SWITZERLAND

Prepared by Swiss Life Ltd.

I SUMMARY

Social Security

Eligibility	All residents aged 20 and over. Employed persons as of age 17.
Retirement Age	65M/64F
Contributions	For employed persons: 9.8% of unlimited earnings, plus 2.2% of earnings (capped at CHF 126,000) for unemployment plus 0.5% of earnings for compensation during military service and for maternity benefits. Contributions are financed 50:50 by employer and employees.
Retirement Benefits	Old Age Pension: Minimum CHF 13,920, maximum CHF 27,840 for unmarried persons. For married persons, the maximum amounts to CHF 41,760.
Disability Benefits	Pension: 100% projected old age pension on total disability. Lower benefits on partial disability.
Death Benefits	Widow's Pension: 80% of projected or actual old age pension, if widow has at least one child, or is at least 45 years old and has been married for at least 5 years. Widower's Pension: Same as widow's pension, but payable only as long as caring for a child under age 18. Orphan's Pension: 40% of old age pension, payable until age 18, or 25 if student.
Medical Benefits	There is no medical cover under the Swiss Social Security system. However, participation in health insurance is compulsory for all persons resident in Switzerland according to the Health Insurance Act (private cover).
Maternity Allowance	The maternity allowance is paid for max. 14 weeks as a daily allowance of 80% of the average earnings before the beginning of the entitlement (capped at CHF 196 per day).

Private Benefit Plans (BVG Schemes)

Eligibility	Age 18 for risk (disability and death). Age 25 for risk and retirement.
Retirement Age	65M/64F
Contributions	Typically contributory where employer must pay at least 50%.
Retirement Benefits	Old Age Pension: Under defined benefit plans 60% - 70% of final earnings. Under defined contribution plans, or occupational benefits (BVG), based on sum of all contributions paid plus interest.
Disability Benefits	Based on contributions paid including interest plus future contributions but without interest component (minimum BVG). Most international companies provide 50% - 70% of salary.
Death Benefits	Spouse's Pension: 60% of projected disability pension or actual old age pension. Orphan's Pension: 20% of old age pension or disability pension, 10% of salary, usually doubled for full orphans. Lump Sum Death: 1 - 2 times annual salary. Many plans provide this in addition to widow's/widower's pension.
Medical Benefits	Not customary, but company contributions towards the cost of private medical insurance are becoming more and more popular due to the steep rise in medical service costs.
Vesting	Full vesting mandated.

Taxation

Employer Contributions	Contributions to social security and private benefit plans fully deductible.
Employee Contributions	Same as above.
Benefits	Generally, social security benefits are taxed at 100%. Lump sums are taxed separately from other income and their taxation in general varies between Cantons.

II INTRODUCTION

Country Statistics

Population/ growth rate	7.6 million (July 2010 est.)/ 0.21% (2010 est.)
Age structure 0 - 14 years 15 - 64 years 65 years and over	 15.2% 67.81% 17.03% (2010 est.)
GDP purchasing power parity/ Real growth rate Agriculture Industry Services	USD 324.5 billion (2010 est.)/ 3.4% (2010 est.) 1.3% 27.5% 71.2% (2010 est.)
Unemployment rate	3.9% (2010 est.)
Inflation rate	0.7% (2010 est.)
Annual gross salary* Semi-professionals Professionals Management Legal minimum wage	in CHF General: 60,424 Skilled: 78,620 Junior: 102,296 Senior: 133,101 Lower: 173,183 Upper: 225,335 None; however, voluntary clauses on minimum compensation are widespread.
Exchange rate on February 29, 2012 Currency: Swiss Franc	1 CHF = 1.1172 USD 1 CHF = 0.8297 EUR

*Source: Mercer's International Geographic Salary Differentials, Edition 2011

Legislation and Insurance Market Update in Brief

Restructuring of the Regulatory Framework for Occupational Pensions

In January 2012, the concluding phase of the 2010 second-pillar pension reform law took effect with a major restructuring of the regulatory framework for occupational pensions (known as BVG plans). The main changes are:

- Since July 1, 2011, provisions of the law strengthened pension fund governance and transparency requirements for pension plan administrators and asset managers, including spot checks, higher ethical standards, and greater disclosure of fund-related transactions in annual financial reports.
- Since January 1, 2012, there is also increased supervision of occupational pensions by a newly created supreme supervisory commission (Oberaufsichtskommission, OAK), which oversees cantonal (state) and regional authorities, which in turn have assumed direct supervision of the pension funds. (Formerly, supervision of the pension funds was the responsibility of the Federal Office for Social Security.). The OAK is directed by a 7-member board made up of pension fund employees, academics and trade union representatives, and its primary function is to harmonise the fragmented Swiss occupational pension system and to ensure that the more than 2,300 registered pension funds comply with existing federal rules. The OAK has the power to issue binding standards for the cantonal and regional pension bodies, pension fund administrators, asset managers and auditors.

