



Annual Survey of 2022 Accounting Assumptions

Switzerland

Aon Switzerland Ltd.
Wealth Solutions



About the Survey

An internal survey of Aon Switzerland's international accounting clients is performed each year in order to review and document the various valuation assumptions used for disclosure purposes under ASC 715, IAS 19 or IPSAS 39. This survey includes results as of the end of 2021 and 2022 for approximately 150 companies with a 31 December financial year-end.

The results of this survey may be useful to companies when setting preliminary assumptions for 2023 year-end and budgets for 2024. While information about what others are doing can be helpful, the circumstances at one organization may differ in a material way from those at another. As such, decisions should be made based on each organization's relevant facts and circumstances and not solely on the results of a survey.

If you would like an update on current economic and demographic indices or the current status of changes in accounting standards, please contact your local Aon consultant.



Surveyed Assumptions



Economic Assumptions

- Discount rate
- Interest credited to account balances
- Expected return on plan assets
- Inflation
- Salary increase rate
- Increase in social security limits
- Pension increase rate



Demographic Assumptions

- Mortality
- Disability
- Turnover
- Early retirement
- Lump sum payments on retirement
- Proportion of members with spouse's/partner's pension



Key Observations

Economic Assumptions

In response to the sharp rise in interest rates and inflation, increases were observed in all the economic assumptions between the 2021 and 2022 year-ends. In particular, average discount rates increased over 180 basis points bringing them to the highest levels seen in over a decade.

Increases were observed in the other economic assumptions as well but to a lesser degree. The Interest Crediting Rate and Expected Return on Plan Assets assumptions increased by around 100 basis points in response to the increase in future asset return expectations. The increases observed in the remaining economic assumptions were around 25 basis points, mainly related to the increase in the underlying future inflation expectations.

A brief overview of the year-on-year changes can be found in the table to the right.

Economic Assumptions	Average 31.12.2022	Average 31.12.2021	Change
Discount Rate	2.08%	0.24%	+1.84%
Interest Crediting Rate	2.29%	1.22%	+1.07%
Expected Return on Plan Assets	3.15%	2.21%	+0.94%
Inflation Rate	1.23%	0.97%	+0.26%
Salary Increase Rate	1.78%	1.48%	+0.30%
Increase in Social Security Limits	1.39%	1.12%	+0.27%
Pension Increase Rate	0.02%	0.01%	+0.01%

Demographic Assumptions

There were no major changes in the demographic assumptions between the 2021 and 2022 year-ends. This was in line with expectations, given the widespread adoption of the most recent BVG/LPP 2020 demographic tables already occurred at year-end 2021.

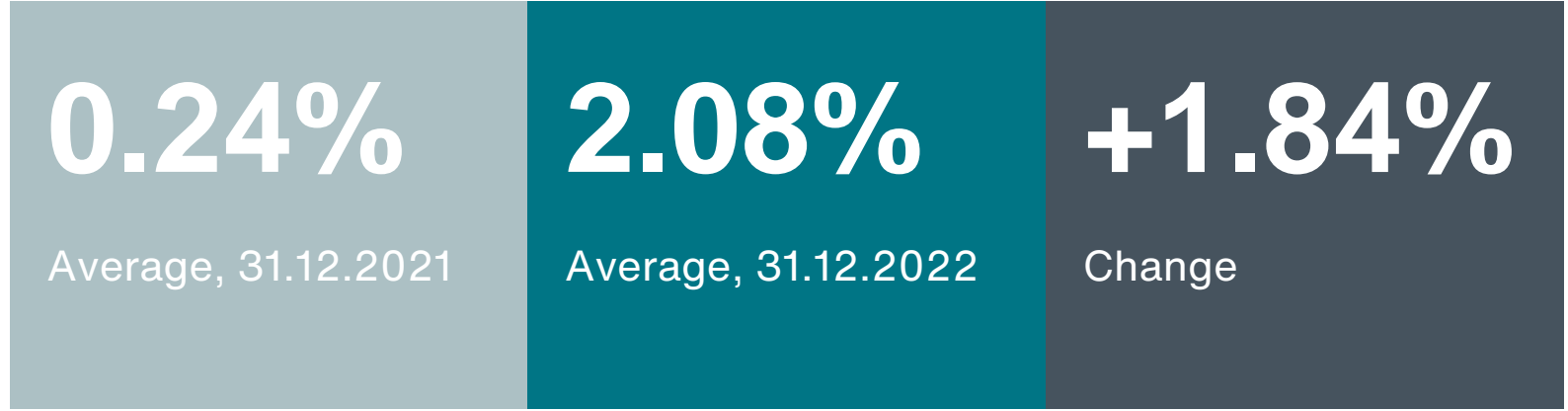
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Economic Assumptions

