



Stand: 30.11.21

Regulations governing interest on retirement assets and the use of disposable assets

Sulzer Pension Fund

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Winterthur, 30 November 2021

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1. Principles and objectives

In the long term, the Sulzer Pension Fund (SVE) aspires to treat its actively insured members and pensioners on an equal basis. It intends to achieve this objective by granting interest on active members' retirement assets, where possible, at least at the actuarial interest rate (currently 1.5%). However, this will be possible only when the SVE's financial situation allows.

Interest on retirement assets is not accrued continuously, but is determined on an annual basis by the Board of Trustees pursuant to art. 12 para. 3 lit. a) of the Pension Fund Regulations, taking into account the statutory provisions, the performance achieved and the SVE's provisional annual results.

These Regulations describe a model according to which interest is accrued on active members' retirement assets depending on the SVE's financial situation. When fluctuation reserves are fully covered, disposable assets shall be used for active members and pensioners pro rata in accordance with the mechanism described in section 3.

2. Interest on retirement assets

2.1 Fundamental definition of interest on retirement assets

Pursuant to art. 12 para. 3 lit. a) of the Pension Fund Regulations, the Board of Trustees shall determine the interest rate on retirement assets on an annual basis. The interest rate for a calendar year shall be determined in two stages:

- At the end of a calendar year, the Board of Trustees determines the intra-year interest rate for the following calendar year. Interest shall be accrued on the retirement assets of intra-year fluctuations (e.g. departures, retirements) at the intra-yearly rate. When determining the intra-yearly interest rate, the Board of Trustees shall take into account both the legal provisions and the projected earnings for the following calendar year.
- The definitive interest rate on retirement assets shall be determined towards the end of the current calendar year on the basis of legal provisions and the following model.

This model shall serve the Board of Trustees as a guideline when determining the interest on active members' retirement assets and the use of disposable assets pursuant to section 3.

	Coverage ratio at year end*	Interest for active members	Remarks
Restructuring	< 95%	0%	- Possibly further restructuring measures
	95% bis 100%	In the event of a shortfall in coverage ratio: 0% In the event of an increased coverage ratio: ½ minimum BVG interest rate (currently 0.5%)	- In principle, duration of restructuring 5 to 7 years in accordance with supervision commission directive
Building fluctuation reserve / interest	100% bis 104%	Minimum BVG interest rate (currently 1%)	
	104% bis 112%	Maximum upper limit according to FRP 4 (GT)**	
	112% to targeted amount of fluctuation reserve	Supplementary interest in accordance with the Board of Trustees' decision	In compliance with art. 46 BVV 2 (maximum 50% of revenue surplus for supplementary interest)
Disposable assets	Targeted fluctuation reserve achieved	Supplementary interest in accordance with the Board of Trustees' decision	One-off supplementary payment to eligible pensioners in accordance with the Board of Trustees' decision (chapter 3)

* Estimated coverage ratio at the time of the Board of Trustees' meeting

** Mathematically rounded to 0.1%

GT = Generation Tables; FRP 4 = Technical guideline 4 of the Swiss Chamber of Pension Actuaries

2.2 Restructuring

In the event of a shortfall, the SVE must take steps to remedy the shortfall within a reasonable period (art. 65C BVG). Pursuant to art. 61 of the Pension Fund Regulations, the Board of Trustees shall determine the restructuring measures required.

Depending on the development of the coverage ratio, interest on active members' retirement assets shall be paid at half the minimum BVG interest rate (increase of coverage ratio) or 0% when the coverage ratio lies between 95% and 100%, depending

on the development of the coverage ratio. If the coverage ratio is below 95%, no interest shall be paid on active members' retirement assets.

2.3 Building fluctuation reserves / interest

If the coverage ratio lies between 100% and 112%, interest shall in principle be paid according to the model. If the coverage ratio lies above 112%, but the fluctuation reserve has not yet been reached, the Board of Trustees shall decide upon a possible supplementary interest rate above the actuarial rate. In so doing, the Board shall take into account art. 46 BVV 2 in combination with the information sheet provided by the Canton of Zurich's BVG and Foundations Supervisory Board – *Collective and communal institutions – benefit improvements pursuant to art. 46 BVV 2* as well as the notice M - 01/2021 of the OAK BV of March 30, 2021. Pursuant to this regulation, no more than 50% of surplus earnings before the formation of fluctuation reserves may be used to increase benefits, and fluctuation reserves of at least 75% must be accrued.

