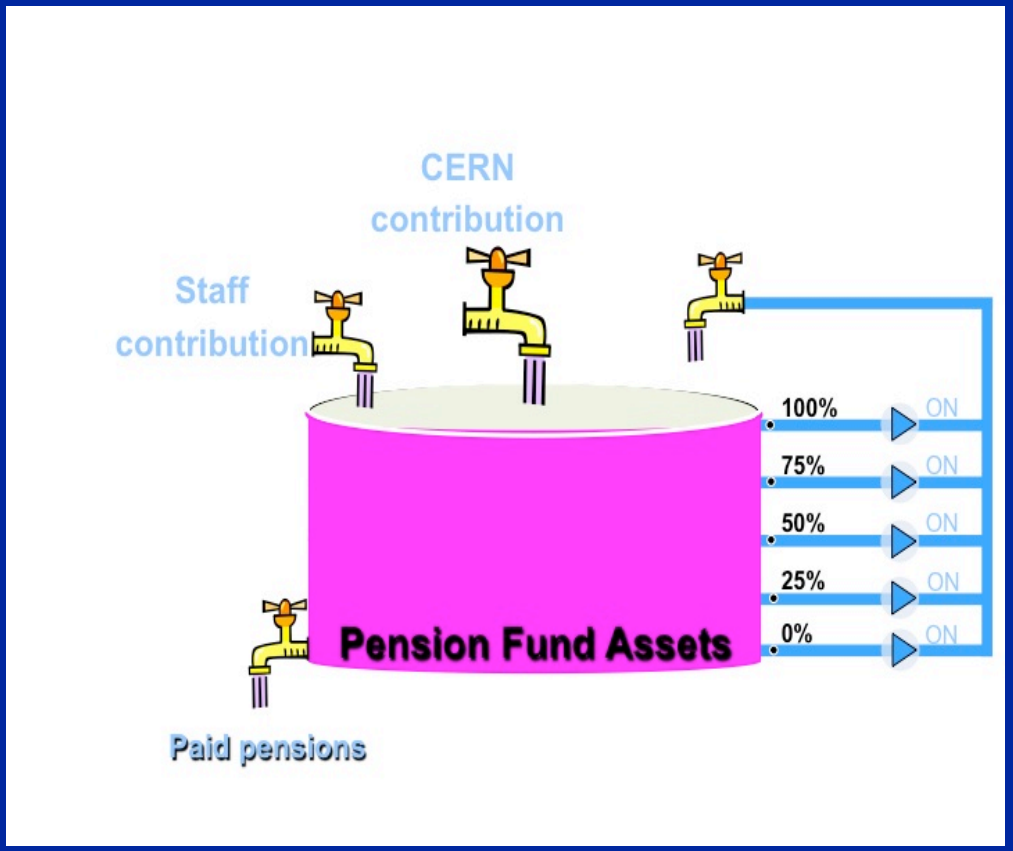
CERN
Introduction to the CERN pension fund and new rules from 1st January 2012

Conference of the Staff Associations
of International Organizations
10-11 October 2013

CSAIO / CAPOI 14
(UNIDO Vienna)

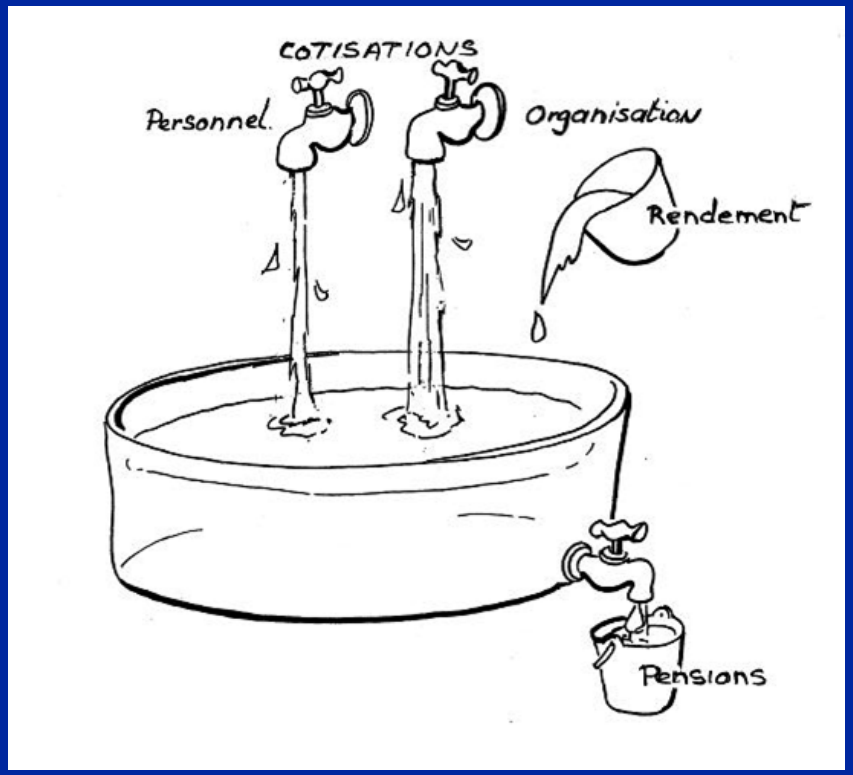
Outline

- Pension schemes
- The CERN Pension fund
  - Why a CERN PF?
  - Structure and function
  - Principle and rights
  - Benefits
  - Full funding
- CERN Pension fund numbers