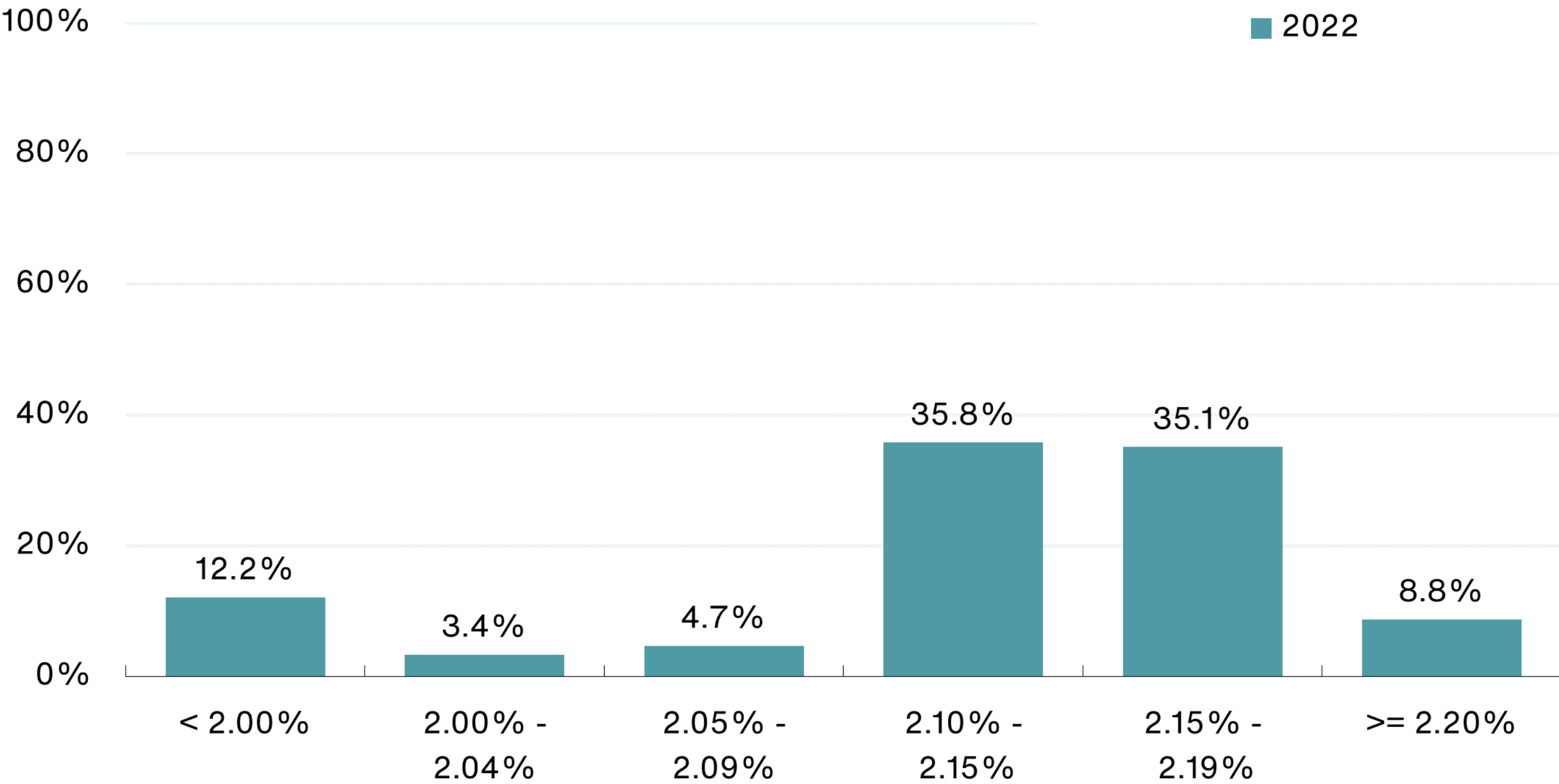
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Discount Rate

