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Promotion of Home Ownership using Occupational Pension Benefits

Pension capital from the 2nd pillar can be used for owner-occupied property. The benefits can be withdrawn in advance or pledged up to three years before any entitlement to old-age benefits is created (subject to Art. 47a LOB).

Explanation

Purpose

In the context of owner-occupied property, the retirement assets can be withdrawn in advance or pledged for the following purposes:

- Purchasing residential property
- Building residential property
- Renovations and refurbishments
- Investing in residential property
- Mortgage repayments

Definition

The following is what constitutes residential property:

- Sole ownership on the part of the insured person
- Co-ownership, specifically commonhold property
- Co-ownership of property by the insured person and the spouse/registered partner (joint ownership)
- Independent and permanent lease on an apartment or detached house

This list is exhaustive.

Principle/framework conditions

In accordance with the Federal Act on the Promotion of Home Ownership using Occupational Pension Benefits, insured persons can make use of their right to withdraw their vested benefit in advance and/or to pledge their vested benefit and/or pension benefits up to three years before the entitlement to old-age benefits is created.

The pension fund assets can be withdrawn in advance or pledged for the following purposes:

- Purchasing residential property; this constitutes the purchase of an existing property for living in oneself
- Building residential property
- Acquiring shares in a housing cooperative or similar participatory venture
- Repaying mortgages on owner-occupied property
- Value-preserving or value-enhancing investments in existing residential property

The residential property must be used by the insured person. The applicable law talks about "own purposes", and in the Ordinance on the Promotion of Home Ownership, it says: "Own purposes constitute use by the insured person at their residential address or at their usual place of residence." It makes no difference in this respect whether the place of residence is in Switzerland or abroad.

Only one residential property may ever be financed with occupational pension assets. It is not permissible to use said assets to finance second homes or holiday homes or to finance normal maintenance, to buy leasehold land, or to finance reservation fees, taxes on advance withdrawals or mortgage interest.

Advance withdrawal or pledge?

Advance withdrawal:

Advantages	Disadvantages
• Smaller mortgage • Lower interest burden	• No additional tax savings • Tax payment • Depending on the pension plan, a pension gap will be created

Pledge:

Advantages	Disadvantages
• Additional tax savings • Ongoing full entitlement to insurance benefits	• Higher mortgage • Higher interest burden

Pledge

Variants

The pledge can extend to:

- the entitlement to pension benefits in case of old age, disability or death
  and/or
- the permissible vested benefit amount

Minimum amount

No minimum amount applies to pledging the vested benefit.

Maximum amount

Insured persons up to the age of 50:

- pledge up to the vested benefit amount

Insured persons over the age of 50:

- no more than the vested benefits to which they would have been entitled when they were 50, or – if higher – half of their current vested benefit

Effects

The pension benefits to which the insured person is entitled serve as a surety for the mortgagee. A pledge serves to acquire additional borrowed capital. The insured person can, as the case may be, agree with the pledgee a higher mortgage, deferral or waiver of the repayment of the existing mortgage, or a lower interest rate on any subordinate mortgage.

Pension provision

A pledge remains, subject to a foreclosure, without influencing the pension protection.

Taxes

Taxes are only payable in case of foreclosure. In this case, the same conditions apply as for an advance withdrawal.

The additional interest payable due to the option of lending a higher amount against security is deductible from the taxable income.

Restrictions

The insured person's options for use thereof are limited by the pledge. The pledgee's consent is necessary in case of:

- Cash payment of the vested benefit
- Payment of the pension benefit
- Transfer of part of the vested benefit due to a divorce

Withdrawal

If an insured person who has pledged their vested benefit joins another pension or vested benefits scheme, the PKG Pension Fund must inform the new scheme and the pledgee thereof.

Claim

The pledgee's consent is required to pay any benefits in the case of death or disability to the insured person or their surviving dependents.

Retirement age

On reaching retirement age, the pledge of the vested benefit expires as the retirement assets are used to finance the old-age benefit. The pledgee's consent is required to pay the old-age benefit.

