Pension vs. Lump sum

As retirement approaches, one of the most significant decisions involves accessing accumulated retirement savings in an occupational pension fund. This decision can greatly impact financial stability and quality of life in retirement. There are three primary options to consider: receiving a regular pension, taking a lump sum payment, or opting for a combination of both. Each option has its own advantages and disadvantages depending on individual financial situations, lifestyle preferences, health situation and long-term goals.

Pension

The pension option guarantees a lifelong payment providing a high level of security. The pension is calculated based on the accumulated retirement savings multiplied with the conversion rate valid at the time of your retirement by your pension fund provider. Regular pension payments facilitate financial planning and household management, which can be particularly advantageous for individuals with a long-life expectancy. It is important to note that pension payments must be declared as 100% income and are therefore subject to income tax. If you have children at the time of retirement who are under the age of 18 or are in their first educational program, they are entitled to an old-age children's pension amounting to 20% of the retirement pension (variations according to regulatory provisions of your pension fund provider). In the event of death after retirement, your spouse and, depending on the definition in the pension regulations, your life partner are entitled to a lifelong survivor's pension, typically amounting to 60% of the retirement pension (variations according to regulatory provisions of your pension fund provider).

Lump sum

A lump sum payout allows you, at the time of retirement, to receive the entire or a portion of your accumulated retirement savings in a one-time lump sum payment. This option offers high flexibility and the opportunity to invest the assets as desired in order generate returns through the capital market. However, this requires a solid understanding of the capital market or seeking appropriate external advice. Investing the capital also can provide the ability to generate a return that can keep pace with inflation, unlike a pension, which is typically not adjusted for inflation. However, there are also risks that capital markets will generate a lower or negative return. Additionally, it is important to budget expenses, as there is a risk with the lump sum option that the funds may be depleted over the years, leading to financial difficulties. The capital payout is taxed at a reduced rate separately from other income at the time of payout. After the payout, the capital, along with your other assets, is subject to annual wealth tax. Unlike the pension option, there is no entitlement to survivor's or children's pensions after the retirement savings have been paid out. However, in the event of death after retirement, the free capital becomes part of the estate and can be distributed according to applicable inheritance laws and any existing will.

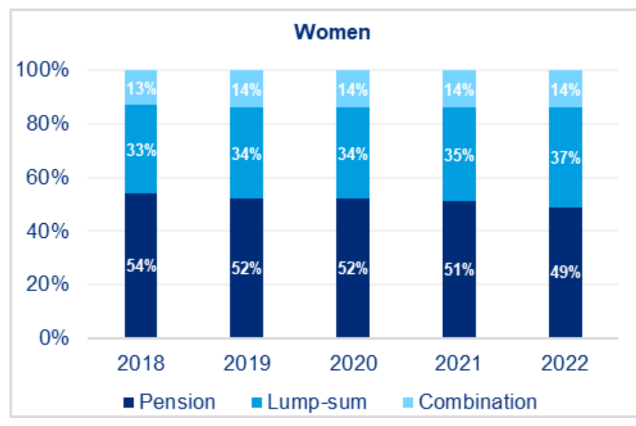
Combination of pension and lump sum

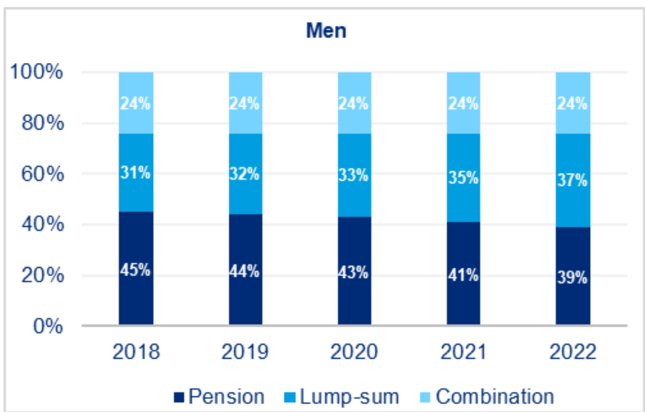
A combination of both, a pension as well as a lump sum payment, can be an attractive alternative. With this option, part of the accumulated retirement savings is received as a lump sum payment, while the remaining part is paid out as a lifelong pension. This allows the pension to cover ongoing expenses, while the lump sum payment can be invested or used for other needs.

Facts and Figures

Over the past years, the behavior of insured individuals, both women and men, has continuously changed. A notable trend is the increasing preference for lump sum payments and decreasing preference for pensions. The use of a mixed form, which combines retirement income and lump sum payments, has remained relatively stable but has slightly increased over time for women.

The following graphics illustrate in what form retirees have withdrawn their retirement savings:





Source: Federal Statistical Office, 2023

To be considered before retirement:

To ensure a smooth withdrawal or partial withdrawal from pension funds, it is essential to register your plans before retirement. Adhering to the regulatory deadlines and informing the pension fund provider in advance is crucial, especially for a lump sum withdrawal. If you are married or in a registered civil partnership, the pension fund will require written consent from your partner if you wish to withdraw a lump sum. Please be aware that if you have made any purchases into the pension fund, the benefits cannot be withdrawn as a lump sum for at least three years after the last purchase. Therefore, it is advisable to refrain from making any purchases within three years prior to the capital withdrawal date if you would like to withdraw your retirement assets in capital form. For more information about your accumulated pension savings, please refer to your individual pension certificate.

Overview:

	Pension	Lump sum
Payment	• Lifelong guaranteed pension • Child's pension (age limit according to regulations)	• One-time lump sum payment
Death	• Spouse's or partner's pension • Orphan's pension (age limit according to regulations)	• Existing capital fully inheritable
Taxes	• Full taxation as income	• One-time taxation of the capital payout (income tax at reduced tax rate) • Annual wealth tax
Character	• Constant replacement income • Planning security • No dependence to the financial market	• Maximum flexibility • Complete individual responsibility • Potential returns / risk of investment losses
Knowledge	• Little experience in regard of investments	• Experience in regard of investments