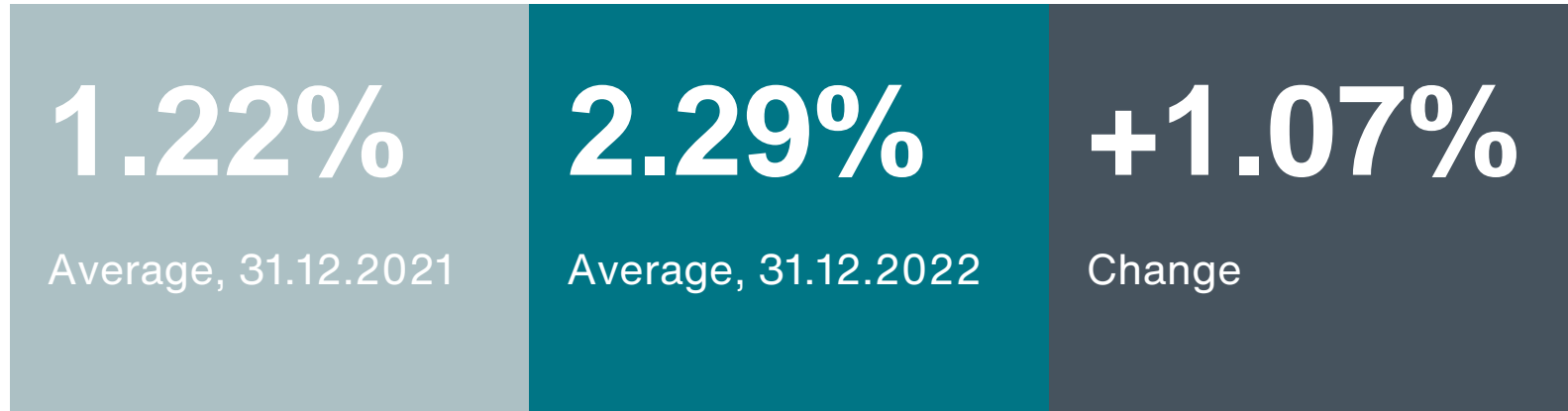


- The average assumption increased significantly by 1.84% from 0.24% at 31.12.2021 to 2.08% at 31.12.2022.
- Around 75% of responses reflected the economic conditions at 31 December with an average assumption of 2.15%. For the remaining 25%, the average was about 1.90%, which reflected economic conditions prior to 31 December.
- Over 95% established the discount rate based on a yield curve and the expected cash flows of the plan. Of these, around 85% used a single equivalent rate while around 15% used a full yield curve approach.