2.4 Disposable assets

When fluctuation reserves are fully covered, the SVE is deemed to hold disposable assets. In such cases, the Board of Trustees shall decide upon additional interest to be accrued on one-off payments to pensioners.

3. Use of disposable assets

When fluctuation reserves are fully covered, the SVE is deemed to hold disposable assets. The disposable assets shall always be determined on the basis of a revised annual financial statement.

Based on the revised annual financial statement, the Board of Trustees shall determine the amount of assets to be distributed. These assets shall be allotted to active members and pensioners in accordance with their retirement capital. Disposable assets shall be allotted by granting additional interest on active members' retirement assets (see section 3.1), or in accordance with the one-off additional payment for pensioners defined in section 3.2.

3.1 Use of disposable assets for active members

Pursuant to the status of their retirement assets according to which disposal assets are ascertained at the reference date, active members and pensioners with a temporary disability pension shall receive an additional interest payment. The percentage shall be based on the disposable assets as measured by the total retirement assets.

Additional interest shall be granted to all active members and pensioners with a temporary disability pension who are actively insured with the SVE at the reference date on which the disposable assets are determined (31 December) and on 1 May of the following year. The additional interest shall be credited to their retirement assets on 1 May, and shall accrue interest from that date.

3.2 Use of disposable assets for pensioners

3.2.1 Basic principle

Due to the fact that conversion rates at retirement differ depending on the date of retirement, disposable assets shall not be distributed as the same lump sum to all pensioners. Instead, conditions at the time of retirement shall be taken into account by making the guaranteed interest based on the conversion rate at the time of retirement applicable to the share of assets to be distributed.

3.2.2 Type of payment and pensioner groups considered

Disposable assets shall be distributed to pensioners as one-off supplementary payments, without prejudice to the future, as a percentage of their respective monthly pension. The following one-off supplementary payments shall be considered for the following types of pension:

- Retirement pensions
- Spouse's / partner's pensions
- Orphan's pensions

Disabled persons' children's pensions and pensioners' children's pensions, bridging pensions, and offsetting divorce pensions shall not receive any one-off supplementary payments.

3.2.3 Applicable guaranteed interest

The guaranteed interest rate shall be calculated on the basis of the conversion rate using the actuarial basis provided by the BVG 2020 / generation tables used in SVE. This makes it possible to calculate the guaranteed interest based on all conversion rates applicable at the time of retirement. The following table shows the guaranteed interest rate dependent on the conversion rate applicable at the beginning of retirement.

Year of birth	Start of retirement*	Conversion rate at 62	Guaranteed interest
up to 1938	bis 2003**	7.20%	4.89%
1939 - 1941	2004 - 2006	7.00%***	4.66%
1942 - 1944	2007 - 2009	6.80%****	4.43%
1945	2010	6.50%	4.04%
1946 - 1947	2011 - 2012	6.40%	3.92%
1948	2013	6.30%	3.82%
1949	2014	6.20%	3.69%
1950	2015	6.10%	3.57%
1951	2016	5.95%	3.37%
1952	2017	5.80%	3.18%
1953	2018	5.55%	2.82%
1954	2019	5.30%	2.47%
1955	2020	5.05%	2.10%
from 1956	ab 2021	4.80%	1.81%

* The conversion rate at 65 is always shown for the year of the start of retirement

** A flat conversion rate of 7.2% is determined for those retired before 1995

*** Special credit of 2.9% on 1.1.2004 (conversion rate therefore increased from 6.8% to 7.0%)

**** Special credit of 2.3% on 1.1.2007 (conversion rate therefore increased from 6.65% to 6.8%)

3.2.4 Monthly pension weighting factors

The so-called monthly pension weighting factor shall be calculated on the basis of the guaranteed interest rate. The monthly pension weighting factor for the lowest conversion rate is 100%, while the other weighting factors shall be calculated proportionally in relation to the guaranteed interest rate at the time of retirement at 2% (with a conversion rate of 4.8%). This results in the following monthly pension weighting factors:

Year of birth	Start of retirement*	Conversion rate at 62	Guaranteed interest
up to 1938	bis 2003**	7.20%	4.89%
1939 - 1941	2004 - 2006	7.00%***	4.66%
1942 - 1944	2007 - 2009	6.80%****	4.43%
1945	2010	6.50%	4.04%
1946 - 1947	2011 - 2012	6.40%	3.92%
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*** Special credit of 2.9% on 1.1.2004 (conversion rate therefore increased from 6.8% to 7.0%)

**** Special credit of 2.3% on 1.1.2007 (conversion rate therefore increased from 6.65% to 6.8%)

The monthly pension weighting factors shall remain unaltered as long as the lowest conversion rate at retirement stands at 4.8% (age 65) or new actuarial bases appear.

3.2.5 Distribution to pensioners / disbursement factor

Based on the assets available for distribution, the Board of Trustees shall decide pursuant to section 3.2.4 whether the monthly pension weighting factors should also be multiplied by a factor; this will result in the monthly pension disbursement factors. Appendix 1 provides examples of the monthly pension disbursement factors as factor 1.5.

Pensioners shall receive a one-off supplementary payment equivalent to their monthly pension multiplied by the monthly pension disbursement factor.

3.2.6 Disbursement conditions for supplementary payments

The supplementary payment shall be paid out to all pensioners belonging to the groups eligible according to section 3.2.2 who are SVE pensioners in the January after the reference date on which the disposable assets were determined (31 December) and as at 1 May. Pensioners who were still active members on the reference date when the disposable assets were determined, and who draw a pension as members of the groups of pensioners eligible according to section 3.2.2, shall also receive a supplementary payment. In the event of the death of active members and pensioners between the

reference date on which the disposable assets were determined and 30 April, persons drawing spouse's and orphan's pensions resulting from such pensions shall receive a supplementary payment.

4. Deviations from the model / monitoring redistribution

4.1 Deviations from the model

Where justified, the Board of Trustees may deviate from the model and determine an interest rate applicable to the retirement assets that diverges from the model described in section 2.

4.2 Monitoring redistribution

In order to supervise the redistribution between active members and pensions, the interest rate on retirement assets and the actuarial interest rate have been monitored since 2002 (see Appendix 2). The additional interest on active members' retirement assets and one-off supplementary payments for pensioners (sum paid out, weighted with the pensioner's retirement capital) will be taken into account in this comparison.

With regard to matters that are not or not fully governed by these Regulations, the Board of Trustees shall base its decisions on the Decree of Foundation. The Board of Trustees may alter these Regulations at any time.

These Regulations were resolved by the Board of Trustees at its meeting of 30 November 2021 and shall enter into force with immediate effect.

Winterthur, 30 November 2021

Appendix 1 – Example of monthly pension disbursement factors with factor 1.5

Monthly pension weighted factor	Monthly pension disbursement factor (factor 1.5 as example)
37.0%	55.5%
38.8%	58.2%
40.9%	61.4%
44.8%	67.2%
46.2%	69.3%
47.4%	71.1%
49.1%	73.7%
50.7%	76.1%
53.7%	80.6%
56.9%	85.4%
64.2%	96.3%
73.3%	110.0%
86.2%	129.3%
100.0%	150.0%


x 1.5

Appendix 2 – Table Redistribution to active members / pensioners

Year	Interest for active members	Actuarial interest rate for pensioners*
2002	4.00%	4.00%
2003	3.25%	3.75%
2004	2.25%	3.75%
2005	3.50%	3.75%
2006	3.75%	3.50%
2007	4.25%	3.50%
2008	1.50%	3.50%
2009	1.00%	3.50%
2010	2.00%	3.50%
2011	2.00%	3.50%
2012	2.00%	3.00%
2013	2.50%	2.50%
2014	2.50%	2.25%
2015	2.00%	2.25%
2016	2.50%	2.00%
2017	3.00%	2.00%
2018	2.00%	2.00%
2019	3.50%	2.00%
2020	2.50%	2.00%
2021**	5.00%	2.06%
Average***	2.75%	2.91%

* Actuarial interest rate at year end

** Geometric mean