KPMG

Swiss Pensions Accounting Assumptions Survey

An analysis of market trends in pensions accounting as of 31 December 2023

September 2024

Content

KPMG

Overview

Key trends for 31 December 2023 IFRS and US GAAP assumptions

By the end of 2023, we observed the following key themes in accounting assumptions for Swiss Pension plans:

1. median discount rates decreased by around 83bps, from 2.25% in 2022 to 1.43% in 2023; and
2. median interest credit rates decreased by around 73bps, from 2.23% in 2022 to 1.50% in 2023.

In contrast to the previous year's sharp increases, declining bond yields led to a reduction in discount rates at the 2023 year-end. Lower discount rates increase pension liabilities due to the reduced rate at which future cash flows are discounted.

Assumptions	Median 31.12.22	Median 31.12.23	Change
Discount rate	2.25%	1.43%	-0.83%
Interest credit rate	2.23%	1.50%	-0.73%
Salary increase rate	1.75%	1.75%	0.00%
Pension increase rate	0.00%	0.00%	0.00%

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	40	4	44
Swiss subsidiary	12	2	14
Privately held/other	14	5	19
Total	**66**	**11**	**77**

Source: KPMG Analysis

KPMG comment

This edition of Swiss pensions accounting survey looks at trends in accounting assumptions based on the experience of 77 Swiss companies reporting under IFRS or US GAAP as of 31 December 2023.

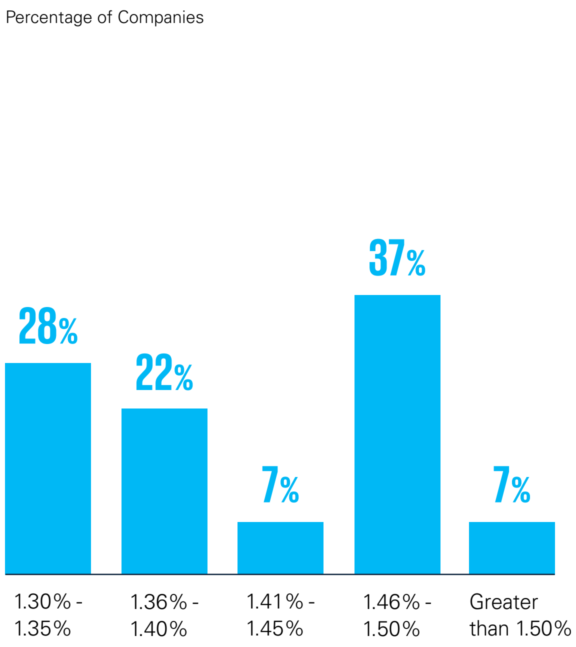
The survey covers companies advised by a range of actuarial consultancies and includes both domestic Swiss companies and subsidiaries of overseas parents.

Discount rate

Figure 1:

Discount rates

31 December 2022 median: 2.25%
31 December 2023 median: 1.43%

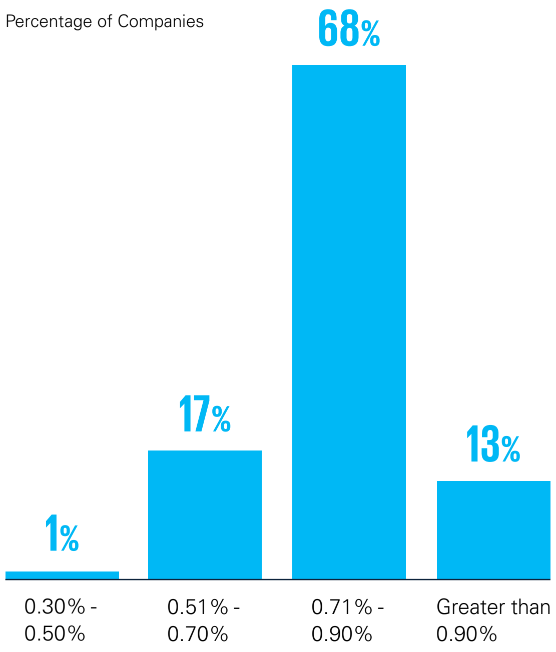


Source: 77 companies

Figure 2:

Decrease in discount rates from 31 December 2022 to 31 December 2023

Median decrease 2023: 0.80%



Source: 77 companies

KPMG comment

The discount rate is based on corporate bond yields at the end of the reporting period.

