1.5%). The rate of conversion of retirement assets into a pension will be fixed by the Federal Council (6.8% since January 1, 2005). This conversion rate will decrease gradually till 2014.

#### **Rate of Retirement Credits**

<b>Men Age</b>	<b>Women Age</b>	<b>% of Coordinated Earnings</b>
25-34	25-34	7%
35-44	35-44	10%
45-54	45-54	15%
55-65	55-64	18%

The total retirement contributions for the employer and employee are shown above. The Swiss Code of Obligations requires employers to pay at least 50% of the pension plan contribution.

The Federal Council will adjust annually the minimum interest rate, taking into account the investment possibilities (currently 1.5%).

Children's pension 20% of the retirement pension, per child.

### **5. Benefits in Case of Death (Art. 18-22 BVG)**

Spouse's pension: 60% of the projected disability or retirement pension.

Orphans' pension: 20% of the projected disability or retirement pension, per child.

## 6. Disability Benefits (Art. 23-26 BVG)

Disability pension: The long term disability pension is based on the retirement assets without interest projected to age 65 (males) or 64 (females) and multiplied by the conversion rate (6.8%). A quarter pension is payable if the employee is 25% disabled, a half pension between 50% and 60% of disability, a three-quarter pension between 60% and 70% of disability and after 70% of disability a full pension is paid.

Children's pension: 20% of the disability pension (per child).

## 7. Lump Sum Option (Art. 37 BVG)

As a general rule, the benefits are paid as pensions. The rules permit certain benefits to be paid in the form of lump sums. If there are retirement benefits and the insured wishes to receive a lump sum payment, the insured must elect a lump sum option three years prior to retirement age.

## 8. Law on Promotion of Home Ownership

This law, which came into effect on January 1, 1995, was accepted by the two Houses on December 17, 1993, together with the law on vesting.

In order to buy a house for their own use or to amortize an existing mortgage loan, the insureds have the right to ask for the anticipated payment of the total amount of the portable credit accrued up to age 50. The insureds older than 50 are able to use half of the portable credit at the time of request or the portable credit accrued at age 50.

The total amount of the portable credit includes the mandatory BVG *and* any optional supplementary plans.

If they withdraw these amounts, their benefits are reduced in proportion. But they always have the option to reimburse this money into the fund up until three years before normal retirement age, in which case, they are entitled to receive their full retirement pension.

The insureds also have the right to pledge their benefits as security to borrow money to finance a mortgage.

To avoid a gap in the benefits coverage, the insureds have the option to take out individual insurance.

If the property is sold or if there is no benefit due in the case of the death of the insured, the money must be returned to the fund.

Any anticipated payment is subject to federal, cantonal, and communal taxes. The methods and rates are different according to the location of the property. In case of reimbursement, the amount is not deducted from the taxable income, but the insureds have the right to ask for the refund of the taxes paid.

## 9. Financing (Art. 65-72 BVG)

Retirement credits may be financed by step-rated contributions based on age or by an average rate of contribution.

Supplementary contributions will be necessary to finance:

- a) Coverage of death and disability risk
- b) Indexation of survivors' and disability pension to the cost of living
- c) Coordination with accident insurance
- d) Contributions to the security fund

The total cost (national average) is about 15% of the coordinated earnings or about 10% of the AHV salaries. The employer pays at least 50% of the total cost.

#### **10. Cost of Living Adjustments for Pension in Course of Payment (Art. 36 BVG)**

The adjustment for cost of living is compulsory for survivors' and disability pensions up to age 65 for men and 64 for women. Each pension fund is required to make the necessary adjustment.

The first adjustment is required after the pension has been in payment for three years, with subsequent adjustments.

The indexing requirement does not apply to old age pensions. Pension funds may make voluntary adjustments, based on the development of prices and their financial status.

#### **11. Vesting Rights (Art. 27-30 BVG)**

Until they are transferred, the amount of portable benefits corresponds to the retirement assets accrued by the insured person.

#### **12. Organization of Pension Funds (Art. 48-52 BVG)**

The legal form may be a foundation, cooperative, or a public law institution.

