Occupational benefits FL

All you need to know about Pillar 2

Mandatory occupational benefits (BPVG) in the Principality of Liechtenstein
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Contents

The occupational benefits system of Liechtenstein

In Liechtenstein's three-pillar occupational benefits system, Pillar 2 together with Pillar 1 guarantee basic mandatory coverage for gainfully employed persons and their family members.

Occupational benefits insurance (BPVG) complements state pensions by providing supplementary benefits for old age, occupational disability, and death.

While Pillar 1 aims to secure basic livelihood, Pillar 2 is designed to enable recipients to maintain their accustomed living standard.

Pillar 2 is financed by both employees and employers.

Structure of Liechtenstein's pension system

<table>
<tr><th colspan="5">Needs-oriented pension</th></tr>
<tr><th colspan="2">Pillar 1</th><th colspan="2">Pillar 2</th><th>Pillar 3</th></tr>
<tr><th colspan="2">State pension</th><th colspan="2">Ocupational benefits insurance</th><th>Private pension</th></tr>
<tr><th colspan="3">Mandatory</th><th colspan="2">Voluntary</th></tr>
<tr><td>AHV/IV/FAK</td><td>Supplementary
benefits
EL</td><td>Mandatory
BPVG/OUFL (UVersG)</td><td>Extra-mandatory
benefits</td><td>Flexible pensions
Individual supplement
to close any pension gaps</td></tr>
<tr><td colspan="2">Responsibility of the government</td><td colspan="2">Responsibility of the employer</td><td>Responsibility of the individual</td></tr>
<tr><td colspan="2">■ AHV/IV/FAK contributions
– Employer and employee: each 50 %
– Self-employed persons and those not gainfully employed: 100 % self-funded
■ EL contributions
Funded by state and municipalities</td><td colspan="2">■ OUFL contributions
– Employer: Occupational accidents
– Employee: Non-occupational accidents
■ BPVG contributions
– Employer and employee: Employer contributions must equal at least the total contributions of all employees
– Self-employed persons: 100 % self-funded</td><td>100 % self-funded</td></tr>
<tr><td colspan="2">■ Retirement pension
■ Child's pension
■ Disability pension
■ Disabled person's child's pension
■ Widow's/widower's pension
■ Orphan's pension</td><td colspan="2">■ 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</td><td>■ Insurance or banking solution
■ Any other savings and assets</td></tr>
</table>

Contribution obligation and contribution term under the BPVG

Occupational benefits insurance has been mandatory for all companies in Liechtenstein since 1989. Under its provisions, employers must ensure that all their eligible employees are insured. For this purpose they must either set up their own occupational benefits institution or join a collective foundation.

Employees

All employees whose annual salary subject to AHV contributions exceeds CHF 20,880 (¾ of the maximum AHV retirement pension) must be insured.

Insured are:

- The risks of disability and death starting on January 1 after the person's 17th birthday.
- Retirement benefits starting on January 1 after the person's 23rd birthday, provided the person is permanently employed.

Permanent employment also constitutes:

- Fixed-term employment contracts of more than 3 months
- Extensions to contracts that are limited to less than 3 months

Partners

Employed persons who play a decisive role in managing the operations or employees of their company and who exercise an employer function are exempt from the obligation to pay contributions. They can, however, take out insurance voluntarily.

Self-employed persons

Self-employed persons have the right to take out occupational benefits insurance voluntarily.

Contribution period

- Beginning: Mandatory insurance begins when an employee starts his or her job; for recipients of daily benefits from unemployment insurance, the period starts on the date of the first benefits payment.
- End: The obligation to have insurance ends when the person reaches regular retirement age, the employment relationship ends, or the income drops below the minimum. It also ends when the insured person is no longer eligible for daily benefits from unemployment insurance because the benefit period has ended.