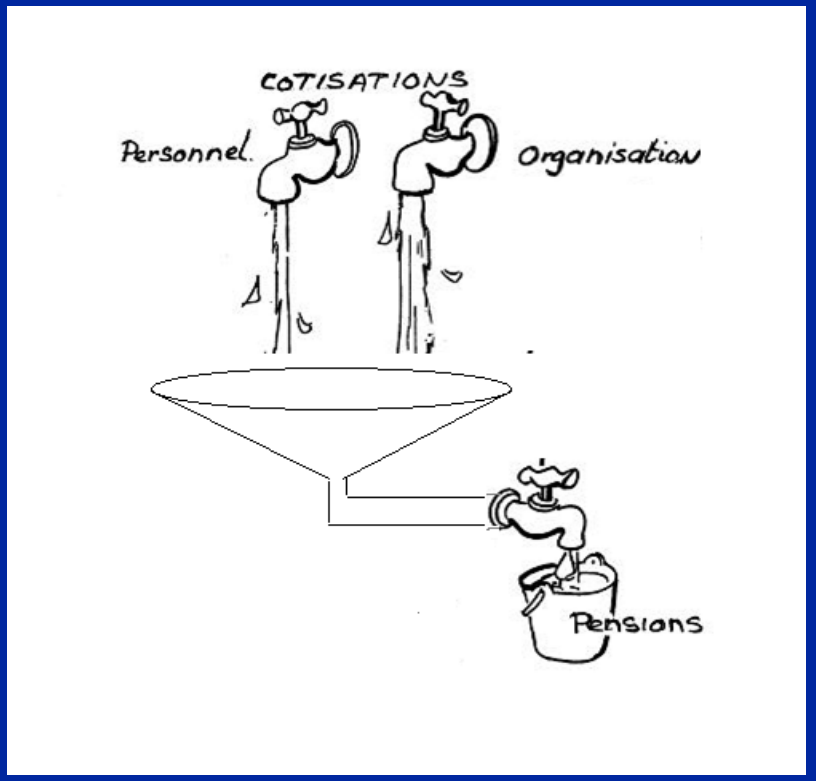
Pension schemes (1)

Capitalized scheme



1st generation accumulated capital: income = contributions + capital gain: **“capital investment management”**

Budgetised scheme



Payments are made from the cash-flow:

income = contributions: **“contract between generations”**

Pension schemes (2)

Defined contributions

The total amount of contributions paid into the scheme at the moment of retirement determines the benefits paid out. It acts like a savings account:

"Guarantee on contributions"

- *The pension level depends on performance of investment portfolio*
- *The staff member shoulders all the risk*

Defined benefits

The level of benefits is defined upfront and the contributions are calculated to insure that the Fund will be able to pay them:

"Guarantee on pensions"

- *Risk shared between staff member and sponsor*

CERN Pension Fund

CERN PF is based on a defined-benefit scheme

- Level of pension depends on member's:
  - last salary/last 3 years positions
  - years of membership
  - age (reduction factors below age of retirement)

CERN PF is a capitalized scheme

- Funding are contributions & return on investments
- No legal obligation to reach full funding, but a Council decision following new governance in 2007: "the fund must be fully funded"

Why a CERN Pension Fund?

CERN is an International Organisation (Nation + employer)

- Must be independent of Member states
- Must guarantee equal treatment between all staff members, independently of origin. This applies in particular to the pension rights
- Staff members are no longer part of a national social insurance scheme

Structure and Function

- Status (art. I 2.01)
  - CERN PF is integral part of CERN
  - Under supreme authority of CERN Council
  - Administration + management independent of CERN/ESO
- Assets (art. I 2.02)
  - Deposited and held in fund separately from CERN/ESO
  - To be used exclusively for paying benefits to PF members
- Bodies (art. I 2.03)
  - Governing Board
  - Investment Committee/Actuarial Technical Committee
  - Administrator (also called *CEO*)
  - Consulting actuaries, medical practitioners, auditors

Governing Board

- Functions (art. I 2.04)
  - Apply policy of CERN Council
  - Supervise and monitor management of Fund
  - Define investment policy of assets
  - Submit proposals/opinions to CC and FC concerning PF
- Composition (art. I 2.05, since 1 Nov. 2007) Mandate ≤ 6 yrs
  - Two nominated by CERN Council
  - One nominated by ESO Council
  - One nominated by DG of CERN

  } Employer reps.

