

Funding ratio, under- and overfunding

What does “funding ratio” mean?

The collective foundations which provide mandatory occupational benefits can be divided into two main categories: the so-called semi-autonomous group foundations on the one hand and the collective foundations which offer full insurance models on the other.

Semi-autonomous foundations usually are funded and run by banks or professional associations. Semi-autonomous means that these foundations invest the savings which build the retirement assets of the insured in the capital markets themselves. The risks of death and disability, however, are covered by an insurance company. Foundations working with the full insurance model and operated by an insurance company also delegate investment to an insurance company, as a rule to the founder. In return, the insurance company guarantees that all risks arising in the foundation, including therefore investment risks, are always covered to exactly 100%.

The funding ratio corresponds to the ratio of the existing pension funds assets to the actuarial reserve required to fulfil all its obligations. “Underfunding” is defined as a funding ratio of less than 100%, while “overfunding” is any ratio over 100%.

“100% coverage” thus means that the collective foundation would be able to service all its obligations fully, should they fall due simultaneously at any given point in time. Due to the mentioned guarantee, a foundation working with the full insurance model therefore cannot be underfunded and neither can it ever be overfunded.

A semi-autonomous foundation such as the Swisscanto Collective Foundation, however, may experience underfunding, in particular when the expected yields of the capital markets where the savings are invested could not be achieved. On the other hand, it is possible for such a foundation to generate overfunding and thus build up security reserves or, in the case of sufficient reserves, pay out surplus revenues.

The funding ratio is a key reference figure in assessing the financial health of a pension fund. It represents an important factor in defining its risk competence and thus serves as a true indicator for the security of semi-autonomous collective foundations.

What happens in the case of underfunding?

Small degrees of underfunding are not necessarily critical: a scenario in which all risks occur simultaneously at one point in time can be virtually excluded in practice. Even so, every occurrence of underfunding must be taken seriously and should be watched so that timely stabilising measures can be taken if necessary.

Underfunding must be reported to the supervising authorities and will only be tolerated if the shortage of funding does not exceed certain time and quantity limits. In the case of considerable underfunding, the foundation must inform the affiliated enterprises, the insured persons and pensioners as well as the relevant supervisory body and clarify which measures it will take and in which timeframe to remedy the underfunding. The supervising authority has then to be kept up-to-date on the implementation of these measures.

How does underfunding affect

- termination?
The underfunding does not affect the vested termination benefits of an employee leaving a company affiliated with an underfunded employee benefit institution: the employee benefit institution of the new employer will receive the full vested benefits in any case.
- retirement?
The pension levels are not influenced by the fact that the retirement coincides with a time of underfunding for the employee benefit institution.
- pensioners?
Neither does the underfunding affect pension benefits already in payment.
- the termination of the contract?
If an employer terminates the contract with a employee benefit institution which is underfunded at that time in order to join another employee benefit institution, the actuarial reserve transferred to the new institution will be adjusted by the degree of underfunding, i.e. the departing pension fund bears the shortage of funding.

What is the funding ratio of the Swisscanto Collective Foundation at present?

The funding ratio of the Swisscanto Collective Foundation as per end of the previous month is always available at www.swisscanto-foundations.ch → Downloads → Key figures → Funding ratio.

How likely is an underfunding in the case of the Swisscanto Collective Foundation?

Assigning top priority to the security of the pension funds entrusted to its care, Swisscanto Collective Foundation's investment strategy has always been guided by the principle of security through constancy and continuity. This tried and tested strategy so far has saved both the Swisscanto Collective Foundation and the enterprises affiliated with it from any major funding shortage. Insofar as capital market risks can be assessed, the Swisscanto Collective Foundation will continue to invest according to these principles. It is therefore very unlikely that a significant underfunding will occur in the foreseeable future.

Swisscanto Collective Foundation of the Cantonal Banks
St. Alban-Anlage 26, P.O. Box 3855, 4002 Basle
Telephone 058 280 26 66
Fax 058 280 29 77

More information at

www.swisscanto-foundations.ch



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