

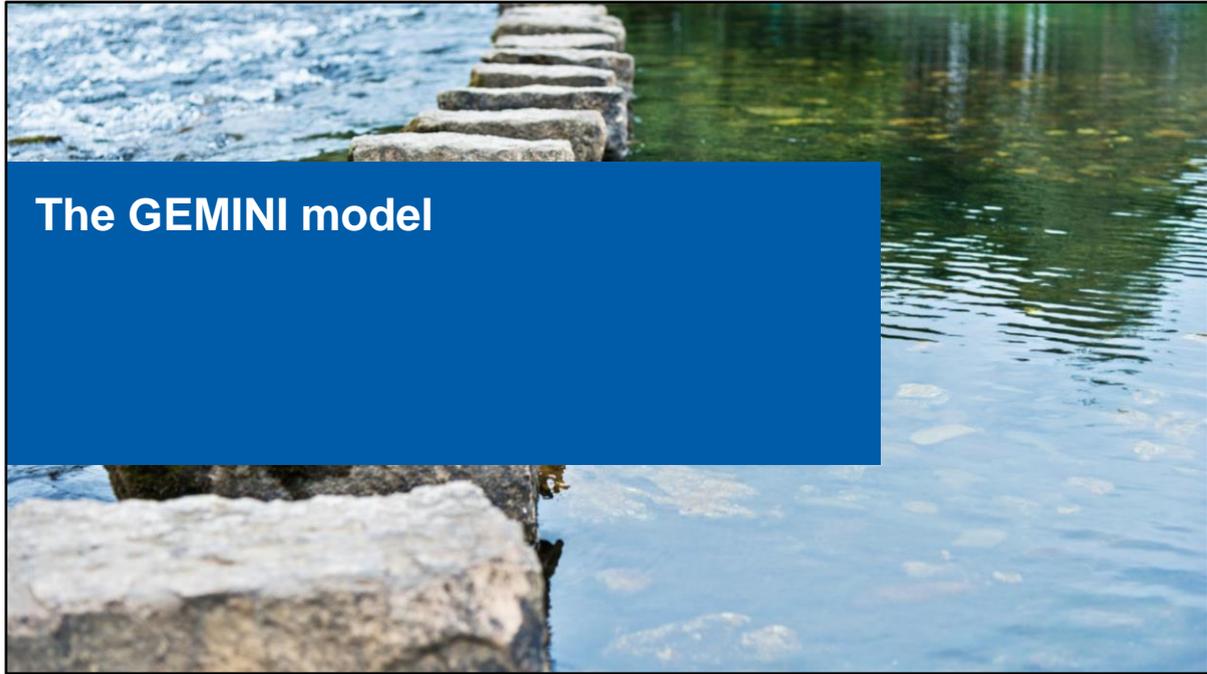
Employee Benefits Unit Pensions

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Agenda

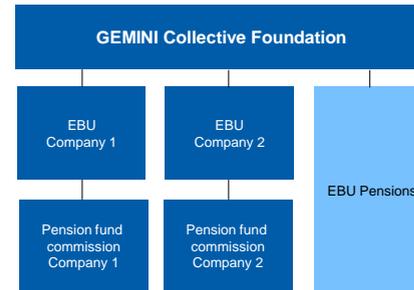
1. The GEMINI model
2. Challenges facing occupational benefit plans
3. Set of measures - 2018
4. Set of measures - 2021
5. Advantages of the new set of measures



Principles of the GEMINI model

Individual choices due to own employee benefits unit

- Own employee benefits unit
- Choice of (individual) investment strategy and own coverage ratio and decision about interest on savings capitals
- Basic mission of the employee benefits unit: management of active members
- On retirement: transfer of members to employee benefits unit Pensions

