**Member Update No. 49** 16 December 2019

## PVS pays interest of 4% on 2019 savings balances and sets the course for the future

Dear Member,

We have come to the end of an eventful year. The Board of Trustees has worked intensively on the future of our foundation and passed important resolutions for the long-term security of our pension fund. Therefore, this newsletter is more extensive than usual.

As already announced in early summer, the Board of Trustees, assisted by the pension fund consulting firm c-ALM, undertook a thorough examination of Personalvorsorge Swissport (PVS) in the summer/autumn of 2019. The main aim of such a review was to organise the pension fund during the good times so that it can withstand future turbulence. PVS is doing very well at the end of 2019, capital is fully funded and there are reserves for fluctuations in our investment values.

The study has brought future risks to the attention of the Board of Trustees. Based on these findings, the Board of Trustees has decided on the changes explained in the second part of this newsletter. Background information can be found on our home page with further details on individual topics:

www.pv-swissport.ch

**The key points in brief**

- Funding ratio as of 31 October 2019: 119.6%
- Investment performance from 1 January to 31/10/2019: 8.6%
- Interest paid on savings capital in 2019: 4.0%
- Improvement of insurance benefits
- Reduction in technical interest and conversion rate

**Important dates (as announced in November)**

- Additional voluntary contributions (AVCs) may be made up to **13 December 2019**
- Selection of your 2020 pension plan is possible up to **31 December 2019**

## Investment performance and interest paid on savings during 2019

Thanks to the bullish stock markets and stable, positive returns on other assets, PVS was showing a return of 8.6% at the end of October. An unexpectedly high but welcome gift after the negative result in 2018. In addition to interest on retirement capital, PVS uses this financial income for improvements in pension fund stability as described below (i.e. reduction of technical interest rate, bridging measures connected with a conversion rate reduction) and the building-up of value fluctuation reserves.



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At its meeting on 15 November, the Board of Trustees set the interest rate for retirement capital for 2019 at 4%. This is significantly more than the statutory rate of 1% set by the Federal Council for 2019. The Board of Trustees attaches importance to setting interest on retirement assets as high as possible, since a good interest rate can reduce the long-term effects of reducing conversion rates.

The Board took the following decisions regarding mutation and projected interest rates. Below is an overview:

| Description | Percentage | Explanations |
|---|---|---|
| Interest accrued on retirement savings in 2019 | **4.0%** | Your entire retirement savings will attract the stated interest rate. Members who left the Foundation or retired during the year will be paid the interest in arrears. Amounts below CHF 50 will remain in the pension fund.<br>Transfers into the pension fund bear interest at the stated interest rate from the time of deposit. |
| Prospective interest rate for 2020 | 1% | Mutation interest is the interest that is paid on leaving the fund after less than a year for the time up to transfer over to the new provision institution<br>The Board of Trustees will decide in November 2020 on the definitive interest payable in 2020. If the interest rate should turn out to be higher, any payments of arrears will be made following the decision at the end of 2020 on the interest to be paid. |
| Projected interest rate from 2020 | 1.5% | The projected interest rate will remain unchanged for the projection of future retirement benefits; this can be found on your benefit statement under 'Projected Benefits' (for retirement, disability and death). |

## Pension adjustments

The Board of Trustees will not be increasing pensions from 01 January 2020. This on the grounds that past pensions (with conversion rates applied on retirement) were based on high return expectations and there was virtually no inflation in 2019.

## 2020 pension plans – threshold figures unchanged

All threshold figures are based on the annual maximum AHV pension for a single person. These have been left unchanged for 2020 at CHF 28,440:

| | | |
|---|---|---|
| Entry threshold for primary insurance | 75% of the maximum basic AHV pension | CHF 21,150 |
| Maximum coordination deduction | max. 50% of basic AHV pension,<br>min. 20% of insured salary | CHF 14,220 |
| Entry threshold for supplementary insurance | 3 times the maximum for basic AHV pension<br>plus coordination reduction | CHF 105,750 |

Details on pension plans can be found on our website under 'Publications / Regulations'.