Reduction of Minimum Interest Rate for Occupational Pension Schemes

As of January 1, 2012 the minimum interest rate for occupational pension schemes (BVG) is set to 1.5% per annum (from 2% in 2011).

Pension Fund Reform

Pension funds (Pensionskassen, caisses de pensions) can permit older members to continue paying into their funds beyond their retirement age, however, they are not required to so. The following applies:

- Older members will be allowed to continue contributing to their funds beyond their retirement age, until they reach age 70, should they continue working.
- Members who reduce their working hours starting at age 58, can keep their contributions at the same level as before their hours were reduced.

III SOCIAL SECURITY

Background Information

Swiss Constitution

The concept of the 3 pillar system providing for the contingencies of death, disability and old age is part of the Swiss constitution. The 3 pillars are:

- First pillar: State social security (AHV/IV)
- Second pillar: Mandatory occupational pensions or employee benefit plans (BVG)
- Third pillar: Individual savings and insurance arrangements.

In the Swiss multi-pillar retirement system, second pillar mandatory occupational pensions complement the first-pillar universal state pension. It is expected that combined, these two pillars will provide a benefit of at least 60 percent of final salary. A third pillar, consisting of various voluntary tax-exempt saving vehicles, is operated by the country's banking and insurance institutions.

Federal Law

The foundation of the Swiss social security system, the Federal Law on Retirement and Survivors' Benefits (AHV), was implemented on January 1, 1948 and has since been revised 10 times.

Cantonal Laws

The cantons (provinces) have the power to regulate certain aspects affecting social security through their own legislation. This applies in particular to tax law and the degree of control exercised over employee benefit foundations. These powers, however, are now considerably restricted compared with the years before the mandatory occupational pension legislation came into force.

Eligibility

All residents are compulsorily covered. Swiss citizens working abroad for and paid by employers in Switzerland may, by mutual consent with their employer, continue compulsory insurance.

Voluntary coverage is available to non-resident Swiss citizens, provided they are not living in a European Union country and have been insured for at least 5 years in the Swiss Social Security system. Furthermore, they must join within 1 year of leaving the compulsory scheme.

Contributions

Contributions are generally due from January 1 following the 17th birthday until the end of the month in which the individual reaches the age 65M/64F. Contributions are due until the end of gainful employment. (Thus pensioners also contribute, but only if they earn more than CHF 1,400 a month or CHF 16,800 per annum per employer). Contributions are determined as a percentage of unlimited earned income, and for persons not earning a living, as a nominal amount according to their financial situation as shown in the following table:

Category	Retirement and Survivors' Cover	Disability Coverage	Income compensation allowances in the event of service or of maternity
Employed Persons Employer Contribution Employee Contribution	 4.2% 4.2%	 0.7% 0.7%	 0.25% 0.25%
Self-employed Persons*	7.8%	1.4%	0.3%
Persons Not Earning a Living	CHF 387 – 8,400 per annum	CHF 65 – 1,400 per annum	CHF 23 – 500 per annum

* Reduced scale for income under CHF 55,700

Contributions for military service compensation, as indicated under the section on "Compensation during Military Service", are added to the above percentage.

Since January 1, 2012, contributions to the mandatory unemployment insurance plan amount to 2.2% of annual salary up to CHF 126,000. Those earning between CHF 126,000 and CHF 315,000 are subject to an additional contribution of 1% (solidarity contribution). Contributions are equally shared by both employer and employee.

Retirement Benefits

Retirement Age

Normal retirement: 65M/64F

Early retirement: 63M/62F

Late retirement: Retirement can be deferred by up to five years with an actuarially increased pension.