  - Two nominated by CERN Staff Association
  - One nominated by ESO Staff Association
  - One nominated by CERN/ESO pensioners

  } Employee reps.

  - Two professional experts nominated by CERN Council

Resources and Guarantee

- Resources of the Fund (art. I 3.01)
  - Contributions Organizations (CERN+ESO)
  - Contribution members (CERN + ESO)
  - Income investment assets
  - Gifts + legacies
- Guarantee of benefits (art. I 3.03)
  - Respective Organizations as long as they exist
  - Dissolution of CERN:
    - Creation of Foundation under Swiss law to guarantee the rights acquired at date of dissolution
    - Implement steps for integration into national social security schemes of MS which guarantee equivalence

Founding principles

- Solidarity
  - Between couples and single people
  - Between people with children and without
  - Between high and low earners (C factor = 1.3416…1.2059)
  - Between all members and beneficiaries
- Mutual insurance
  - Risks shared by all members of the scheme to ensure that everybody is entitled to the right benefits
- Equality of treatment
  - Men and women have equal rights (surviving spouse pension, retirement age)

CERN pensioners rights

- Defined benefit scheme
- Acquired rights (art. III 1.02) (for members < 01.01.12)
  - Right of benefits applicable to those to which staff was subject before introduction of new rules, or, to new rules if they are more favourable
- Protection beneficiaries' purchasing power (art. II 1.15)
  - *Until 2005: ad hoc* adjustments for inflation (full or partial) granted to retirees (−8.1% between 1984 and 2005)
  - Since 2006: Geneva consumer price index multiplied by factor taking into account funding ratio of the Fund

    → method defined in Annex C (maximum individual loss 8%)

CERN Pension Fund

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  - last salary/(last 3 years positions)
  - years of membership
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CERN PF is a capitalized scheme

- Funding are contributions & return on investments
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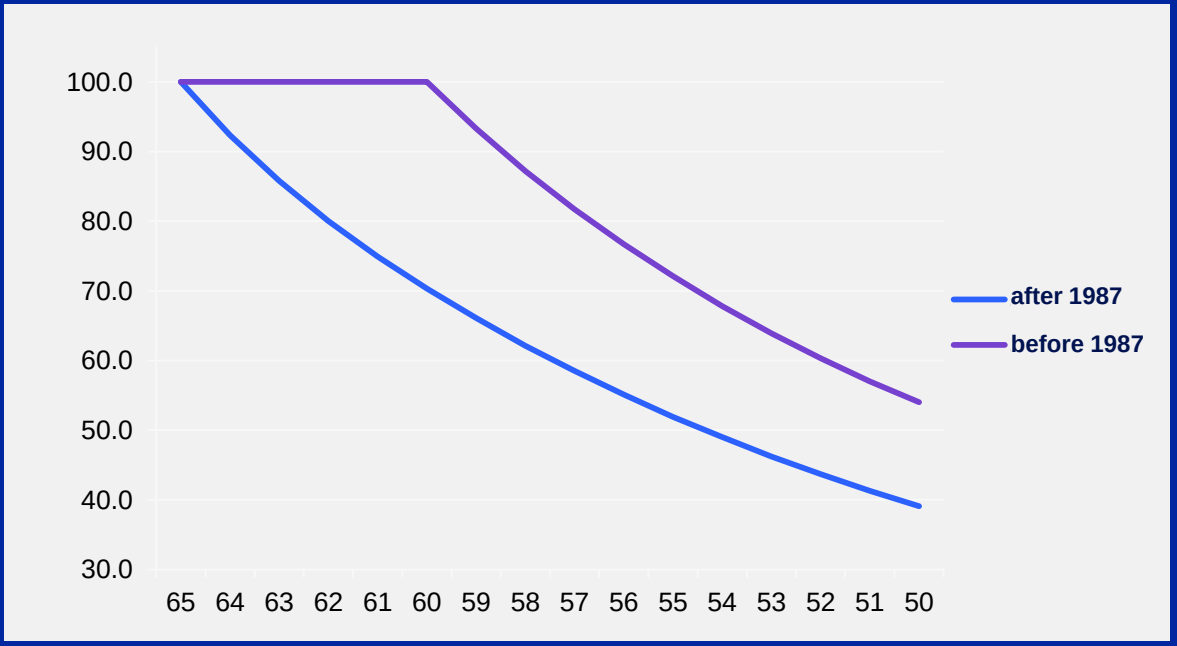
Benefits (1)

- Retirement pension (art. II 2.01, 2.02)

  2% (1.85% for new staff after 01-01-2012) per year, max. 70% of last reference salary (last 3 years position), times C factor (art. II 1.03, appendix A)

- Anticipated retirement pension (art. II 2.04): age ≥ 50

  → reduction factor: < 1 July 1987, ≥ 1 July 1987 (art. II 2.05)



Benefits (2)

