

# Economico Flash ⚡ #38

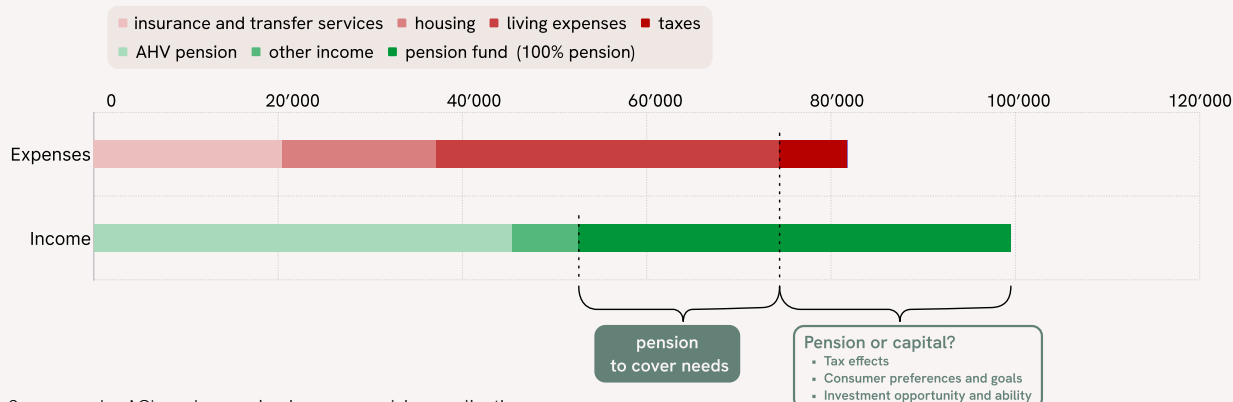
## Concept of the needs-covering pension

info@economico.ch

Dr. Ueli Mettler,  
c-alm AG

Follow us on  
LinkedIn

Chart of the week: Derivation of the needs-covering pension



Those who blaspheme should also make concrete proposals. With this in mind, we follow up the last [Flash 37](#), in which we questioned whether policyholders always make the “capital or pension” decision in their own best interests, with a concrete proposal on how to proceed with this decision.

The economically relevant assessment dimensions for the decision are the criteria of security, return and taxes (see [Flash 4](#)). In our view, the security criterion should be prioritized until the accustomed living requirements are covered in the post-retirement phase. Compared to a lump-sum withdrawal, a pension eliminates the longevity risk and the capital market risk on reinvestment and allows you to sleep peacefully in old age.

But who knows their budget after retirement? The needs assessment should therefore be supported in the advisory process by drawing up a so-called **standard budget**, which can then be overridden by the person receiving advice. When drawing up this standard budget, it makes sense to refer to the high-quality data from the **Household Budget Survey (HABE)** of the Federal Statistical Office (FSO): according to this database, depending on the age (before retirement versus after retirement) and the size of the household (1-person versus multi-person household), **6 different standard budgets** are determined depending on income. The standard budget is divided into the main expenditure groups 1) insurance and transfer services, 2) housing, 3) living expenses and 4) taxes, but can be broken down as required into the expenditure items below. For better accuracy in standard budgeting the tax expenditure is not taken from the HABE statistics, but is calculated explicitly on the basis of a tax calculator depending on the tax domicile and income level.

The simple idea of a needs-covering pension? Together with the other guaranteed income after retirement (AHV pension; possibly rental income from property), the pension drawn from the pension fund should cover the standard budget.

If the BVG full pension is higher than the needs-covering pension, the surplus can be withdrawn as a lump sum or pension, depending on tax effects, consumption preferences and reinvestment options.

The advisory logic of the needs-covering pension forms an integral part of our advisory application p-alm pension, which is used by pension funds and other financial intermediaries as a basis for advising customers and insured persons. If you would like to know more about p-alm pension, please contact us.

### Takeaways

- Lump sum or pension? Safety first, until needs are covered
- In many cases, this concept of a needs-covering BVG pension leads to mixed forms of pension and capital.