## Choice of pension plan

This year, you once again have the option of choosing between the Standard and Standard Plus plans on 01 January 2020. If you would like to change plans, please complete in full the form taken from our website and return it to your HR department by no later than 31 December 2019.



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# Pension fund results – verification

## Investments

On the investment side, it was necessary to review investment strategy and adjust where necessary. Developments on the financial markets (expectation of long-term negative interest rates, hardly any return on bonds) were taken into account. Nobody today can say what investment performance will be like in 10 years' time. Experts agree, however, that we cannot count on prolonged high returns over the coming years. Correction is expected, particularly on equity markets. Nobody can predict when and by how much. After taking full account of this situation, the Board of Trustees has only slightly adjusted its investment strategy. The main thrusts remain real estate, equities and bonds.

The vision is, as always, that PVS shall invest the assets entrusted to it so as to aim for **security**, **high returns and low costs.**

## Risk insurances

Active members of PVS benefit from risk insurance (disability and death) based on their accumulated retirement assets: the higher their retirement assets, the higher the insurance benefits. The Board of Trustees has decided to bring in a minimum benefit in addition to this method of calculation. This minimum benefit has been set at 40% of insured salary. This represents an improvement for around two thirds of insured members. Higher benefits remain in place for other employees whose retirement assets allow for a higher risk benefit.

*Please refer to Beneficiary Update no. 1: Risk insurance*

This improvement is possible without increasing contributions. These remain unchanged at 1.25% for employees and 1.25% for employers. Calculated in both cases on insured salary.

## Technical interest rate

The technical interest rate (i.e. the basis for actuarial calculations) has been reduced from 2.5% to 2%. This takes account of the fact that, in coming years, we do not expect such high investment returns and that the supervisory authority has ordered us to reduce this rate.

*Please refer to Beneficiary Update no. 2: Technical interest rate*

## Pension losses

The study clearly found that the PVS current conversion rates are too high when set against expected returns and higher life expectancy. In 2018, the capital for each retired employee had to be increased by 14% to ensure that the pension promised by operation of the conversion rate could be paid out to the end of life. Calculations have shown that PVS would have to spend about CHF 30 million over the next 7 years to provide new pensions with the conversion rates published today. As this money comes from the investment return from active employees, this is referred to as redistribution at the expense of the younger generation. A situation that the Board of Trustees considers to be unsustainable.

*Please refer to Beneficiary Update no. 3: Pension losses*

## Conversion rate

The Board of Trustees has decided to **reduce** the conversion rate from currently 5.19% **to 4.7%** with effect from 1/1/2020. This rate shall apply for a married person taking retirement at age 63. This lower conversion rate will help to reduce the redistribution from active members in favour of pensioners. In insurance actuarial terms a lower conversion rate would be needed, so this means that the conversion rate will have to be further reduced in the future.



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PVS is one of the few pension funds who make a distinction between pension recipients who are married (or living in a registered partnership) and those who are single. Widow's pension rights are built into the calculation for married recipients, whereas single persons do not have such a right. This is why the conversion rate for single recipients is half a percentage point higher, the new rate being 5.2%.

*Please refer to Beneficiary Update no. 4: Conversion rate*

The Board of Trustees is fully aware that this reduction will lead to lower pensions. Therefore, transitional arrangements have been adopted for those with dates of birth from 1957 to 1964, which reduce these pension losses.
For the years 1957 to 1960, the transitional arrangements are similar to those published in 2017. These transitional regulations will cost PVS around CHF 24 m.

People born from 1957 to 1964 will be informed separately and in detail about these regulations in February 2020.

*Please refer to Beneficiary Update no. 5: Transitional regulations*

## Funding ratio, moving forward

The reduction in the technical interest rate and the transitional arrangements adopted for those who reach retirement age in the next few years will be a cost burden on the funding ratio. The excellent interest paid on retirement assets will also cost 2% in funding ratio terms. Thus the ratio will fall from a (mid-November) high of 119.7% to about 113%, which is still a very good value.

The Board of Trustees is convinced that it has strengthened PVS with the measures described above and that it can better meet the challenges of the future.

