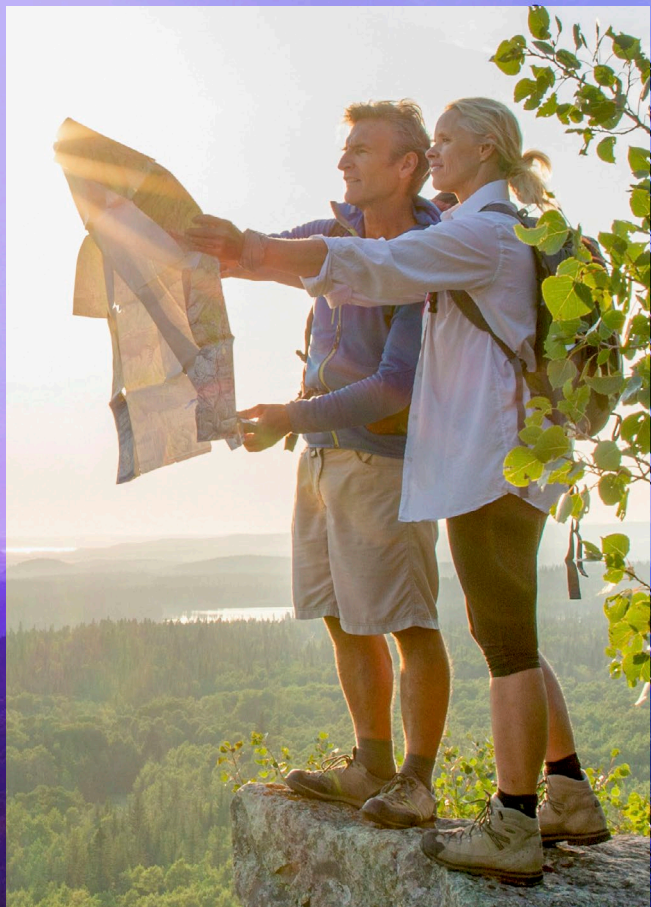




# Swiss Pensions Accounting Survey 2022

An analysis of market trends in pensions accounting



[kpmg.ch/pensions](https://kpmg.ch/pensions)



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A summary of the key trends observed in accounting assumptions under IFRS or US GAAP as at 31 December 2021

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Increased by on average 20bps over the year

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The observed median rate from our survey was 1.00%, the same as prior year-end



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### Pension increases, Inflation and salary increases

No significant movements in the median rates observed over the year



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Updated by most companies to reflect the BVG/LPP 2020 tables

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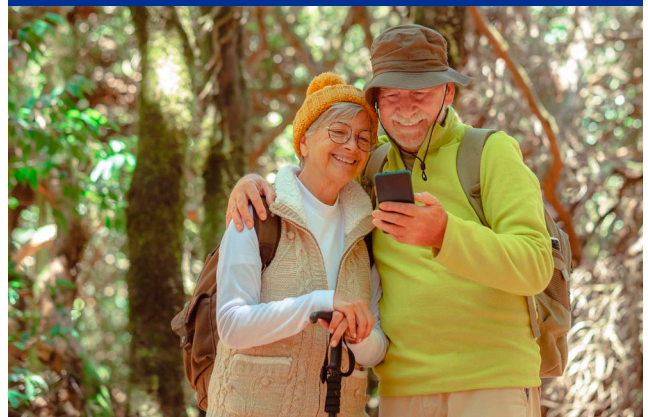
### Employee turnover & Disability

Updated by most companies to reflect the BVG/LPP 2020 tables

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The observed median assumption from our survey was 25%, unchanged from 31 December 2020



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# Swiss Pensions Accounting Survey – 31 December 2021

This edition of KPMG's Swiss pensions accounting survey looks at trends in accounting assumptions based on the experience of 85 Swiss companies reporting under IFRS or US GAAP as at 31 December 2021. The survey covers companies advised by a range of actuarial consultancies and includes both domestic Swiss companies and subsidiaries of overseas parents.

## Key trends for 31 December 2021 reporting

We observed the following themes in accounting assumptions for Swiss pension plans for the 2021 year-end:

1. discount rates increased slightly over the year by around 20bps on average;
2. we observed a wide range of interest credit assumptions being used, but with the median rate remaining at the same level (1.00%) as for the 2020 year-end; and
4. the majority of companies updated their demographic assumptions to the BVG/LPP 2020 tables.