- Transfer value (art. II 1.13): allows transfer of (part of) accumulated sums paid into CERN PF to another scheme (obligatory for < 5yrs)
- Deferred pension (art. II 2.02)
- Incapacity and unsuitability pension (art. II 3 and 4)
- Pension for surviving spouse (art. II 5):
  - 55% of full pension (less if large age difference, etc.)
- Orphans' pension (art. II 6)
- Allowances: family, dependent child (art. II 7.01), fixed sum for surviving spouse (Annex B)

Possibility to stay in the HIS and LTC

Full Funding

Definition: funding ratio ≥ 100%

- at any time
- to be able to cover all liabilities (5.8 BCHF)

Immediate full funding achieved only by a rapid injection of capital into the Fund: +2.0 BCHF

- CERN PF total assets: 3.8 BCHF

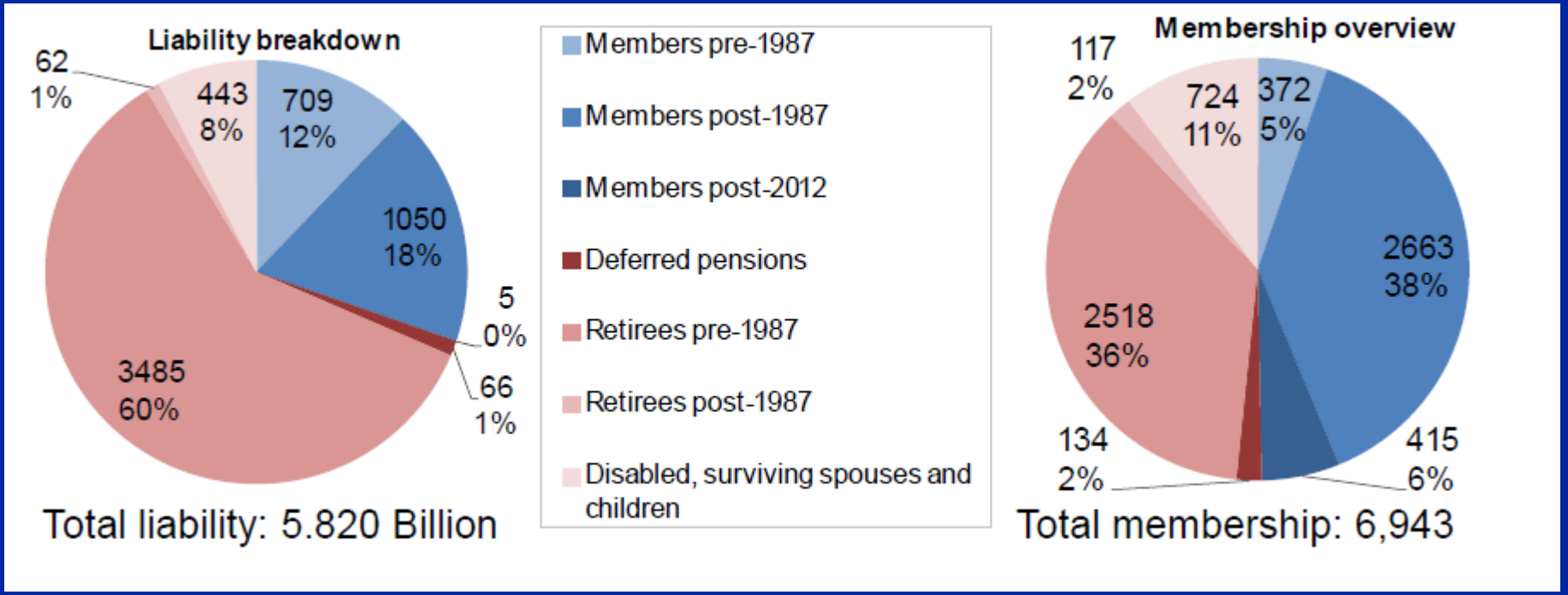
Actual funding : ~70 % ; Assets : 3.8 BCHF

How to achieve Full Funding?

Could be done by:

- reducing PF outflow with changes
  - in benefits of beneficiaries
  - in benefits of current Fund members
  - affecting future Fund members (present + new scheme)
- increasing PF intake with higher
  - financial return on assets
  - contributions

