Perspectiva
Collective Foundation

Regulations on the Formation of Provisions and Reserves

of the Perspectiva Collective Foundation for Occupational Welfare Provision

July 2019 edition

Content

1. Subject matter

The present regulations, based on Art. 65b BVG, 48e BVV 2, the Professional Guidelines FRP 1 “Coverage ratio calculation pursuant to Art. 44 BVV 2” and FRP 2 “Retirement assets and technical provisions” issued by the Swiss Chamber of Pension Actuaries, govern the principles defined by the Board of Foundation for the formation of technical provisions (clause 3 below) and value fluctuation reserves (clause 4 below) and the measures to be taken if there are insufficient provisions or reserves, or if the Foundation or pension funds are underfunded, as well as the principles governing the calculation of the coverage ratio and the formation and use of unallocated assets.

2. Types and accumulation of technical provisions and reserves

2.1 The following technical provisions are accumulated as a debit entry in the operating statement or by contributions:
- → Provision for increases in life expectancy
- → Provision for retirement losses
- → Provision for lowering of the technical interest rate
- → Provision for adjustments for inflation and benefit improvements for pension recipients
- → Provision for fluctuations in the risk experiences of pension recipients

2.2 The following value fluctuation reserves are accumulated as a debit entry in the operating statement or by means of contributions:
- → Value fluctuation reserve of the Foundation for collectively invested assets of active insured persons
- → Value fluctuation reserve of the Foundation for collectively invested assets of pension recipients (pension investment pool)
- → Value fluctuation reserves of pension funds with independently invested assets

2.3 Technical provisions and value fluctuation reserves are formed as follows in the pension investment pool:

a) If an income surplus arises from the pension investment pool, this is first used to form the technical provisions and subsequently contributed to the accumulation of value fluctuation reserves for the collectively invested assets of the pension investment pool up to the target value.

b) By resolution of the Board of Foundation, all pension funds must, where necessary, irrespective of the annual result, make a contribution proportionate to their pension assets to the formation of technical provisions for the pension investment pool or to ensure a coverage ratio of 100%.

2.4 A positive or negative operating result is used as follows:

a) Pension funds with collectively invested assets
For the pension funds with collectively invested assets, the positive operating result is used, prior to the formation of the value fluctuation reserves and after covering any shortfall to form the value fluctuation reserves until the latter reach the target value in accordance with the Investment Regulations for the chosen investment strategy. Any remainder is credited to the unallocated assets. An expense surplus in the operating statement is first debited from the unallocated assets and subsequently from the value fluctuation reserves. Any remaining expense surplus results in a corresponding underfunding.

b) Pension funds with independently invested assets
For the pension funds with independently invested assets, the positive operating result is used, prior to the formation of the value fluctuation reserves and after covering any shortfall to form the value fluctuation reserves until the latter reach the target value in accordance with the Investment Regulations for the chosen investment strategy. Any remainder is credited to the unallocated assets of the pension fund. An expense surplus in the operating statement is first debited from the unallocated assets and subsequently from the value fluctuation reserves. Any remaining expense surplus results in a corresponding underfunding.

3. Technical provisions

3.1 Provision for increases in life expectancy

3.1.1 This provision is formed to take into account the financial impact of assumed changes in life expectancy since the reference year of the technical bases used, where period life tables are used. The aim is to introduce new actuarial bases as far as possible without affecting net income.

3.1.2 The target value for the provision is set and regularly checked by an occupational pensions expert. The target value of the provision:
- → for active insured persons who could retire in accordance with statutory regulations and would be expected to take retirement, is 0.5% of the pension assets of the active insured persons multiplied by the difference between the year the provision was calculated and the reference year of the technical bases used by the foundation;
- → for pension recipients, is 0.5% of the pension assets of the pension recipients multiplied by the difference between the year of calculation and the mean year of observation of the technical bases used by the foundation.

3.1.3 For active insured persons holding pension funds with invested assets, the provision is formed in the respective pension fund. For active insured persons with collectively invested assets, the provision is formed at the level of the foundation for the pension fund with collectively invested assets (outside of the pension investment pool).

3.2 Provision for retirement losses

3.2.1 This provision for active insured persons is formed to finance retirement losses due to statutory conversion rates in excess of the technical bases (calculation bases as per Annex I) or due to an increase in the statutory retirement pension to the minimum BVG benefits. The funding shortfall equates to the difference between the pension assets and the immediately payable retirement pension, including anticipated benefits, and the retirement assets not withdrawn as lump-sum settlement at retirement age. The actual difference occurring when the benefit is claimed is covered by the provision and credited to the pension investment pool.

3.2.2 The provision is calculated and formed for all insured persons who, under statutory provisions, could draw a retirement pension that exceeds the technical conversion rate, whereby anticipated lump-sum withdrawals and experience of early retirements can be duly taken into account. The amount of the provision for retirement losses is calculated by an occupational pensions expert.

