

Pillar 2: The Swiss Pension System Explained for American Expats

Jan 13, 2022.

5 min read



Pillar 2: Employment Pension

Coming from the United States, you may be familiar with the concept of a 401(k) or a 403(b) retirement plan; the second Pillar is somewhat similar. The Swiss Pillar 2 can include two parts:

1. Mandatory benefits (BVD/LPP)
2. Voluntary benefits

Pillar 2 contributions are mandatory for all employees and employers in Switzerland who are 24 years old with an annual salary of CHF 21,510 (2021). The employer must pay at least half of the contributions, while self-employed individuals may make voluntary payments into the system.

Contributions

Mandatory contributions to Pillar 2 depend on your age:

1. 25 to 34 years old: 7%
2. 35 to 44 years old: 10%
3. 45 to 54 years old: 15%
4. 55 to 65 years old (or 64 for women): 18%

It is very common for Swiss employers to offer higher contributions or a supplementary plan to increase retirement benefits. It is important to be aware of how the additional contributions or supplementary plans will affect your US taxes and reporting requirements.

Taxation - Contribution Years

Switzerland: The employee contribution from your salary (50% of the total contribution based on the percentages above) is not taxed. When you retire or withdraw funds, your Pillar 2 contributions will be subject to taxation.

US Taxation: One of the most unpleasant surprises for Americans living and working in Switzerland is that the US-Swiss Tax Treaty does not include a provision to recognize the Pillar 2 pensions as US qualified. While the concept is like a US 401(k)/403(b) it is not recognized as a US "qualified retirement plan". This is due to the fact that the employer's contribution is immediately funded and vested. The result is no tax deduction for your (employee) contributions and additional taxable income from your annual employer contributions. The result is often additional tax liability due when filing your US tax return.

Example:

	Swiss Tax	US Tax
Base Salary	100,000	100,000
Swiss Social Security Contributions	-5,000	
Pillar 2 Contributions:		
- Employee	-10,000	
- Employer		15,000
Taxable Compensation	85,000	115,000

In this example, you can quickly see that the starting calculation for taxable compensation is very different in Switzerland and the US. The employee's base salary is the same, but the taxable difference is **30,000**.

Taxation - Withdrawal

When you leave or retire in Switzerland, you have two options for receiving your Pillar 2 pension:

1. Monthly Pillar 2 annuity (at retirement only):
 - a. Switzerland:
 - i. Resident of Switzerland: This will be taxed at ordinary income tax rates. The Swiss tax will provide an additional foreign tax credit for the US tax return

- ii. Nonresidents: Switzerland will only tax the annuity if there is no income tax treaty with the country or the tax treaty foresees the taxation right in Switzerland (this is not the case with the Swiss-US treaty)
 - iii. Important Note: Taxation principles may be different for pension funds from public services
- b. US Taxation: You can recover a portion of your US tax basis with each payment. Any amount beyond your basis will be taxed at ordinary income tax rates. The Swiss tax you owe allows for a foreign tax credit on your US tax return

Example:

	Swiss Tax	US Tax
Annuity Payment (Annual)	30,000	30,000
Tax Basis	0	-15,000
Taxable Annuity	30,000	15,000

2. Lump Sum Withdrawal (at retirement or when departing Switzerland):

- a. Switzerland:
 - i. Residents: Extremely favorable lump-sum rates, which vary depending on the place of tax residency at the time of pay-out. Expect a tax rate in the range of 4-15%
 - ii. Nonresidents: Lump-sum taxation rates will be used. If you are a resident of the US when receiving the pension distribution, the Swiss taxes withheld will be refundable.
- b. US Taxation: Any excess of your US tax basis will be taxed at US ordinary income tax rates.

Example:

	Switzerland	US
Lump-sum received	500,000	500,000
Tax Basis	0	450,000
Taxable Amount	500,000*	50,000

*Swiss lump-sum tax refund available since taxes have been paid in the US

Pro Tip: Work with your financial advisor or US tax accountant to ensure you are closely tracking your employee and employer contributions every year to avoid paying additional US tax at distribution. Use the White Lighthouse Pension tracker to get started, find it on our [website](#).

Pension Rollovers

If you change jobs while living in Switzerland, you will rollover your old employer's Pillar 2 pension into your new employer's Pillar 2 pension. If you have been reporting your Pillar 2 correctly on your US tax return, this should not trigger a substantive taxable event.

If you take a career break, your Pillar 2 account may be transferred from your former employer to a blocked account. Many Americans are forced to keep this account in cash due to limited investment options. Many advertised options are taxed punitively in the US. [VIAC](#) has recently come up as an option that may offer some attractive investment options for Americans and at a low cost. Proceed with caution and talk to a US tax or financial planner professional before selecting any investment options.

Other US Tax Reporting

Along with picking up your annual employer pension contributions, be sure to include your Pillar 2 balance on US Form 8938, Statement of Specified Foreign Financial Assets.

Summary

Unfortunately, the US does not recognize the Swiss Pillar 2 account as a "qualified retirement plan", leaving Americans working and retiring in Switzerland with a tax imbalance. Think of it like "pre-paying" your US taxes, and if you accrue a large Pillar 2 balance before you depart Switzerland, you will likely pay less US tax than taking a large sum distribution and triggering higher US ordinary income tax rates. Your situation is unique, so be sure to speak to your US financial and tax advisors to optimize planning around the Swiss Pillar pensions system.

[Read Part 1 of the series](#)

Additional Resources & References:

- AXA Pillar 2: <https://www.axa.ch/en/pension/pillar-2.html>
- VIAC: <https://viac.ch/en/vested-benefits/>
- US-Swiss Tax Treaty Documents: <https://www.irs.gov/businesses/international-businesses/switzerland-tax-treaty-documents>
- Meaning and objectives of occupational pension funds: <https://www.bsv.admin.ch/bsv/en/home/social-insurance/bv/grundlagen-und-gesetze/grundlagen/sinn-und-zweck.html>
- Swiss Life Conversion Table Rates: https://www.swisslife.ch/content/dam/ch/dokumente/en/unternehmen/nvs/vorsorge/web0762_konditionen_slbp_en.pdf
- KPMG 2021 US Tax Implications Novartis Pension Plans: https://www.pensionskassen-novartis.ch/fileadmin/pkn/Praesentationen/2021/Pension_-_US_persons_-_Novartis_-_2021.pdf