

# Pension benefit obligations

Revised: 2010

Effective date: 1 January 2011

## Introduction

This Recommendation addresses the accounting of the real economic impacts of pension benefit obligations on the entity (employer). Pension benefit obligations are all obligations from pension plans and pension institutions which provide benefits for retirement, death and disability. As pension benefits institutions must be independent in Switzerland, the term pension institution is used in this Recommendation for reasons of simplification. This Recommendation is not intended for pension institutions themselves. The recognition of the real economic impacts of the pension institutions by the entity is not linked to any legal effect in favour of or to the detriment of the pension institution.

The presentation of the real economic impacts from pension benefit obligations is based on the clarification of whether, at the balance sheet date, in addition to the contribution of the entity and the related accruals already recognised, there is any further asset (economic benefit) or liability (economic obligation). This Recommendation requires the recognition in the result of the period of the difference between the annually determined economic benefit or economic obligation.

Since 1 January 2005 Swiss pension institutions establish their financial statements according to Swiss GAAP FER 26. These financial statements disclose any surpluses and deficits as well as separately existing employer contribution reserves of entities and are, together with the contractual regulations, a suitable basis for the required review. Additional calculations on the part of the entities are therefore not needed but may be optionally established and applied according to internationally accepted principles.

## Recommendation

- 1 This Recommendation addresses the economic impacts of pension benefit obligations on an entity. Pension benefit obligations are all plans, institutions and arrangements which provide benefits for at least one of the contingencies of retirement, death and disability.
- 2 Economic impacts of pension institutions (and fully funded by the employer patronage funds) on the entity are either economic benefits or economic obligations. Economic benefits and economic obligations are calculated at the balance sheet date and treated equally. Economic benefit and economic obligations for the entity derive, on the one hand, directly from contractual, regulatory or legal bases (e.g. contributions paid in advance or due). On the other hand, economic benefits and economic obligations exist due to the possibility of the entity to exercise a positive impact on the future cash flows due to a surplus in the pension institution (e.g. decrease in contributions) or to suffer negative impact on future cash flows due to a deficit in the pension institution, as the entity is willing to, or has to, contribute to its financing (e.g. contributions for financial stabilisations).
- 3 Concerning the recognition of the economic impact of pension institutions, the following is imperative:
  - a) In the income statement, the contributions concerning the current period are presented as personnel expenses. In the balance sheet, the respective accrued income or accrued liability resulting from contractual, regulatory or legal bases are recognised as assets or liabilities.
  - b) It is to be annually assessed whether, from the point of view of the organisation, an economic benefit or economic obligations from a pension obligation (and from a patronage fund) exist. The basis for the assessment are contracts, financial statements of the pension institutions (which are established under Swiss GAAP FER 26 in Switzerland) and other calculations presenting the financial situation, the existing surplus and deficit for each pension institution according to the effective circumstances. On this basis the economic benefit and economic obligation is determined and recognised for each pension institution. The difference to the respective value of the prior year is recognised (together with the expenses concerning the business period) as personnel expenses in the result of the period.

Economic benefits are recognised as long-term financial assets under the term "assets from pension institutions". Economic obligations are recognised as long-term liabilities.

- 4 Employer contribution reserves or similar items are recognised as assets. If the entity has granted to pension institutions a conditional waiver of use, or plans to do so shortly after the balance sheet date, the asset from the employer contribution reserve is to be impaired. The part of a deficit that is considered in the balance sheet of the entity through the accrual of the employer contribution reserve no longer needs to be counted as an economic obligation from a deficit.

Employer contribution reserves are recognised as long-term financial assets under the term “assets from employer contribution reserve”. The difference to the respective value of the prior year is recognised as personnel expense in the result of the period.