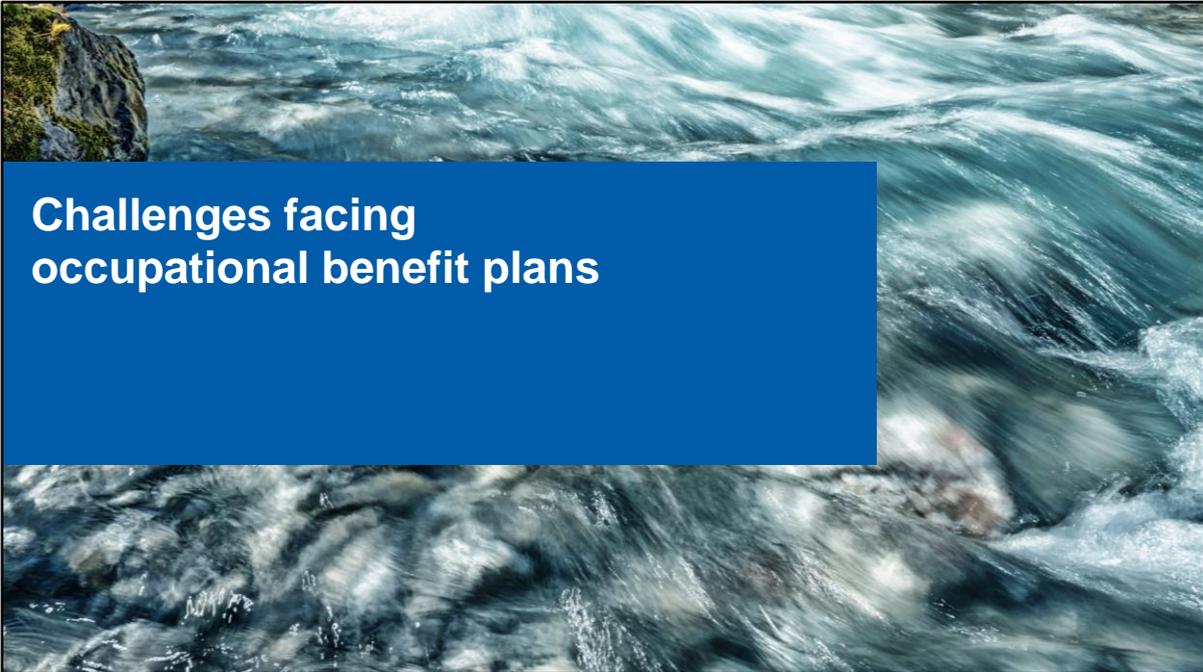


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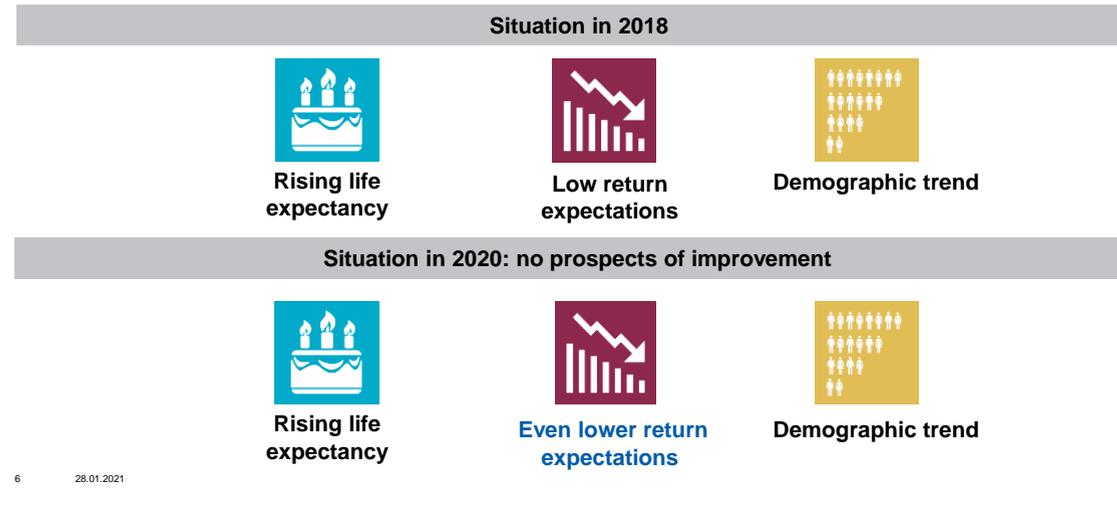
Clients only manage active members in their employee benefits unit, i.e., on retirement, members and their savings capital are transferred to the employee benefits unit Pensions. As a result, clients are not required to manage their own reserves in their employee benefits unit. This generally leads to a higher coverage ratio in the clients' employee benefits units. On top of this, the coverage ratio in their own employee benefits unit goes up with each retirement, which ultimately allows clients to apply a higher interest rate on the active members' savings capital.



