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CERN PENSION FUND

Statement of Funding Principles

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STATEMENT OF FUNDING PRINCIPLES

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1 INTRODUCTION

Pursuant to the Fund's Rules (Article I 2.05), the Pension Fund Governing Board (PFGB) approves the Statement of Funding Principles on the proposal of the Actuarial and Technical Committee (ATC), which compiles the decisions and principles relating to funding of the Fund (Article I 2.13)¹.

a. What are the characteristics of the CERN Pension Fund?

Due to its status as an intergovernmental organisation, CERN and its personnel are not subject to national labour laws and social security schemes. CERN has, therefore, established its own internal legislation and social security system, which includes a pension scheme to protect its personnel and their families against the financial consequences of old age, disability and death.

This pension scheme is managed by an internal service, the CERN Pension Fund, which is placed under the supreme authority of the CERN Council. The Fund is an integral part of CERN but it has operational autonomy and its assets, held separately from those of CERN, are used solely for the Fund's purpose.

The Fund:

- operates a capitalised, defined-benefits scheme;
- covers the employed members of the CERN personnel (i.e. staff members and fellows) as well as ESO staff members and fellows (admitted under conditions set out in an international agreement between the two employer organisations).

b. How is the Fund managed?

The CERN Council is responsible for the Pension Fund and is its supreme supervisory authority. The Council notably decides on the levels of contributions and benefits paid, on the basis of proposals made by the Director-General.

The Council has entrusted oversight of the Fund to the PFGB, which is assisted and advised by the Investment Committee (IC) and ATC (Article I 2.04).

The Chief Executive Officer (CEO) is responsible for the management of the Fund, including asset management and administration of benefits (ibid.).

¹ In the event of any ambiguity or inconsistency between this Statement (approved by the PFGB at its meeting on 4 April 2019) and the relevant Council decisions and the Fund's Rules and Regulations, the Council's decisions and the Fund's Rules and Regulations shall prevail.

The Pension Fund Management Unit supports the CEO and is the primary interface for members and beneficiaries.

2 WHAT ARE THE RESOURCES/ASSETS OF THE PENSION FUND?

According to Article I 3.01 of the Fund's Rules, the resources of the Fund derive from:

- Contributions from CERN and ESO (regular as well as special contributions designed to ensure the Fund's long-term stability - Article II 1.07);
- Contributions from its members, i.e. employed members of the CERN personnel as well as ESO staff members and fellows, as specified in 1a) above;
- Income from the investment of its assets; and
- Gifts and legacies.

As stated in Article II 1.15 of the Fund's Rules, if either CERN or ESO decides on a measure of personnel policy whose implementation affects the financial equilibrium of the Fund, the resulting cost shall be borne by the organisation in question.

3 HOW DOES THE PENSION FUND INVEST ITS ASSETS?

A Statement of Investment Principles (SIP), approved by the PFGB on the recommendation of the IC, outlines the principles governing the asset management process of the Fund. The SIP documents the Fund's principles and processes in relation, in particular, to asset allocation, the measurement and management of risks and the expected return on assets.

4 HOW ARE THE BENEFITS FINANCED?

Benefits are paid from the Fund's assets (i.e. not from the budget of the employer organisations).

As provided for in the Fund's Rules (Article I 3.03), CERN and ESO guarantee the benefits acquired by their respective personnel until cessation of the rights of the last beneficiary. In the event of institutional changes in the organisations, their respective Council, composed of the Member States, shall take the necessary steps to ensure the continued payment of the pensions.

In the case of the withdrawal of a Member State, the latter is required to pay its share of the liabilities not covered by current Fund assets.

5 HOW IS THE FUNDING STATUS OF THE PENSION FUND MONITORED?

Periodic actuarial reviews are drawn up at least every three years (Article I 4.04):

- The actuarial parameters are proposed by the Actuary, recommended by the ATC and approved by the PFGB;
- The assumptions are set using a best-estimate approach recommended by the Actuary;
- Best-estimate actuarial assumptions are those that are most likely to be borne out in practice. For each assumption, there is a 50% chance of actual experience being more favourable than assumed and a 50% chance of experience being less favourable than assumed.

In between periodic actuarial reviews

- the Fund's Actuary provides regular updates on the funding status of the Pension Fund. These are reviewed by the PFMU and the ATC;
- the PFGB, the Finance Committee and the Council are regularly informed of the funding status.

The funding status established by the most recent periodic actuarial review is reported in the Fund's Annual Report and Financial Statements.

6 WHAT MEASURES HAVE BEEN TAKEN TO RESTORE THE FUND'S EQUILIBRIUM?

A funding deficit, revealed by the periodic actuarial review of 2009, led to the adoption by the CERN Council of a balanced package of measures in 2010/12 aimed at restoring full funding of the Fund over a 30-year time-scale.

The measures adopted were as follows:

- a) Special annual contributions from CERN (60 MCHF) and ESO (1.4 MCHF) until full funding is confirmed by the PFGB.
- b) Increase in the regular contribution rate for members who joined the Fund on or before 31 December 2011. As from 1 January 2012, the total contribution rate increased by 3.12 percentage points from 30.88% to 34%.
- c) Non/under-indexation of pensions up to a loss of purchasing power of 8%. As at 31 December 2011, it was agreed that no annual adjustment of pensions would be granted to recipients of a pension until such time as their individual accumulated loss of purchasing power reached 8%.
- d) Revised pension arrangements for personnel entering service as of 1 January 2012:

- i. retirement age of 67 years;
- ii. annual accrual rate of 1.85% for each year of membership;
- iii. maximum pension after 37 years and 10 months of service calculated on the basis of the average of the member's last three years' salary position;
- iv. Total contribution rate of 31.6%;
- v. Non/under-indexation of pensions as defined in Article II 1.14 and Annex C of the Fund's Rules.

The method applicable to the pension adjustment differs pursuant to the date on which a person has become a beneficiary (Annex C of the Fund's Rules).

In its 2011 Resolution adopting the package of measures, the Council referred to "sustainable full funding" but did not specify the term.

7 REVIEW

This document is reviewed by the ATC on a regular basis and, if necessary, updated by the PFGB on the proposal of the ATC.