3.2.3 For active insured persons holding pension funds with independently invested assets, the provision is formed in the respective pension fund. For active insured persons with collectively invested assets, the provision is formed at the level of the foundation for the pension fund with collectively invested assets (outside of the pension investment pool).

3.3 Provision for the actuarial interest rate's decrease

3.3.1 The provision for a reduction in the actuarial interest rate serves to cover the expenses that arise through the reduction in the actuarial interest rate. Based on a recommendation of the occupational pensions expert and on the decision of the Board of Foundation, the provision is formed as planned.

On termination of the contract of affiliation a provision to fund the pensions is levied at the time of the termination if there are pension recipients remaining in the Foundation. The amount required to fund the pensions is calculated based on the positive difference between the pension assets of the pension recipients calculated using the actuarial interest of the Foundation under Appendix I and the pension assets of the pension recipients calculated using the risk-free interest.

The difference in comparison to the risk-free interest results in a surcharge on the pension assets of the pension recipients. The surcharge is calculated by the occupational pensions expert on the basis of the interest rate curve.

3.3.2 The provision is formed in the pension investment pool.

3.4 Provision for adjustments for inflation and benefit improvements for pension recipients

3.4.1 This provision is formed for a future adjustment for inflation or benefit improvements for pensions managed independently by the foundation. The provision is chiefly made on commencement of the contract of affiliation or at the time the obligation to pay pensions is taken over by the pension investment pool and debited from the individual pension fund or provided through a corresponding contribution by the employer. The amount of the provision is calculated by an occupational pensions expert.

3.4.2 The provision is formed in the pension investment pool.

3.5 Provision for fluctuations in the risk experiences of pension recipients

3.5.1 This provision is formed to compensate for fluctuations in the risk experiences of pension recipients compared with the statistically expected average life expectancy. The need for and the amount of this provision are determined by an occupational pensions expert.

3.5.2 The provision is formed solely in the pension investment pool.

3.6 If the provisioning requirement for a technical provision formed by the employer alone in its pension fund reduces, the amount released from the provision may be wholly or partially credited to employer contribution reserves at the request of the employer.

4. Value fluctuation reserves

4.1 Purpose

In order to compensate for fluctuations in the value of assets, value fluctuation reserves are formed. The value fluctuation reserves are formed independently for

- → the pension funds with collectively invested assets in relation to the actuarially required pension capital including technical provisions of the active insured persons
- → the pension investment pool in relation to the actuarially required pension capital
- → the pension funds with independently invested assets in relation to the actuarially required pension capital of the active insured persons of the respective pension fund.

4.2 Target value

The Board of Foundation defines a target value for the value fluctuation reserves. The target value is expressed as a percentage of the actuarially required pension capital, including technical provisions.

The target value of the value fluctuation reserves for the assets invested collectively by the Foundation for the active insured persons and the pension recipients are specified in Appendix II.

The target value of the value fluctuation reserves for the assets invested autonomously by a pension funds are specified in Appendix III according to the chosen investment strategy.

4.2.1 Determination of the values

The target value for the value fluctuation reserves is determined using a recognised financial method. The required target value for the fluctuation reserves is determined based on the investment strategy in accordance with the risk and return characteristics of the current and targeted structure of investments as defined under the Investment Regulations. This avoids a shortfall in cover and permits the required minimum accumulation of interest on the tied retirement assets during a year with a reasonable degree of certainty. The annual probability of default is no more than 1.0 %.

4.2.2 Review

The Board of Foundation periodically adapts the recommended target value for the value fluctuation reserves of each investment group to the prevailing market conditions. A review is carried out in the event of a change in the investment strategy and at least once a year in conjunction with the preparation of the annual financial statements as at 31 December.

5. Coverage ratio

5.1 Type of coverage ratio

The applicable coverage ratio under Art. 44 BVV2 is determined by the balance between the available pension assets (PA) and the actuarially required pension capital (PC).

The available pension assets (PA) equate to the entire assets on the balance sheet date, less the liabilities, accrued expenses and deferred income, employer's contribution reserves without stipulated waiver of use and non-technical provisions within in the meaning of Swiss GAAP FER 26.

The actuarially required pension capital (PC) consists of the pension assets of the active insured persons and of the pension recipients, as well as all the technical provisions.

In addition to the foundation's coverage ratio, the following additional coverage ratios are calculated:

a) Coverage ratio for pension funds with collectively invested assets:
The combined coverage ratio for all the pension funds with collectively invested assets is calculated with and without their pension recipients in the pension investment pool, and, in doing so, the two coverage ratios arising from the difference between PA an PC as follows:

Coverage ratio without pension recipients:
PA Assets of all pension funds at the balance sheet date with collectively invested assets without pro rata assets of the pension investment pool, less their liabilities, accrued expenses and deferred income, employer contribution reserves without stipulated waiver of use, non-technical provisions and unallocated assets that are to be added to individual pension funds.

