

Pillar 1: The Swiss Pension System Explained for American Expats

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5 min read



This article is part one of a three-part series. Each article will dive into one part of the Swiss pension system.

Pillar 1: Swiss Pensions Provision

Coming from the United States, you should be familiar with the concept of social security. The first Pillar is most like this. The Swiss Pillar 1 includes three parts:

1. Old-Age and Survivors' Insurance (OASI, AHV/AVS)
2. Disability Insurance (IV/DI)
3. Supplementary Benefits (EL)

Pillar 1 in Switzerland is mandatory state pension insurance. Like US social security, contributions are deducted from the salary by the employer and employee. This article focuses on the first two aspects of Pillar 1, Old-Age and Survivors Insurance and Disability Insurance. Supplementary benefits are funded by Federal and Cantonal government taxation and help fund loss of income, maternity leave, and military pay.

Contributions

Swiss contributions begin when a person turns 17 (if employed, or 20 if not employed) and end at the regular retirement age (64 for women, 65 for men). As of January 2021, the contribution rate was 10.6%, with the employer and employee each contributing 5.3%.

Unlike the US, there is no wage cap on Pillar 1 contributions. You and your employer will continue to pay 5.3% on all earned income. Some income may not be considered in this calculation, including income from your Swiss family allowance.

Taxation

There is a big difference between US and Swiss Social Security taxation during your contribution and benefit years.

In the US, your contributions are not tax-deductible. When you retire, up to 85% of your US benefits may be taxable, leaving 15% or more as a tax-free income.

In Switzerland, your contributions reduce your income, and ultimately your Swiss tax liability. When you retire and receive benefits in Switzerland, they will be fully taxed at your ordinary income tax rates. Oftentimes the applied tax rate is lower as your overall income may be lower in retirement than during your earning years.

Benefits

As of January 1, 2021, the minimum Swiss social security annuity was CHF 1,195 per month, and the maximum was CHF 2,390. For married couples, the maximum monthly benefit is CHF 3,585. These amounts are based on complete contributions, which are 44 years for men and 43 years for women. Each missed year results in a reduction of the benefit.

In 2020 the minimum, monthly US Social Security benefit was \$897.80 based on 30 years of contributions. The maximum amount for someone at the current full retirement age (age 66 and 2 months in 2021) was \$3,148. A married couple who are each eligible for the maximum benefit do not face a reduction of benefits.

Retirement

Swiss full retirement is reached at 65 for men and age 64 for women. There is the option to draw benefits up to 2 years before retirement or defer it up to 5 years. Early withdrawal will permanently reduce benefits, while a delay will result in a higher benefit. Applications must be submitted to start receiving benefits at normal retirement age, early withdrawal, or deferment.

Full benefit age in the US has slowly been increasing to age 67, which is the same for men and women.

Early Retirement

If you retire more than two years before full retirement age in Switzerland, you may be surprised to learn that you still need to make AHV/AVS contributions as a non-employed person. Contributions are calculated on an individual basis and take your net wealth and other income into account. The required contributions can range from CHF 41.90 to CHF 2,095.80 per month.

In the US, the minimum contribution is 40 quarters (or 10 years). You are not liable to continue contributions if you stop working but will receive a reduced benefit.

Disability Insurance (IV/DI)

If you are unable to join the workforce for health reasons, you are entitled to draw Swiss Disability Insurance. You may work up to 40% and still receive disability insurance if you are eligible. The disability will be unique in each situation.

The US offers Social Security Disability Insurance (SSDI) when the medical condition is expected to last for more than a year or result in death. You can not make more than \$1,310 (2021) per month and stay eligible for SSDI.

US-Swiss Social Security Totalization Agreement

The US and Switzerland have a totalization agreement in place, which is meant to improve the overall social protection of the individuals who work between both countries and avoid individuals (and employers) paying into two systems. Unfortunately, US Medicare coverage was not included in this agreement.

If you spent your career between the US and Switzerland, it is likely that your US Social Security benefit will be reduced through the [Windfall Elimination Provision](#) (WEP). The benefit you receive from the Swiss system is not reduced under this provision.

Calculating Your Benefit

United States

- US Social Security Administration (SSA): If you are in the US or have a valid US address, you can [create an online](#) account to view your US Social Security Statement
- If you are outside the US and do not have a US address, you will need to print and complete [Form SSA-7004 "Request for Social Security Statement"](#)

- Important! WEP is not shown on your benefits statement, SSA provides a [WEP calculator](#) to help determine your reduced benefit

Switzerland

- [AHV/AVS Online Pension Calculator](#), this will provide a good estimate. There will be no reduction to your Swiss benefits if you have worked at least one full year in Switzerland.

Summary

If you have split your career between working in the US and Switzerland, you will need to take some additional time to calculate your social security benefit. Between the US-Swiss totalization agreement and the Windfall Elimination Provision, there are multiple factors that go into determining your benefit, which is unique to each person. If you are planning on retiring in the US you need to be mindful of working at least 10 years to be eligible for Medicare or be prepared to pay for additional health insurance coverage.

Additional Resources and References:

- Deloitte 2021 Swiss Contribution Rates: <https://blogs.deloitte.ch/tax/2020/12/switzerland-social-security-contribution-rates-increase-as-of-1-january-2021.html>
- AXA Pillar 1: <https://www.axa.ch/en/pension/pillar-1.html>
- US Totalization Agreement with Switzerland: https://www.ssa.gov/international/Agreement_Pamphlets/switzrld.html
- AHV/AVS Pension Forecast Overview: <https://www.ahv-iv.ch/p/3.06.e>
- AARP Social Security Max Benefit: <https://www.aarp.org/retirement/social-security/questions-answers/maximum-ss-benefit.html>
- AHV/AVS Non-employed contributions: <https://www.ahv-iv.ch/p/2.03.e>