IFRS and US GAAP requires the duration of the bonds used to be consistent with the duration of the liabilities. Swiss corporate bond yield curves are relatively flat such that the difference in discount rates by duration is modest.

For companies in our survey, discount rates decreased by on average 80bps over the period from 31 December 2022 to 31 December 2023 (200bps of increase from 2021 to 2022).

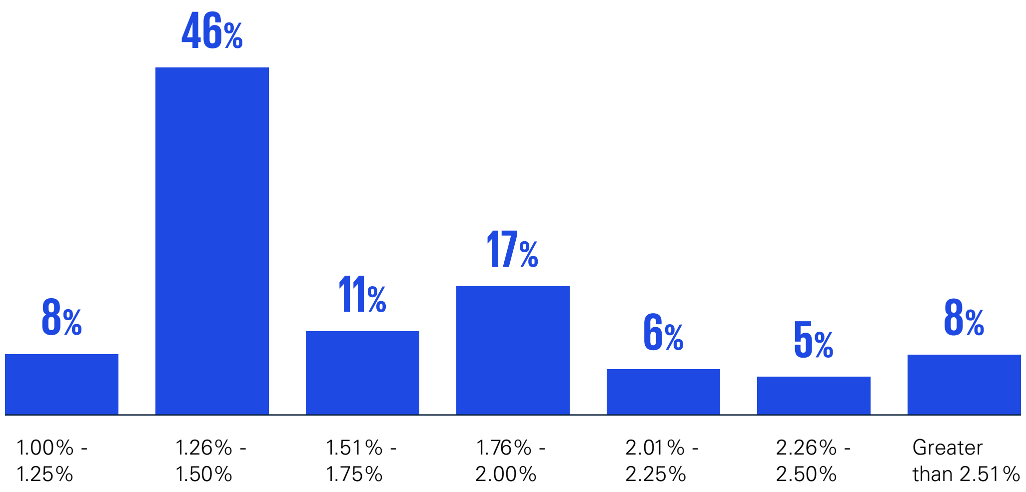
Interest credit rate

Figure 3:

Interest credit rate

31 December 2022 median: 2.23%
31 December 2023 median: 1.50%

Percentage of Companies



Source: 65 companies

KPMG comment

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 interest credit rate from our survey was 1.50% as at 31 December 2023 (2.23% as at 31 December 2022).

The decrease over 2023 reflected decreases in future pension fund asset returns. The legal minimum rate remained at 1.00% applicable for 2023.

A range of interest credit rate assumptions was observed, with the majority of companies using an assumed rate within the range of 1.26% - 1.50%.

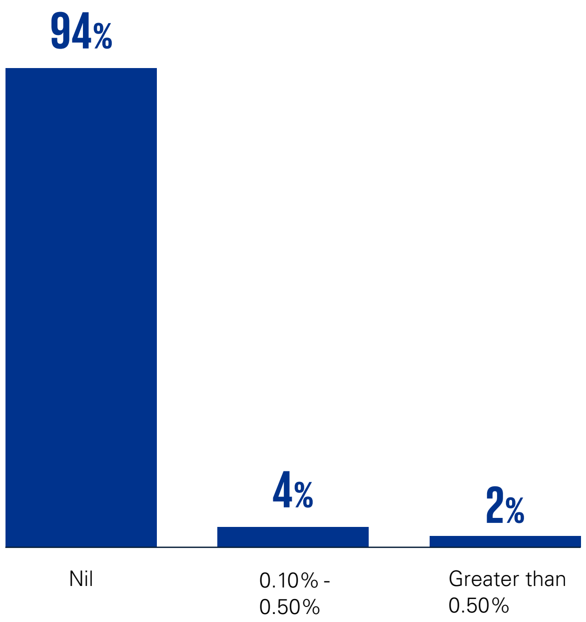
Pension increases

Figure 4:

Pension increases

31 December 2022 median: 0.00%
31 December 2023 median: 0.00%

Percentage of Companies



Source: 66 companies

KPMG comment

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

At 31 December 2023, only 6% of companies surveyed made an assumption for future pension increases greater than Nil. Of those assuming future pension increases, an assumed rate within the range of 0.10% - 3.40% p.a. is made.

