Profond

Regulations on the formation of provisions and reserves

31 December 2023

Should legal differences arise between the original and the translated version, the German version will prevail.

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1. Principles and practices

On the basis of the Foundation Deed as well as Art. 51a BVG/LPP, Art. 65b BVG/LPP and Art. 48e BVV2, the Foundation Board has issued these Regulations on the formation of provisions and reserves.

The Foundation must provide security that it can fulfil the commitments it has assumed.

To this end, it sets aside the necessary reserves and provisions. In doing so, it observes the principle of consistency. The presentation is made in accordance with Swiss GAAP FER 26 on “employer contribution reserves”, “non-technical reserves”, “pension capital”, “technical reserves” and “value fluctuation reserves”.

For autonomously borne risks, the technical basis is determined by the Foundation Board on the strength of recommendations by the occupational pensions expert. The technical basis used can be found in the Annex to these Regulations.

The technical interest rate is set by the Foundation Board on the basis of a recommendation by the occupational pensions expert in such a way that, in the long term, it is below the effective return on assets with an appropriate margin and can be maintained over a fairly long period of time. The amount of the technical interest rate on autonomously borne risks can be found in the Annex to these Regulations.

In their recommendation, the expert takes into account the Swiss Chamber of Pension Fund Experts professsional guidelines FRP 4.

Pension capital and technical reserves are recalculated statically at each reporting date (on a closed-fund basis). Formation or release is carried out via the operating account.

Uncommitted funds only arise when all provisions and value fluctuation reserves have been fully funded. Before these can be used for benefit improvements or contribution reductions, it must be examined whether a reduction of the technical interest rate, an inflation adjustment of current pensions or the formation of additionally required reserves is called for.

2. Technical reserves

Technical reserves serve to cover already known or foreseeable obligations that affect the Foundation's financial situation or result from events that took place before the balance sheet date.

In principle, the amount for technical reserves is set on the basis of the autonomously borne risk determined by the occupational pensions expert in accordance with recognised principles and guidelines of the Swiss Chamber of Pension Fund Experts.

If the issue of a partial liquidation arises at a time of important structural changes for the Foundation, additional provisions may be set up to cater for remaining insured persons and pensioners (sustainability).

Special effects are assumed if the ratio of pensioners’ pension capital to the pension capital of actively contributing members increases by more than 5%.

The technical reserves are listed individually in Section 8.

3. Value fluctuation reserve

The purpose of the value fluctuation reserve is to hedge against price losses on fixed assets and to ensure financial equilibrium.

The target value for the value fluctuation reserve is specified in the Investment Regulations.

4. Non-technical reserves

In order to provide benefits that are not directly related to the fulfilment of pension obligations, the Foundation Board may create non-technical reserves to the best of its knowledge. These items may not be used to achieve or accept arbitrary or smoothing effects.

These reserves are each explained in the notes to the annual financial statements.

5. Employer contribution reserves

Affiliated employers are entitled to set up contribution reserves for their contributions (Art. 331 para. 3 OR – Swiss Code of Obligations). These are shown separately in the annual financial statement and can only be used on instructions from the respective employer. If the financial situation of the Foundation so permits, employer contribution reserves may bear interest at the discretion of the Foundation Board. The interest rate used for this purpose may not be higher than the net return on assets as per the revised annual financial statements.

Tax deductibility for the corresponding employer is based on cantonal and federal regulations.

In the event of a cover shortfall, the employer may make deposits into a separate employer contribution reserve account with waiver of use (ECR with waiver of use) and also transfer funds from the ordinary employer contribution reserve to this account. Deposits may not exceed the cover shortfall and may not bear interest. These may not be used for benefits, pledged, assigned or in any other way reduced.

Release and appropriation is carried out in accordance with articles 44a and 44b BVV2.

6. Actively contributing members' pension capital

The pension capital for actively contributing members corresponds to the sum of the individual termination benefits to which insured persons are entitled as per the Vested Benefits Act.

7. Pensioners' pension capital

Pensioners' pension capital corresponds to the capital required to finance their current and autonomously borne pensions and entitlements.

The necessary actuarial reserve for the current and autonomously borne pensions and their accrued benefits is calculated annually on the basis of the technical guidelines and technical interest rate and confirmed by the occupational pensions expert.

