

# EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT THE SWISS ANNUITY BUT WERE AFRAID TO ASK

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## THE FIRST STEP TOWARDS A TRULY GLOBAL PORTFOLIO

### What does a Swiss annuity offer?

A Swiss annuity is an innovative, currency-convertible contract designed to fit the global diversification needs of today's investor. The core of this investment is a single premium annuity that guarantees a fixed rate of interest over the coming years, plus profit-sharing dividends. It therefore belongs in your fixed-income portfolio. But for savers, it also provides excellent capital growth opportunities.

### How does a Swiss annuity work?

Your investment is placed with one of Switzerland's premier insurance companies for a given term (also referred to as the accumulation period or period of deferment). Your principal earns interest and dividends until you redeem your annuity in a lump sum or start drawing an income (annuitizing). After income payments have begun, the unpaid balance of your capital still collects interest and dividend earnings that are paid out with your life income.

### What are the upfront charges?

There are no upfront fees or charges on your investment. All your invested capital will immediately begin to accumulate earnings.

### Is there a minimum investment required?

Yes. To purchase a Swiss annuity investment you will need at least US\$20,000 or equivalent in another currency to start.

### Can I increase my investment at a later date?

Certainly. You may increase your investment whenever you wish. After sending additional funds (minimum US\$10,000 or the equivalent) to the insurance company, they will automatically issue you a supplementary annuity certificate. Technically, this means you purchase a new certificate in the currency of your existing certificate or, if you so choose, in another currency. To simplify this procedure, you will receive a Policy Kit. In addition to your original

policy, your kit includes Increase Option Certificates. Whenever you wish to increase your investment, you just complete and return the increase-option forms. Many clients use this procedure to regularly increase their Swiss annuity investment.

### How liquid is my investment?

It is 100% liquid after the first year. You can then withdraw any or all of your money including interest and profit-sharing dividends. If you need to redeem your certificate within the first 12 months, you will be charged a handling fee of 500 Swiss francs and you forfeit any first-year interest and dividend earnings.

### When does my investment mature?

You determine the duration of your contract at the time of purchase, but you are free to change it at any time during the contract term. That is, you may extend or shorten your chosen term (effective on the next anniversary date of your certificate) or withdraw the cash value of your investment at any time. This flexibility ensures that your investment matures when you need either the funds or the income.

### Can I make other changes to my certificate at a later date?

Of course. You can make changes to your certificate at your discretion as it relates to, for example, currency denominations, beneficiary clauses, and payment instructions. The only exceptions are the Person Insured and of course, an irrevocable Beneficiary. These may not be changed at a later date. No special forms are required, simply send your instructions in writing.

### Who should invest in a Swiss annuity?

A Swiss annuity certificate provides such safety and flexibility that it makes good sense for almost everyone at almost any age.

### How does a Swiss annuity fit into my portfolio?

A Swiss annuity is a savings plan, i.e., a basic block for accumulating wealth and also a pension fund providing a guaranteed income for a specified period or for life. In addition, you can benefit from geographic and currency diversification as well as the asset protection features of a Swiss insurance policy.

### How much can I invest in a Swiss annuity?

There is no upper limit.

## **What about Swiss taxes?**

Your earnings are never taxed. They accumulate tax-free and at maturity, are not subject to the 35% Swiss withholding tax unlike traditional Swiss bank accounts. As a non-resident of Switzerland, you are not liable for any Swiss taxes.

## **A SWISS ANNUITY OFFERS ATTRACTIVE RETURNS**

### **What are the earnings from a Swiss annuity?**

All Swiss annuities earn guaranteed interest (a technical interest rate) of 3.25% on the capital, plus profit-sharing dividends. While the technical interest rate is guaranteed. (it may only be adjusted for new policies), the annual dividends depend on the general level of interest rates in Switzerland and on the insurance company's investment performance. The dividends are adjusted to market interest rates annually and are, therefore, not guaranteed for the future.

### **What exactly is the "technical interest rate"?**

The technical interest rate is the guaranteed interest rate that is credited to the investment portion of your annuity certificate. The investment portion is your payment less internal contract charges. According to the rulings of the Swiss Insurance Association, insurers are entitled to deduct an amount for administration charges and an individual premium of mortality. The interest rate earned is slightly reduced by these charges.

