

## Insuree Update No. 38

29 March 2016

Dear insuree,

At its meeting on 12 February 2016, the PVS Board of Trustees considered among other things the consequences of the planned ALM study. This update relates to this and other items on the agenda.

### The key points in brief

- Adjustment of the conversion factors for the Swissport Company Pension Scheme (Personalvorsorge Swissport / PVS)
- Adjustments to the 2016 Pension Scheme Regulations
- Provision of evidence of survival

### Adjustment of the conversion factors for the Swissport Company Pension Scheme (Personalvorsorge Swissport / PVS)

In our “Projects for the first half of 2016” published in Insuree Update No. 37 dated 1 December 2015, we announced our intention to conduct an **Asset Liability Management** study (**ALM**) in order to examine the financial sustainability of our benefits.

At the last (70th) meeting of the Board of Trustees on 12 February 2016, we launched the ALM study and looked at trends in life expectancy over the last five years.

The study will deliver valuable results in several stages, particularly with regard to the conversion factors to be applied in the future. The decisions regarding the conversion factors will be taken at the 72nd meeting of the Board of Trustees to be held on 20 June 2016 and then communicated on a broad basis.

But even at this stage, it is clear that a reduction in the conversion factors is unavoidable, and we would like to address several matters in this regard.

#### ▪ Conversion factors

The conversion factor is used to translate insurees' savings at the time of retirement into a guaranteed, life-long annual old-age pension.

Conversion factors are geared to life expectancy and investment returns.

- If retirees are living longer, their savings capital will need to be drawn down over a longer period of time and this will warrant a reduction in the conversion factor.
- Also, if returns on the capital market are declining, it is irresponsible to guarantee retirees too high a return in the future. The fact that only modest returns can now be factored into the pension equation means that the conversion factor will have to be reduced.

▪ **Life expectancy**

The latest statistics (BVG 2015) show that life expectancy for men and women has risen again. According to the latest findings, a 63-year-old will now live even longer than suggested by the previous statistical basis (BVG 2010).

<u>Gender</u>	<u>BVG 2010 (previous)</u>	<u>BVG 2015 (new)</u>	<u>Increase</u>
Woman	25.62 years	26.42 years	0.80 years
Man	23.05 years	24.27 years	1.22 years

Higher life expectancy means longer (expected) payment periods for current pension liabilities.

The PVS cannot ignore this trend when determining retirement benefits and will have to use the new statistics as the basis for its calculations.

▪ **Technical interest rate**

The technical interest rate is the interest rate new retirees are to receive in the future.

Since the PVS was founded, new retirees have always enjoyed a life-long interest rate of 3.5%. But due to the increase in life expectancy and the interim regulations, the effective interest rate enjoyed by retirees is actually significantly higher. This has given rise to the following situation for the retired generations compared with the active insurees:

	<u>Active insurees</u>	<u>Retirees</u>	<u>Difference</u>
2005	2.50%	3.50%	-1.00%
2006	3.25%	3.50%	-0.25%
2007	3.25%	3.50%	-0.25%
2008	2.75%	3.50%	-0.75%
2009	2.00%	3.50%	-1.50%
2010	2.00%	3.50%	-1.50%
2011	2.00%	3.50%	-1.50%
2012	1.75%	3.50%	-1.75%
2013	2.00%	3.50%	-1.50%
2014	3.75%	3.50%	0.25%
2015	2.00%	3.50%	-1.50%

In 2013, the PVS Board of Trustees felt obliged to reduce this interest rate to 3.00% for new retirees. This led to the following new situation for the retired generations:

	<u>Active insurees</u>	<u>Retirees</u>	<u>Difference</u>
2013	2.00%	3.00%	-1.00%
2014	3.75%	3.00%	0.75%
2015	2.00%	3.00%	-1.00%

Given the current state of the capital markets, a technical interest rate of 3.0% is no longer sustainable.

The PVS cannot ignore this trend when it comes to defining retirement benefits. The Board of Trustees has commissioned an ALM study in order to define the new technical interest rate.

In light of the continuing rise in life expectancy and the trends in the capital markets, it is crucial for the future of occupational pensions that the conversion factor is viable in both actuarial and financial terms.

The PVS is a funded pension scheme.

That certain generations of retirees are favoured over others clearly runs counter to the principles of Pillar 2. And, since funded systems do not provide for a redistribution of the accrued capital, the conversion factors currently in use will have to be adjusted.

The Board of Trustees will need to look at options for addressing the current inequality in terms of the interest rate payable on savings capital or via an increase in pension benefits.

Despite all these necessary adjustments, the Board of Trustees of the PVS will do its utmost to ensure that you, the beneficiaries, continue to receive benefits that compare favourably with the minimum statutory requirements. Potential cushioning measures will be examined in the course of the ALM study.

### **Adjustments to the 2016 Pension Scheme Regulations**

At its meeting on 13 November 2015, the Board of Trustees made several adjustments to the Pension Scheme Regulations and implemented these with effect from 1 January 2016. The new regulations applicable as from 1 January 2016 can be found on our website ([www.pv-swissport.ch](http://www.pv-swissport.ch)). The two principal amendments are described in the following:

- **Disability pension (Art. 14 of the Regulations)**

Previously, individuals with a degree of disability of 25% or more had been entitled to claim a disability pension from the PVS. Now, this entitlement will arise only as of a degree of disability of 40% (in line with Swiss Federal Disability Insurance).

- **Insured annual salary of insureds paid on an hourly basis**

Employees will now be insured through the PVS on the basis of their salary actually earned in the previous year.

They are insured only if the minimum wage defined in the Pension Scheme Regulations is reached. This minimum wage corresponds to  $\frac{3}{4}$  of the maximum AHV pension. The minimum wage for 2016 is CHF 21,050.

Persons whose salary actually earned in the previous year was lower than the minimum wage applicable in the current calendar year leave the PVS. A further examination of whether the person who has left can potentially again be insured through the PVS is not carried out until the beginning of the following year.

The retirement savings of a person who has left are held by the PVS for a further year as pending vested benefits.

If the person who has left wishes to transfer their vested benefits to another pension scheme or vested benefits institution before the further examination in the following year, they can arrange to do so by notifying the PVS of the institution and account to which they are to be paid.

If the person who has left does not reach the minimum wage in the following year either, the vested benefits including interest will be transferred to a pension scheme or vested benefits institution in accordance with the information they have provided.

Interest will be paid on the vested benefits until the payment date or the date on which the person is readmitted to the PVS.

### 2015 Annual Report

The 2015 Annual Report is currently being prepared and will be approved by the Board of Trustees at its 71st meeting on 11 May 2016. We will provide you with details of the above in Insuree Update No. 39 ("2015 Annual Report") at the end of May 2016.

### Provision of evidence of survival

The last time retirees were required to provide evidence of survival was in 2011. Retirees living in Switzerland can furnish this evidence via the AHV. However, retirees living abroad will need to provide evidence of survival in writing in the course of 2016.

We kindly ask retirees to assist us in this matter. Otherwise, the PVS will be obliged to curtail pension payments until this regulatory reporting obligation is fulfilled.

Sincerely,

**For the PVS Board of Trustees**



Peter Graf  
*President of the Board of Trustees*



Elisabeth Müller  
*Managing Director*