The supervising authority registers the pension fund in the Register for Occupational Insurance.

Equal representation on the board of the pension fund is mandatory.

#### **13. Audit (Art. 53 BVG)**

An audit of the annual accounts and a periodic review of the actuarial provisions by a recognized expert for occupational benefit plans are required.

#### **14. Objectives of the Security Fund (Art. 56-59 BVG)**

Provides assistance in case of the insolvency of a pension fund.

#### **15. Supplementary Institution (Art 60 BVG)**

Employers who do not fulfill their obligations to provide a pension fund will be obliged to participate in the supplementary institution. Others may join at their request.

#### **16. Tax Implications (Art. 80 BVG)**

Contributions: Total deductibility of the contributions, applicable also for the non-compulsory part (as of January 1, 1987).

Benefits: Benefits are fully taxed as income.

#### **17. 3rd Set of BVG Revisions**

The main changes of the 3<sup>rd</sup> Set of BVG Revisions which came into effect January 1, 2006, are as follows:

##### **Purchase of additional benefits**

Within the framework of the legal provisions, the insured may purchase additional benefits under the regulations in order to improve their pension coverage. Insured persons must inform the pension fund of any other occupational pension assets in other vested benefits institutions, as the purchase amount for additional benefits will be reduced.

- **Early retirement**

The federal council has set the minimum age for early retirement at 58. As a transitional provision, the current regulation (minimum age of 55) will continue to apply for five years after the change enters into force for individuals insured as of December 31, 2005.

- **The maximum pensionable salary** may not exceed ten times the BVG ceiling (CHF 835,200). If an insured person is covered by several pension plans, he must inform his pension fund of his total pension.

## **C. Short Term Disability**

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Income Replacement:

According to Article 324a of the Swiss Code of Obligations, the employer has to continue payment of wages and salaries in case of accident or sickness for three weeks in the first year of service and "for an appropriate period, according to the duration of employment" in subsequent years.

## **D. Medical Care (KVG, 1<sup>st</sup> Pillar)**

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A law, which went into force on January 1, 1996, provides for mandatory medical coverage for all residents in Switzerland.

The basic coverage, through individual policies (or more rarely, through an employer-sponsored program at the same cost) is identical for everybody and includes the following benefits:

- Hospitalization in public ward
- Medical treatment
- Medicines
- Worldwide coverage
- Maternity
- Accident (only if not already covered by the National Accident Insurance Program known as UVG)

All these benefits are limited to certain maximums.

The cost depends on the canton of residence. Within each canton, the premium is generally the same for everyone regardless of age (except for minors), gender, and state of health or even past experience.

Complementary coverage is optional. Each individual has the freedom to choose a higher standard of coverage; e.g., a private hospital or ward, full coverage abroad, medical doctors or surgeons, unlimited medicines or alternative treatments, etc. The extra premium for any kind of supplementary benefits will be calculated individually, and a medical exam may be required.

An employer-sponsored program may also be offered at a lower cost, but it is not very common.

One of the reasons for the implementation of this new law is to control the skyrocketing cost of healthcare in the past 20 years by encouraging sickness funds to get more involved in the management of healthcare services.

## **E. Accident Insurance (UVGo, 2<sup>nd</sup> Pillar)**

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Effective January 1, 1984, benefits are provided through the National Accident Insurance Program (UVG).

### **1. Coverage**

This is compulsory accident insurance either with a public carrier for workers in engineering and building trades, manufacturing industries, forwarding companies, etc., or with a private carrier for companies that are not compulsorily insured with a public carrier. The insurance covers occupational and non-occupational accidents, as well as occupational diseases.

### **2. Contributions**

#### **a) Employers:**

Employers cover the entire cost for occupational accidents with rates varying by industry risk. For non-occupational accidents, the total premium or a part of it may be charged to the insured person.

Effective January 1, 2008, the earnings ceiling was increased to CHF 126,000 (unchanged in 2012).

#### **b) Government: None**

### **3. Qualifying Criteria**

No minimum qualifying criteria is needed for occupational accidents. For coverage of non-occupational accidents, a person must work at least eight hours per week.

