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The Swiss pension system comprises three different types of coverage and is known as the "three-pillar system". The first type of coverage, which is compulsory, is standard social security, also known as AVS/AI or the first pillar. The second pillar consists of occupational benefits and is compulsory for employed persons. With the benefits provided under the first- and second-pillar plans, it is not always possible to keep up the standard of living you are accustomed to when you retire. You can compensate for this gap in coverage with the third pillar: a private pension.

What is an Epargne 3 account?

Epargne 3 accounts are third-pillar accounts that represent one way of building up private retirement savings as a safeguard for your financial future.

These accounts offer a higher rate of interest than standard savings accounts and are tax-advantaged in several ways. They are also extremely flexible since you are not locked into monthly payments.

Payment flexibility

With the Epargne 3 account, you decide how much to put aside each year, within the limits specified under Swiss law. You may set up a standing order if you wish, and payments can be changed or stopped at any time for any reason, such as a change in your financial or professional situation.

Tax benefits

The Epargne 3 account offers numerous tax benefits:

- Money paid into this account can be deducted from your taxable income.
- Interest earned is not subject to withholding tax or income tax.
- No wealth tax is levied while the account is still open.
- When your retirement capital is paid out, it is taxed at a preferential rate and separately from other income.

Please see the explanatory notes on the next page for more details.

Financial protection

Your Epargne 3 assets are protected legally in the event of bankruptcy, and in the event of death these assets are handled separately from the rest of your estate. You can also take out risk insurance to protect your family financially in the event of death or disability.

Financing a home purchase

Thanks to a Swiss federal law designed to promote home ownership, you can use your Epargne 3 savings to help finance the purchase of your home. The capital in your Epargne 3 account may be put towards the downpayment on a property or used to repay your mortgage indirectly. Using your Epargne 3 account for indirect mortgage repayment offers several tax benefits:

1. Instead of paying the mortgage directly back to the bank, you make mortgage payments into your Epargne 3 account, up to the amount permitted by law. This means that your mortgage repayments can be fully deducted from taxable income.
2. As you are not directly paying off your mortgage, your mortgage debt remains the same. The amount of interest you have to pay each year therefore does not decline. The advantage of this is that interest payments are deductible from your taxable income in Switzerland.
3. On the agreed maturity date, all or part of your Epargne 3 savings are used to pay off the mortgage debt.

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Epargne 3 account - overview

Type	Third-pillar savings account
Contributions	The maximum annual contribution is: • CHF 6,826 if you are employed • 20% of your income if you are self-employed, but no more than CHF 34,128
Interest rate	Variable rate that is higher than on a standard savings account
Entry requirements	You must: • be between the age of 18 and the Swiss AVS legal retirement age • work in Switzerland and earn AVS income, or be a Swiss citizen working abroad for the Swiss Confederation
Tax benefits	• Contributions are deductible from taxable income • Interest is not subject to income tax or withholding tax • There is no wealth tax until retirement capital is withdrawn • Withdrawn retirement capital is taxed separately and at a low rate
Withdrawal options	• At legal retirement age, or up to five years before • To help purchase or to pay down the mortgage on your principal residence • If you leave Switzerland permanently • To start your own business • For occupational pension fund (second-pillar) purchases • If you receive a full disability pension
Inheritance benefits	In the event of death, the capital paid to your beneficiaries is protected; it is not considered part of your estate and therefore cannot be used to settle any debts
Benefits in the event of bank	(Affluent foreign nationals may qualify for lump-sum taxation agreements. Ask your advisor for details.)
Pension-fund purchases	You may purchase additional second-pillar benefits in order to fill any gaps that you may have in your pension cover as a result of salary increases, periods between jobs, divorce or early retirement.
AVS/AI	AVS: Assurance-vieillesse et survivants (old-age and survivors' insurance). AI: Assurance-invalidité (disability insurance). AVS and AI together represent the government-funded social security system (first pillar) and are compulsory.

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