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CERN PENSION FUND

STATEMENT OF FUNDING PRINCIPLES

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1 INTRODUCTION AND PURPOSE

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. The Statement of Funding Principles describes the arrangements through which the Council will ensure the Fund has sufficient financial resources to achieve its purpose as defined in Article 1 1.01 of the Pension Fund's Rules.

a. Purpose 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. Therefore, CERN 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, through a pension fund. (Article S IV 2.01 of CERN's Staff Rules and Regulations).

b. Characteristics of the Pension Fund

This Pension Fund is placed under the supreme authority of the CERN Council. The Fund is an integral part of CERN, with no separate legal personality but has operational autonomy. Its assets, held separately from those of CERN, are used solely for the Fund's purpose.

The Fund:

- is a capitalised, defined-benefits scheme;
- provides benefits for 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).

c. Management of the Fund

The CERN Council is responsible for the Pension Fund as supreme supervisory authority and ultimate guarantor of the pension benefits. In particular, it decides on contributions and benefits paid, on the basis of proposals made by the CERN 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.*).

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

¹ In the event of any ambiguity or inconsistency between this Statement (approved by the PFGB at its meeting on 7 April 2022) 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.

2 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 1b) 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 FUNDING OBJECTIVES

The Funding objective of the Pension Fund is to have sufficient and appropriate assets available to cover the current and future obligations of the Fund.

The PFGB shall be responsible for:

- Setting this objective;
- Advising the Council on any issues relating to the financial position of the Fund;
- Considering recommendations on proposed measures to secure, restore or maintain the actuarial balance from the ATC, who monitors the Fund's funding status;
- Proposing to the Council said measures for consideration.

The Council intends for the Pension Fund to be in actuarial balance on a sustainable basis within the period projected in the most recent Periodic Actuarial Review.

4 PRINCIPLES TO ADDRESS A PROJECTED SHORTFALL

The PFGB shall take into account the following principles when advising the Council considering measures to address the projected shortfall and meet the funding objective:

- The nature and timing of the projected shortfall;
- The equitable distribution of obligations between all stakeholders (Member States, CERN, ESO, present and future members and beneficiaries);
- The expected effectiveness of measures already in place;
- Sensitivity of results to key actuarial parameters;
- Suitable timeframe over which the funding objective should be restored, based on the principle of a 30-year funding plan timeframe;
- The Fund's investment strategy, including capacity for risk which is based on a risk limit approved by the PFGB;
- The Fund's legal framework.

5 PRINCIPLES TO ADDRESS A PROJECTED SURPLUS

The PFGB shall take into account the following principles when advising the Council in a situation where the Fund is ahead of its funding objective:

- Magnitude, timing and persistency of how far the Fund is ahead of the objective;
- The equitable distribution rights and of obligations of all stakeholders (Member States, CERN, ESO, present and future members and beneficiaries);
- Whether it is necessary for any restorative measures in place to continue;
- Sensitivity of results to key actuarial parameters;
- Suitable timeframe after the funding objective is restored in which a review should be carried out, based on the principle of a 30-year funding plan timeframe;
- The Fund's investment strategy, including capacity for risk which is based on a risk limit approved by the PFGB;
- The Fund's legal framework.

6 KEY RISKS FACED BY THE FUND IN RELATION TO FUNDING

A summary of the principle funding risks faced by the Fund is provided below. These risks are understood and included in the Fund's risk register. The mitigation of these risks is managed as part of the Fund's Internal Control System.

Risk	Description of risk
Sponsor covenant	<ul style="list-style-type: none">• CERN and ESO are unable to fulfil their guarantee of the payment of benefits.• If the resources of the Fund are insufficient to pay out pension benefits, CERN and ESO (through contributions of their respective Member States) must endow the Fund with the necessary funds.• Member States are unable to finance such obligations.
Sponsor personnel policy	<ul style="list-style-type: none">• Policy measures introduced by CERN and ESO are inconsistent with the Fund's funding objective.
Operational risks	<ul style="list-style-type: none">• Risks relating to the running of the Fund could have material impact, such as loss, theft or fraud.
Adverse investment return	<ul style="list-style-type: none">• Actual investment returns lower than assumed, leading to pressure on employer contributions.
Inadequate investment management	<ul style="list-style-type: none">• Inadequate or inappropriate Strategic Asset Allocation.• Such investments would give rise to losses that are not in line with the Fund's liabilities.
Inflation	<ul style="list-style-type: none">• Inflation could be higher than assumed and so benefits higher than anticipated.• There could be losses arising where this is not offset by the Purchasing Power Loss mechanism.
Longevity	<ul style="list-style-type: none">• Members live longer than assumed such that benefits would then be paid out for longer than expected, increasing the cost of those benefits.
Salary increases	<ul style="list-style-type: none">• Salary increases are different to projected.
Member options	<ul style="list-style-type: none">• The exercising of some options may have an impact on the funding position.
Legal/claims	<ul style="list-style-type: none">• There is a risk of additional liabilities arising from court judgements, future legislation, or backdated claims.

7 INVESTMENT OF ASSETS

A Statement of Investment Principles (SIP), approved by the PFGB on the recommendation of the Investment Committee (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, responsible investing, the measurement and management of risks and the expected return on assets.

8 FINANCING OF BENEFITS

Benefits are paid from the Pension 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 (see document CERN/3042/RA of December 2012).

9 MONITORING OF THE FUNDING STATUS

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

- The actuarial parameters are proposed by the Actuary, recommended to the PFGB 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.

10 MEASURES 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 the funding position of the Fund over a 30-year time-scale.

11 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.