Qualifying Conditions

Retirement benefits are paid to individuals who have made contributions for at least one year. If the employee is not a Swiss citizen, a minimum of 10 years of contributions and continued residence in Switzerland after retirement is required; this rule does not apply if there is a reciprocal Social Security agreement in effect.

Benefits

The old age pension is calculated using a formula that takes into account the re-valued average salary. The full pension is obtained if the period of contribution is complete. With a full career, the minimum old age pension amounts to CHF 13,920, the maximum (corresponding to a re-valued average income of CHF 83,520) to CHF 27,840 per annum. For a married couple the sum of the two individual pensions is limited to 150% of one maximum old age pension: CHF 41,760. Contribution gaps cause a reduction in pension. Special provisions are applicable if one or both spouses do not have a complete contribution career.

For pensioners with dependant children, an additional 40% is paid for each child eligible for an orphan's pension. If the pensioner dies, the child pension is replaced by an orphan's pension.

Old age pensions are paid on the first of the month following the 65th birthday for men, and the 64th birthday for women born 1942 or later.

Individuals may defer the payment of old age pension for up to 5 years. The increase in pension is between 5.2% and 31.5%. Early payment of pension of 1 or 2 years is possible. The pension will be reduced by 6.8% for each year of premature payment (for women born 1947 or earlier: 3.4%).

Disability Benefits

Qualifying Conditions

A full disability pension is paid to those who are expected to remain disabled at 70% or more. 75% of this pension is paid in the event of a disability of at least 60%, 50% in the event of a disability of at least 50% or, in the event of a disability of at least 40%, at least 25% (the latter pension is never paid to individuals living abroad). An additional 40% is paid for a child eligible for an orphan's pension. However, the primary objective of the federal disability programme is to encourage these individuals to become reintegrated into active working life. Financial and practical assistance is provided and there are approximately 100 rehabilitation centres in Switzerland.

Benefits

The full disability pension is equal to the projected old age pension (i.e. CHF 13,920 – 27,840 if no contribution gaps).

Supplementary benefits are available for those in need, particularly those unable to care for themselves. There is also the possibility of payments towards medical devices.

Death Benefits

Qualifying Conditions

A widow, unless she remarries, is eligible for life if at the time of the death of her husband, she has a child or is at least 45 years old and has been married for at least 5 years (not necessarily to her last husband). A widower is eligible for a widower's pension only if and as long as he is caring for a child under 18.

Benefits

Widow's Pension/Widower's Pension: Widow's pension/Widower's pension is equal to 80% of old age pension.

Orphan's Pension: An orphan's pension is normally paid until the child reaches age 18 or until full-time education ceases, but not beyond age 25. It amounts to 40% of the single person's pension. Pensions may be limited if the children's pensions or orphan's pensions together with the pensions for the father or mother amount to more than the re-valued annual income used for the determination.

Sickness Benefits

Qualifying Conditions

Employers are required by law to pay a full salary on sickness for at least three weeks during the first year of service with an extension for longer service. Improvements over these provisions exist through individual work contracts or collective agreements.

Benefits

The level of benefits payable varies according to the plan and the rate for which the individual is insured. Benefits are payable after a waiting period and are generally paid for up to 720 days in a period of 900 consecutive days.

Medical/Health Benefits

No state health plan is available; however private coverage is compulsory for the mandatory basic level of insurance for all persons living in Switzerland. The related mandatory premiums depend on the Canton/region where the person is living.

Work Injury Benefits

This is covered by mandatory accident insurance (UVG, for more information see IV Private Benefit Plans below) and by occupational benefits (BVG).

Unemployment Benefits

Qualifying Conditions

Unemployment insurance is mandatory. A contribution of 2.2% of annual salary up to CHF 126,000 is required from both employer and employee. As of January 1, 2012 an additional 1% contribution is added to both employer and employee for earnings between CHF 126,000 and CHF 315,000 until the government programme's debt is eliminated.

In order to qualify for full unemployment benefits, an individual must have paid contributions for at least 18 months in the previous 24 months. Contribution periods in an EU/EFTA state will also be credited if the individual was in gainful employment after entering Switzerland. The person must, furthermore, be under the age of retirement and a resident in Switzerland. The individual must be willing and capable to accept suitable work, and participate in integration measures. Under certain circumstances an individual is insured without having worked for the required contribution period.

