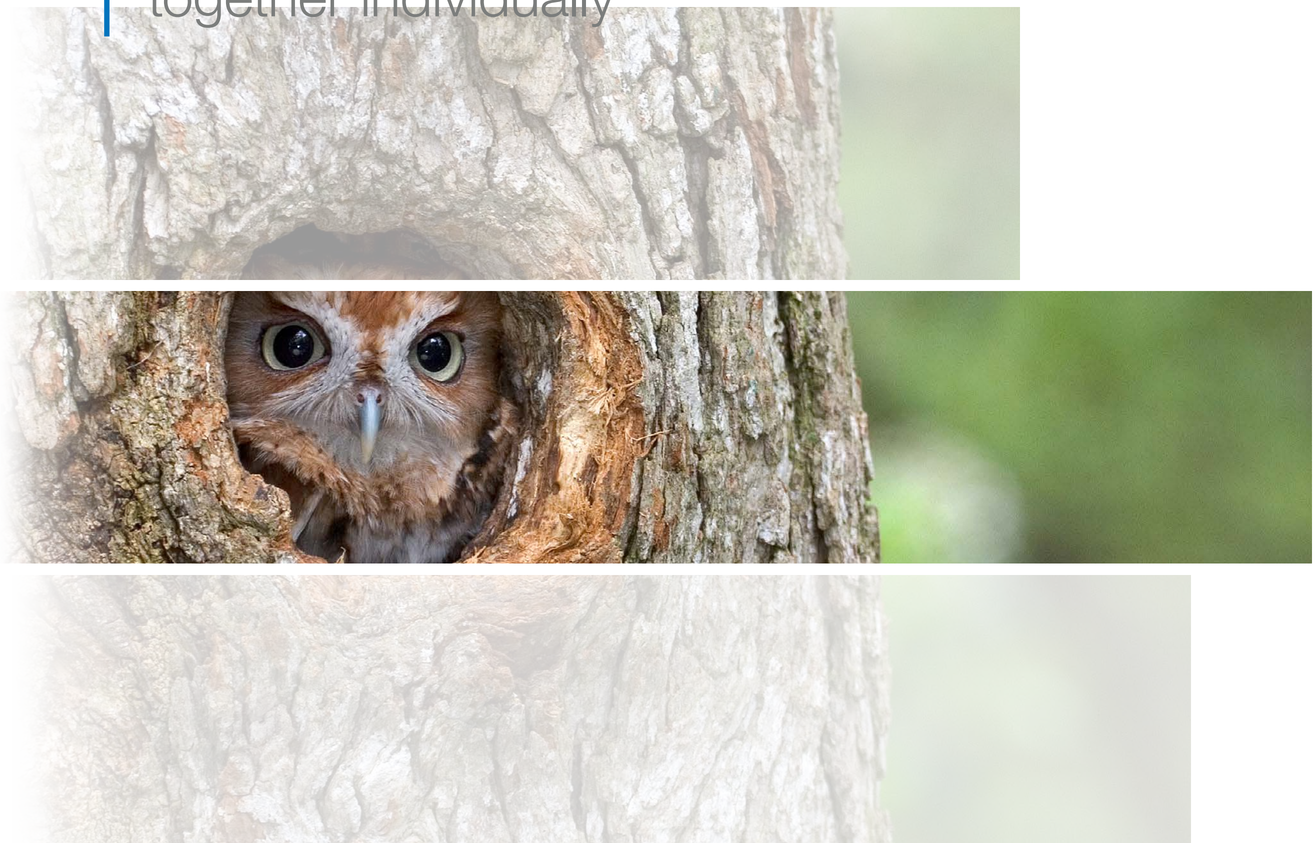
valitas
INDEPENDA

together individually



Provisions Regulations

Valitas collective Foundation LPP

With effect from 31 December 2019

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Art. 1 Principles and objectives

According to Art. 48e OPO 2, Valitas collective Foundation LPP sets out rules for formation of provisions and fluctuation reserves in Regulations. In so doing it observes the principle of consistency.

