allea Ltd

Consultants and Actuaries

2025 review

Employee benefits accounting

at 31 December 2024

A forward-looking analysis of trends under **IAS 19**, **ASC 715** and **IPSAS 39**

1.

Average funding levels under accounting standards were **stable** year-on-year at around 91 %.

This is despite the fall in discount rates from 1.55 % per year to **0.98 %** per year, on average.

This increase in liabilities was covered by **strong investment performance** which usually resulted in interest credits above the Swiss minimum rate.

2.

Our survey of **210 companies** with 31 December year-ends shows a “set-and-forget” approach to accounting assumptions that is highly prevalent.

This is particularly true for **demographic** assumptions.

This is likely to result in assumptions that are **not best estimate**.

3.

The proportion of retirement benefit taken as cash increased from **32 % to 36 %** in the companies surveyed, though this still lags behind the published Swiss average of 39 % in 2023.

Driven by falling conversion rates and increasing wealth, this ongoing trend is underscored by the published Swiss average reaching **43 % in 2024**.

At the time of writing, 2025 investment returns have out-performed discount rates for the same period.

This is despite falls in bond prices which have **increased discount rates** by around 10 basis points.

This increase in discount rates will further accelerate the improvement in funding levels.

We are continuing to see a push from auditors to increase the assumption for **future interest credits**.

Companies making such an increase in assumption may find that doing so results in an overall deterioration in their accounting balance sheet.

As this depends on multiple factors, such as the extent of assumption increase, the maturity of their pension plan and their level of turnover, companies that are sensitive to their accounting results should review this in advance of year.

Indeed, increasing numbers of our clients are reviewing their accounting position during the year, whether formally as part of quarterly reporting or simply for internal budgeting.

In late December we expect the latest **actuarial tables** in the popular BVG series to be published. These will be based on experience of the fourteen largest Swiss occupational pension schemes for the years 2020 to 2024 inclusive.

Depending on the precise timing of availability and companies' deadlines, it may be possible to reflect this latest experience in 2025 year-end results.

The latest experience is usually considered as the best estimate of the future.

Companies that have not already done so should do the following to ensure that their assumptions are best-estimate:

1. Whilst the assumption for the **proportion of retirement benefit taken as cash** increased from 32 % to 36 %, this still lags behind the Swiss average.

The national trend toward cash lump sum payments at retirement continues its strong progression. The published Swiss average, which stood at 39 % for 2023, has escalated further, reaching 43 % in 2024.

With falls in conversion rates and increasing wealth, companies should review this assumption at their next year end.

2. Review their **turnover** assumption.
One-third of companies assume their voluntary turnover is in line with the Swiss average. Companies with a workforce of the order of 100 employees have sufficient exposure to analyse their own experience.

3. Refine their **disability** assumption.
Large companies should review their experience instead of assuming their incidence is in line with the Swiss average.

All companies reporting under IAS 19 should consider reporting their disability benefits as an “Other long-term employee benefit” as this will reduce their accrued Defined Benefit Obligation.

4. Apply IAS 19 **risk sharing** provisions.
Swiss occupational pension plans are Defined Benefit (“DB”) as there is a risk that employers will need to make additional contributions for deficits relating to benefits employees have already earned.

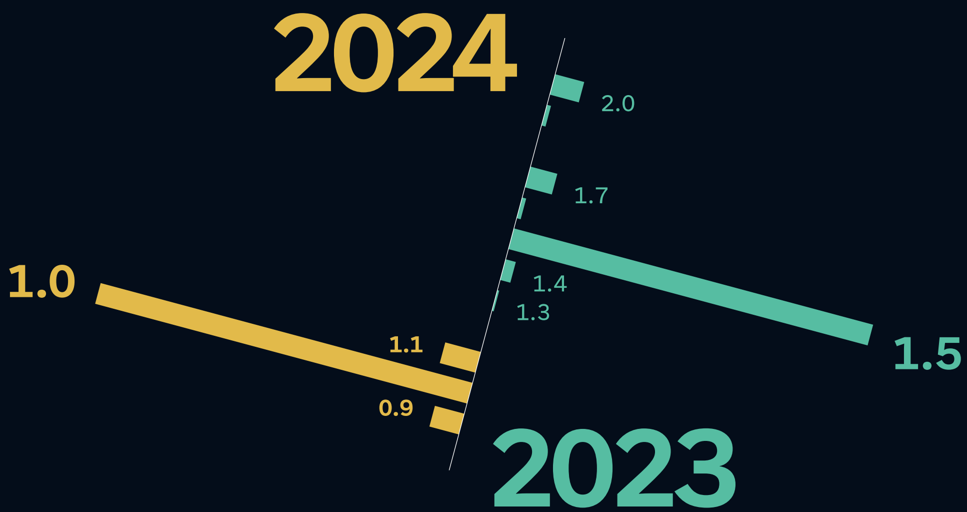
However, unlike most countries, the DB risks do not rest solely on the employer in Switzerland: employees may also have to make additional contributions and/or their benefits may be reduced.