Benefits

Benefits as a percentage of eligible salary are 70% for non-disabled persons without children, or if the daily indemnity exceeds CHF 140. In all other cases benefits are 80% of eligible salaries, up to a maximum of CHF 8,400 per month. Benefits are paid for a period of 520 days.

Other Benefits

Maternity Allowance

Working mothers are entitled to a maternity allowance as introduced on July 1, 2005.

The allowance is payable to women who were insured in accordance with the AHV regulations during the nine months prior to the expected date of delivery (the period is reduced in case of premature birth) and who were working for at least five of these nine months, and at the time of birth were employed, self-employed or working in their husband's company.

Entitlement begins on the day of birth and lasts for 14 weeks (it ceases with immediate effect in the event of resumption of employment during these 14 weeks). The maternity allowance is paid as a daily allowance of 80% of the average earnings before the beginning of the entitlement (capped at CHF 196 per day).

The benefits are covered by the Fund for Compensation during Military Service (see below).

Family Allowance

Family allowances are financed by employers, except for some public funding of benefits for agricultural workers. They may be organised through a cantonal, private or the employer's own fund. The benefits vary. Cantonal funds demand contributions of between 1.5% and 3.0% of income; for private funds the range may be even greater.

Military Insurance

Claims resulting from military service are covered by the Federal Military Department. Benefits include survivors' pensions, disability pensions, medical expenses, compensation for loss of earnings and other losses such as damage to personal belongings.

Compensation during Military Service (Income Replacement Scheme)

All persons are entitled to compensation during military service. Basically this is to replace lost income. However, most employers continue to pay their employees during such periods and the compensation is then returned to the employer. Compensation payments are financed by contributions calculated on the same basis as for retirement, survivors' and disability benefits. The percentages are 0.3% for employed persons, of which the employer pays 50%.

Taxation

Contributions

Employee contributions to the federal retirement, survivors' and disability schemes together with those for military service compensation are tax deductible. Employer contributions are considered tax-deductible trading expenses. This also applies to the contributions made for the compulsory accident insurance programme.

Benefits

Taxable as income.

Other Information

Indexing

Pensions in course of payment are indexed. As a rule, the adjustment is determined every 2 years by the Federal Council according to the pension index. As of January 1, 2011 pensions were increased by 1.75%.

Contributions from Public Funds

According to Art. 112 of the Constitution, contributions are limited to 50% of annual expenditure. For the federal disability scheme, 75% of this amount is taken from federal funds and 25% from the cantons. For retirement and survivors' benefits, 16.4% of the annual expenditure is financed from federal funds and 3.6% from the cantons. Stabilisation funds amounting to one year's expenditure must be reserved. Due to demographic changes and a considerable increase in disability cases over the past few years, these funds have been drained and are currently below the required level.

Organisation

The Federal Social Insurance Office (FSIO) is the supervisory authority. Employers are obliged to deduct contributions from salary and to account for these as well as their own contributions to their social security agency, which also collects contributions from self-employed and from those not earning a living. Each social security office keeps a record of the contributions made for each person and calculates and pays the pensions due. A central office holds a register of all persons insured and pensioners, and keeps a central account in order to balance the income and expenditure of the various affiliated agencies.

Relation to Other Insurances

Federal accident insurance benefits are paid as complementary benefits totalling a maximum of 90% of insured salary. If a third party is liable, social security institutions have a legal claim for reimbursement against the liable party.

Reciprocal Social Security Agreements

Australia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, the Netherlands, Norway, the Philippines, Poland, Portugal, Romania, San Marino, Serbia, Slovenia, Slovakia, Spain, Sweden, Turkey, the United Kingdom and the United States of America.

IV PRIVATE BENEFIT PLANS

Background Information

Private employee benefit plans have been common in Switzerland for many decades. The introduction of the Mandatory Occupational Pension Legislation (BVG) established the right to a legal minimum of benefits. This minimum has been of particular importance only for employers and employees with little or no coverage in force at the time legislation took effect. The legislation stipulates that all employers must establish pension plans.

Pension funds intending to participate in the implementation of mandatory insurance must be entered in the Register of Occupational Pension Carriers kept by the competent supervisory authority. Registered pension funds must be constituted in the legal form of a foundation, a cooperative society or be established under public law. Carriers of employee benefit plans are foundations and autonomous or semi-autonomous pension funds. Risks and savings can be insured or reinsured with private insurance companies; savings elements may also be placed with banks.

