Provision Regulations

valid from 31 December 2019

This document has been translated from German. In the event of doubt, the German version is binding.

ALVOSO LLB
Pensionskasse

Content

A. Purpose and Content

Art. 1 General Provisions

Basic Principles

1 Based on Art. 48 and Art. 48e BVV2 and the Pension Fund Regulations of ALVOSO
LLB Pension Fund (hereafter referred to as “the Foundation”), the Foundation Board issues these Regulations.

Purpose

2 The Regulations govern the creation of provisions at the Foundation.

B. Creation of Provisions

Art. 2 Definitions and General Provisions

Provisions and reserves in the annual financial statements

1 These Regulations govern the creation of the following items shown under Liabilities in the Foundation's annual financial statements:

a. Pension capital - active insured persons,
b. Pension capital - pensioners,
c. Technical provisions,
d. Non-technical provisions,
e. Value fluctuation reserves and
f. Free resources.

Pension capital

2 The pension capital of active insured persons and pensioners shall be revalued annually in accordance with recognised principles, applying the Foundation's actuarial principles as well. The pension capital for active insured persons equals the total regulatory retirement credits.

Insurance-related basic principles

3 All actuarial calculations are based on the following principles:

a. A technical interest rate of 2.0%;
b. Basic technical principles as per BVG 2015 (generation table);
c. The collective calculation method (spouse's pension entitlement, etc.).

The accounting method

4 The actuarial balance sheet must be prepared in accordance with the principles of closed fund accounting. Future arrivals and departures of insured persons are not taken into account. Calculations of pension capital are based on the static method, i.e. future changes in the insured salary or current pensions are not taken into account.

Technical provisions

5 The technical provisions are determined according to recognised principles and based on an actuarial balance sheet or based on the calculation parameters specified by the pension insurance expert.

Non-technical provisions

6 Non-technical provisions include provisions that are not directly related to the fulfilment of pension obligations, such as provisions for litigation risks. This position must not be used to achieve or accept arbitrary and smoothing effects.

Compensation fund

7 A compensation fund is maintained at the level of the collective foundation. This equalisation fund serves to balance out financial and actuarial fluctuations of individual pension schemes - in particular pension schemes with fewer than 20 beneficiaries and the pension fund for pensioners.
The amount of the equalisation fund is determined by the Foundation Board, but amounts to a maximum of 5% of the pension capital of the entire Foundation.

If the profit surplus or loss in a given financial year is less than CHF 50,000, it must be allocated to the individual pension funds. Instead, the surplus income or loss is allocated to or debited from the equalisation fund.

If the funding ratio of a pension fund falls below 90% and if there are no or only insufficient employer contribution reserves in this pension fund to raise the funding ratio to at least 90% by means of renounced use, the funding ratio of such a pension fund must be raised to 90% by means of a temporary contribution at the expense of the equalisation fund. A repayment of the contribution to the equalisation fund is due as soon as and insofar as the funding ratio of the pension fund rises above 95%.

Within the scope of the regulatory purpose, the Executive Board may dispose of up to 5% of the equalisation fund's account balance (basis: last revised annual financial statements). - If the costs exceed this amount, the approval of the Foundation Board must be obtained.

If the Foundation Board considers the level of the equalisation fund to be too low, it may be increased at the expense of the income surplus.

Value fluctuation reserve

8 The fluctuation reserve is formed for the market-specific risks underlying the investments, including real estate, in order to support the sustainable fulfilment of the benefit promises. The assessment is made according to a financial-economic method that takes into account the Foundation's risk capacity and risk appetite. The amount required for the current investment strategy is determined periodically on the basis of an asset/liability analysis or another professionally recognised method. The target value of the fluctuation reserve is specified in the investment regulations.

Coverage ratio and under coverage

9 The regulations pursuant to Art. 44 BVV2 shall apply to determination of the Foundation's funding ratio and determination of any underfunding.

Disposable assets and underfunding

10 In accordance with the accounting provisions of Swiss GAAP FER 26, disposable assets only arise after the technical provision has been fully allocated and the fluctuation reserve has been fully formed to the extent required (target value reached). Any underfunding can only be shown both at the Foundation and at the pension funds, once the fluctuation reserve and any disposable assets have been completely dissolved.

Allocation to the technical provisions

11 In principle, the technical provisions may not have any smoothing effect on the income or expense surplus of a period. Due to unforeseen events, such as an unexpectedly high claims burden, the Foundation Board may, in accordance with the recommendation of the pension insurance expert and in compliance with recognised principles, create additional reserves, release existing reserves that serve to equalize fluctuations in the risk experience or allocate reserves below their target value. Nor does the value of a provision to equalize fluctuations in the risk experience have to be fully allocated up to its target value, if this provision is in the course of being built up or if the pension insurance expert recommends such an approach.