Assumptions	Median 31.12.20	Median 31.12.21	Change
Discount rate	0.10%	0.30%	0.20%
Interest credit rate	1.00%	1.00%	0.00%
Pension increase rate	0.00%	0.00%	0.00%
Salary increase rate	1.15%	1.25%	0.10%

Source: KPMG Analysis

## Companies surveyed

This survey is based on data gathered from publicly listed companies, KPMG clients and other entities where KPMG has been provided with pensions accounting information.

While the majority of companies included within our survey reported under IFRS, we did not observe any significant differences in the assumptions used across different accounting standards.

Overview of entities included in survey			
Type of company	IFRS	US GAAP	Total
SIX listed	36	4	40
Swiss subsidiary	17	5	22
Privately held/other	18	5	23
<b>Total</b>	<b>71</b>	<b>14</b>	<b>85</b>

Source: KPMG Analysis

# Discount rate

For companies in our survey, discount rates increased by on average 20bps over the period from 31 December 2020 to 31 December 2021.

There was a reasonably wide range of discount rates adopted by companies, with the lowest in our survey being 0.2% and the highest being 0.6%.

IFRS and US GAAP require discount rates to be set based on the duration of a plan's liabilities. A plan with a higher duration would typically have a higher discount rate. At 31 December 2021, as in previous years, the difference in discount rates by duration was modest.

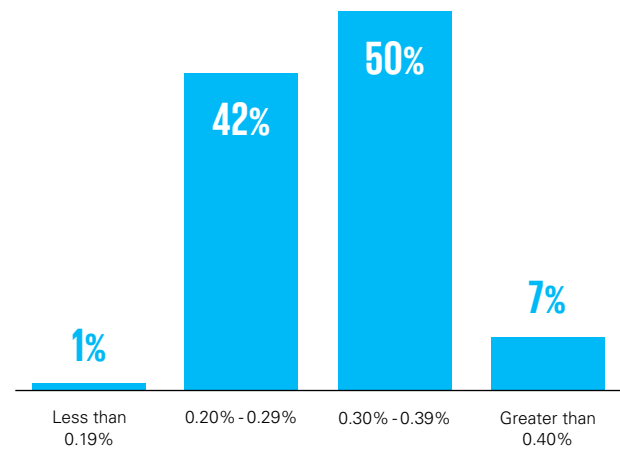
Discount rates vary for plans with similar durations due to differences in actuarial consultancies' approaches to setting their recommended discount rates. Such differences tend to occur from:

- the bond selection criteria (specifically how "high quality corporate bond" is interpreted in the Swiss market); and
- the curve-fitting and extrapolation methodologies used to fit a curve to the data.

Figure 1:  
**Discount rates**

31 December 2020 median: 0.10%  
31 December 2021 median: 0.30%

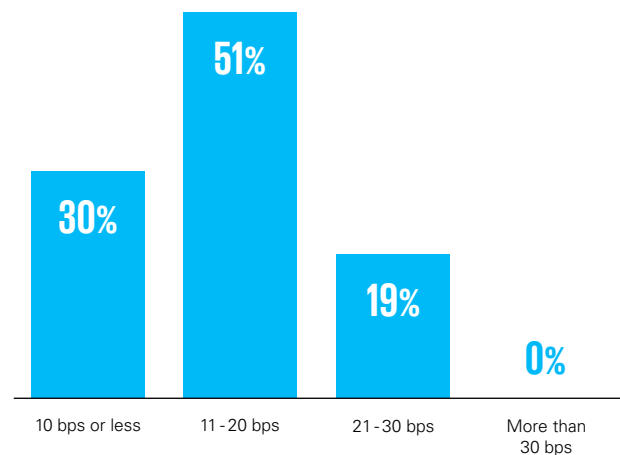
Percentage of Companies



Source: 85 companies

Figure 2:  
**Increase in discount rates from 31 December 2020 to 31 December 2021**

Median increase: 18bps  
Percentage of Companies



Source: 85 companies



# Interest credit rate

The interest credit rate assumption reflects the rate at which employee savings capital is assumed to be credited with interest in each future year.

The observed median rate from our survey was 1.00%, the same median rate as at 31 December 2020.