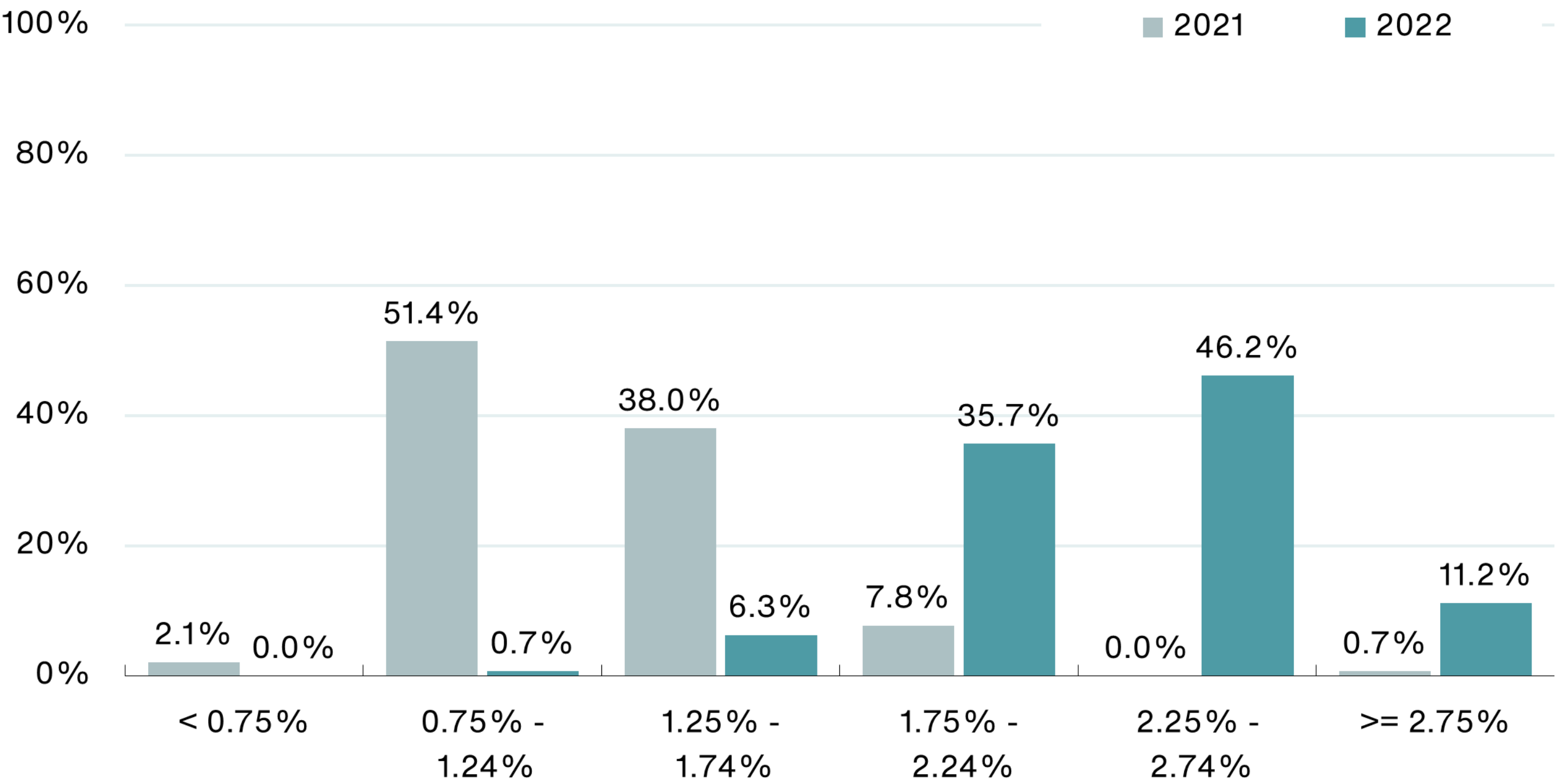


2022 – 148 responses, 2021 – 150 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Interest Credited to Account Balances



- The average assumption increased significantly by 1.07% from 1.22% at 31.12.2021 to 2.29% at 31.12.2022.
- For reference, the BVG minimum interest crediting rate for 2023 remained unchanged from the 2022 rate of 1.00%.