By order dated 17.11.2016, the Foundation Board of Valitas collective Foundation LPP stipulated the provision policy and approved these Regulations. Care was taken that the pension objective is ensured at all times. As a collective Foundation, the Foundation distinguishes between provisions at pension fund level and provisions at Foundation level. The pension funds are independent of each other and the risk benefits of death and invalidity before retirement are reinsured.

Art. 2 Foundation level

At Foundation level the Foundation manages those pensions that are not reinsured. These are primarily

- retirement pensions
- lifetime disability pensions (from acquisitions)
- surviving dependents' pensions arising from retirement and disability pensions
- cost-of-living increases according to OPA that have been granted
- supplementary allowances between statutory minimum OPA pensions and reinsured pensions.

On the one hand the actuarial reserves required and on the other the provisions and reserves described below are formed for these pensions. All of the retirement benefits managed at Foundation level are viewed in the same way as an affiliated pension fund (pensioner's fund).

Art. 3 Pension fund level

As a rule

- value fluctuation reserves and
- free resources are managed at pension fund level.

The value fluctuation reserves are determined individually per pension fund and depend on the way the pension fund's investments are structured. The rules for determining the value fluctuation reserves are set out in the separate Investment Regulations.

In each case the free resources ensue from the balance sheet as a balance.

If necessary, the pension fund can form its own technical provisions for specific risks (provisions to offset excessive conversion rates and/or early retirements). They are financed and replenished in accordance with Art. 4.8.

In exceptional cases, the pensioners at pension fund level can be managed (temporarily or permanently). In these cases the same provisions are to be formed for pensioners at pension fund level as at Foundation level. The same technical principles shall apply. Such pension funds shall be mentioned specifically in the annual accounts and the corresponding statements highlighted.

Art. 4 Technical provisions at Foundation level

The following provisions are formed at Foundation level:

- Provision for future cost-of-living adjustments according to OPA
- Life-long provisions in the case of current pensions if these are not reinsured
- Fluctuation reserve for portfolio of pensioners

1. Technical basis

As a rule all the necessary technical calculations are undertaken using the same technical basis. When selecting it, care should be taken that on the one hand it describes the behaviour of the portfolio of Insured Persons, having regard to peculiarities (e.g. high number of disability cases), on the other the organisation of Valitas collective Foundation LPP should be included when selecting the basis. The choice of basis influences the level of obligations and necessary provisions and therefore the portfolio of free resources.

Valitas collective Foundation LPP has used the OPA 2015 principles since 31.12.2019, the 2021 accounting table and the technical interest rate of 2.00%. This basis is particularly helpful for calculating the actuarial reserves for the pensions that the Foundation itself pays, especially the retirement pensions. The cash value of the reversionary spouses' pensions are determined using the collective method, i.e. statistical marriage frequencies are used. After consulting the Foundation's expert, the Foundation Board can specify other, and above all, new bases and/or set a different technical interest rate simply by a Foundation Board decision.

The actuarially correct conversion rate, the reference conversion rate and the ranges within which the Administrative Commission may move with its own conversion rate are determined by the Foundation Board.

2. Actuarial reserves/supplementary allowances

In all cases in which the regulation retirement asset conversion rate leads to a lower pension that the minimum OPA pension, the supplementary allowance cash value will be deferred. If the retirement benefit is reinsured, the cash value of the supplementary premium required by the reinsurance as an actuarial reserve will be deferred. The supplementary allowances are reported in the same way as the customary retirement pensions using the same basis as for these as retirement pension actuarial reserves. The balance sheet item actuarial reserves for pensions contains the cash value.

3. Actuarial reserves for cost of living pensions

If the cost of living adjustment is not reinsured, the cost of living adjustment granted will be reported on the balance sheet as the cash value of the pension increase. In the case of disability benefits, the reversionary increase in the surviving dependents' benefits is also taken into account. The balance sheet item actuarial reserves for pensions contains the cash value.