A wide range of interest credit rate assumptions was observed, with the majority of companies using an assumed rate within the range of 0.50% - 1.00%.

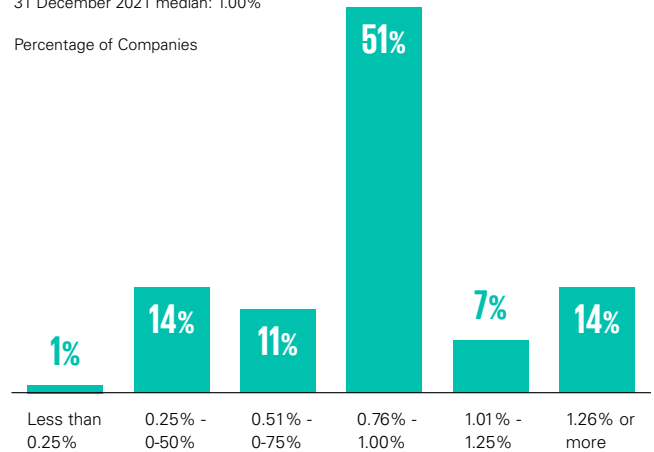
Around 50% of companies surveyed used an assumed rate of 1.00% (this being the legal minimum rate which must be granted on mandatory account balances over 2021). This reflects the low bond yield environment as at 31 December 2021.

Figure 3:

## Interest credit rates

31 December 2020 median: 1.00%  
31 December 2021 median: 1.00%

Percentage of Companies



Source: 70 companies



# Pension increases

Pension increases are not mandatory in Switzerland and are generally only granted when a plan is in a very comfortable financial position.

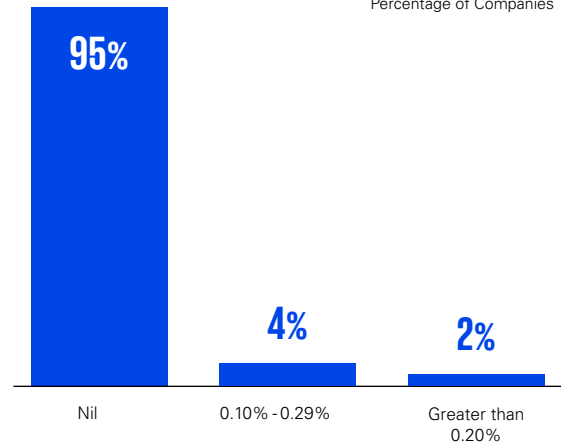
At 31 December 2021, only 6% of companies surveyed made an assumption for future pension increases greater than Nil. Of those assuming future pension increases, only a modest assumption of 0.25% pa or lower is made.

Figure 4:

## Pension increases

31 December 2020 median: 0.00%  
31 December 2021 median: 0.00%

Percentage of Companies



Source: 84 companies

# Inflation and salary increases

The inflation assumption is generally not a significant assumption for the measurement of Swiss pension liabilities. However, it is often used as a basis for setting the salary increase assumption (which is also not particularly significant for typical Swiss cash balance plans).

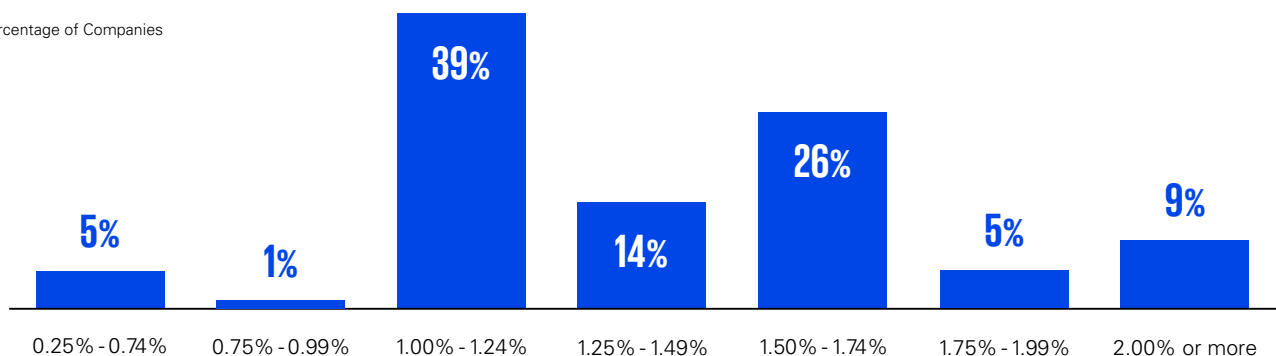
Our survey shows an average nominal salary increase assumption of 1.25% as at 31 December 2021, with around 80% of the companies adopting an assumption within the range of 1.00% - 1.74%.