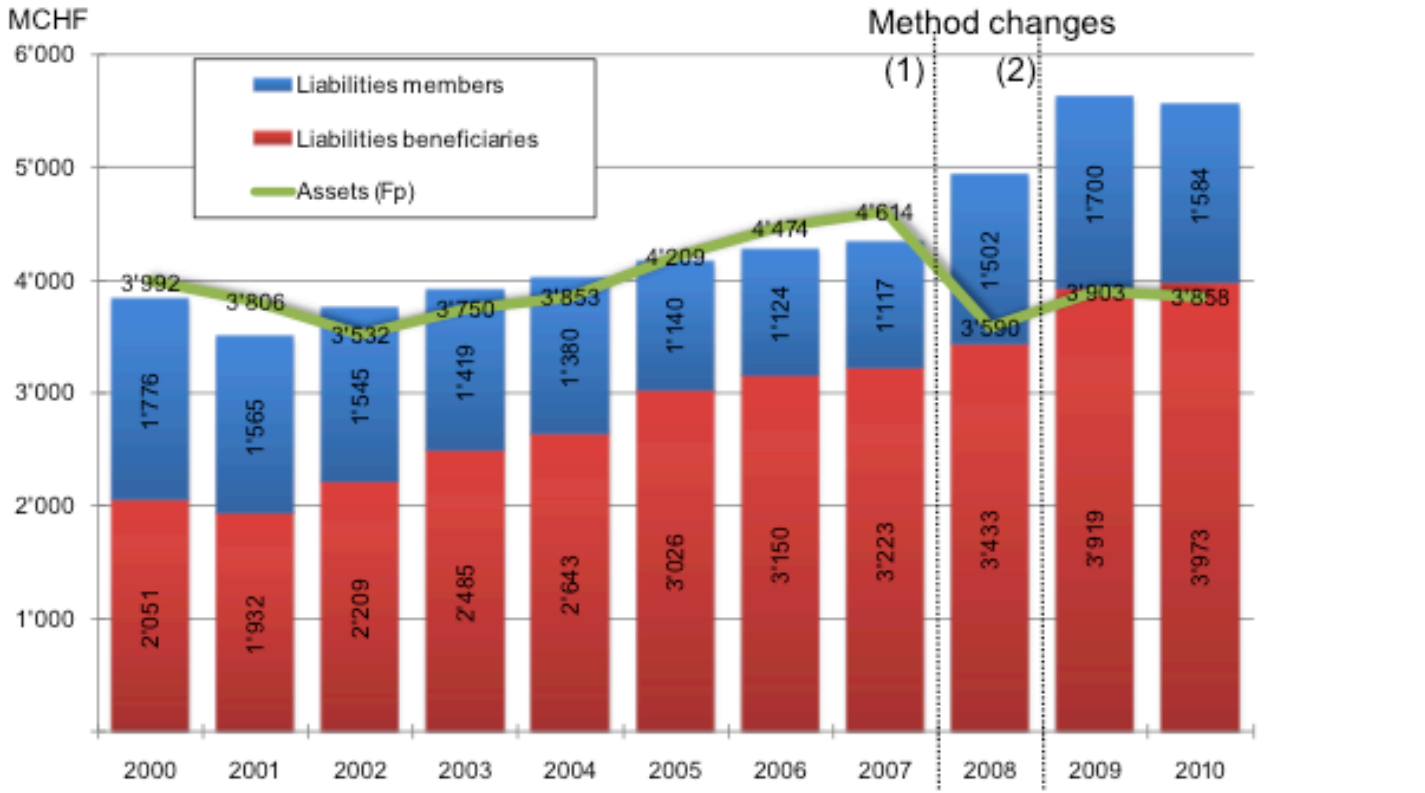
PF liability (31.12.2012)