Concerning employer contribution reserves, the information below is to be disclosed in the notes in table format and – where necessary – specifically for

- patronage funds/patronage pension institutions
- pension institutions

each:

- nominal value of the employer contribution reserve at the balance sheet date
- amount of any waiver of use at the balance sheet date
- accumulation of employer contribution reserves
- amount of the asset at the current as well as at the prior year balance sheet date
- result from the employer contribution reserve, their most important parameters – as part of the personnel expense – for the current as well as for the prior year. The result from employer contribution reserve of the current year results from the difference between the amount of the asset at the current balance sheet date and the prior year balance sheet date, considering any accumulation. If the result from the employer contribution reserve contains interest income or expense, these can be separately disclosed in the financial result.

(See also example of the disclosure in the appendix to Swiss GAAP FER 16.)

- 5 In the notes, the information below is to be disclosed separately in table format for
- patronage funds/patronage pension institutions
  - pension institutions without surplus/deficit
  - pension institutions with surplus
  - pension institutions with deficit
  - pension institutions without own assets

each:

- amount of the surplus or deficit at the balance sheet date
- economic benefit or economic obligations, respectively, at the current and at the prior year balance sheet date
- change in the economic benefit and economic obligations, respectively, as the difference between the two disclosed balance sheet dates
- the contributions concerning the current period (including the result from the employer contribution reserve) indicating extraordinary contributions in case temporary measures are in place to remove deficits
- the pension benefit expense with the main drivers – as part of the personnel expense – for the current and the prior year period. The pension benefit expense of the current period is the sum of the changes in economic benefits or economic obligations and the contributions concerning the current period (including the result from the employer contribution reserve).

(See also example of the disclosure in the appendix to Swiss GAAP FER 16.)  
The inclusion of economic benefits and economic obligations in the balance sheet is to be explained.

## Explanations

---

### ad paragraph 1

- 6 This Recommendation covers the economic impacts of pension institutions on the accounting (normally the financial statements) of the employer or the entity but solely from the point of view of the entity. This Recommendation is not directly applicable to the accounting of pension institutions (for which Swiss GAAP FER 26 is applicable in Switzerland) and other forms of pension plans.

Exempt from pension benefit obligations are expenses not directly related to retirement benefits in a narrower sense, such as rewards for length of service or benefits for anniversaries that are justified based on service years, as well as termination benefits etc. Also expense in connection with significant and special measures in the personnel area (e.g. redundancy programme for partial close-down of the entity) are not covered by this Recommendation. Such expenses are to be recognised as provisions and as other personnel expense.

---

### ad paragraphs 2 and 3

- 7 For all decisions for the implementation and the calculations according to this Recommendation, the following applies:

- Relevant to recognition are the probability and reliability of the economic impacts
- For the determination of economic benefits and economic obligations, objective, market-based and realistic assumptions are to be used.

The determination of the economic impact is based on the financial situation of each pension institution according to its last annual closing, and whose balance sheet date may not be older than 12 months. If there are indications that significant developments (e.g. fluctuations in values, partial liquidations etc.) have taken place since the last annual closing, such impacts need to be considered and disclosed in the notes.

In the case of a deficit, an economic obligation exists if the conditions for establishing a provision are met. In the case of a surplus, an economic benefit exists if it is permitted and intended to use the surplus to decrease the employer contributions, to reimburse it to the employer based on local law or to use it beyond the statutory benefits for another economic benefit of the employer.

