Pension fund: slight improvement.

Thanks to the performance of the capital markets, the financial situation of the SBB pension fund recovered somewhat: the reserve ratio rose to 84.9%. However, further measures will be needed to restore it to health.

The SBB pension fund posted a surplus of CHF 346 million in 2003, reducing its shortfall to CHF 2.331 billion. The reserve ratio, as defined by Ordinance no. 2 to the Federal Occupational Pensions Act (BVV2), rose from 83.2%[1] in 2002 to 84.9% in 2003. The reserve capital totals CHF 13.783 billion, 65.2% of it (CHF 8.991 billion) being allotted to the 30,000 persons drawing pensions and the remaining CHF 4.792 billion to serving employees, who number rather more than 28,000.

Good performance. In order to break even, the SBB pension fund – a civil-law foundation established on 1 January 1999 – needs a return of 4.6% on its reserve capital, or a return of about 5.5% on the average capital it actually held during 2003. Thanks to the recovery in the equity markets that began in mid-March 2003, the very slow rise in interest rates and a stronger euro, the growth it actually achieved was 7.55% – and had it not been for the sharp fall in the dollar, which was only partly hedged, this would have been even higher. The equity exposure in 2003 was slightly reduced, at 26%. Sales of bonds in anticipation of a rise in interest rates boosted liquidity to over CHF 1 billion. No fluctuation reserves exist or have ever existed, so any fluctuations in the capital markets have a direct effect on the financial situation.

SBB injected CHF 84.3 million into the pension fund to finance the 1% inflation increase that took effect on 1 January 2003 for the 28,500 “old pensioners”, i.e. those who retired while SBB was still a state agency or whose pension fund entitlement began before 1 January 2001. They must be treated in the same way as retired civil servants, and are thus subject to provisions over which the Board of Trustees of the SBB pension fund has no control. The inflation-indexed rise is determined annually by the federal government.

1 The 2002 Annual Report stated the reserve ratio of the SBB pension scheme at 80.5%. The difference between that figure and the 83.2% cited here is due to a change in the calculation method employed. Since 2003 the Federal Social Insurance Office (BSV) has required calculations to be based on the market value of fixed-income securities rather than their nominal value.

Restructuring measures implemented. The Board of Trustees of the pension fund decided on various restructuring measures to eliminate the reserve shortfall for the categories of "serving employees" and "new pensioners who began to draw benefits on or after 2 January 2001" without external funding. Many of these have already been implemented:

- The companies affiliated to the SBB pension fund have been meeting the additional costs of occupational incapacity since 2003.
- Since 1 July 2003 both employer and employees in the benefits plan and the capital plan have been charged a restructuring contribution amounting to 1.5 % of the insured income.
- Since 1 July 2003 the assumed return on pension assets in the capital plan has been reduced from 4 % to 3.25 %.
- From 1 July 2004 the repayment of the bridging pension on early retirement will be raised from 50 % to 65 %. From 1 January 2005 it will be raised again, to 80 %.

In the medium term these measures will lead to an annual improvement of about CHF 68 million in the reserve ratio. The measures implemented in 2003 have already led to an improvement of about CHF 20 million. They conform with the principles of equal treatment, lawfulness and method.

The following section gives some background on the pension fund's financing to date. By virtue of the modalities agreed with the federal government when the SBB pension fund was set up, SBB is required to pay interest to the government on the CHF 5.1 billion provided as financing. This agreement will end in mid 2004, by when SBB will have paid the federal government a total of CHF 214.7 million in interest.

Furthermore, the government provided the financing in stages between 1999 and 2001, resulting in a loss of investment earnings for the pension fund. Since SBB had to absorb CHF 411.8 million of this loss, the Group's entire financial outlay amounts to CHF 626.5 million.

The pension fund financing provided by the federal government in accordance with Article 4 of the federal law on the Swiss Federal Railways was based on the data available from the former SBB staff provident fund as at the end of 1997. The change in the calculation basis to EVK90 (CHF 292 million) and the entitlements of female members joining in 1988 (CHF 32 million) were not considered. In addition SBB also absorbed the shortfall of CHF 118.3 million for 1998.

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Joint quest for solutions with the Confederation. Unlike current employees, pensioners cannot be asked to help to put the SBB pension on a sound footing – either now or after the coming change in the law. But nor can the shortfall in reserve be made good solely by the employers and current employees. SBB and the Board of Trustees are therefore cooperating with the Confederation in an attempt to find solutions. The government is expected to submit its official Message to parliament in the summer/autumn of 2004. The Confederation has already indicated its readiness to help, though this will be conditional on a change from the present defined-benefit scheme to a defined-contribution basis. The Board of Trustees has begun preparations for this. Measures have been taken to ensure coordination with the pension funds of Swiss Post and the Confederation ("Publica").