PC: Pension assets of the active insured persons and retirement assets of disabled persons, plus any technical provisions that were formed and invested at the Foundation level for pension funds with collectively invested assets.

Coverage ratio with pension recipients:
PA Assets of all pension funds with collectively invested assets at the balance sheet date, plus the pension capital of the pension recipients to be added to the pension funds with collectively invested assets, including any technical provisions of the pension investment pool multiplied by the coverage ratio of the pension investment pool, less the liabilities, accrued expenses and deferred income, non-technical provisions and unallocated assets that are to be added to individual pension funds.

PC: Pension assets of active insured persons and retirement assets of the disabled persons, plus any technical provisions that were formed and invested at the Foundation level for pension funds with collectively invested assets, plus the pension capital of the pension recipients to be added to the pension funds with collectively invested assets, including any technical provisions of the pension investment pool.

b) Coverage ratio for the pension investment pool
The coverage ratio for the pension investment pool arises from the difference between the PA and PC as follows
PA Active insured persons of the pension investment poll as the balance sheet date, less the liabilities, accrued expenses and deferred income and any non-technical provisions for the pension investment pool.
PC: Pension capital of the pension investment pool that, under the implementation of the technical bases and the actuarial interest rate of the Foundation, arises from the non-reinsured pensions, plus the technical provisions pursuant to clause 3.

c) Coverage ratio for pension funds with independently invested assets
The respective coverage ratio for the pension funds with independently invested assets is calculated with and without their pension recipients in the pension investment pool, and, in doing so, the two coverage ratio per pension fund arises from the difference between PA an PC as follows:

Coverage ratio without pension recipients:
PA Assets of the pension fund at the balance sheet date, less their liabilities, accrued expenses and deferred income, employer contribution reserves without stipulated waiver of use and non-technical provisions.

PC: Pension assets of the active insured persons and retirement assets of the disabled persons of the pension fund, plus any required technical provisions for the pension fund.

Coverage ratio with pension recipients:
PA Assets of the pension fund at the balance sheet date, plus the pension capital of the pension recipients to be added to the pension fund, including any technical provisions of the pension investment pool multiplied by the coverage ration of the investment pool, less the liabilities, accrued expenses and deferred income, employer contribution reserves without stipulated waiver of use and non-technical provisions of the pension fund.

PC: Pension assets of the active insured persons and retirement assets of the disabled persons, plus any technical provisions of the pension fund, plus the pension capital of the pension recipients to be added to the pension fund, including any technical provisions of the pension investment pool.

6. Measures to be taken in the event of a shortfall

6.1 Definition

A shortfall exists for the foundation or pension funds with independently managed assets in accordance with the Appendix to BVV 2 if the actuarial pension capital requirement and technical provisions calculated by the occupational pensions expert in accordance with recognised principles under Art. 44 BVV 2 are not covered by the pension assets set aside for this purpose on the balance sheet date, i.e. one of the coverage ratios specified under clause 5 amounts to less than 100%.

a) Pension funds with collectively invested assets
In order to identify possible shortfalls, an actuarial balance sheet is created once a year (in conjunction with the preparation of financial statements) or as required on behalf of the Board of Foundation.

b) Pension investment pool
In order to identify possible shortfalls, an actuarial balance sheet is created once a year (in conjunction with the preparation of financial statements) or as required on behalf of the Board of Foundation.

c) Pension funds with independently invested assets
In order to identify possible shortfalls, an actuarial balance sheet is created for each pension fund once a year (in conjunction with the preparation of the annual report) or as required on behalf of the pension fund's committee or the Board of Foundation.

6.2 Restructuring principles

If the foundation reports an underfunding pertaining to the pension funds with collectively invested assets without pension recipients, then the Board of Foundation is responsible for the restructuring.

If the foundation reports an underfunding pertaining to the pension investment pool, then the Board of Foundation is responsible for determining the measures for restructuring.

If a pension fund with independently invested assets reports an underfunding, then the fund's board of trustees is responsible for the restructuring. The Board of Foundation is informed of shortfalls in pension funds with independently invested assets by the Management Office and decides on the nature and extent of the restructuring measures if the Board of Foundation deems the measures of the board of trustees of the fund inadequate.

If there is an underfunding in accordance with clause 6.1, then the Management Office informs the relevant body responsible for the restructuring (the Board of Foundation or the fund's board of trustees) about the extent of the required restructuring. The body responsible must subsequently carry out a restructuring, with the help of the occupational pensions expert and the auditors, and must inform the employers, the insured persons, the pension recipients and the supervisory authority of the extent and the causes of the shortfall and the measures taken in response.