Below there is a description of the minimum benefit levels of the mandatory occupational pension (BVG).

Eligibility

Coverage

All employees earning CHF 20,880 or more per annum (75% of the maximum social security single pension) must be covered for income up to the salary ceiling of CHF 83,520 (3 times the maximum social security single pension).

Age Limits

Between ages 17 and 24, only risk benefits have to be provided. From age 25 to 65M/64F old age benefits are to be funded in addition.

Contributions

Funding

Most plans are contributory. The employer must assume at least 50% of the total cost.

Contributions for death and disability benefits are approximately 2% – 6% of pensionable salary. Additionally, 0.27% of pensionable salary and 0.02% of total vested benefits and 10 times current benefits received is contributed for the Security Fund and compulsory benefit indexation on risk pensions in payment.

For old age benefits, contributions depend on age:

Age (men/women)	Contribution in % of Pensionable Salary*
25 - 34	7%
35 - 44	10%
45 - 54	15%
55 – 65/64	18%

*Pensionable Salary (Mandatory Minimum): Salary between CHF 24,360 and CHF 82,080: thus limited to CHF 59,160.

Retirement Benefits

Retirement Age

Normal retirement: 65M/64F
Early retirement: 58M/F

Exceptions to retirement age 58 apply in case of company restructuring or professions where earlier retirement is required on grounds of public security.

Benefits

The Old Age Pension is financed on a defined contribution basis. Benefits are equal to total old age savings accumulated with interest (as of January 1, 2012 the minimum rate fixed by government is 1.5% per annum) multiplied by a conversion factor, with an additional 20% of old age pension per dependant child. The conversion rate is adjusted on early retirement.

Vesting

In the event of termination of employment, all accumulated funds including interest are fully vested and have to be transferred to the next employer's pension fund.

Disability Benefits

Disability Pension: 100% of projected old age pension calculated disregarding future interest on old age pension savings. Additional 20% for each dependant child.

Death Benefits

Widow's Pension/Widower's Pension

60% of the disability pension to which the deceased would have been entitled in the case of full disability; in the case of death of a husband/wife already receiving old age pension or disability pension, 60% of the old age pension is provided. Widow's pension/Widower's pension is payable if the widow/widower is older than 45 and the marriage has lasted for more than 5 years, or if she/he has a dependant child.

Orphan's Pension

20% of old age pension per orphan.

Medical/Health Benefits

Mandatory Health Coverage

Participation in health insurance is compulsory for all persons resident in Switzerland according to the Health Insurance Act (KVG/LAMal).

Insurance is organised through health funds under public or private law and private insurance institutions fulfilling the following conditions for recognition by the federal authorities:

Non-profit organisation
- Equal treatment of all persons insured
- Financial security
- Provision of certain minimum benefits

The benefits must cover at least the cost of medical treatment as an out-patient or during hospitalisation in a general ward. In addition, convalescence and rehabilitation measures ordered by a doctor, pregnancy, birth and certain prophylactic measures must be covered. Medical treatments in case of accidents must also be provided for where it is not covered by the compulsory accident insurance. Insurers are obliged to offer daily indemnity insurance with benefits for a period of 720 days out of 900 (in case of incapacity to work at a minimum of 50%). However, this is not compulsory for the insured.

Free movement within the system of insurers is guaranteed. Applications for insurance may not be refused for health reasons or because of pregnancy. Special conditions, however, may be imposed for a period of up to 5 years when entering compulsory insurance for the first time or after an interruption (due to residence abroad).

Employer contributions to the mandatory health coverage are not common.

Work Injury Benefits

National Accident Coverage

Under the UVG (mandated accident insurance), employees may be covered by the Swiss National Accident Insurance Fund (SUVA), private insurance companies or health funds. The UVG sets minimum benefit standards applicable to all employees. Maximum earnings for coverage are CHF 126,000. Those covered for occupational accidents are also covered for accidents away from work (if employed for at least 8 hours per week).

Rehabilitation is the primary objective and accident prevention is actively promoted. For medical treatment, financial assistance has much the same scope as under health funds. In addition, a daily allowance of 80% of pay, up to CHF 345 per day, will be provided. The disability pension, if a person is fully disabled, is 80% of the annual salary up to CHF 126,000. Survivors' pensions are also provided.

For occupational accident insurance, premiums are paid by employers according to a risk classification; insurance premiums for accidents away from work may be deducted from employees' pay.