### **What type of total return can I expect?**

Interest earnings are supplemented annually by profit-sharing dividends, thus ensuring your annuity certificate earns competitive market rates. For Swiss franc annuities, these are approximately the same rate as Swiss government bonds. Historically the average dividend rate paid out on Swiss franc annuities has been 1%-1.5%, thus resulting in an overall gross yield of 4%-4.5%. In addition, total returns for your annuity will be boosted with the right choice of currency. Due to the long term strength of the Swiss franc, investors have made substantial exchange rate gains with Swiss franc investments. Since the collapse of the "Bretton Woods" system of fixed exchange rates, the Swiss franc has appreciated not only against the dollar but in relation to the other major currencies. In the last 25 years, the exchange value of the franc increased from \$0.26 to \$0.81

(annual averages), or an appreciation of 212%. This represents an annual compound growth rate of 5%.

### **How soon does my investment start earning interest?**

Your annuity certificate starts earning interest the day your premium payment has been credited to the insurance company's account.

### **Are profit-sharing dividends paid out or reinvested?**

**During the accumulation phase, dividends are automatically credited to the annuity principal.** During the income payment period, they are paid out together with the guaranteed income.

### **How do returns compare with other investments?**

A Swiss annuity compares very favorably when you look at the net return on other investments (i.e., return after deducting fees, commissions, annual management charges, withholding taxes and income taxes). Remember, with a Swiss annuity there are no upfront charges or withholding taxes on your annuity investment. The advantages are even more compelling if you factor in the safety (your capital and income are guaranteed), liquidity and privacy of your investment.

## **A CHOICE OF CURRENCIES ENHANCES FLEXIBILITY AND PROFIT POTENTIAL**

### **I would like a more detailed outline of my prospective return on investment?**

You may request a personal proposal showing the accumulated value of your investment as well as the optional life income to be paid out. All that is required is your date of birth, the approximate amount of your investment, and at what age you may want to begin receiving income.

### **In which currencies is a Swiss annuity offered?**

Recognizing the international investor's interest in broad currency diversification, a Swiss annuity is offered in Swiss francs, German marks, US dollars, pounds sterling, or ECU (European Currency Units).

### **Can I switch between currencies?**

Yes. With a Swiss annuity's currency-convertible feature, you always have the option to switch currencies whenever you desire. Although a Swiss annuity is not designed as a short-term

currency trading Instrument, it does allow you to hedge your currency investment or to further diversify your currency positions.

### **Is there any charge for switching currencies?**

Yes. A handling fee of 300 Swiss francs will be charged per switch and per certificate.

### **Can I invest in more than one currency simultaneously?**

Yes. You would then receive a separate certificate for each currency investment. For a 50/50 Swiss franc and US dollar investment, for example, you receive two certificates, one in Swiss francs and another with the equivalent in dollars. (Minimum investment per currency: US\$20,000 or equivalent.)

### **Shouldn't I just choose the currency that offers the highest interest rate?**

Not necessarily. In the long run, the development of exchange rates could be a more decisive factor than interest rates. Such factors as inflation rates, savings rates, fiscal balances, current account balances and economic growth greatly affect the value of a currency in the long run. A Swiss franc investment with a return of say, 4%, could turn out to be substantially better than an ECU one at 8%!

### **What currency should I choose then?**

Obviously It makes sense to choose a currency that provides consistently good growth in comparison to other currencies. The Swiss franc has been stronger than any other currency in the world over the past 25 years.

### **When should I convert my home currency into Swiss francs?**

As with any investment, you should buy when prices are low. That is, use any temporary period of weakness in the Swiss franc to convert your money. If you prefer not to try to time the markets, buy a series of equally-valued certificates in your currency and convert them into Swiss francs at regular intervals. In volatile markets, cost-averaging ensures that you won't pay peak prices.

### **How soon can I expect to see currency appreciation?**

With a long holding period, the long-term trends are what counts. It is next to impossible to

pinpoint the exact week or month your investment currency will take off relative to other currencies.

### **What about inflation?**

Inflation reduces your return on investment because the proceeds buy fewer goods than in previous periods. Since Inflation affects a currency's strength vis--vis other currencies, investing in low-inflation currencies is one way to offset the loss of an Investment's purchasing power.

