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Bsc in Business Administration

Pension schemes for German cross-border commuters working in Switzerland

Dear Sir or Madam,

The free movement of persons has made it possible that employees from the EU can work, as cross-border commuters, in Switzerland and vice versa. These cross-border commuters return to their home near the border every day. According to the Agreement on Free Movement of Persons they are subject to the social security system of the country in which they are employed. This also applies when they are domiciled in another country. German cross-border commuters working in Switzerland are generally subject to the Swiss social security system and require information about this system, which offers a closely-meshed net of security against risks.

Provision by three pillars

Part of Switzerland's social security system is the so-called "Three Pillar System" of pension schemes.

The first pillar is the Old-Age, Survivors' and Invalidity Insurance (OASI). It is a public insurance to which all persons that are living or working in Switzerland are obliged to make contributions; this from 1 January onwards after having reached the age of 17 years. Persons that are not yet working before their 20th birthday only start making contributions from 1 January onwards after having reached the age of 20 years. Employees and employers both contribute in equal shares. The employer is obliged to retain the employer's share of the salary and to pay it directly to the relevant compensation office. Benefits from OASI need to be registered in time before retirement age has been reached as retroactive contributions can only be paid in up to a certain time. Other than that, the first pillar very much resembles the statutory pension scheme in Germany.

The second pillar is the occupational pension plan, the aim of which is to be able to continue life as before. To make savings for old age, employees who earn a statutory minimum income are obliged to make contributions from 1 January onwards after their 24th birthday. From 1 January onwards after their 17th birthday, employees must already make contributions as security against death and invalidity. These contributions are deducted from the salary and then paid, together with the employer's share, directly into the pension fund. If an employee changes jobs the previous provision institution will then transfer the termination benefit to the provision institution of the new employer. Should a person decide to terminate employment before having reached

retirement age, then the pension balance will be transferred to a vested benefits account.

The third pillar offers the additional option of an individual and voluntary provision plan. Under the restricted retirement coverage of pillar 3a, benefits will only be available at retirement age. This provision option is of interest to many people, as the contributions to it can be deducted from tax in Switzerland. As cross-border commuters are not subject to tax in Switzerland but in Germany they unfortunately do not have this deduction option, rendering contributions to pillar 3a unsuitable for cross-border commuters.

Direct insurance scheme as alternative to pillar 3a

However, with the German direct insurance scheme, cross-border commuters do have a comparable alternative for saving money voluntarily as an additional pension provision. Just like pillar 3a, contributions are earmarked. They are paid in directly by the cross-border commuter. The employer in Switzerland just acts as a notional policy holder. It is worth asking the employer for a signature under the insurance contract, as the state will regard contributions up to the amount of EUR 520 per month as exempt from taxation. Once the pension is being paid out it will then be taxed with a lower tax rate. This way you are saving money.

artax Fide Consult AG has much experience with structuring different pension provision solutions and would be happy to advise you.

Kind regards

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Member of Morison KSi

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