Swiss pension funds see boost in funding ratio following market turmoil

BY LUIGI SERENELLI | 8 SEPTEMBER 2020

Swiss pension funds have seen their funding ratios increase to 106.8% at the end of August through positive return of 0.3%, according to Complementa's latest Risk Check-up 2020 report.

The recent turmoil in equity markets led to a slump in funding ratios of 8.1%, which have recovered by August by 6.8 percentage points, but compared to the prior year remain down by 1.3 percentage points.

According to Complementa, pension schemes have to generate 2.2% in returns by the end of the year in order to keep funding ratios at constant levels.

Riskier investments benefited the most from April figures following the downturn in February and March.

The report also showed that pension funds allocated 35.1% of their assets to fixed income, 30.8% to equities, 20.2% to real estate, and 9.6% to alternative investments.

Private equity made up the largest share of the alternative investments portion with 22%, followed by hedge funds with 18%, private debt 14%, infrastructures 14%, commodities 13%, insurance linked securities 10% and other alternative investments at 9%.

The share of alternative investments in larger pension funds stood at 9.9%, and 4.7% in smaller funds.

According to Complementa, the proportion of foreign investments is larger for bigger pension funds with 50.3%, while smaller pension schemes show a "home bias" approach with a foreign allocation worth 36.3%.

Rates

The interest rate on pension capital rose significantly to 2.4% in 2019, the highest level since the financial crisis in 2008.

Volatile equity markets will decide whether the interest rate on pension capital will remain high this year too, it said.

The Umwandlungssatz (UWS), the conversion rate used to calculate pension payouts from accrued assets upon retirement, dropped from 5.63% in 2019 to 5.57% this year. Pension funds plan to apply a conversion rate of 5.32% in 2025.

The actuarial correct value for the conversion rate is 4.68%, significantly lower than the value of 6% discussed as part of the reform of the second pillar.

According to Complementa's report, for pension funds, a conversion rate of 5% is largely acceptable, while 4.5% is still acceptable for half of respondents. Respondents believe that the conversion rate should not drop below 4%.

Complementa's research is based on data collected from 443 pension funds with assets worth CHF725bn (€665.7bn). The number active of pension funds in Switzerland has been decreasing steadily from 2,935 schemes in 2004 to 1,562 in 2018.

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