4. Provisions for longevity

For pension recipients, the actuarial reserves required are determined from the current pensions as a specified quantity and the respective technical basis. The technical basis used by Valitas collective Foundation LPP for the calculations, as an accounting table, are periodically adjusted to the latest statistical circumstances. It has been shown in the past that the continued increase in life expectancy required strengthening of the pension recipients' actuarial reserves.

Due to the basis in use since 31.12.2019, a value of 0.5% per year of pension recipient's actuarial reserve ensues for the provision target amount for the increase in life expectancy, for the first time as of 31.12.2021. This does not take account of terminable annuities, especially child pensions and OASI bridging pensions.

In the event of conversion to a newer basis, from conversion the pension recipients' actuarial reserve will be increased by 0.5% per year elapsed since the median observation time for the new basis.

If the Foundation Board decides to introduce generation tables for pensioners on the basis of an expert's recommendation, it must simultaneously decide whether the rate of 0.5% should be reduced or increased.

5. Fluctuation reserve for portfolio of pensioners

The technical basis used to calculate the actuarial reserves reflects purely statistical average values. Pensioners living longer than assumed in the calculations cannot be excluded. Especially for small portfolios of pensioners, deviations from the assumed life expectancy make a strong impact. An additional provision R is therefore undertaken to safeguard pension financing, which is calculated as follows:

$$R = \frac{0.5}{\sqrt{n}} \times E$$

whereby E = actuarial reserve for pension recipients
n = number of pensioners.

Only the actuarial reserve and the number of pensioners to which the Foundation itself pays pensions or parts thereof are decisive. Pensions that are fully reinsured are not considered. This does not take account either of terminable annuities, especially child pensions and OASI bridging pensions.

6. Provision for future inflation adjustments

An inflation provision is formed for portfolios of Insured Persons whose cost-of-living adjustment is not reinsured according to OPA. The cost-of-living premiums collected and any funds received from third parties for future cost-of-living adjustments are incorporated into the provision and the cash value of the cost-of-living supplements granted by the Foundation is deducted. If the provision exceeds an annual total of cost-of-living premiums, the Foundation Board shall pass a decision on adjustment of the contribution rates and/or dissolution/further replenishment of the inflation provision.

7. Provisions for retirement losses

There are two parts to the provisions for retirement losses:

a. OPA top up

Due to the actuarially excessive conversion rate according to OPA, it may come about that the minimum OPA benefits are greater than the regulation benefits (OPA top up). This ensues in a loss arising from topping up of the OPA minimum benefits. The Foundation Board shall ensure that no new pension plans with minimal OPA savings benefits are concluded and that the minimum savings benefits are raised for existing plans. The Foundation shall apply the settlement method (comparison of OPA benefits with regulation benefits; top up only if the OPA benefits exceed regulation benefits.) If Insured Persons who are entitled to early retirement by law and regulation, but nevertheless have expected a top-up due to the individual details, the cash value of the OPA top-up will be reported as a provision at pension fund level and financed by the pension fund respectively. The average level of the capital withdrawal will be taken into consideration.

b. Conversion rate losses

As long as the conversion rates determined by the Administrative Commission are higher than the actuarially correct conversion rates, the pension fund will suffer retirement losses.

Those conversion rates that ensue from the Foundation's current actuarial basis are designated as actuarially correct. In the process, if accounting tables are used, those for the appropriate valuation year will be used. For the technical interest, the technical interest rate for the current actuarial basis for pensioners is used to determine the actuarially correct conversion rates.

For all Insured Persons who are entitled to early retirement by law and regulation, the cash value of the difference between the regulation retirement pension and the retirement pension that would ensure from the actuarially correct conversion rate (in the above sense) is reported as a provision. The average level of the capital withdrawal will be taken into consideration.