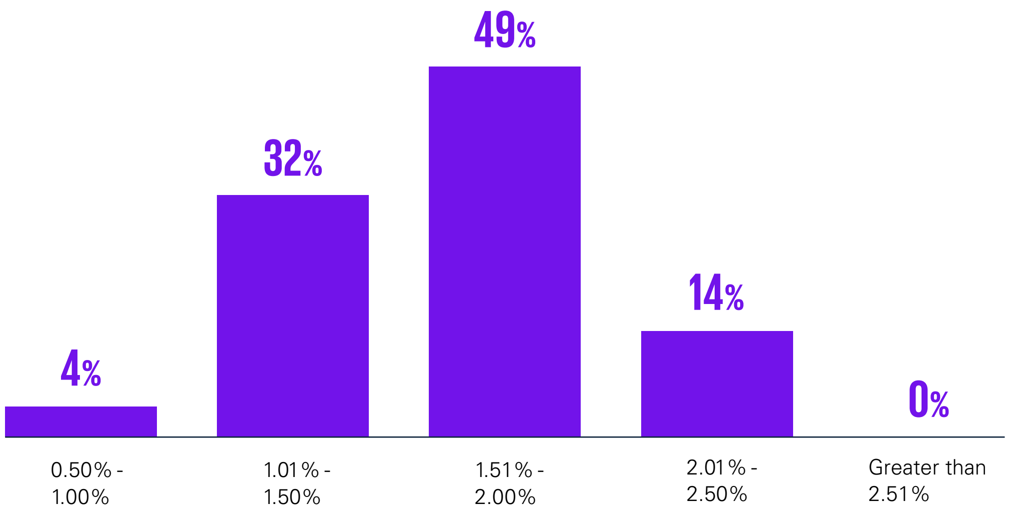
Inflation and Salary increases

Figure 5:

Salary increases

31 December 2022 median: 1.75%
31 December 2023 median: 1.75%

Percentage of Companies



Source: 71 companies

KPMG comment

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 median nominal salary increase assumption of 1.75% as at 31 December 2023 (unchanged from 2022), with around 80% of the companies adopting an assumption within the range of 1.00% - 2.00%.

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Mortality

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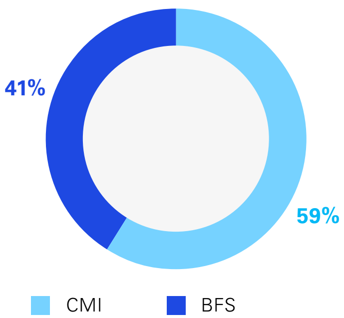
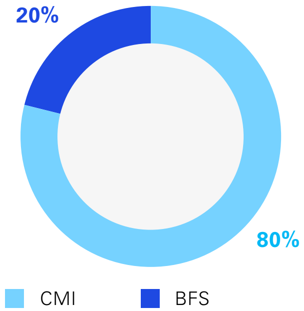
All companies surveyed



Adopted a standard CMI model and assumed a long-term rate of **1.25%**	77%
Adopted a standard CMI model and assumed a long-term rate of **1.50%**	16%
Adopted a standard CMI model and assumed a long-term rate of **1.75%**	5%
Adopted a standard CMI model but the long-term rate used was not known	2%

Source: 74 companies

Listed companies (SMI index)



Adopted a standard CMI model and assumed a long-term rate of **1.25%**	67%
Adopted a standard CMI model and assumed a long-term rate of **1.50%**	17%
Adopted a standard CMI model and assumed a long-term rate of **1.75%**	8%
Adopted a standard CMI model but the long-term rate used was not known	8%

Source: 15 companies

KPMG comment

The most recently published demographic tables in Switzerland are the BVG/LPP 2020 tables. These were first adopted by the majority of companies as at 31 December 2021.

The tables were constructed using data from 15 of the largest Swiss pension plans over the period 2015 to 2019. They provide mortality (base and improvement) rates, employee turnover rates, disability rates, as well as marriage probability rates.

All of the companies in our survey used the BVG/LPP 2020 base mortality tables as at 31 December 2023, with around 60% using the CMI model for mortality improvements.