**Challenges facing
occupational benefit plans**

Challenges facing occupational benefit plans

Further deterioration of general parameters

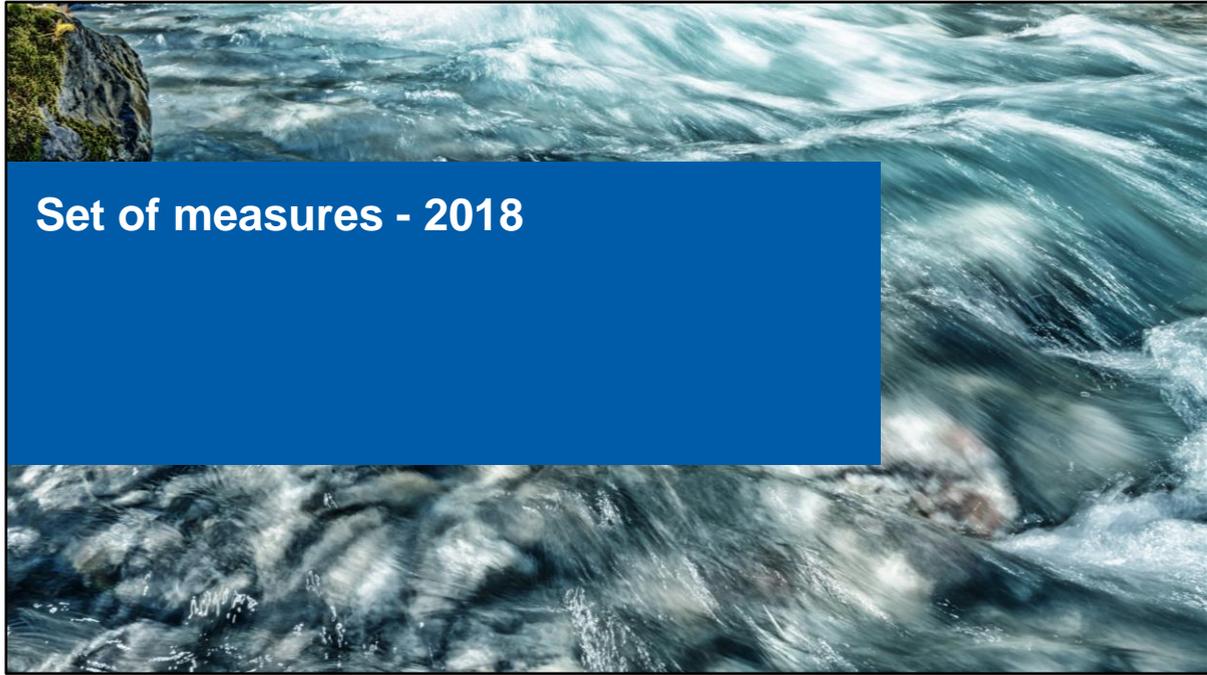


With life expectancy on the rise, pension funds are required to pay pensions for longer periods than originally calculated since the pensions are payable on a lifelong basis (this applies to both retirement and spouse's pensions).

Interest rate levels have been declining steadily over the last 20 years. To guarantee the interest on pension coverage capital, GEMINI needs to generate an annual return of around 2.5%. If the current investment strategy fails to generate this level of return, GEMINI is either required to make more risky investments or adapt its benefit parameters (reduction of conversion rate).

According to the demographic trend, the ratio of pension recipients to active members will rise sharply (baby boomers will retire in the next 10 to 15 years), making compliance with the financial benefit commitments all the more important.

These parameters have not improved since 2018, and the interest rate environment has deteriorated even further.