### **4. Benefits**

Benefits are payable for both occupational and non-occupational accidents. Pensions are adjusted automatically for each 5% increase in the cost of living.

#### **a) Permanent Disability:**

80% of earnings for total disability. Maximum covered earnings equal CHF 8,400 per month.

#### **b) Temporary Disability:**

80% of earnings, payable after a two-day waiting period.

#### **c) Widow's Pension:**

40% of insured's earnings. Also payable to an invalid widower.

#### **d) Orphans' Pension:**

15% of insured's earnings for each orphan up to age 18, or up to age 25 if a student. 25% if full orphan.

#### **e) Cost of Burial:**

Subject to seven times the maximum insured daily earnings.

#### **f) Medical Benefits:**

Service benefits ordinarily provided by doctors, hospitals, and pharmacists.

#### **g) Maximum Earnings for Benefits:**

CHF 126,000 per year (effective January 1, 2008 / unchanged in 2012).

## **F. Family Allowance (1<sup>st</sup> Pillar)**

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Rules vary from canton to canton.

### **1. Contributions**

- a) Insured Person: None
- b) Non-agricultural Employers: 1-3% of payroll according to canton and fund.

### **2. Qualifying Criteria**

Child must be under age 16, or age 25 if a student or an invalid.

### **3. Benefits**

A minimum of CHF 200 per month is granted for the first child and CHF 250 for a child studying until the age of 25. Benefits for each additional child are granted according to cantonal laws.

## **G. Unemployment Insurance (ALV, 2<sup>nd</sup> Pillar)**

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### **1. Coverage**

Since April 1, 1977, unemployment insurance has been mandatory for all employees according to federal law.

### **2. Salary Ceiling**

CHF 126,000 per year for benefit purposes. (unchanged in 2012)

### **3. Contributions (effective January 1, 2008)**

The contribution rate to the unemployment is equal to 2.2% (shared equally by employer and employee) for earnings up to CHF 126,000

- a) Insured Person: 1.1% of salary up to CHF 126,000
- b) Employer: 1.1% of salary up to CHF 126,000

### **4. Benefits (as of January 1, 1997)**

Benefits are paid for a period ranging from 150 to 400 days (520 days under certain circumstances) depending on the person's age. The benefit level is equal to 70%-80% of covered salary. Benefits are payable after a five-day waiting period.

- Up to 150 daily allowances below age 50
- Up to 250 daily allowances between age 50 and 60
- Up to 400 daily allowances above age 60

As of July 1, 1997, a risk (survivors' and disability) premium is deducted from the daily allowances, thus enabling the unemployed to remain insured in the 2nd Pillar (BVG).

## IV. Private employee benefit plans /

Employer sponsored benefit plans include pension plans consisting of either group contracts or self-administered pension funds. These plans have been regulated since January 1, 1985 by the Federal Law on the Occupational Old Age, Survivors' and Disability Pension Act (BVG). (Please refer to Section III. B. for a more detailed description.) Another common provision is short-term disability (STD) insurance. Finally, employers sponsor accident insurance covering death, dismemberment, loss of income, and medical and hospital expenses. This provision is regulated by the Accident Insurance Law (UVG), which went into effect on January 1, 1984.

### A. Group Insurance/Pension Plans (BVGz, 2<sup>nd</sup> Pillar)

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#### 1. Retirement Benefits

A retirement pension for all eligible employees is payable from normal retirement age (i.e., age 65 for males and age 64 for females) for as long as the insured is alive.

##### a) Defined Benefit Plan:

The amount of pension is normally expressed as a certain percentage (1.5% to 2%) of pensionable salary times the number of credited years of service.

##### b) Defined Contribution Plan:

The contributions are equal to the BVG retirement credits or to a level rate of 12%-15% of gross salary.

#### 2. Survivors' Benefits

##### a) Spouse's Pension:

A pension is payable to the spouse from the time of the insured's death (before or after retirement) until the spouse's death or remarriage. In case of remarriage, a lump-sum equal to three annual spouse's pensions is paid.