SUVA is an independent organisation dealing with industrial injuries, insuring exclusively all employees of companies where there is an increased risk of injury, in particular the manufacturing and construction industries. As there have been no contributions from public funds since 1968 and this organisation is at present financially self-supporting, its activities lie in the area between social security and compulsory employee benefits.

Other Benefits

Customary Employee Benefit Plans

The coverages provided by international employers in Switzerland are usually considerably higher than those stipulated by the mandatory pensions' legislation as the minimum legal AHV/BVG benefits will not usually meet the pension target of 60% - 70% of income. It will be achieved mainly by those in the lower- and middle-income brackets, where full years of contributions have been completed.

Coordination with the legally required benefits is exercised by either splitting the plan into two parts, whereby one part will provide the mandatory and the other the excess benefits, or by covering the legal requirements via a total or global benefit promise. In the latter case, compliance with legal requirements has to be proven annually by way of a shadow account.

<u>Funding and Organisation</u>

Retirement benefits in the private sector are typically funded by the capitalisation. There are a number of possibilities available for the organisation of an employee benefit plan: Self-administration, reinsurance of all or part of the risk, full insurance including retirement benefits and deposit administration. No tax advantages are granted in respect of book reserves and this method is therefore not practiced in Switzerland.

Due to the practical considerations of risk management, it is not usual for smaller funds to be completely self-administered. Savings plans with risk insurance are quite common. Many companies, including some of the largest, choose fully insured schemes. Life insurance companies must apply for approval of their tariff rates; differences in performance and administration charges may also be reflected in the dividends paid. Local experience rating as well as alternative investment vehicles can be made available, usually depending on the size of the insured scheme.

Supplementary Plans for Higher Management

Improved benefits for persons in higher positions are sometimes provided, although the tax authorities are becoming more critical of some of these arrangements. Additional benefits may be based on the portion of salary above the maximum envisaged in a general benefit plan, on additional contributions, or on a higher rate of pension accrual.

Law on Purchasing Properties (WEF)

Under the law on purchasing properties, an employee is able to pledge or draw money from the company pension plan to invest in residential property used by him/her and his/her family. The amount, which can be pledged or withdrawn, is equal to the vested benefits, for employees below the age of 50. For employees over the age of 50, the withdrawal may not exceed the greater of the vested benefit at age 50 and half of the vested benefit at the time of the withdrawal.

The remaining plan benefits are proportionally adjusted. However, the pension fund must offer the possibility for the death-in-service and disability benefits to be maintained in full, either totally or partially at the employee's cost. The amount withdrawn is fully taxable but may be reimbursed up to three years before the age at which he/she would be eligible to take an early retirement as per the regulations or the pension plan rules. The money must be reimbursed if the property is sold.

Taxation

Private Sector Employee Benefit Schemes

Tax exemption is granted to employee benefit schemes provided that certain conditions are met. The carrier must be an independent legal entity. The most frequent form is that of a foundation as defined in the Swiss Civil Code, run by a board of foundation. These boards are composed of equal number of representatives of the employer and the employees.

Foundations in Switzerland are generally supervised by the local authorities. If their activities cross cantonal boundaries, control may be exercised by the federal authorities. Tax privileges may be withdrawn if the set requirements are not met, although in the majority of cases exceptions can be rectified without this being necessary.

The use of funds placed with the foundation is restricted to the purposes defined in the statutes of the foundation. Contributions made by the employer may not be returned. They are thus eligible as trading expenses and fully tax-deductible. Furthermore, they are not considered to be taxable income to the employee. Employee contributions are also fully deductible.

Benefits are taxed as income in the canton of residence. Lump sum payments are usually taxed at a special rate, or the pension equivalent is taxed as income. There is tax-relief in most cases with respect to individual contributions. However, for pensions financed exclusively after 1987, the taxable amount will not be reduced.

The tax-deductions allowed under the law to all employees lead to reduced revenue, forcing the revenue service at the federal and cantonal level to find other sources of income, to restrict the possibilities of financing past service years and to introduce an upper limit for insured salaries (the latter came into force on January 1, 2005). Under the federal tax law, which has been compulsory since 1995, taxation at source for benefits paid to persons domiciled abroad is provided for under almost all cantonal tax laws.

