Pillar 3: The Swiss Pension System Explained for American Expats

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

Pillar 3: Private Pension

Coming from the United States, you may be familiar with the concept of a Traditional IRA; the third Pillar is somewhat similar. The Swiss Pillar 3 can include two parts:

1. Tied Pension (Pillar 3a)
2. Flexible Pension (Pillar 3b)

Pillar 3 pensions are completely private and voluntary. Like a Traditional IRA in the US, the goal is to encourage individuals to save for their own retirement while enjoying additional tax savings in the year of their contribution. The US does not recognize Pillar 3 accounts and views them like any other taxable brokerage account.

Contributions

Contributions to a Swiss Pillar 3 are voluntary.

- Pillar 3a: CHF 6,883 for employed individuals and up to CHF 34,416 for self-employed individuals (2021, indexed annually)

- Pillar 3b: No annual limitations on contributions

Taxation - Contribution Years

Switzerland:

- Pillar 3a
  - Contributions can be deducted from taxable income
  - Interest and surplus are tax-exempt during contribution years
- Pillar 3b
  - Limited deduction if an insurance product is purchased
  - Surrender value is subject to wealth tax

US Taxation: While like a Traditional IRA in the US, this is not recognized or qualified retirement plan for US tax purposes. You will not receive a deduction for any contributions. This will only reduce your Swiss tax burden, which will likely increase your US tax burden in the year of contribution.

Example: Pillar 3a

	Switzerland	**US**
Contributions	200,000	200,000
Growth	50,000	50,000*
Taxable Amount	250,000	0*

*Your US tax basis will be the amount you contribute to the Pillar 3 account. Taxable growth will be picked up each year, though there may still be some additional capital gains to report in the US in the year of distribution.

Taxation - Withdrawal

Switzerland:

- Pillar 3:
  - You can withdraw your pension up to 5 years before the normal retirement age, purchase a home, relocate outside of Switzerland, or become self-employed
    - Early withdrawal preferential tax rates will vary, depending on the situation and your Cantonal location

  - Normal retirement Withdrawal: Subject to preferential income tax rates
- Pillar 3b:
  - Withdrawals are generally tax-free and can be made at anytime
  - Subject to wealth tax

US Taxation: No tax benefit for contributions to either Pillar 3a or 3b. Your contributions will equal your US tax basis. Any annual interest or account capital gain transactions reported will be taxable in the year received.

Warning to US Investors: Pillar 3 pensions are not recommended for US persons. Many of the products sold within Pillar 3a are taxed punitively under the US tax regime. These products are often actively managed, have high fees, and are highly risk regulated (low returns). Pillar 3 accounts are packaged and sold in different ways, including life insurance products, savings accounts, or investment products. Different products will have different fee structures and US tax implications.

Other US Tax Reporting

Proceed with caution. You may trigger additional filing requirements and onerous US tax reporting, including:

1. Form 8621: Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund
2. Form 3520: Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts
3. FBAR: Report of Foreign Bank and Financial Accounts (FBAR)

What should I do if I have a Pillar 3a or 3b account?

Your situation is unique, and there may be several strategies to consider. It's important to speak with someone who understands both US and Swiss tax implications when looking to change or liquidate these accounts. Factors to consider include but are not limited to tax residency, annual income, expected retirement income, age, retirement location, etc.

Summary

The US does not recognize Swiss Pillar 3 accounts, and therefore contributing to a Pillar 3 account can widen the US-Swiss tax imbalance and trigger additional tax and filing requirements on your US-Swiss tax imbalance. Your situation is unique, so be sure to speak to your US financial and tax advisors to optimize planning around the Swiss Pillar pension system.

Read Part 1 of the series

Read Part 2 of the series

Additional Resources & References:

- AXA Pillar 3: https://www.axa.ch/en/pension/pillar-3.html
- ch.ch 3rd Pillar: https://www.ch.ch/en/work/old-age-pension/3rd-pillar/
- UBS Staggering Pillar 3a Pay-outs: https://www.ubs.com/ch/en/private/pension/information/magazine/2018/reduce-taxes-by-staggering-pay-outs.html
- KPMG US Tax Implications: https://pensionskassen-novartis.ch/fileadmin/pkn/Praesentationen/2019/Steuerevent_KPMG_21.05.2019_UPDATE_17.05.2019_17.pdf