

INFORMATION SHEET

Pension scheme contributions & lump-sum withdrawals – what does the three-year period mean?

1. What is this about?

Making a pension purchase into the occupational pension scheme (2nd pillar) can close gaps in your pension cover and improve your future retirement benefits. Such pension purchases can generally be deducted from your taxable income.

However, the law provides for a three-year time limit:

If a lump-sum payment is withdrawn from occupational pension provision (2nd pillar) within three years of a top-up, the tax authorities may refuse to allow the tax deductibility of the top-up in full or in part or may adjust it retrospectively.

This rule applies not only to pension funds but to the entire occupational pension scheme (2nd pillar) – including vested benefits held with a vested benefits foundation.

2. Who is this rule relevant to?

The three-year period is relevant for people

- who have made contributions to a pension fund or collective foundation in recent years and
- now wish to receive a lump-sum payment from their occupational pension scheme, for example:
 - a lump-sum withdrawal upon reaching the reference age,
 - a lump-sum payment when moving abroad,
 - a lump-sum payment upon taking up self-employment,
 - a lump-sum payment from a vested benefits account.

Important:

Tax authorities consider the pension situation as a whole, across all second-pillar schemes. It therefore makes no difference for tax purposes whether the pension rights were purchased from a pension fund and the lump-sum payment is later paid out by a vested benefits foundation (e.g. HBL Vested Benefits Foundation).

3. What happens if I withdraw capital within three years?

If a lump-sum payment from the 2nd pillar is withdrawn within three years of a top-up, the tax authority may:

- refuse to allow the previous purchase deduction, or
- reverse a deduction that has already been granted as part of a back-tax procedure.

This means:

- The top-up contribution will be subject to (partial) back-tax,
- in addition, interest on arrears may be payable,
- the lump-sum payment itself will continue to be taxed separately at a pension tax rate; the 'penalty' consists of the tax deduction for the top-up contribution being withdrawn.

These consequences affect the insured person's tax situation – not that of the Foundation.

4. Role of the HBL Vested Benefits Foundation

The HBL Vested Benefits Foundation ("Foundation"):

- pays out vested benefits in accordance with the provisions of the Vested Benefits Act (FZG) and the Vested Benefits Regulations;
- is generally not in a position to be aware of all previous contributions made by pension scheme members to other pension schemes;
- and is therefore unable to comprehensively verify whether a lump-sum withdrawal in an individual case would result in a breach of the three-year period.

Our approach:

- We can draw your attention to the three-year period when the payment is made;
- we may, where necessary, ask you to confirm that you are aware of the tax consequences of a lump-sum withdrawal within the three-year period;
- however, we remain obliged in principle to pay out legally permissible vested benefits, even if this may result in tax consequences.

Ultimately, the responsibility for complying with and observing tax regulations lies with you as the pension scheme member.

5. What should you do specifically?

If you have made a top-up contribution to the 2nd pillar in recent years and are planning a lump-sum withdrawal (e.g. withdrawal of the vested benefits), we recommend:

1. Get an overview

Check your pension situation (recent top-ups, pension statements, vested benefits accounts).

2. Check timeframes

Make a note of the dates of any contributions and planned lump-sum withdrawals (e.g. from the HBL Vested Benefits Foundation)

3. Seek tax advice

Ask your tax adviser or the relevant tax authority directly to clarify what the tax implications would be for a lump-sum withdrawal made within or outside the three-year period.

4. Postpone the withdrawal if necessary

If it makes sense from a tax perspective, it may be worthwhile to plan a lump-sum withdrawal after the three-year period has expired.

6. Distinction from Pillar 3a

The three-year rule applies to contributions to second-pillar occupational pension schemes (pension funds, collective pension schemes, vested benefits institutions).

Contributions to the restricted personal pension scheme (Pillar 3a) are subject to different tax rules. If you also hold Pillar 3a assets or wish to draw benefits from Pillar 3a, we also recommend seeking tax advice in order to correctly assess the overall impact.

7. If you have any questions

If you have any questions regarding the pension product or the processes of the Foundation, the Pension & Financial Planning department at Hypothekarbank Lenzburg AG will be happy to assist you.

Please note:

The Foundation and Hypothekarbank Lenzburg AG are not authorised to provide individual tax advice. For binding tax information, please contact your tax adviser or the relevant tax authority.