



Schweizerische Eidgenossenschaft
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**Federal Occupational Pensions
Regulatory Commission OAK BV**

Longevity Risk and Regulation in Switzerland

IOPS/IAIS PCG/Financial Supervisory Authority of Iceland (FME) Seminar
28 February 2014 in Reykjavik, Iceland
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Current Situation

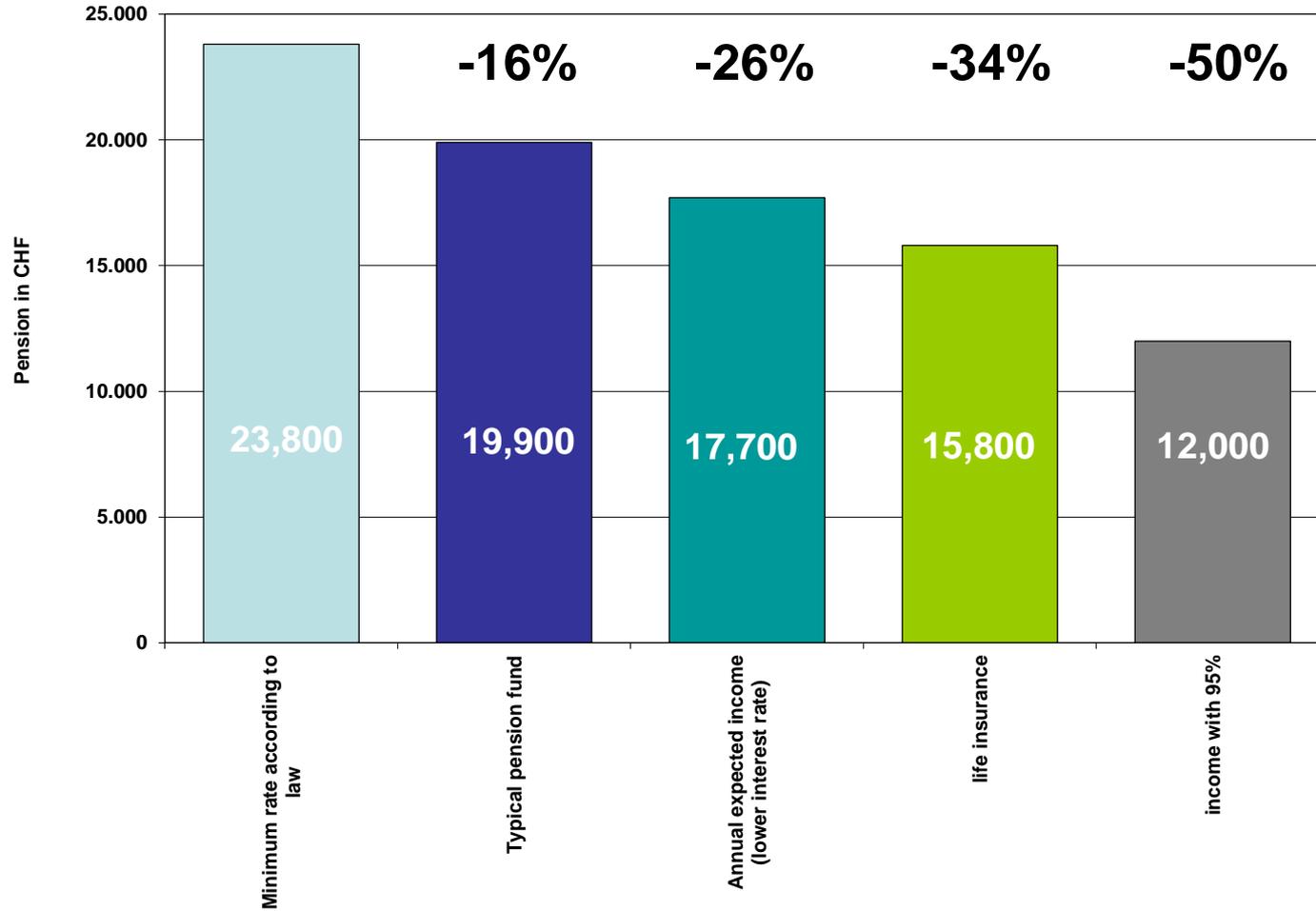
- Typical plan: „cash balance“ or defined contribution with guarantees
- Pensioner liability is borne mainly by pension funds:

Pensioner liability in EUR billion	2012
Pension funds (statutory)	250
Life insurance companies	35

- Risks in pension funds (for active and pensioner liability) are shared by active members and employers
 - Money follows active members, i.e. no vested deferred members, risk of losing money in case of partial liquidation (e.g. if part of company is sold)
 - Safety net („security foundation“) only if pension fund is not able to pay pensions (e.g. in case of liquidation)
- => Active members and employers guarantee interest (swaption) and bear longevity risk (longevity swap) for pensioners, fair conditions have to be negotiated in boards