Measures taken by the GEMINI Collective Foundation

Set of measures - 2018

Measures	Results
1. Technical measures <ul style="list-style-type: none">– Reduction of the actuarial interest rate (AIR)– Linear reduction of the conversion rate	1. Technical measures <ul style="list-style-type: none">– Further AIR reduction necessary in 2019– Rising retirement losses
2. Adjustment of investment strategy in EBU Pensions <ul style="list-style-type: none">– Increase of equities exposure to 33%	2. Adjustment of investment strategy in EBU Pensions <ul style="list-style-type: none">– Desired effect did not materialise due to further decline in returns
3. Cost sharing mechanism <ul style="list-style-type: none">– Cost sharing mechanism in order to reach target coverage ratio in EBU Pensions	3. Cost sharing mechanism <ul style="list-style-type: none">– Cost sharing mechanism worked well but is unpopular
4. Rule on contract termination <ul style="list-style-type: none">– Different rules acc. to contract term (< ten years or ≥ ten years)	4. Rule on contract termination <ul style="list-style-type: none">– Rule results in unfavourable development to the detriment of the Foundation

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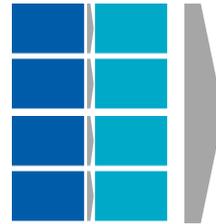
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In 2018, the Foundation Board had already adopted a number of measures to secure the financial position of the employee benefits unit Pensions:

1. The actuarial interest rate was reduced to 2.25% and a four-step reduction of the conversion rate to 5.6% by 2022 was introduced. This measure was not sufficient to cover the rising retirement losses.
2. A new (specific) investment strategy was devised for the employee benefits unit Pensions. The strategy involved a higher equities share to achieve greater dynamics and higher returns. However, due to the continued decline in returns, the desired effect was not achieved.
3. The purpose of the cost sharing mechanism was, firstly, to raise the risk capacity of the employee benefits unit Pensions and, secondly, to introduce clear rules governing solidarity between the active members' employee benefits units and the employee benefits unit Pensions. Although this mechanism worked well, it was not popular with the clients.
4. Starting in 2019, the transfer of the recipients of retirement or survivor's pensions arising at GEMINI was linked to the affiliation period. On contract termination, clients with affiliation agreements of less than ten year's duration were either required to pay a longevity surcharge of 2.5% of the pensioner coverage capital, or they took all of the pensioners with them. As a consequence of this measure, companies terminated their contracts on expiry of the 10-year period and left the pensioners at GEMINI. This misdirected incentive is a threat to the medium- and long-term financial development of the Foundation.

Set of measures - 2018

Measures did not achieve long-term financial security of the employee benefits unit Pensions



Inadequate financial security of EBU Pensions

- Coverage ratio of EBU Pensions now at 100%
- Demographic trend results in increased pensioner rates
- Interest rate environment still challenging and return expectations low
- Little financial leeway: EBU Pensions' coverage ratio can easily drop below 100%

Pensioners staying after termination of affiliation

- Number of pensioners staying after termination of affiliation has risen
- Increase in solidarity claims vis-à-vis the remaining EBUs and/or active members

Challenging int.
rate environment

Foundation Board
objective

Foundation Board decides further measures in conjunction with
a group of experts

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The 2018 set of measures did not lead to the desired effect, and the interest rate environment has deteriorated further. In conjunction with a group of experts, the Foundation Board has resolved further measures to ensure the financial stability of the employee benefits unit Pensions.



Set of measures - 2021

Adjustments at the GEMINI Collective Foundation

Implementation of six measures

Objective 1:

Financial independence of pensioners "without employer"

Measures

- 1 Outsourcing and outfunding of pensioners "without employer"
- 2 Increase in coverage capital on contract termination

Objective 2:

Financial security of EBU Pensions

Measures

- 3 Buy-in into EBU Pensions on retirement
- 4 Reduction of conversion rates
- 5 0.1% increase of Foundation deduction
- 6 Moderation of cost sharing mechanism

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The 2021 set of measures comprises six measures which entered into force on 31 December 2020.

* Measure 3 became effective on 1 January 2021.