### **What about the Swiss franc's purchasing power?**

Over the last 25 years, the Swiss franc's appreciation would have offset more than 70% of the loss through inflation in the US dollars buying power. The same general trend is true with respect to other major currencies; the Swiss franc retained its purchasing power best of all. With Switzerland's continuing low inflation rates (close to 1% annually), the Swiss franc will most likely maintain its strong position against the US dollar as well as other currencies.

### **Does the Insurance company invest the different currencies (offered by a Swiss annuity) separately?**

Yes. The different currencies offered by a Swiss annuity are invested and held separately. For example, for Swiss francs, the purchases for a Swiss franc denominated annuity includes Swiss real estate, government bonds and other first-class Swiss investments. Similarly, US dollar denominated investments are purchased for US dollar annuities.

### **When converting from my home currency or switching between currencies, how is the exchange rate set?**

Foreign exchange rates published in newspapers are on "round lot" of US\$5 million traded among banks. These interbank rates are only "indicators" of what an individual investor might expect. Your deposits are always converted to the selected currency according to the prevailing exchange rate at the Swiss bank handling your payment.

### **Can I have my own bank convert my home currency into the investment currency(ies)?**

Yes. Your home bank can convert your home currency and make a Swiss franc or other currency transfer to Switzerland. However,

experience has shown that this method is more costly (because of fees and less attractive exchange rates) than if you send your home currency funds directly to the insurance company and have them execute the currency exchange for you.

**If I request a switch in currencies, how quickly is this done?**

Currency conversion is executed within five banking days upon the insurance company's receipt of your written request for conversion.

**INVESTING GLOBALLY REDUCES RISK AND INCREASES YIELD**

**Why should I invest abroad when there are plenty of interesting investments in my own country?**

If you only have your money in domestic company stocks or mutual funds, your portfolio will invariably suffer heavy losses if your local stock market takes a plunge. So you need to diversify into other asset categories, such as bonds or precious metals. Similarly, investing outside your own country is an important way to reduce the risk of a collapse in asset markets in your country. The Nobel Prize-winning Modern Portfolio Theory has proven that you can increase your overall return and reduce risk through diversification.

How much of my assets should I place in overseas investments?

There are no hard and fast rules for the amount you should invest abroad. While some experts suggest as much as 40% of your portfolio, a lot depends on your individual situation, such as when you need the funds or income from your investments, your tolerance for risk, and how you view the prospects of foreign economies. For some individuals seeking asset protection possibilities, the percentage may be larger for the "safe-in-any-case" nest egg.

**How can I be sure that Switzerland is the right country to send my money to?**

Switzerland has earned its reputation as the world's foremost safe haven through over 700 years of democratic government, the country's vowed political neutrality and respect for financial privacy.

**How does Switzerland compare with other countries?**

Switzerland has been consistently rated No.1 for political, financial and economic stability by the International Country Risk Guide.

**As an overseas investor, how complicated is it for me to invest in Switzerland?**

It's at least as easy as opening a bank account in your own country, since you need not even leave home.

**A SWISS ANNUITY - EVEN MORE CONVENIENT THAN A SWISS BANK ACCOUNT**

**Do you have any particular advice for those new to international investing?**

When taking the important first step abroad, safety should be your top priority. Invest in the safest investments and with secure institutions only.

**Why are Swiss annuities a "better deal" than the traditional Swiss bank account?**

Basically, Swiss annuities provide the international investor with approximately the same yield as Swiss government bonds yet are not subject to the 35% Swiss withholding tax on interest income charged to traditional Swiss bank accounts. For US based investors, Swiss annuities are not reportable as a foreign financial account to the Internal Revenue Service (IRS). Interest is guaranteed, and all interest and dividend earnings accumulate tax-deferred. In addition, Swiss annuity certificates can provide you with asset protection possibilities in a simple and inexpensive way.

**Is a Swiss annuity judgment-proof?**

According to Swiss law, insurance policies - including Swiss annuities - when properly structured, are not attachable and cannot be included in any bankruptcy proceedings or be seized by creditors. This applies even if a judgment or court order specifically orders the seizure of your annuity or its inclusion in the estate in bankruptcy settlement. Please refer to the legal opinion for a more in-depth analysis of judgments and bankruptcies.