Since January 1, 2006 there are limitations on voluntary contributions for financing past service years:

- Voluntary purchase is only possible after full reimbursement of the amount withdrawn from the company pension fund for investment in residential property.
- The benefits resulting from a purchase may not be paid out as a lump sum for three years after the purchase was made.
- For persons moving to Switzerland from abroad who were never previously insured in a Swiss pension fund, the maximum amount that can be paid to finance past service years is limited to 20% per annum of insured salary during the first 5 years after joining the pension fund.

Double Taxation Agreements

Albania, Algeria, Anguilla, Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Azerbaijan, Barbados, Belarus, Belgium, Belize, the British Virgin Islands, Bulgaria, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Dominica, Ecuador, Egypt, Estonia, the Faeroe Islands, Finland, France, Gambia, Germany, Greece, Grenada, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Ivory Coast, Jamaica, Japan, Kazakhstan, Korea (Republic), Kuwait, Kyrgyzstan, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malawi, Malaysia, Mexico, Moldova, Mongolia, Montserrat, Morocco, the Netherlands, New Zealand, Norway, Pakistan, the Philippines, Poland, Portugal, Qatar, Romania, Russia, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Serbia, the Seychelles, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Thailand, Trinidad and Tobago, Tunisia, the United Arab Emirates, the United Kingdom, the United States of America, Uruguay, Venezuela, Vietnam, Zambia and Zimbabwe.

Other Information (BVG)

Indexation

Disability and survivors' benefits are indexed starting 3 years after benefit commencement. The indexation factor is determined periodically by the government.

Security Fund

A nationwide pool which is funded by contributions provides for benefits in the case of insolvency. It will also provide subsidies to pension funds with an unfavourable age structure.

V FUTURE OUTLOOK

Trends in the Insurance Industry

Life Insurance

The life insurance market in Switzerland shows a stable picture in these turbulent times, and continues to grow slightly – in particular the group business – despite being saturated in terms of penetration and premium per capita. Life business has more or less reached saturation point in terms of domestic cover, which can be attributed to:

- the compulsory (BVG) and the supplementary occupational pension provision, much of it insured
- the popularity of life insurance in Switzerland
- the growth during the last 20 years of a significant unit-linked market
- the purchase of Swiss policies by non-residents.

Life insurance premiums amounted to CHF 32.7 billion in 2010 (CHF 32.2 billion in 2009). Group life occupational pension schemes generated 63.5% of the premium income with an increase of 5.1% compared to 2009, which underlines how significant the second pillar is for Swiss-based life insurers.

The distribution of classical individual life insurance with guaranteed payment on maturity and surrender values has been considerably restricted by a further reduction of interest rates. Life insurers seek to counteract this development by offering innovative savings products. This trend is made visible by the important increase in the sale of life insurance linked to internal investment positions. This segment includes savings products which provide a flexible mix of guaranteed benefits and options and are individually tailored to the policy holder's needs.

Although life insurers achieve substantial premium volume from the occupational pensions market both for pensions and risk benefits, government regulations for minimum interest and the pension conversion rate to be applied to mandatory pension plans, make it extremely difficult to achieve profitability. For this reason some life insurers have withdrawn from the occupational market.

Pensions

The basic state pension, combined with the compulsory occupational pension, is intended to provide a "continuation of the accustomed standard of living". The aim has been a total income in retirement of 60% of pre-retirement income. Falling interest rates have resulted in a reduction of this percentage. As a result there is a flourishing market for private top-up provisions with tax advantages (either by employers providing supplementary pension cover to the compulsory occupational pension schemes or in the form of individual policies).

The global financial and economic crisis affected the asset coverage of pension schemes. In 2011 market sources confirmed that the vast majority of private pension funds had returned to funding levels around 100% of liabilities. The main focus is to increase reserve levels again as a buffer against future fluctuations. Only a number of public service funds remained underfunded, but since these pensions are government guaranteed this is not seen as a major problem. The number of pension funds continues to decline gradually. In 2011 the total was estimated at 2,300. Small schemes are joining combined funds (Sammelstiftungen), which are often run by life insurers.

Health

As in many countries, the cost of healthcare is continuing to increase. Market sources point out that for some types of healthcare in Switzerland, especially for the elderly, there is no annual financial limit on the claims or on the number of claims which can be made within an insurance year. Consequently, with an ageing population, there is significant pressure, and premiums therefore tend to increase each year.