## Changes in the Board of Trustees

Eva-Maria Kerner, an employer representative on the Board of Trustees, is retiring from the board after 9 years' membership. As chairperson on the investment committee, she has played an important role in the success of PVS over recent years. Here, too, we would like to extend our warm thanks for such determined work.

Swissport International management have appointed Peter Lamprecht as successor. In the finance department, Peter is head of the taxation team. He brings with him considerable financial skills and will therefore also be taking over leadership of the investment committee.

## And finally...

The Board of Trustees is perfectly aware that this newsletter is not easy to understand. Our administrative office (Pension Fund Services), HR departments and the board committees are available for further information.

The Board of Trustees is convinced that the decisions that have been taken will strengthen the stability of PVS in favour of pension recipients and will gear us up to face the challenges of the future.

We would like to wish you and your families a pleasant Advent and a joyful festive season.



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**For the PVS Board of Trustees**

Roland Etter

*Chairman*

Elisabeth Müller

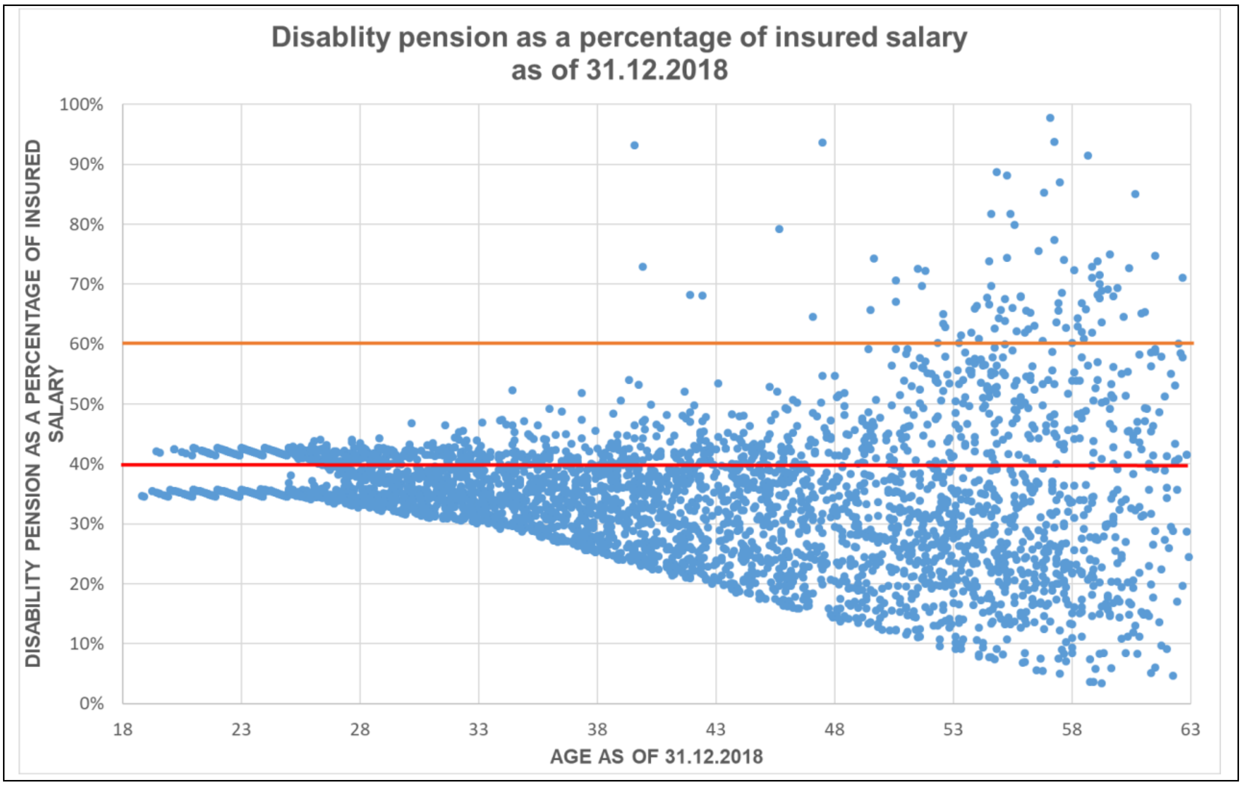
*Managing Director*

**Beneficiary Update no. 1: Risk insurance**

Benefits payable under risk insurance plans for disablement and death are calculated on the basis of accumulated pension assets. The pension capital used for calculating a disability pension is the result of adding in anticipated interest earnings.