**How do I make payment when I invest?**

You can either send a personal check or cashier's check, made payable to the insurance company, or have your funds wired directly to the insurance company's bank account.

## What documents must I send with my application?

Proof of the birth date of the person insured by including a copy of either a birth certificate, passport, drivers license, or other official document.

## Is there any age limits when purchasing a Swiss annuity?

Swiss annuity certificates can legally be issued to age 85. When the owner of a policy reaches age 85, that policy owner must decide whether to redeem his or her investment or to take a life come.

## Can a Swiss annuity be held jointly?

Yes it can.

## How many different parties can be involved?

The purchase of an annuity certificate may involve five different parties: The person, company or other legal entity who pays for the investment (premium payer). The person, company or other legal entity who owns the certificate (applicant or policy holder). The person on whose life the figures are calculated (person insured). The person, company, or other legal entity who would receive the certificate value in case of death of the person insured (beneficiary). The person, company, or other legal entity who is to receive any lump-sum settlements or life income at the end of the scheduled accumulation period.

## Why do I need to state investment duration?

According to Swiss insurance regulations, insurance companies must state in writing the exact amounts they guarantee. To calculate these amounts, the investment duration is required. You can later shorten or lengthen this period.

## What procedure do I follow to redeem my Swiss annuity certificate?

To redeem your certificate, first return the original policy along with a payment-instruction letter to the insurance company. They will then send you a cash value statement of your policy. Sign and return this statement. After receiving the signed statement, the insurance company will proceed to make the payments as per your instructions. You may pickup the funds in cash at the Insurance company's headquarters, or

request a check or a bank transfer to a designated bank account.

## How long does this procedure take?

The entire procedure takes approximately four weeks. The redemption process can be accelerated by about 10 days if you authorize your Swiss representative to sign and return the cash-value statement on your behalf.

## What happens at the end of the accumulation period?

If you do not choose to extend the term, you have two options at the end of the accumulation period; you may get back the full certificate value including all accumulated interest and dividends, or choose to receive an income for either a specified period or for as long as you live.

## How are annuity payments scheduled?

Annuity payments are available quarterly, semi-annually, and annually. You can choose how you want the annuity payouts, e.g., by check to you or directly to a bank account anywhere in the world.

## Can I borrow against my annuity?

Your Swiss annuity has an account value (cash value) that is at your disposal at any time. You can also use this value as collateral for a loan from the insurance company. There are some tax consequences and they should be considered when borrowing against your annuity.

## What interest rate is applicable to such a loan?

Market rates apply (roughly the rate on Swiss government bonds plus 1.5% to 2%). However, your annuity certificate continues to earn interest and dividends on the full (pre-loan) investment amount.

Once I choose to receive a life income, is there any charge for having my annuity payments transferred abroad?

Any standard banking expenses e.g., transfer costs or costs for issuing a check, will be debited from your account.

## What does it cost me when I take my money out of a Swiss annuity?

Nothing. There are no redemption fees when you cash in your Swiss annuity investment after the first year.

## **Are there any annual management fees?**

The cost factors on an insurance or annuity investment include a "term-insurance premium", administration and placement costs and a small interest margin for the insurance company. In traditional insurance products, the bulk of these expenses are charged upfront. For Swiss annuities, these costs are spread over many years, thus giving the investor a much better initial investment base. However, the guarantee interest of 3.25% is reduced by administrative and other costs, resulting in a slightly smaller net amount paid.

## **Can any future charges be implemented once I've made my Initial Investment?**

Only if you decide to switch the currency denomination of your certificate. Then the Sfr 300 handling fee is charged to your certificate.

## **Can I make partial withdrawals on my certificate?**

Yes. But, here's a tip to reduce paperwork and save time later. If you already know that you will be making partial withdrawals in the future, then purchase a series of certificates in the investments you will need, rather than putting it all in a single certificate. You will then be adding flexibility to your investment. It will be easier to switch to different currencies later or you can receive an annuity income on part, but not all, of your investment.