Unemployed persons

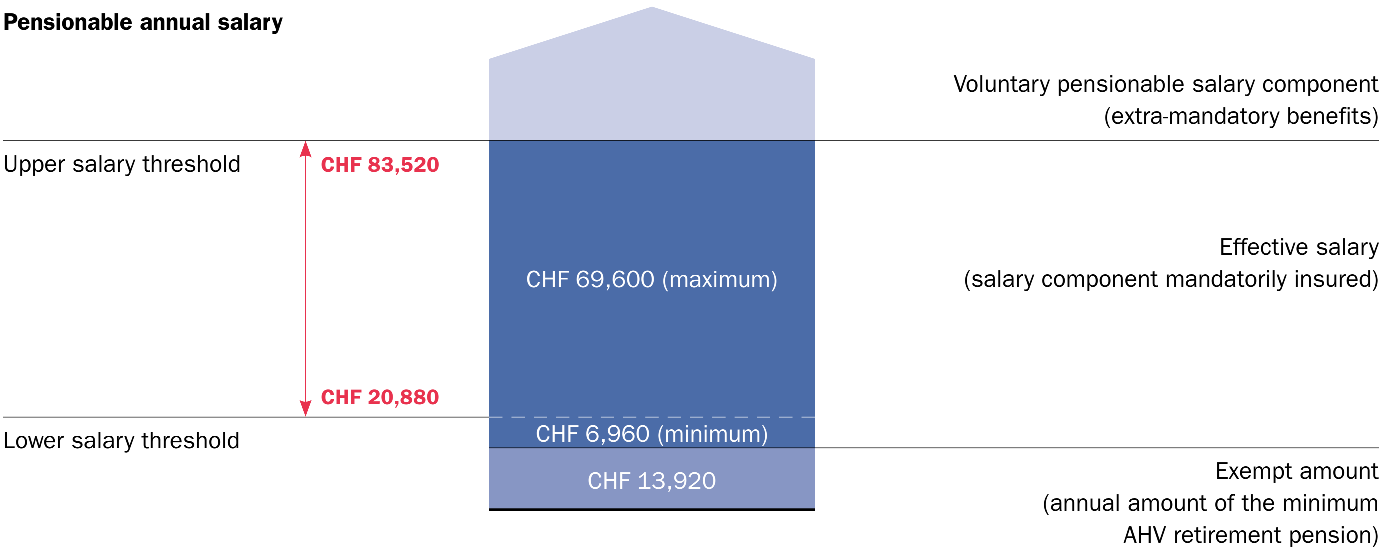
Mandatory occupational benefits insurance for unemployed persons includes all individuals who are eligible for daily benefits from their unemployment insurance. It constitutes pure risk insurance in the event of disability or death, without retirement benefits.

Pensionable annual salary

Pensionable salary refers to the AHV salary that lies between CHF 20,880 and CHF 83,520, less the exempt amount of CHF 13,920. For part-time employees, the exempt amount is adjusted to the level of employment.

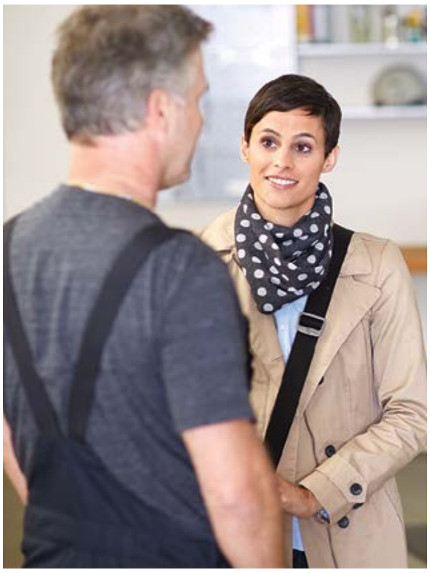
- Minimum pensionable salary: CHF 6,960 (CHF 20,880 less the exempt amount of CHF 13,920)
- Maximum pensionable salary: CHF 69,600 (CHF 83,520 less the exempt amount of CHF 13,920)

Pensionable annual salary



BPVG benefits

Occupational benefits are financed as part of a fully-funded system. For every insured person, capital accrues from savings and is paid out when pension payments start on retirement.