Modelling this shared risk is complex, but companies are increasingly doing this in light of accounting deficits that rarely materialize in the form of additional contributions and hence seem unrealistic.

For more detail, please see the later section on “**Methodology**”.

Discount rate

These charts show the distribution of discount rates each 31 December



Discount rate

The charts show the marked decrease in interest rates during the second semester of 2024. These decreases increased liabilities but were more than offset by faster investment gains over the year, resulting in an improvement in funding levels on an accounting basis despite interest credits that were usually above the Swiss minimum.

The extensive accounting rules for determining discount rates result in a narrow range of assumptions such that 5 basis points covers the majority of market practice at each year-end.

Please see **allea.ch/discount-rates** for the latest discount rates.

Interest credit rate

At the end of 2023 four out of five companies surveyed set their interest credit rate assumption equal to their discount rate for savings in excess of BVG/LPP minimum.

This dropped to just one in six companies at the end of 2024.

This change follows a publication by Expert Suisse (an association of Swiss auditors) that the assumption should be based on the expected investment returns of the foundation.

For most asset classes there is significant subjectivity when estimating future investment returns.

This, combined with significant movements in this area, means it is more important than ever to seek your auditor’s approval to your intended assumptions in advance of your year-end.

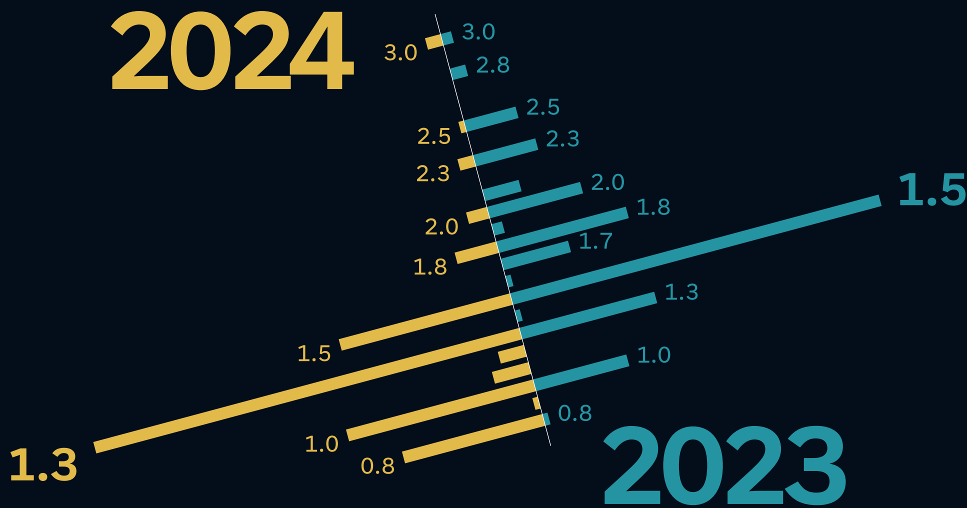
Rate of pension increase in payment

At the end of 2024, only 2 % of companies assumed there would be increases to pensions in payment.

The assumption of “no increases” has been widespread for many years.

However, this assumption should be kept under review as continued good investment returns and further falls in conversion rates at retirement make increases to pensions in payment affordable once investment fluctuation reserves have been restored.

Salary increases



Salary increases

Inflation expectations decreased over 2024, reducing the average assumption for salary increases (including promotion) from 1.65 % per year at the beginning of the period to 1.25 % per year at the end of the period.

allea's analysis suggests that inflation has reduced further during 2025 such that some companies will reduce their assumption for salary increases at their next year-end.

For more information, please see:
allea.ch/inflation

Proportion of retirement benefit taken as cash

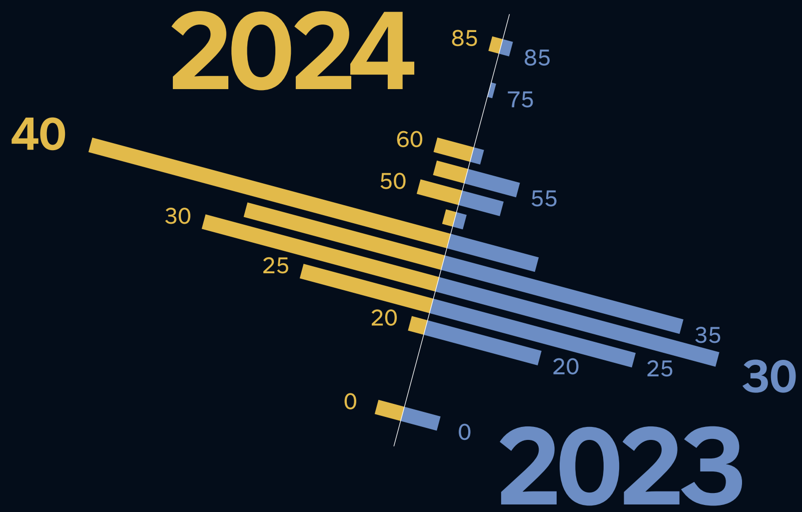
The Swiss average stands at 39 % for retirements in 2023 and 43 % for retirements in 2024. In part this is driven by falling conversion rates at retirement.

