SKPE CSEP
SCHWEIZERISCHE KAMMER DER PENSIONSKASSEN-EXPERTEN
CHAMBRE SUISSE DES EXPERTS EN CAISSES DE PENSIONS

General principles for valuation and reporting of Swiss pension plans' <u>risk-sharing features</u> under IAS19

1. Swiss contribution-based plans are defined benefit plans for accounting purposes
2. Ordinary employee contributions affect measurement of the DBO when application of IAS19.93a is elected, independently of other risk-sharing features
3. When assessing or reflecting the impact of other risk-sharing features on the measurement of the DBO, the guidelines of IAS19 are followed, especially the requirement that the assumptions, as selected by the reporting entity, be unbiased and mutually compatible (IAS19.75)
4. Current benefits of the formal terms of the plan at the end of the reporting period are valued (IAS19.87a), and no actuarial assumptions are made by the reporting entity regarding future benefit changes that are not set out in the formal terms of the plan at the end of the reporting period (IAS19.89). However, when setting valuation assumptions, the reporting entity might rely on any existing document issued by a professional party (Accredited Pension Actuary, Pension Board, etc.) clearly stating that the benefits or financing of the plan will need to be modified in order to ensure its legally-required financial sustainability
5. Based on IAS19.88, future benefit changes for which the mechanism of change is described in the formal terms of the plan can be reflected using best estimate assumptions
6. The recovery measures contained in the formal terms of the plan qualify as a mechanism for future benefit changes under IAS19.88c, and as such can be reflected in the measurement of the DBO according to 7. to 9. below
7. The criteria for the existence of recovery measures, and thus for future benefit changes (IAS19.88c), is the coverage ratio according to FER/RPC26
8. For potential recovery measures to be envisioned, emergence of future underfunding according to FER/RPC26 needs to be conclusively demonstrated*
9. Potential recovery measures meet the following principles:
    a. They are in line with BVG/LPP, the Pension Board's past practice, and proportionate to the anticipated hypothetical deficit (BVG/LPP65d)
    b. They are in line with the employer's past practice, including use of escrow account on employer contribution reserve
    c. They are usually expressed in terms of benefit changes or additional contributions (ordinary or recovery), subject to the following:
        i. Benefit changes and additional ordinary contributions are reflected in the measurement of the DBO from the hypothetical moment they would come into force
        ii. Additional employer or employee recovery contributions do not affect measurement of current DBO or Plan Assets, only remeasurement (OCI) when actually paid (IAS19.93, IAS19.114)
10. Actual recovery measures listed under principle 9.c.i. above and currently in force are always reflected in the measurement of the DBO

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11. ~~The DBO for active participants reflecting risk-sharing features (i.e. IAS19.93a and potential recovery measures) is never less than their vested benefits~~

**In order to determine whether an underfunding according to FER/RPC26 is to be expected in a reasonable timeframe, a spectrum of assessment techniques is available, from the simplest (e.g. using the current funding* *level—as suggested by IAS19.BC149) to the most sophisticated (full projection and modelling of assets and liabilities). As a middle ground, and based on IAS19.60, a simplified but acceptable assessment technique is suggested below:*

1. *Compute funding liabilities in 10 years' time by using anticipated discount rate (according to FRP/DTA), mortality, and funding technical provisions, and convert this anticipated liability increase (compared to current funding liabilities) into an additional annual required return.*
2. *Compute the total minimum required return on liabilities by combining step 1 (i.e. the additional annual required return) with the current funding discount rate, the interest crediting assumption, and the need to build up technical provisions (in their respective proportion). Anticipated cash flow impact might also be considered in this calculation.*
3. *Starting from the current coverage ratio according to FER/RPC26 and projecting it with expected return on asset and required return on liabilities according to step 2, the evolution of the coverage ratio in the near future (e.g. the next 10 years) can be computed.*
4. *If it appears that at some point in time the projection of the coverage ratio according to FER/RPC26 leads to a statutory deficit, then hypothetical recovery measures could be considered and reflected in the measurement of the DBO, subject to the general principles outlined above.*

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