The normal spouse's pension is equal to 60% of the projected retirement pension. A pension plan frequently includes a special clause saying that the spouse's pension is reduced by 1% to 3% for each complete year over ten that the widow or widower is younger than her/his spouse.

##### b) Orphans' Pension:

An orphans' pension is payable upon the insured's death to each minor child until age 18. The annuity is also payable beyond this age limit, provided that one of the following conditions is met:

- i. If the child is not fully employed and is studying or in apprenticeship, and is under age 25.
- ii. If the child suffers from a presumably persistent disability and has already been disabled for the same cause at age 20. In such cases, the annuity is paid during the child's life in proportion to the degree of disability.

An Orphans' Pension is normally fixed at 20% of the projected retirement pension.

#### 3. Lump Sum Death Benefit

This benefit is provided to all unmarried males and all females in case of death before normal retirement age and, in most cases, as compensation for the absence of a survivors' benefit. The

lump sum normally equals 100%-200% of the retirement credits. However, there is a growing trend for spouse's pensions to be provided under private benefit plans.

#### **4. Disability Benefits**

A disability pension, classified by degree of disability, is payable in case of inability to work due to sickness or accident. The benefits commence on the day the waiting period, specified in the contract, has lapsed. The duration of the waiting period may be 12 months or, if a separate short term disability plan exists, 24 months.

The mandatory disability pension is based on the retirement assets without interest projected to age 65 for men and age 64 for women, multiplied by the conversion rate.

The children's pension is normally fixed at 20% of projected disability pension.

#### **5. Waiver of Premium**

Waiver of premium is applicable under the same conditions as mentioned for disability pensions, although a different waiting period may be specified (for example, 6 months for waiver of premium and 24 months for disability pensions).

#### **6. Pensionable Salary**

In order to integrate the Social Security pension with private group plans, private contracts use a Social Security offset expressed as a certain percentage of the Social Security Old Age Pension for single persons. The percentage is fixed according to the total benefits (pension plan plus Social Security).

#### **7. Payment of Premiums**

Normally premiums for annuity benefits are annual level premiums while premiums for lump sum death benefits are annually renewable term insurance premiums.

#### **8. Employee's Contributions**

Varies between 5% and 8% of pensionable salary, but cannot be more than 50% of total premium.

#### **9. Vesting Rights**

Due to a law, which went into effect on January 1, 1995, full vesting is applied on BVG benefits, as well as on any benefits over the BVG limits. For defined contribution plans, employees leaving their place of employment receive the amount of total contributions paid on their behalf including interest. For defined benefit plans, the vested amount is determined by the present value of the accrued pension. Additionally, employees must transfer the vested amount to their new employer's pension fund, which will buy back "years of service".

At the request of the employee, a cash payment can be made in the following cases:

- a) If an insured employee is leaving Switzerland and not moving permanently to an EU country (effective June 2007 bilateral agreement between EU and Switzerland);

If an insured employee becomes self-employed;

A cash payment requires the written approval of the spouse. All payments are subject to taxes.

## **B. Short Term Disability Plan (KKTG, 2<sup>nd</sup> Pillar)**

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Compensation of lost salary is, within legal requirements, the responsibility of the employer, who may choose to insure its staff unless union agreements compel it to do otherwise. Insurance is by far the most commonly adopted solution.

The customary plan is as follows:

80%–100% of salary payable for 720 days, taking into consideration a waiting period of 14-60 days.

### **STD insurance plans typically provide the following benefits**

Daily Benefit: 80%/100% of daily salary during two years; possibility of extending the benefit to ten years or even to retirement age.

Hospital Expenses: 10%/80% of daily salary or a fixed amount.

Medical Expenses:  
(Ambulatory and Hospital) 90%/100% of expenses within certain limits or with fixed deductions.

### **For salaries in excess of CHF 126,000, benefits are often increased to**

Daily Benefit for  
Temporary Disability: 80%/100% of average of daily salary during 720 days from date of accident; serves as a supplement to the AIL (Accident Insurance Law).