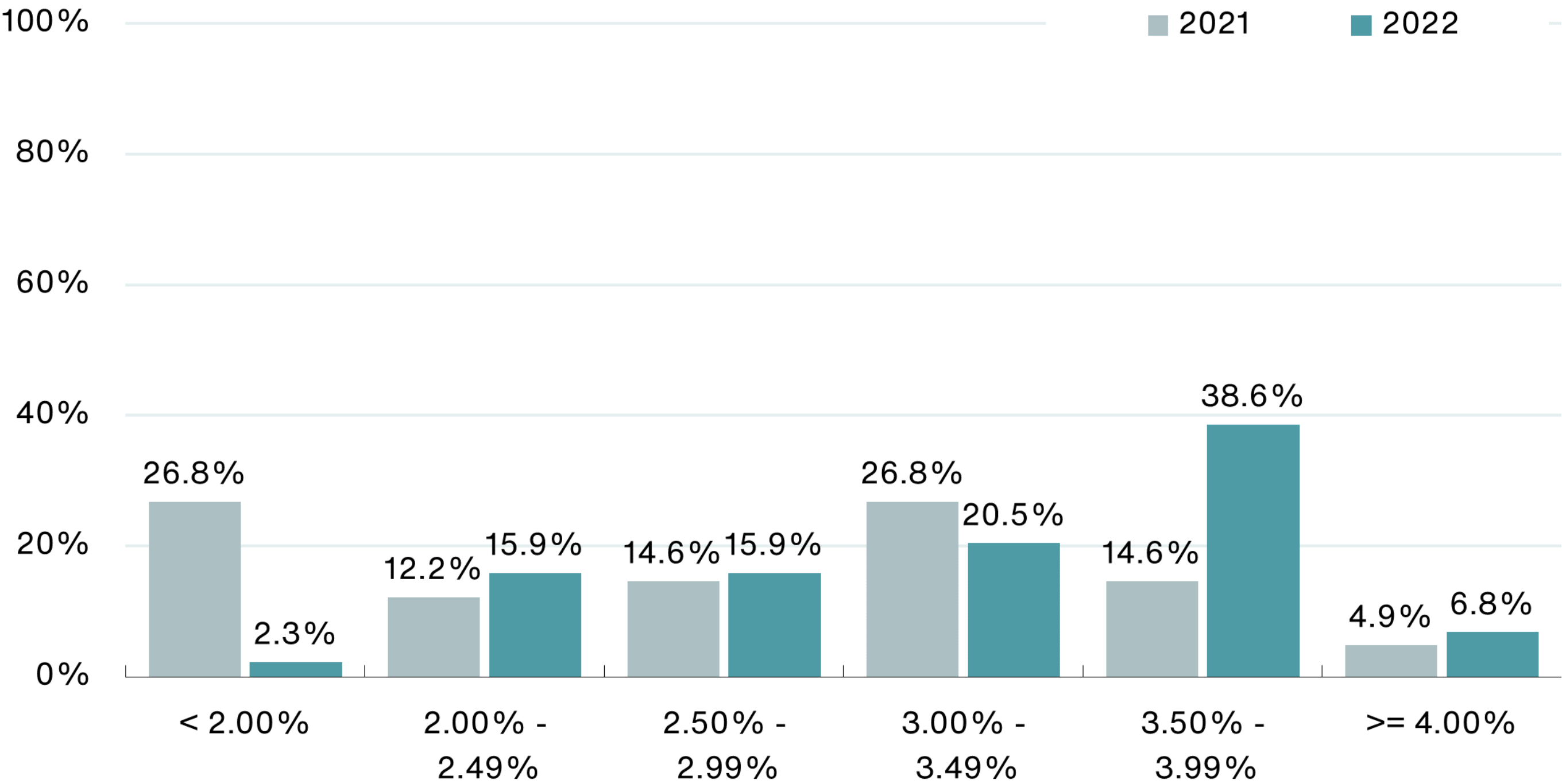


2022 – 143 responses, 2021 – 142 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Expected Return on Plan Assets



- The average assumption increased significantly by 0.94% from 2.21% at 31.12.2021 to 3.15% at 31.12.2022.
- For autonomous plans, the average assumption was around 3.7%.
- Note that this assumption is only applicable to companies reporting under ASC 715.

