Reserve Regulations

Tellco pk

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I. General provisions

1. Introduction

Reserves ensure that benefits are guaranteed and that Tellco pk remains financially sound even if extraordinary events occur.

2. Principles

2.1. The Foundation maintains various compartments. A compartment consists of one or more pension funds. The Foundation keeps separate accounts for each compartment.

2.2. These regulations specify the reserves used. For each compartment, the technical bases currently valid and the reserves used are set out in the appendix to these regulations.

II. Value adjustment reserves

3. Definition

The value adjustment reserves are the reserves that are to be set aside for investments. Risks arise from investment of the funds and the interest guarantee, which must be covered by taking appropriate precautions.

4. Matter of concern

4.1. While it is possible to have extraordinary earnings when the financial markets are strong, it must be kept in mind that there are also phases of rather difficult financial market conditions for which provisions must be made, as the benefits and the corresponding actuarial criteria should also be guaranteed in difficult market phases. The amount of these reserves generally should be set so that even in the event of extreme price fluctuations, sufficient reserves are available to prevent a corresponding reduction in benefits and so that it is possible to continue entrepreneurial investment of the funds.

4.2. Since the individual investments have different magnitudes of fluctuation, the reserves must be determined in proportion to the share of the individual investment categories. While it is extremely attractive to invest in equities in a normal environment, equity securities can be subject to greater short-term price fluctuations when times are difficult. The above-average return achieved over long periods of observation must therefore be paid for through correspondingly lower valuations or price reductions in bad phases. The greater the proportion of volatile instruments in a fund, the higher the reserves need to be.

4.3. The determining factors for the value adjustment reserve are:

- Current and target asset allocation structure (strategic and tactical asset allocation) as well as its return and risk characteristics.
- The target return (return necessary to finance the interest on savings and coverage capital, administrative costs, increase in life expectancy, voluntary benefits).

4.4. In addition to reserves due to fluctuations in the financial markets, provisions must also be made in case of an extended period of low interest rates. The pension fund must be able to ensure the minimum interest rate even in times of very low yields; this is possible through the maintenance of appropriate additional reserves.

5. Creation and release of reserves

5.1. If the annual result is positive, the gain in securities value is used to increase the value adjustment reserve to the target value. If the annual result is negative, this loss is to be debited from the value adjustment reserve as far as possible.

5.2. A value adjustment reserve shall be established or dissolved for each investment strategy at the level of the pension fund (FLEX and INDIVIDUA compartments) or the compartment (PRO and PULSE compartments) in order to offset value adjustments by investments.

6. Amount of the reserves

6.1. The value adjustment reserves are determined as a percentage of the tied funds (particularly the retirement assets of the active insured persons as well as coverage capital of the pensioners) and are determined using financial and economic criteria as the basis.

6.2. The responsible bodies determine the necessary safety level (usually 97.5%, 98.5% or 99%) and the duration of effectiveness (usually 1, 2 or 3 years).

6.3. The current target values of the fluctuation reserves can be found in the appendix to the Investment Regulations (e.g. PRO, PULSE, FLEX compartments) and in the appendix to the affiliation agreement (INDIVIDUA compartments).

6.4. The assets are valued at market value, but no more than the value permitted under the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA – *Bundesgesetzes über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge, BVG*).

6.5. The reserves are to be calculated or at least verified by the pension actuary once a year in conjunction with the closing of the pension fund and the preparation of the actuarial balance sheet.

6.6. The target value and the actual value must also be shown in the appendix to the annual financial statements.

7. Responsibility for the determination

Any changes to these stipulations must be made by the Board of Trustees.

III. Actuarial reserves

8. Definition

8.1. The setting aside of actuarial reserves is intended in particular to compensate for changes in demographic developments and risk trends.

8.2. Actuarial reserves shall be established or dissolved at the level of the pension fund (FLEX and INDIVIDUA compartments) or the compartment (PRO and PULSE compartments).

A. Longevity reserve

9. Matter of concern

9.1. At the time of the calculations, several years have passed since the calculation bases were prepared and the data was collected. There is no evidence that the trend toward humans living longer will come to an end in the future, so a longevity reserve must be set aside.

9.2. For pension recipients, this reserve is intended to enable a seamless transition to the technical bases that are newly issued on a periodic basis. In this regard, the presumed increase in the cash values and coverage capital is set aside on a pro-rata basis.

9.3. The reserve is therefore measured on the basis of the number of years that have passed since the respective actuarial bases used were issued and is recorded as a special item in the liabilities of the actuarial balance sheet.

10. Creation and release of this reserve

The amount or the creation and release of the longevity reserve are reviewed annually within the scope of the actuarial information for the annual financial statements, taking into account the actual life expectancy calculated by the pension actuary.

11. Reserve amount

A total of 0.5% of the coverage capital of the pension recipients per year since the last technical basis was issued. This is reported in the balance sheet item "Pension capital pensioners".

12. Responsibility for the determination

The Board of Trustees determines the amount of this reserve based on a recommendation by the pension fund's recognised pension actuary on the basis of the current life expectancy development.