Continuity

12 The principle of continuity must be observed in the creation and release of provisions.

Art. 3 Pension Capital

Calculation

1 The pension capital of active insured persons and of pensioners is calculated on an annual basis
. The calculations are carried out by the pension insurance expert based on the regulatory provisions and taking into account actuarial principles.

Active insured persons

2 The pension capital of active insured persons corresponds to the sum of the regulatory retirement credits.

Pensioners

3 The pension capital of pensioners corresponds to the actuarial reserve required to cover their benefits.

Art. 4 Technical Provisions

Order of accumulation

1 First of all, the provisions actuarially necessary must be shown in the order set out in the following paragraph.
Thereafter, the value fluctuation reserve must be created up to its specified target value.

Technical provisions required for insurance purposes

2 The level of the provisions actuarially required is either set in coordination with the pension insurance expert or else is based on the actuarial report. The Foundation's actuarially required reserves are:

a. Provision for longevity;
b. Provision for risk fluctuations in respect of active insured persons;
c. Provision for risk fluctuations in respect of pensioners;
d. Provision for excessive conversion rate;
e. Provision increase - minimum amount to FZG17;
f. Provision for reduction of technical interest rate;
g. Other technical provisions.

Art. 5 Provision for Longevity

Necessity

1 Determination of pension capital for pensioners is based on mortalities in accordance with generation-based mortality tables.
The expected increase in life expectancy is already taken into account in the mortality tables. There is no necessity to create this provision.

Art. 6 Provision for Risk Fluctuations of Active Insured Persons

Purpose

1 The provision for risk fluctuations of active insured persons is created, in order to absorb any losses from an accumulation of disability and death cases among active insured persons.

Level

2 The level of the provision is periodically reviewed by the pension insurance expert based on an insurance risk analysis and is redefined, if necessary. As long as the risk benefits for disability and death are congruently reinsured with a Swiss life insurance company, no provision is necessary for risk fluctuations among active insured persons.

Art. 7 Provision for Risk Fluctuations of Pensioners

Purpose

1 The fewer the numbers of insured pensioners, the greater the probability that actual life expectancy will deviate from statistically predicted life expectancy.
This risk is taken into account in regards to the provision for pensioner risk fluctuations.

Level

2 The level of this provision is calculated as 50% of the pensioners' pension capital, divided by the square root of the number of pensioners. This provision amounts to a maximum of 5% of the pensioners' pension capital. From a portfolio of 200 retirement pension and spouse pension recipients, the creation of this provision is renounced.

Art. 8 Provision for Excessive Conversion Rate

Purpose

1 The provision for an excessive conversion rate is created for the purpose of pre-financing
pension losses resulting from an excessive regulatory or statutory conversion rate when compared to the actuarial conversion rate.

Level

2 The level of this provision corresponds to a surplus charge on the regulatory retirement credits of those active insured persons and disabled persons who have reached the age of 56.
It is calculated based on the difference between the expected retirement pension in accordance with the pension fund regulations and the actuarially correct retirement pension. Of the amount calculated in this way, 60% must be set aside as a provision, since it is presumed that 40% of pensioners receive their pension benefits in the form of capital. This rate may be adjusted from time to time, based on the experience of the Secretariat.

Art. 9 Increase of Provision Minimum Amount to FZG17

Purpose

1 The Vested Benefits Act (Freizügigkeitsgesetz) defines in Art. 17 a statutory minimum amount for the leaving benefit that must be transferred.
This provision is created for cases where this minimum amount is higher than the regulatory savings balance.

Level

2 The amount of this provision corresponds to the sum of the individual positive differences between the statutory minimum amount and the existing regulatory savings balance of the active insured persons.

Art. 10 Provision for Reduction of Technical Interest Rate

Purpose

1 The provision for reduction of the technical interest rate is created in order to gradually pre-finance a future reduction of the technical interest rate.

Level

2 The difference between the pension capital for pensioners resulting from the takeover of a pensioner portfolio based on the technical interest rate under the offer and the current technical interest rate of the pension fund is allocated to this provision.

Art. 11 Other Technical Provisions

Purpose

1 If the pension plan includes benefits that are not sufficiently covered by the regulatory financing, corresponding provision can be made for it. This includes provisions for the following benefits (the list is not exhaustive):

a. Vested rights guarantees;
b. Partnership benefits;
c. Early retirement;
d. other services.

Level

2 The level of these provisions is determined in accordance with the pension actuary's specifications and is reported in both the annual financial statements and the actuarial report.

C. Entry into Force

Art. 12 Approval and Entry into Force

Entry into Force

1 These Regulations for the Creation of Provisions shall enter into force on 31 December 2019.

Changes

2 The Regulations may be amended or repealed at any time by resolution of the Foundation Board.

Issue

3 If these regulations are translated into other languages, only the German text shall be binding for interpretation purposes.

Lachen, 05 February 2020 KUK

ALVOSO LLB Pension Fund

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