Upon retirement

Retirement pension
Eligibility for a retirement pension generally starts when the person reaches the age of 64. Persons can retire as early as age 60 or defer their pension until age 70.

Retirement assets consist of:
- Retirement credits
- Any transferred vested benefits
- Interest earned on these amounts

The amount of the pension depends on the following factors:
- The retirement assets available when the pension starts
- The conversion rate as a percentage of retirement assets

The conversion rate is not defined by law but depends on the provisions of the pension fund regulations and on the interest paid on the retirement assets.

In the case of disability

Disability pension
Anyone who becomes disabled before reaching retirement age is entitled to a disability pension, which is 30% of the effective salary and continues until retirement.

Disabled person's child's pension
Each child of a person drawing a disability pension is entitled to a disabled person's child's pension. The rate is 6% of the effective salary per year with a benefit period until the person reaches age 18, or age 20 if the person is in school or training (the same as the orphan's pension).

Contribution waiver
If an insured person becomes disabled, he or she will be released from the obligation to contribute to the occupational benefits insurance.

In the case of death

Widow's/widower's pension
Eligibility for a widow's/widower's pension:
- Obligation to support one or more children
  or
- Minimum age 45 and a marriage of at least 5 years

In all other cases, the spouse is entitled to a single settlement of 3 annual pension payments. Registered partners in same-sex partnerships are treated the same as spouses.

Orphan's pension
The children of a deceased insured person are entitled to an orphan's pension. Entitlement continues until the child's 18th birthday or for the duration of his or her training/education, at the latest until the child's 20th birthday.

In case of death prior to drawing a pension
- Widow's/widower's pension: 18 % of the effective salary
- Orphan's pension per child: 6 % of the effective salary for half orphans, 12 % for full orphans

In case of death while drawing a retirement or disability pension
- Widow's/widower's pension: 60 % of the most recent retirement or disability pension
- Orphan's pension: 20 % of the most recent retirement or disability pension

Form of benefits

Retirement, survivors', and disability benefits are generally paid as a pension. A lump sum payment is possible as well, provided the amount is within the limits defined by the occupational benefits institution. As a rule, a request to withdraw retirement assets as a lump sum must be submitted three years in advance. Pension fund regulations can, however, stipulate a shorter period or exclude this option altogether.

Example for calculating a retirement pension

Retirement capital including accrued interest when the pension starts:	CHF 100,000
Conversion rate	5.5%
Annual pension payment:	CHF 100,000 × 0.055
	= CHF 5,500

Other important aspects

The law and the regulations of some occupational benefits institutions provide the basis of occupational benefits insurance. The statutory framework on Pillar 2, which has been effect for 25 years, is being revised in order to ensure that it can continue to serve its purpose. The new provisions are scheduled to come into effect in 2017.

Funding

Contributions serve to finance the following:

- Risk insurance of the minimum benefits in the event of disability or death
- Retirement pension (min. 8% of the pensionable salary per employee)
- Contributions to the Guarantee Fund for insolvency compensation in accordance with the ordinance

Employees are responsible at the most for half the total in contributions.

Pledge

Entitlements and reversionary claims from the occupational benefits insurance can be neither ceded nor pledged before the benefits are due.

Divorce

In the case of a divorce, the withdrawal benefits that accrued during the marriage are divided. The amount is derived from the difference in withdrawal benefits between when cohabitation ends and when the marriage was formed (including any vested benefits brought into the fund). Registered partnerships that are terminated by a court decision are treated the same as a divorce.