Liabilities: 5’820
Assets: 3’822
Funding Ration: 65.9%

Membership: 6’943
Actives: 3’450
Beneficiaries: 3’493

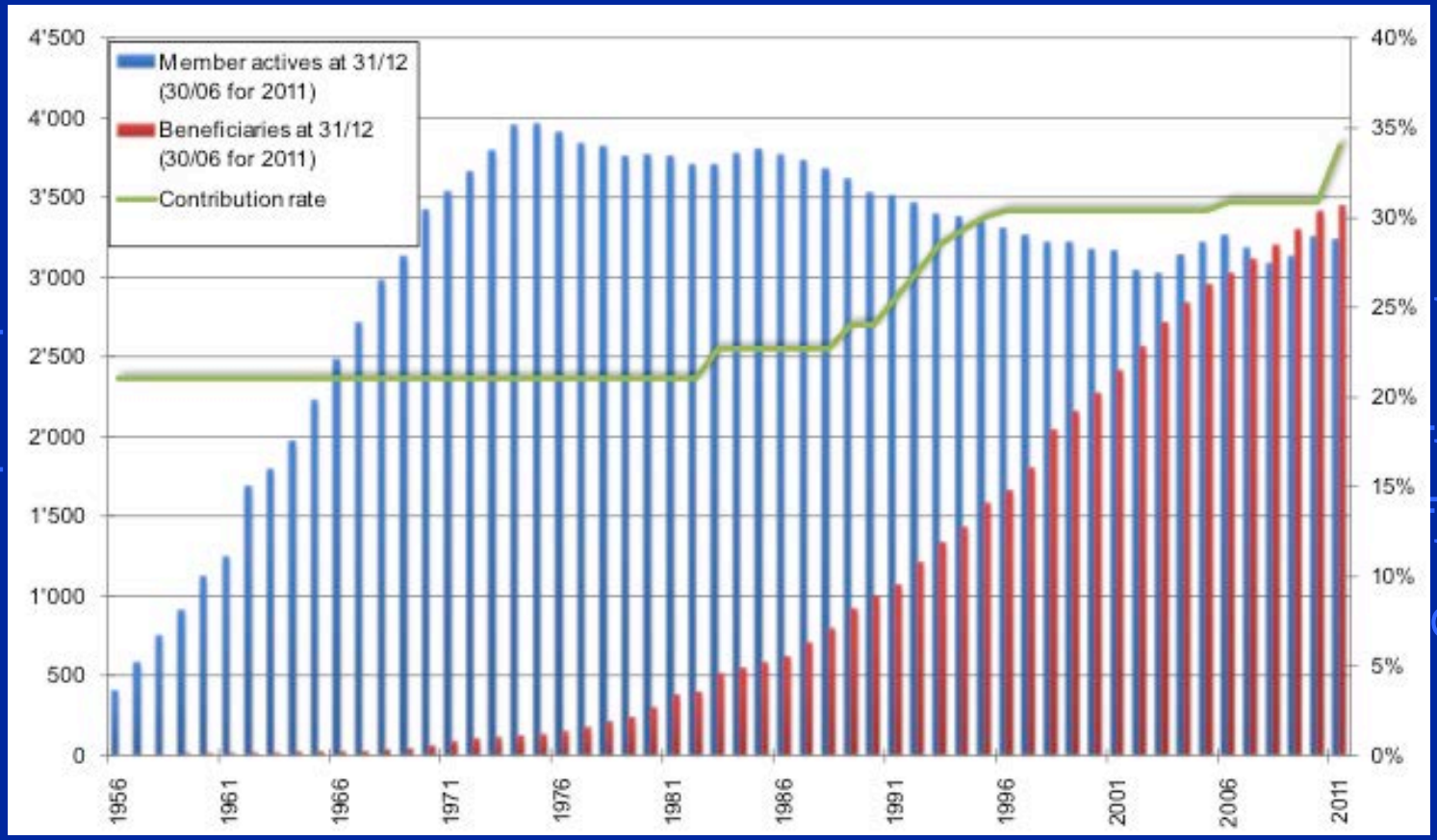
PF liabilities



(1) : First application of Projected Unit Credit Method – IAS 26 assumptions (but with a discount rate of 4.5%)
(2) : New set of assumptions – WG2 assumptions (especially maximum method and inflation rate of 2%)

- Important increase in liabilities towards beneficiaries over the last 10 years
- Slight decrease in the total liabilities in 2010
- Strong decrease in assets for the year 2008, stabilization in 2009 and 2010

Historical Membership & Contribution Rate



2012

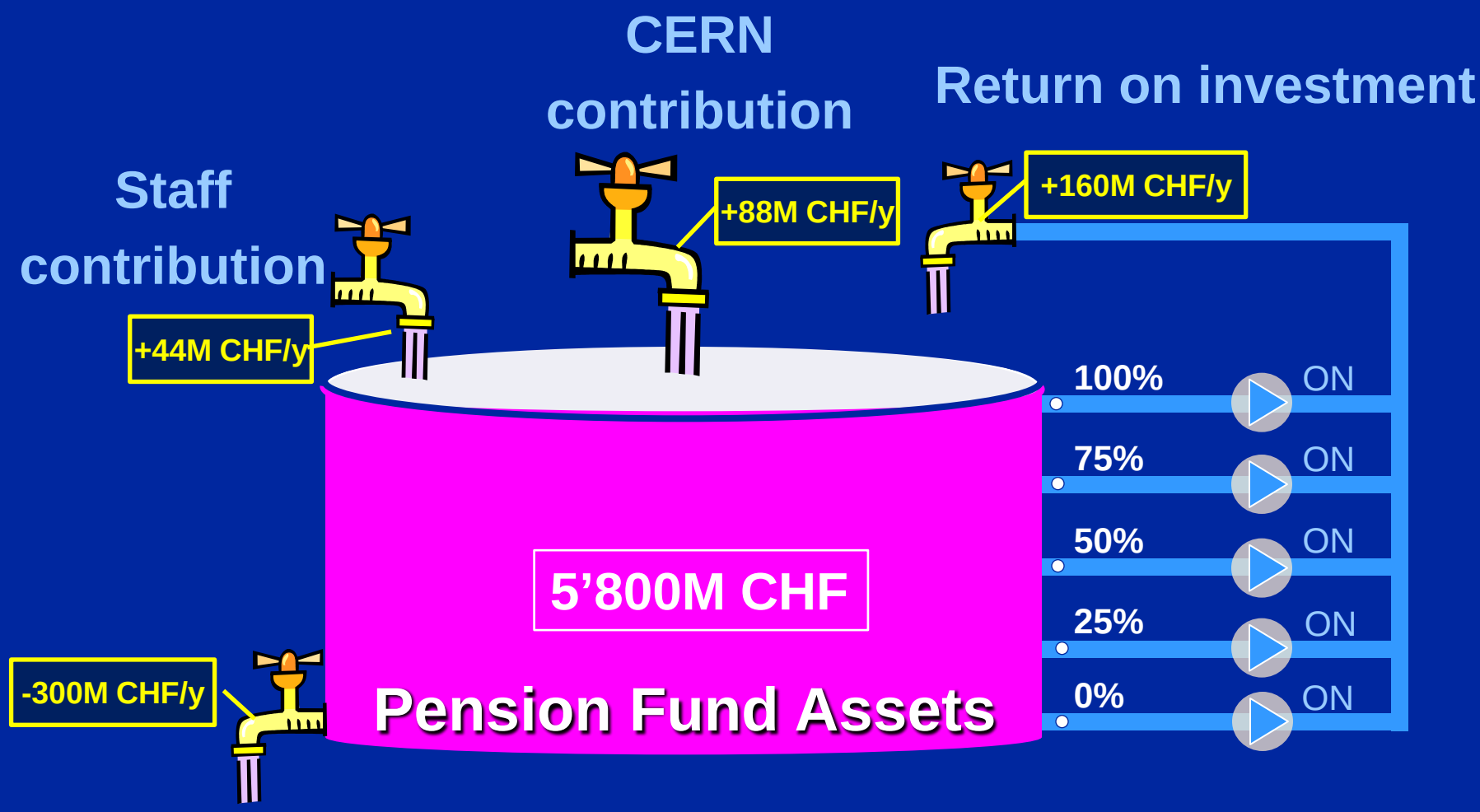
Staff: (New)
11.3% (12.6%)