- 8 Affiliations to collective and group plans (multi-employer plans) are to be analogously treated as autonomous and non-autonomous pension institutions of the entity. In Switzerland, collective and multi-employer plans are obliged to implement the requirements for transparency to the level of each affiliation or pension institution. If, e.g. the investment risks are not reinsured or if the legal performance guarantees (minimal interest, pension conversion rate etc.) are covered by the institution, then this institution bears the risks. In the case of a deficit of collective or group plans, this can result in an obligation for additional contributions by the related entity. If a pension institution does not bear the risk (e.g. in case of full insurance as part of a collective insurance contract), this is to be disclosed in the notes. If, in connection with the affiliation to a collective plan, the information to be disclosed cannot be determined on the basis of the individual contract, this has to be disclosed in the notes together with the coverage of the collective plan taken as a whole.
- 9 The determination of the financial situation and the determination of any existing surplus or deficit, respectively, is performed for each pension institution according to an accepted method which is appropriate to the respective pension institution:
  - Accepted and adequate methods are static models like e.g. processes oriented on Swiss occupational pension legislation (BVG/LPP, FZG/LFLP). The surplus or deficit, respectively, can therefore be gathered from the balance sheet of the pension institution (e.g. in Switzerland according to Swiss GAAP FER 26). Applicable are also dynamic models (e.g. projected unit credit method) as described in international accounting standards.
  - Technical bases, which need to be accepted and generally accessible, and the assumptions necessary to implement a method have to be connected logically. Interest rates need to be at market conditions. A method chosen for a pension institution needs to be consistently applied; if the method used is changed, the impact of the change has to be explained and quantified in the notes.

- Pension institutions with a similar starting point are as a matter of principle treated analogously. However, not all pension institutions need to be treated using the same method.

The entity determines the economic benefits or economic obligations on this basis and in accordance with the contractual regulations of each pension institution. The determination of the economic benefits or economic obligations is performed for a period of time resulting from the prevailing circumstances, e.g. based on a known or assumed concept for the financial reconstruction of a pension institution. If no adequate assumption concerning the period of time is possible, the determination is performed for a period of 5 years. If significant, the value is discounted and the present value is recognised in the balance sheet.

- 10** Assets and liabilities concerning pension institutions are determined such that an economically justifiable connection to the financial situation of the pension institution at the balance sheet date exists. An asset (economic benefit) means that the entity can profit from the surplus at least in the amount foreseen. A liability (economic obligation) refers to the probable drain on the funds required to cover the deficit of the pension institution. Assessment, calculation or disclosure is performed according to the requirements for provisions.

The amounts recognised in the balance sheet may fluctuate from balance sheet date to balance sheet date. The fluctuations are recognised in the result of the period. Major determining factors are:

- changes in values of the assets and liabilities of the pension institution
- new or closed pension institution
- adaptations in the pension institution (e.g. changes in regulation for benefit obligations)
- changes in the technical bases and of further assumptions as the basis of the calculations
- development of insured persons and insured salaries
- variance between actual developments and the assumptions used for recognition in the balance sheet
- new contractual regulations (e.g. with insurance entities), changes of laws.

- 11** The following specificities apply to pension institutions in Switzerland for determining the surplus or deficit according to Swiss GAAP FER 26:

- The basis for the determination of the economic benefits or economic obligations is the non-committed funds or the underfunding recognised by the pension institution. The reserve for fluctuations in asset value as recognised and based on the pension institution's consistent practice cannot be considered as part of the economic benefit of the entity.
- A pension institution exclusively financed by the entity and – except for discretionary benefits – also pursuing a financing purpose (patronage welfare fund) is included in the determination of the economic benefit of the organisation. If an explicit employer contribution reserve is recognised by such a pension institution, then two asset items are to be stated in the balance sheet of the entity: On the

- one hand, the employer contribution reserve to be capitalised and, on the other hand, the economic benefit from the non-committed funds determined according to Swiss GAAP FER 16.
- The determination of the economic obligations of the entity in case of a deficit in the pension institution needs to reconcile to the measures foreseen or taken in connection with a financial restructuring and with the assumptions of the pension institution, i.e. the entity reflects in its balance sheet the manner in which it acts or intends to act in regard to the pension institution.
  - Concerning the recognition of economic benefits, the conditions and provisions of the pension benefit law as well as of the legal requirements concerning foundations are to be clearly stated and respected. This applies particularly for any deductions or exemptions from contributions.