B. Increasing the actuarial bases (provision for a reduction in the technical interest rate)

13. Matter of concern

13.1. The appendix shows the technical interest rates currently used for the various compartments.

13.2. If a compartment differs from the recommendation of the pension actuary for the actuarial interest rate, the following applies:

14. General policy

14.1. As per the legal requirements, pension capital is determined annually according to the recognised principles and the generally accessible technical bases.

14.2. The pension actuary provides the Board of Trustees with their recommendation regarding the technical interest rate for the valuation of the obligations towards pension beneficiaries and, if applicable, for the technical reserves on the basis of Guideline 4 (FRP4) of the Swiss Chamber of Pension Insurance Experts.

14.3. If the technical interest rate selected by the responsible body is higher than the recommendation of the pension actuary and the security of the pension fund appears to be at risk, the actuary recommends measures to the responsible body so that the recommended technical interest rate can be achieved after seven years at the latest. The actuary takes into account in these measures the existence of a technical reserve for the reduction of the technical interest rate. If the identified deviation from the actuary's recommendation for the technical interest rate increases before the expiry of the set period, the actuary recommends an adjustment of the measures.

14.4. The applied actuarial interest rate can deviate from the actuary's recommendation, so this circumstance leads to formation of a corresponding technical provision that takes into account the costs of increasing the pension capital when applying the recommended interest rate.

15. Creation and release of this increase

The amount and the creation and release of the reserve is reviewed as part of the annual calculations of the actuarial information for the annual financial statements.

16. Reserve amount

The amount of this reserve is determined within the scope of preparation of the actuarial report, taking into account FRP 4.

17. Responsibility for the determination

The Board of Trustees determines the amount of this reserve after consultation with the pension fund commission based on a recommendation by the pension fund's recognised pension actuary.

C. Provision for the conversion rate

18. Matter of concern

This reserve is intended to ensure that the envisaged conversion rate, which is periodically set by the Board of Trustees, can continue to be applied in the medium term even if the technical conversion rate is lower.

19. Creation and release of this increase

If the annual result is positive, the surplus return is used to increase the value of this provision. If the target level of the reserve is not reached, this reserve can be built up over a period of no more than seven years. If necessary, the Board of Trustees may also decide to increase the contributions of the employees and the employers instead of increasing the reserve.

20. Amount of the reserves

20.1. To cover the current costs associated with this, the Foundation creates a reserve for insured persons who will reach the normal retirement age within the next seven years. This reserve is the difference between the statutory and technical conversion rate and is progressive.

20.2. The probability that the benefit will be drawn in lump-sum form is also taken into account.

20.3. The Board of Trustees reviews the amount of this reserve once a year within the scope of approval of the annual financial statements.

21. Responsibility for the determination

The Board of Trustees will make any amendments in consultation with the pension fund's recognised pension actuary.

D. Risk fluctuations in pensioner portfolios

22. Matter of concern

In the case of relatively small pensioner portfolios, life expectancy of pensioners normally varies from the statistical average life expectancy as a result of insufficient risk equalisation and the impossibility to apply the law of large numbers at the moment. The purpose of the reserve is to compensate for risk fluctuations in case of pensioner deaths.

23. Creation and release of this increase

If the annual result is positive, the surplus return is used to increase the value of this provision. If the target level of the reserve is not reached, this reserve can be built up over a period of no more than seven years. If necessary, the Board of Trustees may also decide to increase the contributions of the employees and the employers instead of increasing the reserve.

24. Amount of the reserves

24.1. The reserve for risk fluctuations is determined using the following formula:

Provision factor = $0.5 \times 1/n^{0.5}$

where n equals the number of pensioners. Child's pensions and OASI bridging pensions are not counted in the number of pensioners.

24.2. A maximum value can be set for the provision factor calculated in this way.

24.3. The reserve is calculated by multiplying the provision factor by the pension capital of pensioners. The pension capital of the child's pensions and the OASI bridging pensions are not taken into account in the calculation.

25. Responsibility for the determination

The Board of Trustees will make any amendments in consultation with the pension fund's recognised pension actuary. The Board of Trustees determines for each compartment whether this reserve be applied.

E. Incurred but not reported reserves

26. Matter of concern

The incurred but not reported reserves include the necessary reserves that result from the takeover of affiliations.

27. Creation and release of this increase

This reserve is recalculated annually on the basis of the pension cases that have come into being or are pending.

28. Amount of the reserves

Start value according to the corresponding asset transfer agreement, adjusted annually to actual developments in each case.

29. Responsibility for the determination

The pension fund's recognised pension actuary will make any amendments.

IV. Concluding provisions

30. Summary

30.1. The reserves should be sufficiently built up at the end of each year.

30.2. Any surplus, that is, any free funds determined on the basis of the above calculation, are then at the disposal of the responsible body in accordance with the purpose of the Foundation.

30.3. If free funds are then distributed, the pensioners and active insured persons are to be treated equally on a pro-rata basis.

31. Amendments

The Board of Trustees may amend or supplement these Reserve Regulations at any time. The amended regulations must be submitted to the supervisory authority for information purposes.

32. Entry into force

These Regulations were approved by the Board of Trustees on 15 December 2023 and will enter into force on 31 December 2023. They supersede the Reserve Regulations that were approved by the Board of Trustees on 2 December 2022 and which entered into force on 31 December 2022.

15 December 2023

Tellco pk
Board of Trustees

In case of differing interpretations, the German text is authoritative.