When taken together with Federal government disability insurance, it should be possible to live without welfare assistance.

Current situation at Swissport:




What the graph tells us:

A large proportion of insured members (blue dots) would now receive less than 40% (red line) of their insured salary in the event they became disabled.

Board of Trustees decision:

Introduction of a minimum disability pension of 40% of insured salary as of 1/1/2020 while maintaining current risk premiums.



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**Beneficiary Update no. 2: Technical interest rate**

The technical interest rate is a calculated value that corresponds to the interest income accounted for during the term of a pension. The technical interest rate serves as an assumption in calculations: how high does the interest earned on the capital deferred for lifelong annuity payments (ongoing pension payments) need to be? The interest rate level depends on the performance expected on the financial markets. The pension plan must generate a return up to the end of each commitment that is at least as high as the technical interest rate laid down. Therefore, it should be set so that it is below the effective return on assets over the long term. Only in this way can it be maintained as a guarantee over a longer period of time.

SKPE Technical Guideline FRP 4

As at 30/09/2019, the SKPE (Swiss Chamber of Pension Fund Experts) in its revised Technical Guideline FRP 4, has set an upper limit for the recommended technical interest rate.

The upper limit is calculated as the average spot value of 10-year CHF Federal Bonds over the last 12 months, increased by a premium of 2.5% and reduced by a discount (at least 0.3% -points) for the increase in life expectancy. The upper limit applies to all pension fund new business from 31 December 2019.

Upper limit as from 30/09/2019

| Date | Average spot rate over the last 12 months in % | Premium applied as per FRP 4 in % | Discount for life expectancy as per period table in % | Upper limit as per FRP 4 using period table | Upper limit as per FRP 4 using generation table |
|---|---|---|---|---|---|
| 30.09. 19 | -0.368 | 2.50 | -0.30 | **1.83** | **2.13** |

The Occupational Pension Supervisory Commission (OPSC) has declared this technical guideline to be generally binding.

PVS now uses the generation table for calculating life expectancy, so the upper limit of 2.13% applies.

Effects on funding ratio

As a rule of thumb, 10% additional capital must be reserved for a 1% reduction in the technical interest rate. Such an additional asset reservation results in a reduction in the funding ratio.

PVS has reduced the technical interest rate from 2.5% to 2.0%.



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**Beneficiary Update no. 3: Pension losses**

Employees and employers pay into the pension fund during the time of gainful employment. Retirement capital is made up of capital plus interest earnings and, on retirement, can be taken either as a lump-sum or as an annuity.

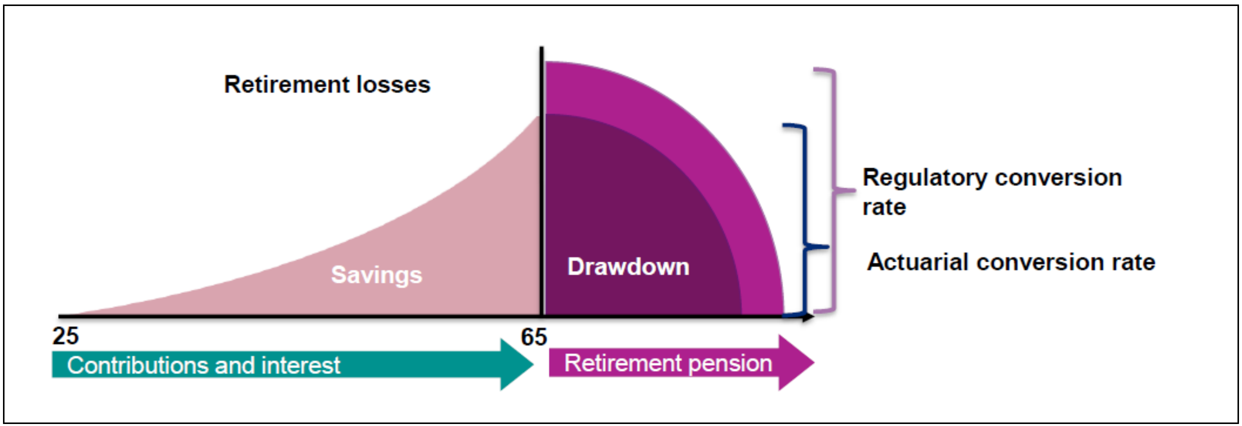
If an annuity is taken, the recipient receives a life-long pension based on the regulatory conversion rate. Once awarded, the Federal Law on Occupational Old-Age, Survivors' and Disability Insurance (BVG) lays down that this pension may never be reduced.