8. Financing contribution

a. Calculation

The experts calculate a separate risk contribution (longevity contribution) to cover the retirement losses at pension fund level.

The longevity contribution is set as a percentage of the insured salary and savings and at the same level for all Insured Persons. If there is an increased probability of OPA top-ups for pension plans that are only slightly over the OPA minimum for savings benefits, a supplement to the longevity contribution will be deducted for these pension funds. The longevity contribution will be adjusted if the Administrative Commission reduces the conversion rate and as a result the difference to the Foundation's actuarially correct conversion rate reduces.

b. Settlement

The individual pension funds shall settle their longevity contribution on an ongoing basis by raising premiums, via employers' contributions or by offsetting against their share of reinsurance surpluses or other funds available.

9. Provision accounting

The total of the cash value of the OPA top up and cash value of the conversion rate losses minus seven times the annual longevity contribution is used to calculate the provision for retirement losses. The seven years ensue as the number of years from the possibility of early retirement to the normal retirement age, with the age of 65 being taken as the basis. The mean is therefore taken over seven years and the difference between the total expenditure on retirement losses and total income to cover these losses reported on the balance sheet. The average capital withdrawal quota for the current year will also be included in the calculation. Should these parameters shift, the accounting will be adjusted, in particular by increasing the minimum age for drawing the retirement benefit. Negative values will not be reported.

Art. 5 Non-technical provisions

Non-technical provisions are only created when there is an identified need, e.g. for procedural risks.

Art. 6 Provisions for investment risks

a. Situation

Various categories of investment are subject to considerable value and exchange rate fluctuation risks. In order to neutralise the anticipated fluctuations, a separate provision for investment risks or value fluctuation reserve is formed for the retirement capital (pension fund) managed by the Foundation at Foundation level.

The value fluctuation reserve serves to offset losses on income from assets, so that these have only a limited effect on Valitas collective Foundation LPP's annual profit.

This measure corresponds to the requirements of Art. 50 OPO 2, which demands that the Foundation ensures certainty of fulfilment of the pension objective. For this to succeed, the Foundation must carefully match investment of the assets to the risk capacity. This means the capacity to compensate for fluctuations in the total assets caused by the market that are to be expected and to have available sufficient liquid funds, or funds capable of being liquidated in order to satisfy current and future commitments promptly.

The value fluctuation reserve is formed according to the same principles as those applied to the value fluctuation reserves for the affiliated pension funds. In this sense pensioners at Foundation level form a pension fund.

b. Formation and termination

If the pension fund exhibits a positive annual result, the surplus is used to form the value fluctuation reserve until the target value is achieved. If the annual result is negative, this is to be debited insofar as possible to the value fluctuation reserve.

Art. 7 Procedure

The occupational pensions expert's report will comment on provisions and fluctuation reserves periodically, and at least every three years. The Regulations are to be adapted to new circumstances on the basis of the expert's assessment and a newer technical basis chosen.

Art. 8 Distribution of profits

The Foundation Board shall decide on distribution of profits, in particular from reinsurance, which cannot be allocated to the individual pension funds (see also Article 76 Pension Fund Regulations). Priority consideration should be given to the Foundation's financing needs, specifically the necessary replenishment of provisions and financing of losses arising from topping up to OPA and from retirement losses. The Foundation Board shall comment yearly on adjustments to pensions (Art. 36(2) OPA) for withdrawals from the pension fund at Foundation level. If financing is assured, the pensions can also be adjusted at the request of and following a decision by a pension fund commission.

Art. 9 Right to make amendments/ Entry into force

The Foundation Board passed these Regulations on 10.06.2020 and they came into force on 31.12.2019. They have therefore been applied to the accounting for the financial statement of 31.12.2019. The Foundation Board may resolve to amend these Regulations at any time. The competent supervisory authority shall be notified of amendments. The German version is the definitive text for interpretation.

Foundation Board of Valitas collective Foundation LPP

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Valitas collective Foundation LPP

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