Wealthier employees, as well as foreign nationals are also likely to take more of their benefit as cash.

Companies should review their assumption considering these factors and, for large employers, their actual experience.

The next charts show a rightwards shift in line with the national trend for employees taking increasing proportions of savings as cash at retirement.

Proportion of retirement benefit taken as cash



Turnover

Large and medium sized companies, with a workforce of the order of one hundred employees, have sufficient exposure to measure their experience of voluntary turnover.

This is best practice as the starting point for setting a best estimate assumption.

Our survey shows that two out of five companies have yet to refine their assumption, instead assuming Swiss average turnover.

Disability

Nine out of ten companies surveyed assume that their incidence of disability is in line with the Swiss average.

We recommend that large companies, with a workforce of the order of one thousand employees, analyse their disability experience as this often shows that the assumption of average is an overstatement with corresponding overstatement of liability and cost.

An overstatement is more likely to be the case for companies in Consumer, Financials, Health Care, Technology and Telecommunications sectors.

All companies reporting under IAS 19 can opt to treat their temporary disability benefits as an “Other long-term employee benefit” if the benefit is defined independently of service.

This reduces the accrued amount of Defined Benefit Obligation.

Only three out of ten companies surveyed are exploiting this option.

Valuations should allow for the waiting period before disability benefits start, as well as recovery from disability and the extent of disability resulting in partial disability benefits.

allea’s market-leading study of these factors allows us to value these impacts accurately instead of making crude adjustments to disability incidence.

This makes our valuations more robust.

Mortality

The vast majority of the Swiss market relies on the BVG 2020 tables for their baseline mortality assumption.

These are derived from the experience of fourteen of the largest Swiss occupational pension schemes for the years 2015 to 2019 inclusive.

Watch out for the publication of the 2025 based on experience for the years 2020 to 2024.

Divergence in mortality assumptions arises from how mortality is projected to change in the future.

The UK actuarial profession's Continuous Mortality Investigation ("CMI") has produced a more sophisticated model for future improvement which acknowledges that different cohorts or generations are experiencing different rates of mortality improvement.

It assumes that all cohorts will trend to the same long-term rate of improvement, with the time taken to converge depending on how far each cohort's current rate of improvement is from that long-term rate.

This Swiss market most commonly assumes that the long-term rate of mortality improvement will by 1.25 % per year.

This gives shorter life expectancies than the older, FSO model of mortality improvement, resulting in lower liabilities and cost valuations.

Yet more than half of the companies surveyed still use the FSO model for their mortality assumption.

The simplest approach for applying the risk sharing provisions of IAS 19 is to make allowance for future increases to contributions from employees. We call this "Risk Sharing 1".

Four out of five companies surveyed apply this approach.

Some foundations have a written and past practice of limiting their share of the total contributions.

Allowing for this ("Risk Sharing 2") is more controversial where this limit has not been tested by a deficit occurring under Swiss measurement rules.

We have seen several companies rewording their plan rules to make their limited commitment explicit.

At the end of 2024, one in seven companies was applying this approach.

The survey is based on participating international accounting clients of allea Ltd.

The survey has been restricted to the

210 Swiss companies

with reporting year end of 31 December 2024 to enable a fair comparison of market-based assumptions.

Whilst most participants report under **IAS 19**, it also includes companies reporting under **ASC 715** and **IPSAS 39**.

We did not observe a material difference in any assumption between the different standards.

allea Ltd is an occupational benefits consultancy operating independently of banks and insurers.

It was established in 2004 with the spinoff of a profit centre that had been in existence since 1998. The joint stock company allea Ltd is wholly owned by its active partners.

We serve our clients from offices in **Baar** and **Lausanne**.

We take the needs and challenges of our clients seriously – they are what motivates us on a day-to-day basis.

allea Ltd is committed to finding flexible, individual and practicable solutions to complex issues relating to the entire field of occupational benefits.

With our team of **actuaries**, **mathematicians**, **lawyers** and **IT professionals** we can draw on the longstanding experience of experts with a proven track record, both locally and internationally.

Our corporate culture is designed to foster the development and delivery of **innovative ideas** and **solutions** for our clients.

210
Companies

40
Pension funds

230 000
Insured members

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