1 Outsourcing and outfunding of pensioners “without employer”

Set of measures - 2021

Objective: Improvement of membership structure and mitigation of the financing risk incurred by the other affiliated employee benefits units

Previously

- Pension recipients without employer, e.g. after termination of the affiliation agreement, remain in employee benefits unit Pensions 1.

Now

- Transfer of current pension recipients without affiliated employer to the newly established **employee benefits unit Pensions 2.**

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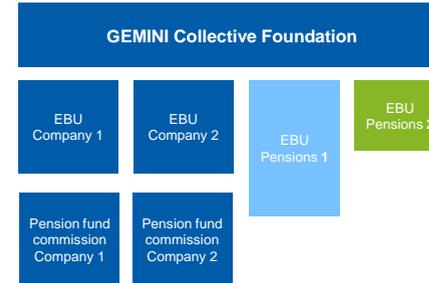
The ratio of pensioners “without employer” in the employee benefits unit Pensions is increasing. Pensioners “without employer” arise, for instance, when groups of pensioners are left behind on contract termination, or when companies dissolve. These pensioners have no employer and hence no risk bearer.

GEMINI has identified the individual pensioners “without employer” and transferred them to a separate employee benefits unit Pensions 2. Employee benefits unit Pensions 2 is earmarked for a 0% interest rate. Solidarity with the employee benefits unit Pensions has been abolished.

1 Outsourcing and outfunding of pensioners “without employer”

New GEMINI model: employee benefits units Pensions 1 and 2

- Own employee benefits unit
- Choice of (individual) investment strategy and own coverage ratio and decision about interest on savings capital
- EBU principally limited to management of active members
- On retirement: transfer of members to employee benefits unit Pensions 1
- Pensioners “without employer” are outsourced to employee benefits unit Pensions 2



2 Coverage capital (CC) increase on contract termination

Set of measures - 2021

Objective: Reduction / elimination of active members' solidarity obligation vis-a-vis pensioners in EBU Pensions

Previously

Term of affiliation < 10 years
→ surcharge of 2.5% of coverage capital
Term of affiliation ≥ 10 years
→ pensioners remain in GEMINI Collective Foundation

Now

Option 1: Pensioners remain in Collective Foundation. CC increase is charged to EBU A to cover the pensioners. The reserve equals the coverage capital increase with a low-risk AIR (currently 0%)

Option 2: Transfer of pensioners possible at any time. CC complies with Collective Foundation's current principles, BVG 2015, periodic tables, 2.0% AIR

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On contract termination, employee benefits units can still leave the pensioners behind. However, employee benefits units will now pay for a coverage capital increase that is subject to a low-risk actuarial interest rate. Pensioners can no longer be left behind free of charge.

2 CC increase on contract termination

Set of measures - 2021

Two options after contract termination,
irrespective of contract term

Option 1:

→ CC increase



Option 2:

→ Transfer of pensioners



3 Buy-in into employee benefits unit Pensions 1 on retirement

Set of measures - 2021

Objective: Improvement of membership structure and mitigation of the financing risk incurred by the other affiliated employee benefits units

Previously

- On retirement, the members' pension capital is transferred to the employee benefits unit Pensions. Financing of target VFR for EBU Pensions (1.5% of the pension capital).

Now

- Financing of target VFR for EBU Pensions 1 on retirement has been raised to 7.5% of the pension capital.

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When active members go into retirement or partial retirement, the accrued savings capital is transferred to GEMINI's employee benefits unit Pensions 1. In addition, 7.5% of the savings capital is charged to the client's employee benefits unit as a buy-in into the target value fluctuation reserve of employee benefits unit Pensions 1. In the case of partial lump sum withdrawals, a pro rata charge is made on the savings capital that has been converted into pensions.

4 Reduction of conversion rate

Set of measures - 2021

Objective: Improvement of financial equilibrium of employee benefits unit Pensions 1 and reduction of retirement losses

Previously

Conversion rate declines to 5.6% by 2022:

2019: 5.9%
2020: 5.8%
2021: 5.7%
2022: 5.6%

New

Annual 0.1% reduction of the conversion rate until

2024:
2023: 5.5%
2024: 5.4%

In 2017, GEMINI announced a 0.1% reduction of the conversion rate for the years 2019 to 2022. The Foundation Board has resolved to reduce the conversion rate by a further 0.1% per annum.