Vested benefits

Vested benefits consist of the following:

- Contributions for retirement pensions (incl. interest)
- Vested benefits from a previous policy (incl. interest)
- Any other single premiums (incl. interest)

When a person changes jobs, his or her vested benefits are transferred to the occupational benefits institution of the new employer. If it is not possible to transfer the benefits to the new pension fund right away, the amount remains in the custody of the foundation (current pension fund) or is transferred to an escrow account with a bank in the Principality of Liechtenstein.

Liechtenstein/Switzerland

When a person changes jobs, transferring vested benefits between the Principality of Liechtenstein and Switzerland, or vice versa, is generally not a problem. However, vested benefits that have been pledged as part of homeowner promotion schemes in Switzerland cannot be transferred to the Principality of Liechtenstein.

Cash payment

Persons who leave the economic area of Liechtenstein/Switzer-land for good or who become self-employed can have their vested benefits paid out in cash.

Exception

Eligibility to a cash payment does not apply if the employee continues to be insured mandatorily under the legal provisions of a country of the European Economic Area against the risks of old age, death and disability with an occupational benefits insurer.

Minimum employer contribution to occupational benefits insurance

8 % of a company's entire effective payroll

For the risks of disability and death as well as for administrative costs, additional contributions are due that are used for financing the minimum benefits prescribed by law.

Insurance obligations of employers

All employers of workers who are subject to mandatory occupational benefits insurance must be affiliated with an occupational benefits institution. The AHV checks for compliance with this provision. In this connection, employers must be able to produce the following documentation:

- Confirmation by an occupational benefits institution documenting that affiliation complies with the provisions of the BPVG.
- Copy of the confirmation by the Financial Market Authority (FMA) stating that the company's own benefit solution complies with the provisions of the BPVG.

Employers that have not yet become affiliated with an occupational benefits institution are reminded to do so within two months. If the employer fails to act, the AHV will notify the FMA, which then ensures that the employer joins an occupational benefits institution retroactively.

Occupational benefits institution

The occupational retirement, disability and survivors' benefits provision under the BPVG must be managed by a foundation that has its registered office in Liechtenstein.

Employees and employers must have equal representation in the occupational benefits institution's decision-making bodies.

In the case of institutions that manage voluntary occupational benefits, employees must participate in such an institution's bodies at least commensurately with their contributions.

Audit

The occupational benefits institution must have its accounts and investments audited every year. In addition, institutions that bear their own actuarial risk must be audited every 3 years by a pension actuary certified by the supervisory authority.

Supervisory authority

The Financial Market Authority (FMA) supervises occupational benefits institutions and monitors compliance with statutory and regulatory provisions.

Benefits purchase

Voluntary single premiums paid into pension funds have proven to be an attractive way of supplementing mandatory pension benefits:

- Increased retirement pension
- Allowing for early retirement
- Closing pension gaps

Because of the change in tax law that will come into effect in December 2014, benefit purchases that exceed 18% of the income are no longer tax exempt.

The possibility of purchasing Pillar 2 assets as a way to optimize the tax situation at the same time has therefore been considerably curtailed.

Taxes

- Institutions that manage their occupational benefits insurance in accordance with the BPVG do not need to pay taxes.
- Vested benefits from occupational benefits institutions that are applied to a vested benefits account, vested benefits policy, or another occupational benefits institution are tax-exempt.

Acquisition tax

- Deduction limits for contributions during the term:
  Single as well as regular contributions of up to 18% of the income of the person liable for tax.

- Lump-sum payments:
  Taxed as income at 100% at the pension rate, separate from other income.

- Pension benefits when paid out:
  Taxed as income at 100%, together with other income.

Wealth tax

Tax-exempt during the term

Do you require additional information?

- Social insurance: Pension system in the Principality of Liechtenstein
- Occupational benefits with insurance at full value – Principality of Liechtenstein (in German)
- Solutions for insurance at full value: BVFL Basic, Standard, Standard Plus, Optima, Optima Plus (in German)

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