The passive retirement assets of disabled persons are also taken into account.

8. Technical reserve details

If the Foundation assumes a new underwriting risk, the list of provisions below will be supplemented accordingly.

Provision for increased life expectancy
The purpose of the provision for increased life expectancy is to finance the costs for pensioners' increasing life expectancy and thus the changeover to planned new actuarial principles.

Experience shows that the cost for converting to the newly surveyed BVG/LPP actuarial bases, published every five years, amounts to around 2.5% of the pensioners' actuarial reserve. This does not take into account time annuities, since actuarial reserves for these are calculated using financial mathematics and therefore there is no real longevity risk.

In principle, the provision amounts to 0.5% of the actuarial reserve as at 31.12. of the annual period following publication of the technical guidelines (e.g. BVG/LPP 2020: 31.12.2021). For each subsequent year, the provision percentage increases by a further 0.5 points. The increase used can be found in the Annex to these regulations.

Formation is carried out via the operating account. Release is performed via the operating account when switching to a new generation of actuarial guidelines.

Conversion rate reserve for actively contributing members
This provision is used to finance regulatory conversion rates that have been set too high when compared to tariff bases and the technical interest rate.

The provision corresponds to the difference between the actuarially required retirement assets and the retirement assets available on the balance sheet date for those insured persons from the age of 58 for whom early, ordinary or deferred retirement is possible in the next financial year. The capital withdrawal rate used for this purpose can be found in the Annex to these regulations.

For each insured person, the capitalised difference is determined between the retirement pension calculated using the regulatory and actuarially correct conversion rate and that which is based on the age reached at balance sheet date, the calendar year at balance sheet date and the retirement assets acquired up to that date.

Provision for pending and latent pension claims
The purpose of the provision for pending and latent pension claims is to record, in the correct period, pension claims that have arisen as a result of disability but the extent of which has not yet been conclusively determined.

The current value of a disability allowance, the savings contribution exemption and the accrued spouse's and children's pensions is calculated for pending disability claims. This value is then multiplied by a factor for the probability of occurrence, which is determined depending on the time that has passed since the benefit date. These factors can be found in the Annex to these regulations.

Risk fluctuation reserve
The risk fluctuation reserve hedges against fluctuations in the expected number of death and disability cases according to the rate tables, unless these risks are reinsured. Together with the annual risk contributions, the risk fluctuation reserve should be enough to fund a total loss with a probability of occurrence of 99.0 per cent or less.

Technical pension fund reserves
Provisions may be set up at pension fund level if the regulatory financing is not sufficient for benefits due under the pension plan.

In particular, provisions may be set up for
- vested right guarantees;
- partnership benefits;
- early retirement benefits.

The amount of these provisions is determined in consultation with the occupational pensions expert and reported in both the annual financial statements and the actuarial report.

Other technical reserves
In consultation with the occupational pensions expert, the Foundation Board may set aside further technical reserves if special events or obligations are expected or have already been decided (pending benefit claims, pension adjustments, changes in technical parameters, partial liquidations, etc.). These are explained in the notes to the annual financial statements in accordance with the rules for the formation of provisions. Permanent provisions are defined in the regulations.

9. Entry into force

These Regulations enter into force on 31 December 2023. They replace the previous Regulations of 1 January 2021. The Foundation Board may amend these Regulations at any time in line with statutory provisions and the Foundation's purpose.

The Foundation Board
Zurich, 29 August 2023

Annex to the Regulations on the formation of provisions and reserves

Guidelines and values used in 2023

Section 1

Technical guidelines used
Until 30.12.2021:
BVG/LPP 2015 / 2012 period table

From 31.12.2021:
BVG/LPP 2020 / 2021 period table (Projection as per BFS 2018)

Technical interest rate
From 1.1.2021:
2.00 %

Section 8

Increased life expectancy percentage
Until 30.12.2021:
(0.5% per year since 31.12.2014

From 31.12.2021:
0.5% per year since 31.12.2020

Capital withdrawal rate for the conversion rate reserve for actively contributing members
Until 30.12.2023
25%

From 31.12.2023
30%

Pending disability claim factors

Number of months since benefit date	Factor
0–6 months	25%
7–12 months	50%
13–24 months	75%
over 25 months	100%

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