Org:
22.7% (19.0%)

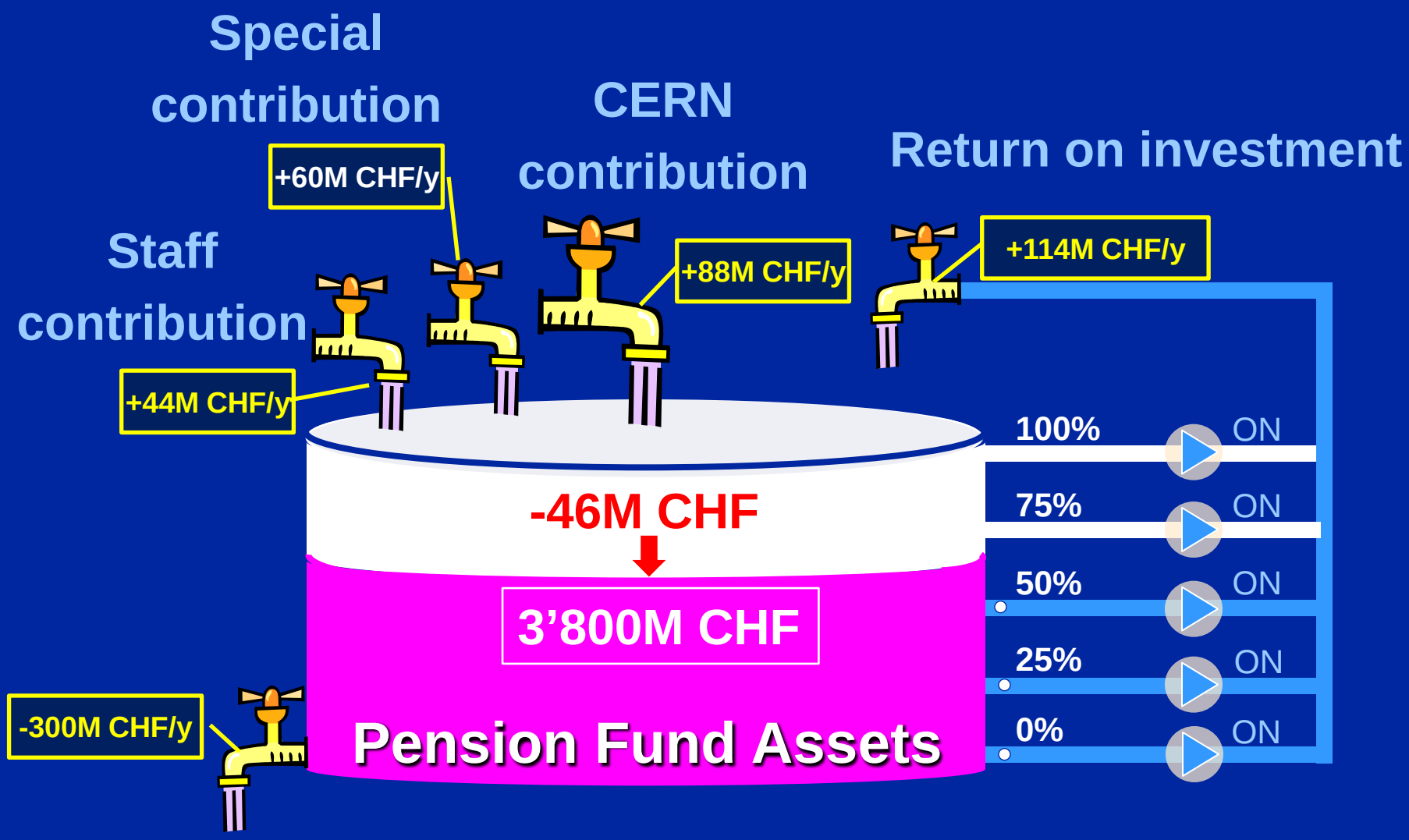
Total:
34.0% (31.6%)