## **What happens upon my death?**

If, as in most cases, you are both the Person Insured and the Owner of the certificate, the certificate value is paid in a lump sum to the beneficiary(ies) you have named.

## **What If I am the Owner of the certificate but not the Person Insured?**

Unless you have specifically designated another Owner in writing to the insurance company, the ownership of the certificate is paid to your legal or designated heirs according to your last will and testament.

## **Can a legal entity be the Owner of the certificate?**

Yes. Any legal entity such as a trust, corporation, pension plan, foundation or establishment can be the Owner as well as the Beneficiary of the annuity certificate. Refer to the legal opinion for

an analysis of trust and corporation annuity ownership.

## **In the application for an annuity certificate, what does it mean to be the beneficial owner?**

As both owner and beneficial owner, you are not acting on behalf of another person to invest his or her funds. In case you are doing so, by law, insurance companies and banks are required to ask you who the beneficial owner is.

## **Does my choice of owner affect the value of my Investment?**

No. Whether the owner of the certificate is a person or legal entity (pension plan, trust, corporation, etc.), the certificate value remains the same.

## **Does my choice of the person Insured affect the value of my investment?**

It depends. The investment's value remains virtually identical during the accumulation period. If you choose to annuitize, however, the annual income that is then paid for life will obviously vary according to the age of the person insured (because of different life expectancies).

## **Am I protected against future exchange controls?**

Although exchange controls have existed in various countries and may be reintroduced one day for people who hold overseas bank accounts, these have never been applied to foreign annuities. It seems unlikely that a country would force repatriation of foreign annuities in the future.

## **What happens If I move to another country?**

Your Swiss annuity certificate remains valid regardless of where you live.

## **How private is my investment?**

Swiss law forbids the disclosure of assets held by an individual in a Swiss bank or insurance company to any person or government authority.

## **What should I do If I lose my Swiss annuity certificate?**

If the policy becomes lost, mislaid or stolen, notify the insurance company immediately in writing. They will then issue a "Declaration of Loss", which requires your signature. This declaration replaces your original policy. If your

original policy turns up, you should advise the insurance company again in writing.

**Can the guaranteed rate of interest ever be changed?**

No. It can't. You are assured to receive the guaranteed interest rate for the life of your annuity certificate.

**Can I have the life income payments from my annuity certificate paid into a bank account outside my home country?**

Yes. You can. Simply send your instructions in writing to the insurance company.

**Can I find out the value of my certificate whenever I need to?**

Yes. You can request information about your certificate's value anytime.

**When do I receive my account statements?**

You will receive your first statement, including all interest and profit-sharing dividends earned, on the first anniversary of your certificate. Thereafter, you will receive a full account statement at the end of the year and on the anniversary date.

**How closely do I need to monitor my investment?**

Since you are guaranteed a certain rate of growth in terms of the currency you have chosen and will additionally receive profit-sharing dividends, the value of your investment in that currency does not fluctuate as with stocks, bonds, etc. But the currency in which your Swiss annuity certificate is denominated will rise or fall against your home currency. So your choice of investment currency matters, particularly in the long run.

**THE SWISS INSURANCE INDUSTRY - ROCK SOLID AT 140 SOMETHING**

**Who stands behind my Swiss annuity?**

The insurance carriers recommended have consistently maintained careful control over their balance sheets and are in impeccable financial condition. They represent some of Switzerland's oldest and biggest life insurance companies, stable and long-term oriented.

**How can I be sure my investment is safe?**

In the more than 140-year history of the Swiss insurance industry, there has never been a single failure of a Swiss insurance company. Policy holders in Switzerland enjoy a level of security and protection greater than in any other country.

**Is an independent general rating of Swiss insurance companies available?**

No. Swiss insurance companies are not analyzed by the well known rating companies. In any event, only five insurance companies have special policies for the international investor, and all of these are either old, established blue-chip companies or are owned by one.

**Are Swiss insurance companies regulated?**

No. The absence of ratings is more than compensated by the industry's long history of financial stability, the result of stringent insurance laws and rigorous supervision of the policies and activities of insurance companies by the Federal Office of Private Insurance. Federal regulators require that life companies fully cover their obligations with secure investments and sufficient cash flow.

**How many Swiss insurance policies have been defaulted on?**

None.