Advance withdrawal in case of divorce/for home ownership

The pledgee's consent is required to transfer part of the vested benefit in case of divorce or to make an advance withdrawal for home ownership.

Advance withdrawal

Basic principle

The right to make an advance withdrawal can be asserted every five years and by no later than three years before the entitlement to old-age benefits is created.

Purchasing contribution years and advance withdrawals

If purchases were made, the resulting benefits may not be withdrawn from the pension account as a lump sum within the next three years. In case of a lump sum withdrawal, the tax office is also entitled to order a supplementary tax assessment to be conducted on all purchases made within the 3-year period.

After an advance withdrawal has been made, voluntary purchases may only be made again if advance withdrawals have been fully repaid.

Minimum amount

The minimum amount which can be withdrawn in advance is CHF 20,000 (except for the purpose of acquiring shares or similar participatory ventures).

Maximum amount

Insured persons up to the age of 50:

- Advance withdrawal up to the vested benefit amount for insured persons aged over 50:
- no more than the vested benefits to which they would have been entitled when they were 50, or – if higher – half of their current vested benefit

Effects

The future old-age benefits and vested benefit will be reduced by the amount withdrawn in advance. Depending on the type of pension plan, the insured benefits in case of death and disability will also be reduced. On request, we will be happy to issue a corresponding quote for "advance withdrawal for home ownership".

We advise the insured person to have their personal pension situation assessed.

Guaranteeing the intended use

In case of an advance withdrawal or foreclosure, a "sales restriction" will be entered in the land register to guarantee the intended use. The insured person shall bear the costs associated with this entry. The "sales restriction" states that if the residential property is sold, the amount withdrawn in advance must be repaid to the pension/vested benefit scheme.

Taxes

The amount withdrawn in advance must be declared in the tax return separately from the other income as a lump sum payment from retirement assets in accordance with the applicable federal and cantonal regulations at the time of withdrawal.

The tax liability cannot be financed by increasing the advance withdrawal.

The PKG Pension Fund reports it to the Federal Tax Administration.

The tax office in the place of residence provides information on the amount of taxes payable.

If the advance withdrawal is repaid at a later date, the contributions paid in again are not tax-deductible. However, it is possible to reclaim the tax paid excluding interest from the competent tax authority within three years of paying in the amount withdrawn in advance again. The relevant documents must therefore be kept in a safe place.

Withdrawal

If the insured person joins another pension or vested benefits scheme, said scheme will be informed by the PKG Pension Fund of the advance withdrawal made. Any (mandatory or voluntary) repayments shall be made to the new scheme which recredits said amount to the retirement account.

Divorce

In case of divorce, the advance withdrawal is assessed by the court as a vested benefit, i.e. the advance withdrawal will also be split in half.

Repayment obligation

The amount withdrawn in advance must be repaid if the prerequisites for the withdrawal are no longer met; e.g. if

- the residential property is sold
- the residential property is no longer lived in permanently by the insured person
- rights are granted in respect of said residential property which are equivalent to a sale in business terms (e.g. right of residence or right of usufruct); or
- no pension benefits are payable following the death of the insured person.

The insured person bears the risk that their residential property could devalue and any possible resulting financial losses.

Right of repayment

Over and above this, the insured person can repay the amount withdrawn at any time until the entitlement to an old-age benefit is created.

The minimum repayment amount is CHF 10,000 unless the balance is lower.

Procedure

We will be happy to inform you whether or not the requirements under the "Promotion of Home Ownership using Occupational Pension Benefits" legislation are met in your specific case.

Please complete the "Application for a pledge" or "Application for an advance withdrawal" form and send it to us together with all documents required, so that we can consider your application.

Please note that insured persons who are married or living in a registered partnership (even if separated) must ask their spouse/registered partner to co-sign the form; said signature must be officially notarised.

Costs

The land register costs and any costs associated with obtaining necessary documents (e.g. current land register excerpt and confirmation of place of residence) shall be borne by the insured person.

The PKG Pension Fund charges a reasonable cost contribution for the administration costs associated with making an advance withdrawal or a pledge. Said bill of charges must be paid from private assets.

January 2021