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'False' valuations distorting pension funding levels in Switzerland

16 September 2016 **By** Barbara Ottawa **(URL=/barbara-ottawa/2482.bio)**

Complementa's latest risk update for Swiss pension funds has largely offset the positive news of increasing average funding at the country's Pensionskassen.

Average funding has increased year on year to more than 105%, yet the consultancy's research shows that Pensionskassen "have only partly adjusted their valuation parameters to the low-interest-rate environment and increasing life expectancy".

For its latest risk analysis, Complementa applied harmonised parameters based on an average discount rate (technischer Zins) of 2.25% and a conversion rate of 5.1%.

According to these calculations, the average funding level would then drop by 480 basis points.

For 30% of pension funds, the drop would be greater than 500bps; around 18% of schemes, however, would see funding levels improve.

The effect would be worse for public pension funds (a 620bps drop), as many are underfunded or being kept partly funded under a state guarantee.

Complementa said it expected the group of Pensionskassen experts that annually sets a benchmark discount rate to propose a cut to 2.25% in its next session at the end of September.

The 6.8% minimum conversion rate set down in current regulation for mandatory savings is widely considered too high.

In the AV2020 reform proposal, a rate of 6% is under discussion, but experts have described a rate closer to 5% as being "actuarially correct", according to Complementa.

The consultancy said the alleged increase in the discount rate based on the parameters Pensionskasse are actually applying had been boosted by a 2.7% return over the first eight months of the year.

In 2015, funding at the more than 380 Pensionskassen surveyed fell by 170bps.

Complementa said it was also concerned that 51% of the 119 Pensionskassen taking part in a special survey said they did not yet have a systematic risk-management process.

Nearly 80% of the participants, however, said they were content with the risk management they had, while 17% said they would need to improve it were they to take on more risk.