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REDUNDANCY & EARLY RETIREMENT EXPLAINED

5 key factors to consider if you are offered early retirement or voluntary redundancy

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ABOUT US

Rosbotham Finance

As a reputable financial planning firm based in Switzerland, Rosbotham Finance take pride in offering comprehensive services to expatriates from across the globe. At our firm, we specialise in addressing the unique financial needs of our diverse clientele, with a particular focus on retirement planning, tax efficiency, investments, pension advice, inheritance tax planning, and overall financial well-being.

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As an experienced cross border adviser I am dedicated to providing personalised guidance and strategic solutions tailored to each client's specific circumstances and long-term goals. Now, let's explore some common questions individuals often have about retirement planning, along with valuable tips to help navigate this important phase of life.

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Introduction

Many clients we meet in Switzerland are offered early retirement or redundancy pay-outs before reaching Swiss retirement age. Why? As individuals age, they become more expensive for employers due to increased pension contributions and insurance costs. It's crucial to understand how this impacts your financial plan, as you may be unprepared or misled regarding pension access and overall retirement planning.

It's important to remember that although your neighbour's or colleague's financial plan might be suitable for them, there is a strong possibility that they will have a different financial landscape to you. Therefore, trying to take their financial advice and apply it to your own unique situation can often result in missed opportunities.

This document discusses important topics and questions you should be thinking about if your company are making redundancies. You can find a reference of key terminologies on the last page.

Firstly, it's important to have a very basic understanding of the Swiss Pension System.

Understanding The Swiss Pension System

In Switzerland, the pension system consists of three pillars:

1st Pillar
AHV/AVS

The state-run pay-as-you-go pension system, providing basic retirement, disability, and survivor benefits.

2nd Pillar
BVG/LPP

The occupational pension, mandatory for most employees. Aims to provide additional retirement income beyond the state pension. Contributions are made jointly by employers and employees and are managed by pension funds.

3rd Pillar
Säule 3a and 3b

Voluntary individual retirement savings plans, offering tax benefits, which individuals can use to supplement their retirement income.

In the following pages we look into **5 key points to consider if you are offered early retirement or voluntary redundancy**.

1. Redundancy vs Retirement

The wording used by your company in official paperwork impacts your financial plan, affecting pension access and eligibility for unemployment benefits (**Chômage/Rav**).

2. Am I guaranteed a redundancy pay-out?

In Switzerland, there isn't a statutory redundancy pay system as seen in some other countries. Employees are entitled to notice periods and severance payments in accordance with Swiss employment law, collective bargaining agreements, and individual employment contracts. It's crucial to understand your rights and seek professional advice if you're uncertain about how termination may affect you.

3. Should I take the lump sum or Retirement Income from my Swiss 2nd Pillar Pension?

Did you know that you are not guaranteed to have the option to take the **annuity** (retirement income) from your Swiss 2nd Pillar Pension? Many people we meet assume that they will have the choice to receive retirement income from their Swiss Pension.

This misconception can be problematic, especially for those who assume they will work until at least 60 to 65 and see their pension forecasts as a guarantee. Individuals who leave an employer before the age of 58 often have to transfer their pension to a **Vested Benefits** Account, which could have an impact on your overall financial plan – i.e what you originally planned for or relied on.

4. What happens if I have made a Voluntary Contribution to my Swiss 2nd Pillar pension the year I am made redundant?

In Switzerland, if you've completed a voluntary buyback into your 2nd pillar pension (occupational pension) and then are made redundant in the same year, the situation regarding the lock-in period for pension funds (pension lock) can vary depending on several factors. Here's what you should consider:

Vesting Period: Generally, **voluntary contributions** made to the 2nd pillar pension are subject to a vesting period, which means they may be locked in for a set period, typically THREE years.

Exceptions: There may be exceptions or provisions in Swiss law or your pension plan that allow for early withdrawal or use of the pension funds in cases of unemployment or hardship. However, these exceptions vary and may require specific criteria to be met. Very rarely do we see exceptions allowed.