Two figures determine the conversion rate: life expectancy and expected return on capital.

If life expectancy increases, the capital must cover the pension for longer. The conversion rate should then decrease. If the expected return is lower, the conversion rate should again decrease. The exact calculation of this number is called the actuarial conversion rate. This is how the conversion rate should be.

Ideally, the regulatory and actuarial conversion rates should be the same.

If the regulatory conversion rate is higher than the actuarial conversion rate, a pension loss arises which must be covered by the pension fund. The monies to cover this loss are taken by the Pension Fund from the capital gains of all insured persons or else by tapping into reserves.




**Situation of PVS in 2018:**

PVS has published conversion rates (i.e. regulatory) above the actuarially correct conversion rates. Consequently, last year PVS had to increase the retirement assets of each new pensioner by 14.3% to be sure that PVS could pay the recipient the promised pension right up to the end of life.

For a pensioner who retired with CHF 500,000 in retirement assets, PVS had to subsidise to the tune of CHF 71,500.

Retirement losses for all beneficiaries who retired in 2018 amounted to CHF 2,700,000.

**Forecast for the future:**

Forecasts for the coming (heavily populated) retirement years show pension losses of up to **CHF 5m per year** if the regulatory conversion rates are kept at current levels for 2019.



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**Beneficiary Update no. 4: Conversion rate**

When retiring, retirement capital can be either withdrawn (as a lump-sum) or paid out as a life-long pension until the end of life.

The amount of this retirement pension depends on the conversion rate with which the existing pension fund credit is multiplied.

There are two factors on which the conversion rate figure depends:

1) The statistical life expectancy of the insured member on retirement. The retirement capital available must be sufficient for that length of time. Life expectancy today is around 85.

2) The expected return on capital. This is because the pension fund pays out only gradually and invests the rest as long as possible. The return expected in times of negative interest rates is (in terms of average over the years) below 3%.

The Pension Fund also includes the probability of widow's and orphan's pensions in the calculation of the conversion rate (so-called "expectancies").

Special features of employee benefits at Swissport:

1) Retirement age at Swissport is 63. The pension fund has to pay 2 years for men and 1 year more for women than required by law (retirement age 64 for women, 65 for men). This reduces the conversion rate. And it should be taken into account when comparing with conversion rates of other pension funds. Rule of thumb: 1) Retiring 1 year earlier corresponds to 0.15% lower conversion rate.

2) Swissport Pensionskasse is almost the only pension fund that makes a distinction on the basis of marital status. Married insured persons (or those living in a registered partnership) are entitled to a widow's pension of 70% of their old-age pension, whereas single persons have no such entitlement on death. As a consequence the conversion rate for single persons is 0.5% higher.



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**Beneficiary Update no. 5: Transitional regulations**

Together with the reduction of conversion rates (CRs), the Board of Trustees has decided to introduce transitional arrangements so as to reduce the effect of this reduction on people close to retirement.

What is new is that these mitigating measures are not calculated in the form of published conversion rates, but are achieved by a one-time capital contribution to statutory retirement assets as at 1 January 2020. Details can be found in the pension regulations.

The measures published in 2017 are more or less applied to those born in the years up to 1960 based on a conversion rate of 5.31% (married, age 63).

For the years 1961 to 1964, new transitional provisions have been introduced which, depending on age, reduce the differences between the old and the new CRs from 80% to 20%: DOB 1961 80%, DOB 1962 60%, DOB 1963 40% and DOB 1964 20%.



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