5 0.1% increase of Foundation deduction

Set of measures - 2021

Objective: Mitigation of the financing risk incurred by the other affiliated employee benefits units

Previously

- Foundation deduction is collected to finance the Collective Foundation's other costs (fees of committees / PF expert / supervisory authority / brokers' fees).
- In 2019, the deduction equalled 0.15% of the savings capital.

Now

- Foundation deduction is collected to finance the Collective Foundation's other costs (fees of committees / PF expert / supervisory authority / brokers' fees) and to fund employee benefits unit Pensions 1.
- Amount equals 0.25% of the savings capital.

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Numerous collective foundations apply a foundation deduction. This measure is not charged directly to the clients' value fluctuation reserve. At GEMINI, a deduction that affects all clients equally is not possible since the TER is raised on the GEMINI pools but not for the clients that invest their assets on an individual basis.

6 Moderation of the cost sharing mechanism

Set of measures - 2021

Objective: Significant reduction of the probability that the cost sharing mechanism will be applied ("exceptional years" only)

Previously

- Systematic solidarity contributions depending on the CC of EBU Pensions
- Mechanism: profit and loss participation

New

- Moderation of the cost sharing mechanism
- Solidarity contributions collected from CR <98.5% (previously <100%)

Coverage ratio – EBU Pensions 1		Solidarity contribution	Solidarity bonus	Effect
from	to	as % age of svgs. capital EBU A	as % age of coverage capital EBU Pensions 1	
	95.0%	0.6	0.0	Debit EBU A
> 95.0%	98.5%	0.35	0.0	Debit EBU A
> 98.5%	107.5%	0.0	0.0	
> 107.5%	112.5%	0.0	0.35	Credit EBU A
> 112.5%		0.0	0.6	Credit EBU A

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In its 2018 set of measures, GEMINI introduced a cost sharing mechanism to address solidarity between the clients' employee benefits units and the employee benefits unit Pensions. A moderated cost sharing mechanism will be introduced under the 2021 set of measures.

Set of measures - 2021 at a glance

Measures introduced on 31 December 2020

Objective 1:

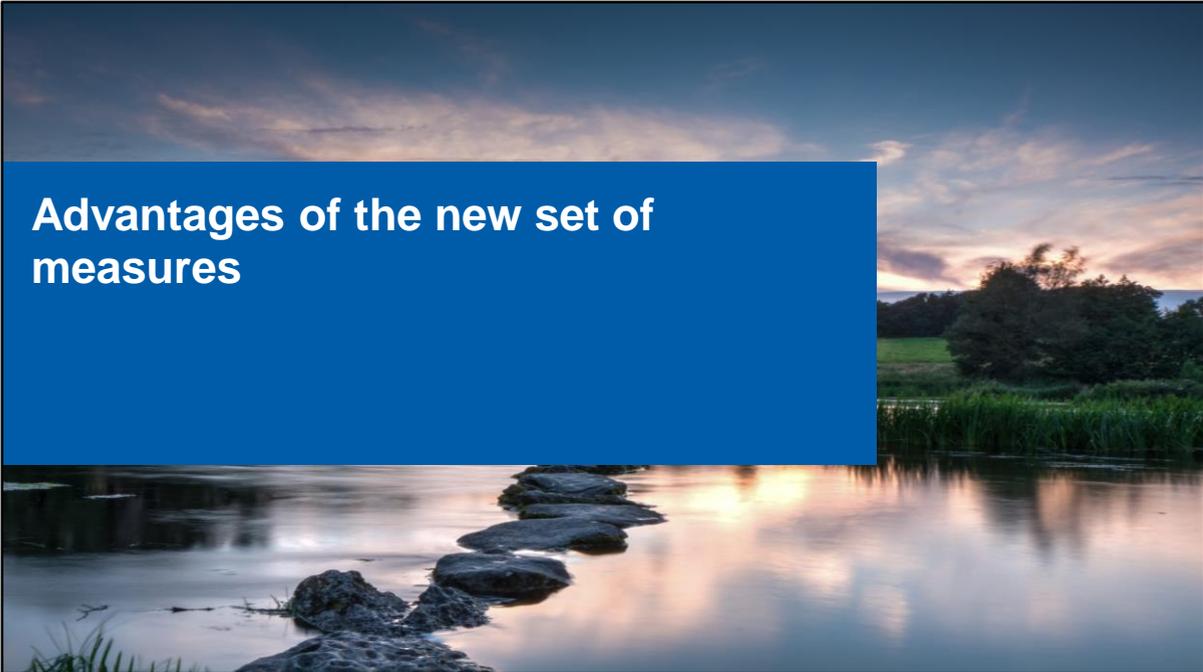
Financial independence of the pensioners "without employer" in EBU Pensions 2