Medical Expenses:  
(Ambulatory and Hospital) . Unlimited sum per accident during five years

Hospital Expenses,  
Daily Benefits: All costs covered

## V. Sample group insurance/pension plans /

### A. Defined Benefit Plan

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#### 1. Eligibility

According to BVG.

#### 2. Normal Retirement Age

Male: 65; Females: 64

#### 3. Pensionable Salary

Gross salary less  $\frac{7}{8}$  of the AHV pension for a single person

#### 4. Retirement Benefits

A pension equals to 1.5 – 2.0% of pensionable salary times years and months of service up to a maximum of 40 years if male or 39 if female.

A children's pension is equal to 20% of retirement pension.

#### 5. Death Benefits

Lump Sum Benefit: For all employees over age 24, and all female employees and single males under age 25, an amount equal to 100% of gross salary, or 100% of retirement credits.

Spouse's Pension:\* For all married men/women, a pension equal to 60% of the projected old age pension.

Orphans' Pension:\* For all employees, a pension equal to 20% of projected old age pension per child (double for full orphan).

#### 6. Disability Benefits<sup>3</sup>

A pension equal to 100% of the projected old age pension, payable after a waiting period of 24 months.

For the children of disabled employees, a pension equal to 20% of the projected old age pension per child, payable after a waiting period of 24 months.

#### 7. Waiver of Premium

Included after a three-month waiting period.

#### 8. Employee Contribution

5% of pensionable salary for employees age 25 and over, no contributions for employees under age 25.

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<sup>3</sup> Accident coverage excluded (except for UVG/BVG coordination)

## B. Defined Contribution Plan

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### 1. Eligibility

According to BVG.

### 2. Normal Retirement Age

Males: 65; Females: 64

### 3. Pensionable Salary

Gross salary less  $\frac{7}{8}$  of the AHV pension for a single person.

### 4. Retirement Benefits

A pension equal for females 6.85% and for males 6.95% of the BVG accrued credits with interest.

A children's pension equal to 20% of retirement pension.

### 5. Death Benefits

Lump sum: 100% of retirement credits, if no spouse's pension.

Spouse's Pension<sup>4</sup>: A pension equal to 30% of pensionable salary, respectively 60% of old age pension.

Orphans' Benefits<sup>4</sup>: A pension equal to 10% of pensionable salary.

### 6. Disability Benefits\*

A pension equal to 50% of pensionable salary payable after a waiting period of 24 months.

A children's pension equal to 10% of pensionable salary.

### 7. Waiver of Premium

Included after a waiting period of three months.

### 8. Employee Contribution

Half of the premium.

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<sup>4</sup> Accident coverage excluded (except for UVG/BVG coordination)

## VI. Tax considerations /

### A. Introduction

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Rules vary from canton to canton.

### B. Social Security System

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#### 1. Contributions

Employer: Fully deductible.

Employee: Fully deductible.

#### 2. Pension Benefits

Fully taxable as income.

### C. Private Group Insurance/Pension Plans

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#### 1. Contributions

Employer: Fully deductible if awarded to a Foundation and if said contribution is not revertible to employer.

Employee: Fully deductible.

#### 2. Pension Benefits

Fully taxable as income.

#### 3. Lump sums

At retirement age: Taxed as income at a lower rate than regular income, depending on the canton of the employee's residence (annuity rate applied to lump sum).

At death: Generally taxed like lump sum at retirement age.

### D. Individual Income Tax (National Average)

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Income of CHF	50,000	6.61%
Income of CHF	100,000	13.39%
Income of CHF	200,000	22.37%
Assets of CHF	200,000	2.05%
<b>Assets of CHF</b>	<b>1,000,000</b>	<b>4.70%</b>

### E. Corporate Income Taxes

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Direct federal income tax rates on profits after tax vary between 3.63% and 9.80%. In addition, each canton has its own tax rates. Therefore, taxes vary from canton to canton. Cantonal and communal taxes are generally imposed at progressive rates, based on the ratio of profit to capital and reserves. In general, the maximum income tax rate on profit before tax for federal, cantonal, and communal taxes is approximately between 20% and 35%, depending on the company's canton of residence.



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