Typical Pension Income





Example - 2013

Pensioner liability December 2013	CHF million	%
Current liability (statutory)	4,418	
including future improvement of life expectancy (current expectation)	4,672	+5.8%
improvement of life expectancy by 1.0 years (compared to current expectation)	4,792	+2.6%
improvement of life expectancy by 2.3 years (compared to current expectation)	4,928	+5.5%

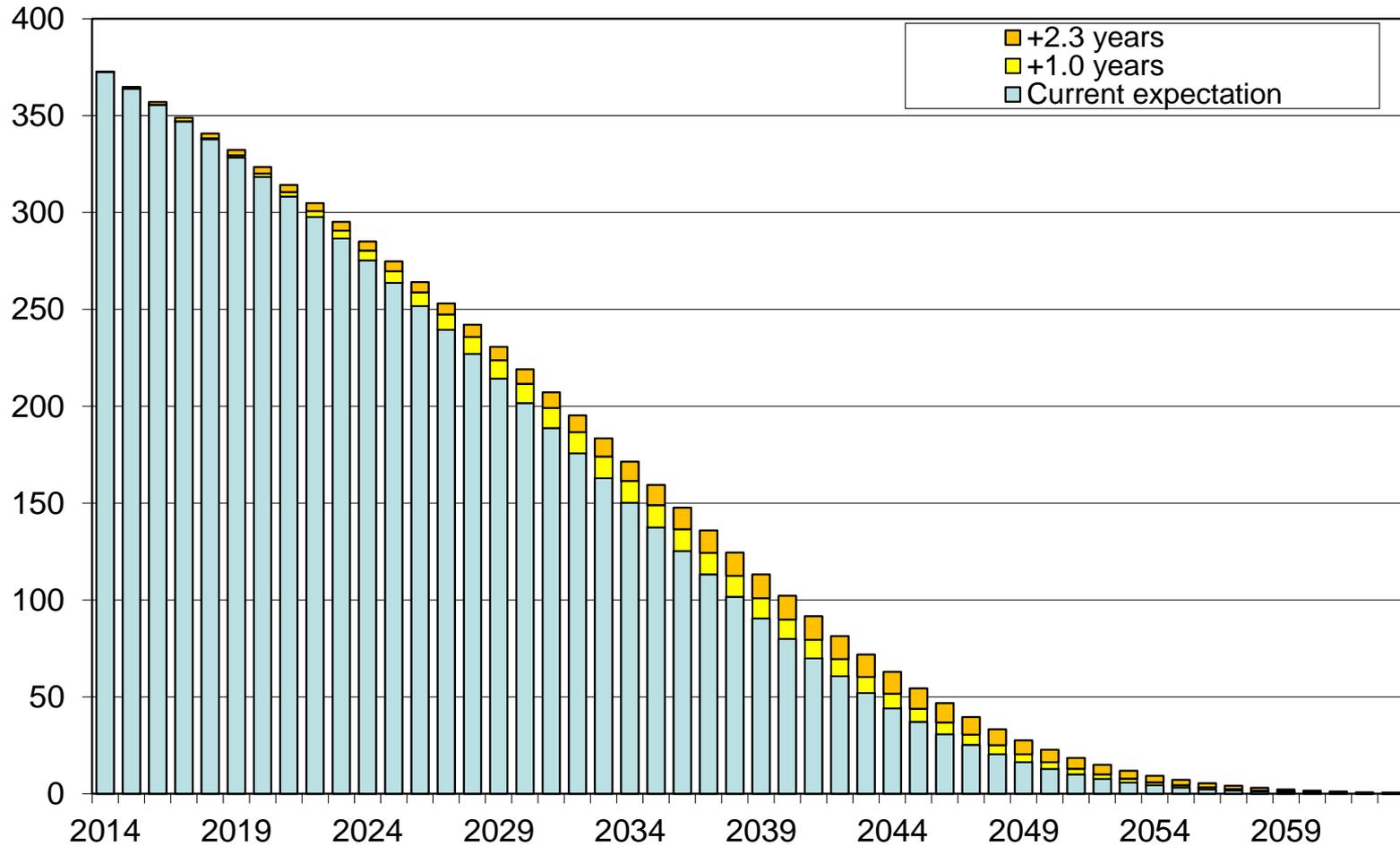


Same Example - 2023

Pensioner liability December 2023	CHF million	%
including future improvement of life expectancy (current expectation)	2,600	
improvement of life expectancy by 1.0 years (compared to current expectation)	2,755	+ 6.0%
improvement of life expectancy by 2.3 years (compared to current expectation)	2'919	+ 12.3%



Projected Cash Flows





And the Regulator?

Challenges:

- Short-term expectations define future risk
- (Future) active members and employers will pay the bill if results are negative
- Minimum conversion on part of the savings is too high, but fixed in the law and approved in a referendum in 2011 by a high margin
- Main responsibility is with boards, who decide on the share of risks that employers and active members take

Response of OAK BV (regulator)

- Minimum standards for actuaries
- Annual risk report
- Information and input on the new legislation
- Information on different risk factors (e.g. longevity)

=> Raise risk awareness