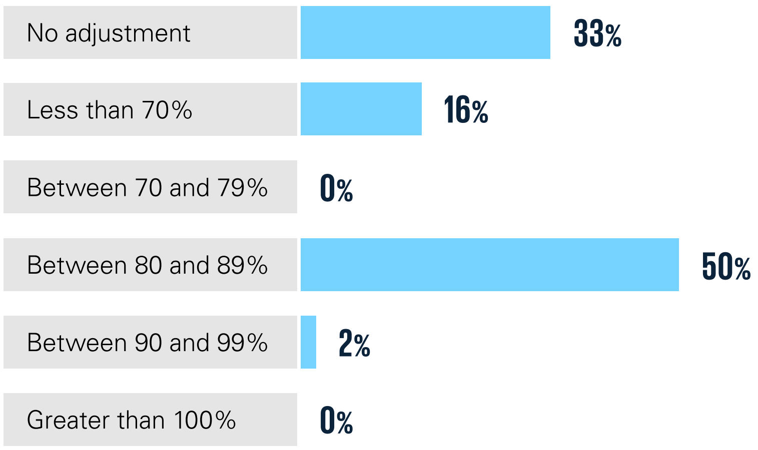
A CMI approach was particularly common amongst large Swiss listed companies (SMI index) where it was used in around 80% of observed.

Disability

Figure 8:

Disability

31 December 2022 median: 85%
31 December 2023 median: 80%



Source: 58 companies

KPMG comment

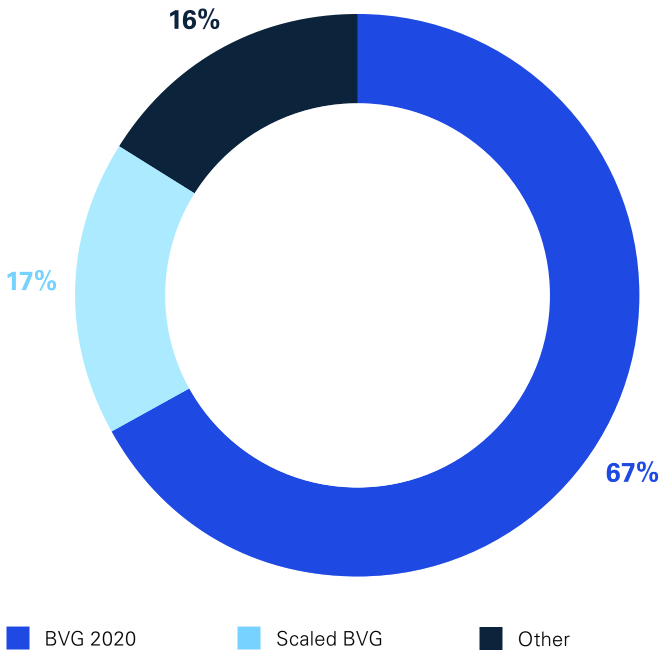
The BVG/LPP standard disability rates include all cases in which individuals have a high enough degree of disability to receive a disability benefit (a degree of disability of 40% or higher).

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 70% of companies made such an adjustment and of those that did, the median adjustment was to multiply the standard rates by a factor of 80%.

Employee turnover

Figure 9:



Source: 57 companies

KPMG comment

Around 70% of companies surveyed used the standard BVG/LPP 2020 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.

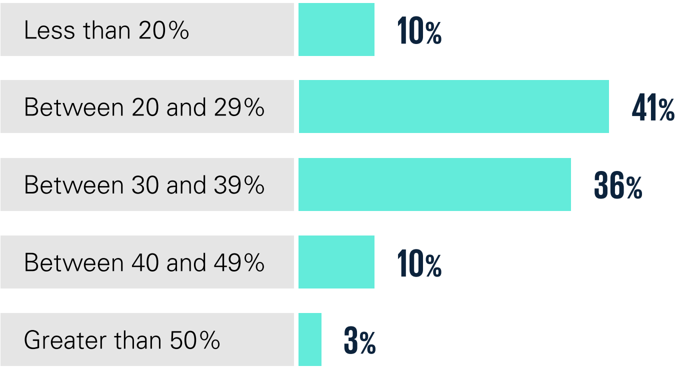
For those applying a percentage increase / decrease to the BVG/LPP standard tables, the median factor was 120%.

Lump sum

Figure 10:

Lump sum

31 December 2022 median: 25%
31 December 2023 median: 25%



Source: 59 companies

KPMG comment

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

Some companies used a significantly higher assumption (as high as 50%), while others made no allowance for lump sum take-up.

Contacts

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