The three-year rule is crucial and often catches retirees off guard. While the tax efficiency of a voluntary buyback is remarkable, being unable to access your pension for three years without careful **cashflow planning** has put many individuals in a difficult situation. Moreover, if a client intends to leave the country and cannot immediately transfer their Swiss 2nd Pillar pension, it can often lead to uncertainty in tax planning and other matters in their new country of residence.

5. What should I do with my Swiss 2nd Pillar Pension at retirement?

If you are under the age of 58, chances are you will have transferred your pension to a **Vested Benefits** Account. However, there are very few Vested Benefits Accounts that allow you to convert the lump sum to an annuity, and those that offer this option often do not offer competitive **annuity rates**. Additionally, partial withdrawals are not permitted from Vested Benefits Accounts; you can only hold a maximum of two vested benefits, and you must withdraw the entirety of it when needed.

While you can invest the capital within a Vested Benefits Account, it's advisable to consult with a registered adviser. Understanding when you need to access this pension will determine how or whether you should invest it.

If you are above the age of 58, we highly recommend working through a retirement plan, particularly **cashflow planning**. Here, you can compare how you will be taxed on your annuity versus lump sum and consider which option is more beneficial for you and your family. Factors such as death benefits, wealth tax, income tax in the country you retire, inflation, estimated growth rates, and other variables must be taken into account.

Fortunately, we can incorporate all assumptions into a system to provide you with personalised cashflow scenarios, ensuring that you can retire with peace of mind, knowing that you have made the most beneficial financial decision.

Although we have listed the 5 most important questions here, there are many more you should be thinking about. Speaking with a financial planner can help to answer specific questions related to your unique situation.

Key Terminologies

Annuity Rate

An annuity rate is the percentage of interest that an annuity will earn each year, typically determined by factors such as prevailing market conditions, the type of annuity, and the age and health of the client. Typically, with an annuity, you exchange a lump sum of money upfront for regular payments over time, and the annuity rate determines the amount of those payments.

Vested Benefits

In the context of Swiss pensions, vested benefits refer to the accumulated retirement savings that an individual has accrued within a pension plan during their employment. These benefits are considered vested when the individual meets certain criteria, such as leaving their employer or the termination of their employment contract.

Voluntary Contribution

A voluntary contribution to your Swiss 2nd pillar pension refers to an additional payment made into your occupational pension fund (Berufliche Vorsorge), typically beyond the mandatory contributions required by law. These voluntary contributions can be made by individuals who wish to increase their retirement savings or to optimise their tax situation. However, the rules and limits for voluntary contributions can vary depending on your specific pension plan and Swiss regulations. It's essential to consult with your pension provider or a financial advisor to understand the implications and benefits of making voluntary contributions to your 2nd pillar pension.

Chômage / RAV

In Switzerland, "chômage" refers to unemployment benefits, while "Rav" stands for "Régies des Allocations de Chômage Vaudoise," which is the unemployment insurance agency in the canton of Vaud. RAV typically administers the distribution of unemployment benefits to eligible individuals who are unemployed and meet certain criteria established by Swiss law. These benefits aim to provide financial support to individuals who have lost their jobs involuntarily while they search for new employment.

Cashflow Planning

Cashflow planning particularly tailored for expats, involves the strategic management of income, expenses, assets, and liabilities with consideration to the unique circumstances of living abroad. This includes factors such as currency exchange rates, tax implications, international banking, and potential fluctuations in income due to relocation. It aims to optimise financial resources to meet short-term and long-term goals while navigating the complexities of living in a different country.

Personalised Advice

Whether you're just starting to plan for retirement or seeking to optimise your existing strategy, I'm here to provide personalised guidance every step of the way. With my expertise in tax efficiency, investments, pension advice, inheritance tax planning, and overall financial planning, I offer tailored solutions to help you achieve your long-term goals. Take the first step towards a more secure future by scheduling a consultation with me today.

Visit us online to book a free consultation

www.rosbothamfinance.com

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