---

**ad paragraph 4**

- 12 Employer contribution reserves of the entity which it can use as contributions at anytime and which are separated as employer contribution reserves by the pension institution are to be recognised as assets in the amount of the economic benefit (at present values) even if such assets need not be recognised in the financial statements according to the statutory requirements. The consistent recognition of the employer contribution reserve leads to the expense recognition being shifted to the time of its utilisation rather than at the time of its transfer to the pension institution. The expense concerning the current accounting period according to Swiss GAAP FER 16 consists of the contributions paid by the entity concerning the current accounting period regardless of whether the contributions are directly paid or whether the employer contribution reserve is used.
- 13 An entity can grant the pension institution a conditional waiver of use. The objective of the entity normally is to economically reduce or eliminate the deficit of the pension institution or to support the required risk diversification regarding the asset management strategy chosen by the pension institution. As long as a waiver of use formally exists, no economic benefit can be derived from the respective part of the employer contribution reserve (at least in the amount of the deficit).

---

**ad paragraph 5**

- 14 This Recommendation overrides the disclosure requirements of Swiss GAAP FER 23 regarding the provisions for pension benefit obligations.

## Example

This example is for illustrative purposes only. It is intended to show the application of the Recommendation and to clarify its meaning.

### Example for the disclosure in the notes according to Swiss GAAP FER 16, paragraphs 4 and 5:

#### Pension institutions

Employer contribution reserves (ECR) <sup>1</sup> in CHF 1'000	Nominal value 31.12.20x2	Waiver of use 31.12.20x2	Balance sheet 31.12.20x2	Accumulation 20x2	Balance sheet 31.12.20x1	Result from ECR in personnel expenses	
						20x2	20x1
Patronage funds/patronage pension institutions	5'177	-1'600	3'577	0	5'166	1'589 <sup>2</sup>	-
Pension institutions	1'000	0	1'000	200	800	-	-
<b>Total</b>	<b>6'177</b>	<b>-1'600</b>	<b>4'577</b>	<b>200</b>	<b>5'966</b>	<b>1'589</b>	<b>-</b>

Economical benefit/economical obligation and pension benefit expense in CHF 1'000	Surplus/deficit 31.12.20x2	Economic share of the entity		Change to prior year period or recognised in the current result of the period, respectively	Contributions concerning the current period	Pension benefit expenses within personnel expenses	
		31.12.20x2	31.12.20x1			20x2	20x1
Patronage funds/patronage pension institutions	100	0	0	0	0	1'589 <sup>3</sup>	0
Pension institutions without surplus/deficit						638	674
Pension institutions with surplus	17'286	1'735	1'321	-414	1'010	596	1'216
Pension institutions with deficit	-2'644	-620	-918	-298	926	628	991
Pension institutions without own assets		-500	-480	20	32	52	48
<b>Total</b>	<b>14'742</b>	<b>615</b>	<b>-77</b>	<b>-692</b>	<b>2'606</b>	<b>3'503<sup>4</sup></b>	<b>2'929</b>

- 1) In case that the ECR will be used in the far future, only, the nominal value can be discounted and the discount be disclosed in a separate column of the above table.
- 2) In the current year a waiver of use of TCHF 1'600 has been granted; the ECR has been increased by an interest of TCHF 11 (TCHF 1'589 = TCHF 1'600 - TCHF 11). The interest income of TCHF 11 can separately be disclosed as financial income.
- 3) Including result from ECR.
- 4) Including result from ECR (TCHF 3'503 = TCHF -692 + TCHF 2'606 + TCHF 1'589).

## Glossary

### Surplus

A surplus consists of the positive dotation capital and the positive non-committed funds and the income surplus according to FER 26/7 J+Z.

### Deficit

A deficit consists of the negative dotation capital and the negative non-committed funds/underfunding and the expense surplus according to FER 26/7 J+Z.

### **Economic benefit of the entity (see above table)**

The economic share of an entity is the economic benefit or economic obligation, respectively, at the balance sheet date. Concerning Swiss pension institutions an economic benefit results if it is – cumulatively – permitted and intended to benefit from a surplus or if the conditions to build a provision according to Swiss GAAP FER 23 concerning a deficit are met.