Figure 5:

## Salary increases

31 December 2020 median: 1.15%  
31 December 2021 median: 1.25%

Percentage of Companies



Source: 77 companies

# Mortality

## Background

Mortality assumptions comprise two elements:

- a "base table" which determines probabilities of an individual dying at a certain age, based upon recent mortality observations; and
- an allowance for anticipated mortality improvements beyond the effective date of the underlying base table observation data.

## Construction of assumptions

The BVG/LPP 2020 tables were released in late December 2020. These tables were constructed using data from 15 of the largest Swiss pension plans over the period 2015 to 2019.

The tables provide mortality (base and improvement) rates, employee turnover rates, disability rates, as well as marriage probability rates.

## Mortality improvements

Alongside the BVG/LPP 2020 base mortality tables, two different types of mortality improvement factors were published using:

1. a modified Menthonnex model; and
2. the CMI model, with illustrative long-term improvement rates of 1.00%, 2.00% p.a. and 3.00%.

The "CMI model" was created by the UK's Continuous Mortality Investigation Bureau, and was recalibrated using Swiss population data. The model trends (smooths) recent mortality improvement rates towards a long-term rate.

## Market practice

Due to the release of the BVG/LPP 2020 tables being in late 2020, the majority of companies adopted these tables for the first time in 2021.

All of the companies in our survey used the BVG/LPP 2020 base mortality tables, with 58% using the CMI model for mortality improvements.

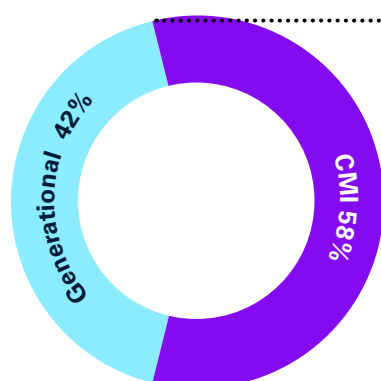
A CMI approach was particularly common amongst large Swiss listed companies (SMI index) where it was used in around 80% of observed cases.

The majority of companies using the CMI model assumed a long-term rate of either 1.25% or 1.50%.

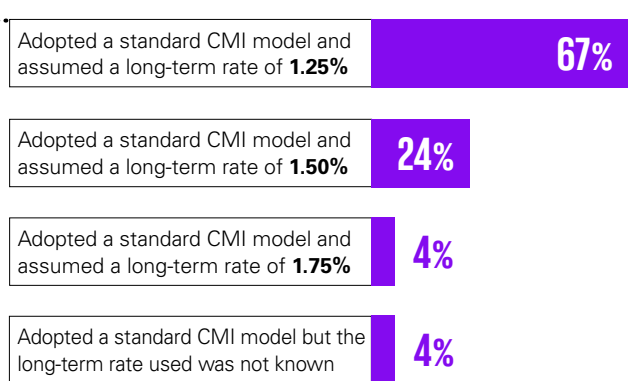
Figure 6:

## Longevity improvements – all companies

### Projection model



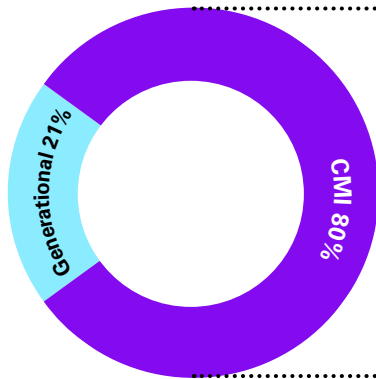
### Long-term improvement rate



Source: 80 companies



Figure 7:

**Longevity improvements – listed companies (SMI index)****Projection model****Long-term improvement rate**

Adopted a standard CMI model and assumed a long-term rate of **1.25%**

**64%**

Adopted a standard CMI model and assumed a long-term rate of **1.50%**

**18%**

Adopted a standard CMI model and assumed a long-term rate of **1.75%**

**9%**

Adopted a standard CMI model but the long-term rate used was not known

**9%****Source:** 14 companies



# Employee turnover

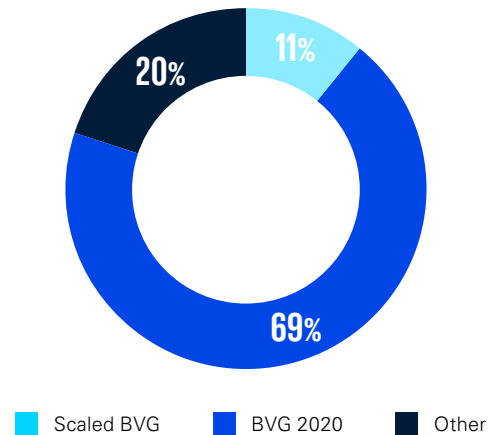
The majority of companies updated their employee turnover assumption over 2021 to use the BVG/LPP 2020 tables.

Around 70% of companies surveyed used the standard BVG/LPP employee turnover scale, with no adjustments.

Other companies used their own scale or applied a fixed percentage increase/decrease to the BVG/LPP standard tables.

For those applying a percentage increase/decrease to the BVG/LPP standard tables, the median factor was 120%.

Figure 8:



Source: 61 companies

# Disability

The majority of companies updated their disability assumption over 2021 to use the BVG/LPP 2020 tables.

The valuation of disability benefits is typically binary (i.e. an individual is either disabled or not) whereas in reality individuals may become partially disabled (and therefore only receive part of the disability benefit from their pension fund).

The BVG/LPP standard disability rates include all cases in which individuals have a high enough degree of disability to receive a disability benefit (commonly a degree of disability of 40% or higher).

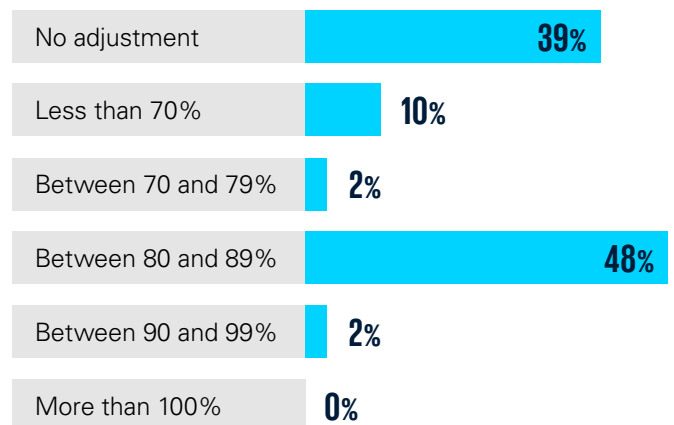
A number of companies surveyed adjusted the assumed disability rate downwards as a proxy for the fact that some individuals will only receive part of the disability benefit.

Around 60% of companies made such an adjustment and of those that did, the median adjustment was to multiply the standard rates by a factor of 85%.

Figure 9:

## Adjustment applied to BVG / LLP disability rates

31 December 2020 median: 85%  
31 December 2021 median: 85%



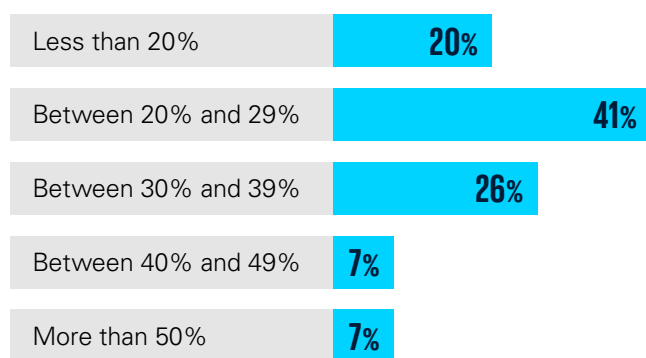
Source: 61 companies

# Lump sum proportion

Figure 10:

## Proportion of benefits taken as a lump sum

31 December 2020 median: 25%  
31 December 2021 median: 25%



Source: 61 companies

The median assumption in our survey was that employees would take 25% of their account balance as a lump sum on reaching retirement age, unchanged from 31 December 2020.

Some companies used a significantly higher assumption (as high as 70%), while others made no allowance for lump sum take-up.



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