- 1 Outsourcing and outfunding of pensioners "without employer"
- 2 CC increase on contract termination

Objective 2:

Financial security of EBU Pensions 1

- 3 Adjustment of EBU Pensions' target value fluctuation reserve from 1.5% to 7.5% of the accrued pension capital (as of 01/01/2021)
- 4 Annual 0.1% reduction of the conversion rate to 5.4% by 2024
- 5 0.1% increase of Foundation deduction
- 6 Moderation of the cost sharing mechanism, solidarity contributions not before CC \leq 98,5%



**Advantages of the new set of
measures**

Advantages of the new set of measures

All parties benefit from the measures in the long run

Clients

- Reduced financing risk in the active members' employee benefits unit
- Reduced solidarity between active members and pensioners
- Significant moderation of the cost sharing mechanism
- Option of "Pension management in separate EBU" model
- Choice between two options after contract termination

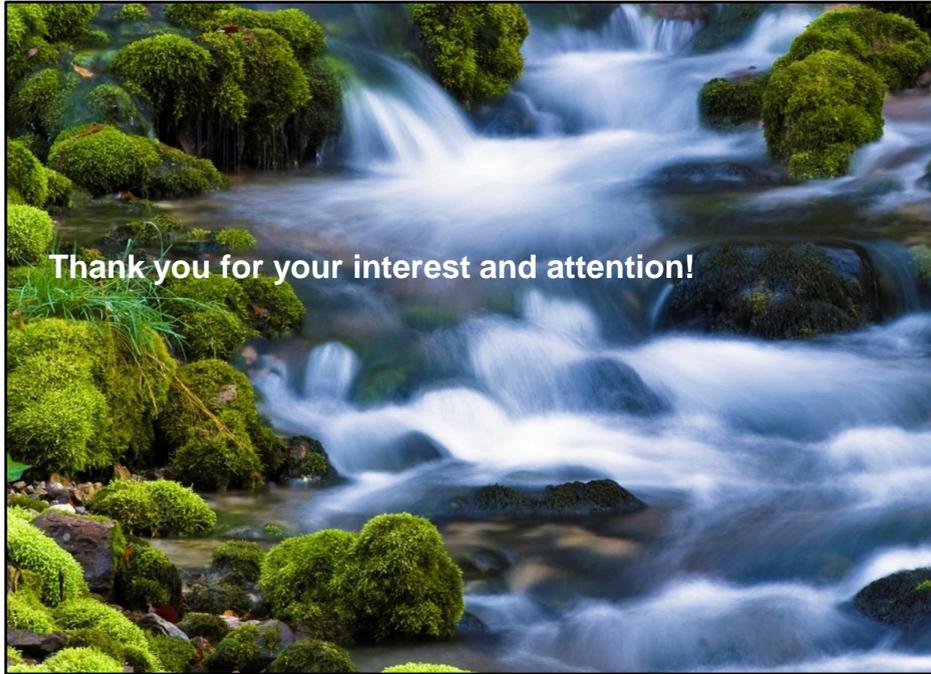
Brokers

- Presentation of two options after contract termination (unique offer by GEMINI)
- Moderation of unpopular cost sharing mechanism
- Cost transparency builds trust among clients

Next steps

GEMINI assists brokers in the implementation of the new measures

- Mailing of information package
- Upload of information package on www.gemini.ch/en
- In-depth discussion of the subject at annual meeting (if requested)
- Accompanying brokers on client visits (if requested)



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