The intended measures must be legally compliant, proportionate, balanced and suitable to eliminate the shortfall within a reasonable time frame (generally within a few years, but within five to seven years at most, ten years maximum), taking into consideration foreseeable future events at the same time.

The body responsible takes the necessary measures under clause 6.3 and is responsible for their effective implementation. It takes into account the proposals made by the occupational pensions expert and support obtained from other professionals (e.g. the investment professionals or the auditors), if required. Analyses, decisions, dispositions and monitoring instructions issued to the Management Office must be documented and made available to the Management Office and the Board of Foundation.

6.3 Restructuring measures

All statutory options can be used to eliminate the shortfall, in particular, the following measures:

- Changes to future regulatory entitlements to benefits under the non-compulsory scheme or a reduction in anticipated benefits
- Creation of employer contribution reserves with stipulated waiver of use
- Employer deposits
- Levying of additional contributions from employers and employees, where the employer's contribution must at least match the sum of the employees contributions
- Change of investment strategy
- Minimum or zero interest within the non-compulsory scheme
- Minimum interest within the compulsory scheme (maximum of five years, maximum reduction of 0.5 percentage points)
- Contribution by pension recipients by offsetting the current pensions against the component of the current pension that occurred in the past 10 years prior to fulfilling this measure through increases that were not required by law or the regulations. The contribution must not be levied on the benefits of the compulsory pension scheme for retirement, death or disability.

During the period of the shortfall, the Board of Foundation can

- impose time restrictions, restrictions on amounts or entirely refuse pledging, advance withdrawals and refund; and
- it may also abolish any option of early retirement provided in the regulations.

6.4 Disclosure obligations and review by the occupational pensions expert and the external auditors

The Board of Foundation is responsible for providing information to the supervisory authority and to the auditors. Such notifications are made at the latest after preparation of the annual financial statements documenting the shortfall.

The success of the restructuring measures adopted shall be reviewed annually by the occupational pensions expert. The expert is tasked with creating an annual actuarial report for the attention of the Board of Foundation, the pension fund's committee and the supervisory authority. If the review by the occupational pensions expert shows that that the objective defined by the restructuring plan has not been achieved, then the Board of Foundation must enact additional measures to eliminate the shortfall.

7. Unallocated assets

7.1 Formation

If the required technical provisions have been increased in accordance with clause 3 and the target value for the value fluctuation reserves has been reached, any income surplus results in unallocated assets.

7.2 Use

The Board of Foundation decides on the use and possible allocation of unallocated assets under clause 7.1. In the case of the unallocated assets of a pension fund, the pension fund's committee decides on the use.
When deciding on the use of the unallocated assets, the principle of equal treatment of beneficiaries is to be ensured. In the case of a partial liquidation, the Regulations on Partial Liquidation apply.

8. Reservation of right of amendment

The Board of Foundation may amend these regulations at any time as provided for by law and by the Foundation's Articles of Association. The supervisory authority must be notified of any amendments.

9. Entry into force

These regulations enter into force on 1 July 2019 and replace the previous regulations.

Appendix I

Applicable accounting principles
Effective as of 1 January 2019

Technical bases, VZ 2018, of the Versicherungskasse Zürich (Insurance Fund of the City of Zurich), VZ 2015, Period Life Tables 2017

Actuarial interest rate: 1,75 %

The Board of Foundation decides on the technical bases and the amount of the actuarial interest rate based on a recommendation made by the occupational pensions expert.

Appendix II

Effective as of 1 January 2018

Target value of the value fluctuation reserves for the collectively invested assets.
The Board of Foundation defines the value fluctuation reserve as 12 % of the actuarially required pension capital on the balance sheet date (savings and premium reserves) including technical provisions.

Disclaimer
The actual amount of the value fluctuation reserves may differ from the amounts defined above due to the prevailing market conditions on the date of validity of this Appendix.

Appendix III

Effective as of 1 July 2019

Target values of the value fluctuation reserves for the assets invested independently by the pension funds.

Investment group	**Target value**
BVG-Mix 15 Plus I	10,00 %
BVG-Mix 25 Plus I	12,00 %
BVG-Mix 40 Plus I	15,00 %
BVG-Mix Dynamic Allocation (0-40)	10,00 %
BVG-Mix Perspectiva Choice	12,00 %

Disclaimer
The actual amount of the value fluctuation reserves may differ from the amounts defined above due to the prevailing market conditions on the date of validity of this Appendix.

Perspectiva Collective Foundation
for Occupational Welfare Provision
c/o Baloise Life Ltd
Aeschengraben 21, P.O. Box
4002 Basel
Tel. +41 58 285 85 85
info@perspectiva-sammelstiftung.ch

www.perspectiva-sammelstiftung.ch

354.1259 d 12.19 pdf