- Contributions unchanged at 21% for 26 years
- During this period, numerous improvements granted
- Contributions increased after retirees > 1000 and active population matured

Fully funded CERN pension fund



CERN pension fund 31.12.12



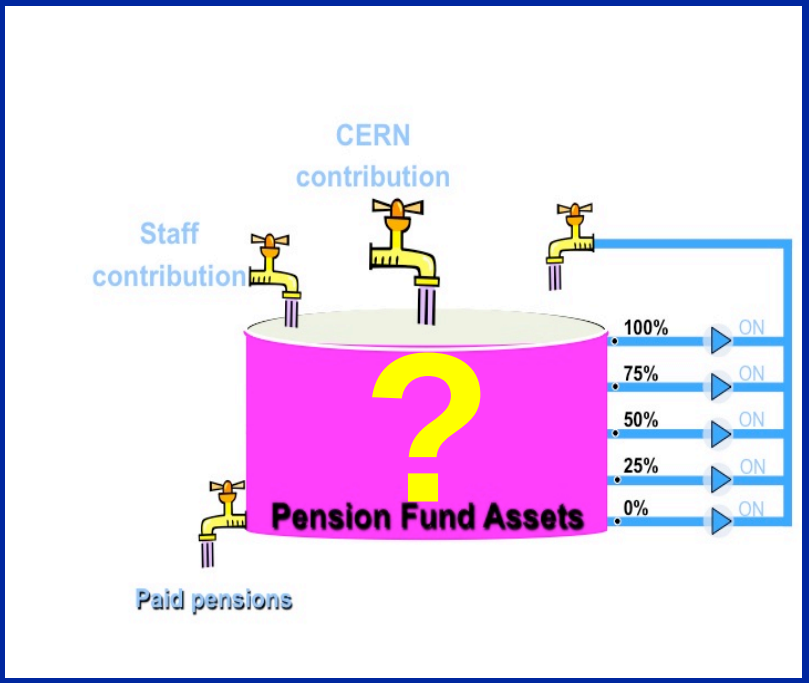
Fund & capital performance

- Funding Ratio
  - Income/liabilities at any time: FR=100%=capital constant
  - Less than 100%: eat up capital “negative cash flow”
  - Between 100% and 110%: permits stable management
  - Above 110%: can increase pension indexation and/or decrease contributions
- Need to calculate obligations
  - Hypothesis on mortality, capital performance, simulations: actuarial studies

PF of the IO world

Org.	When	Type of pension plan	Contributions						Full pension	Years to full pension	Age limit	Annual adjustment
			Total		Employee		Employer					
EPO	Before Jan.09	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	60yr	As salaries
			27.3%	=	9.1%	+	18.2%					
	From Jan.09	Mixed DB DC	share	=	1/3	+	2/3		70% of Last salary	35yr	60yr	As salaries
			21.0%	=	7.0%	+	14.0%					
			6.3%	=	2.1%	+	4.2%					
EIB	Before Jan.09	DB	share	=	1/3	+	2/3		70% of Last salary	30yr	60yr	As COL
			30.0%	=	10.0%	+	20.0%					
	From Jan.09	DB	share	=	1/3	+	2/3		70% of Average salaries of last 10 years	35yr	65yr	As COL
			30.0%	=	10.0%	+	20.0%					
WTO	Before Jan.10	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	62yr	As COL
			22.5%	=	7.5%	+	15.0%					
	From Jan.10	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	65yr	As COL
			23.7%	=	7.9%	+	15.8%					
ESA	Before July.10	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	60yr	As salaries
			25.1%	=	8.4%	+	16.7%					
	From July.10	DB	share	=	40%	+	60%		70% of Last salary	35yr	63yr	As COL
			23.3%	=	9.3%	+	14.0%					
EUMETSAT	Before Jan.11	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	60yr	As salaries
			27.0%	=	9.0%	+	18.0%					
	From Jan.11	DB	share	=	40%	+	60%		70% of Last salary	35yr	63yr	As COL
			23.3%	=	9.3%	+	14.0%					
CERN / ESO	Before Jan.12	DB	share	=	1/3	+	2/3		70% of Last salary	35yr	65yr	Freeze (-8%) then as COL
			34.0%	=	11.3%	+	22.7%					
	From Jan.12	DB	share	=	40%	+	60%		70% of Average positions of last 3 years	37yr10m	67yr	-8% then as COL
			31.6%	=	12.6%	+	19%					

END



Thank you for your attention

I am available for any questions or further information

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