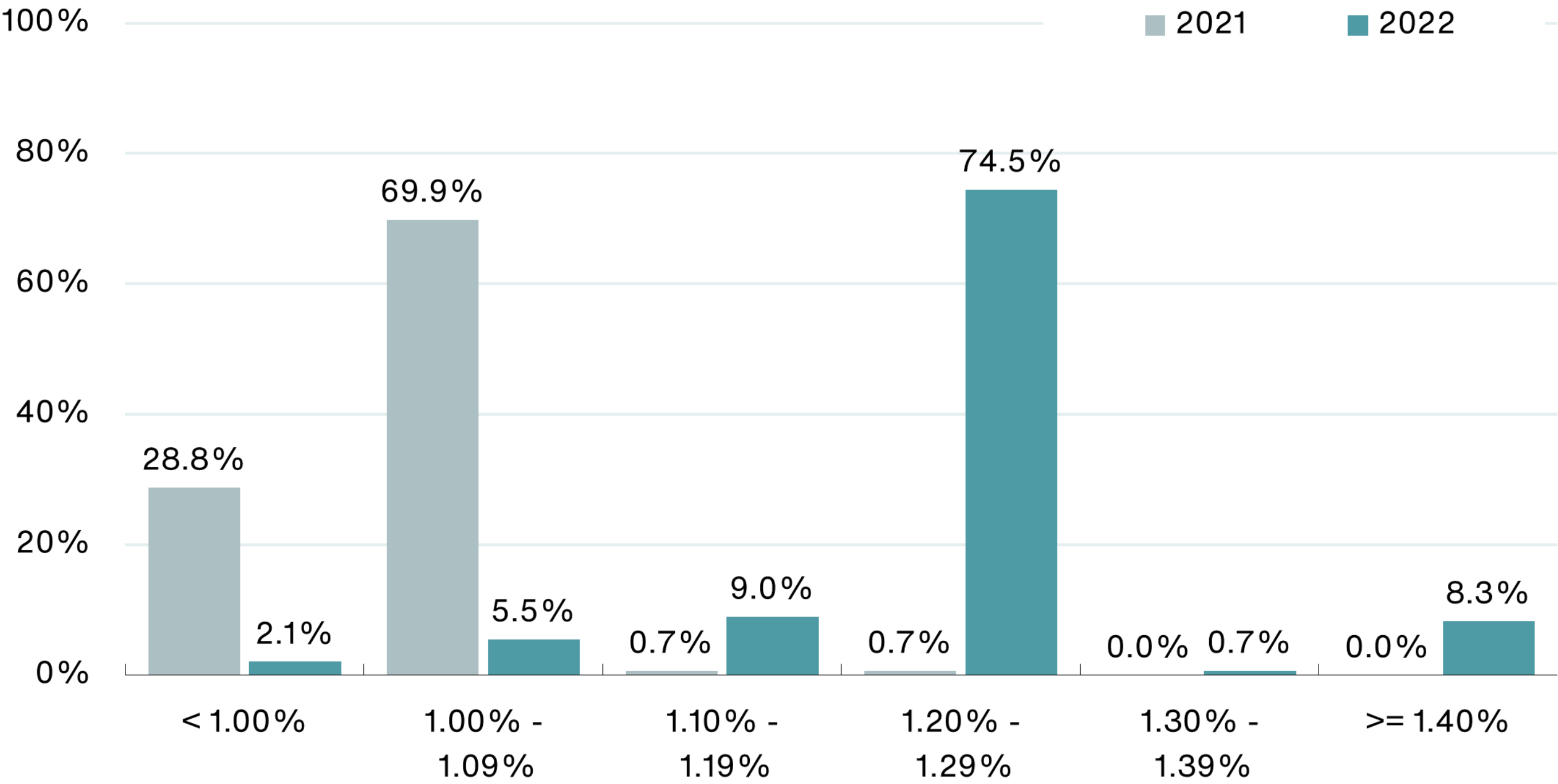


2022 – 44 responses, 2021 – 41 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Inflation

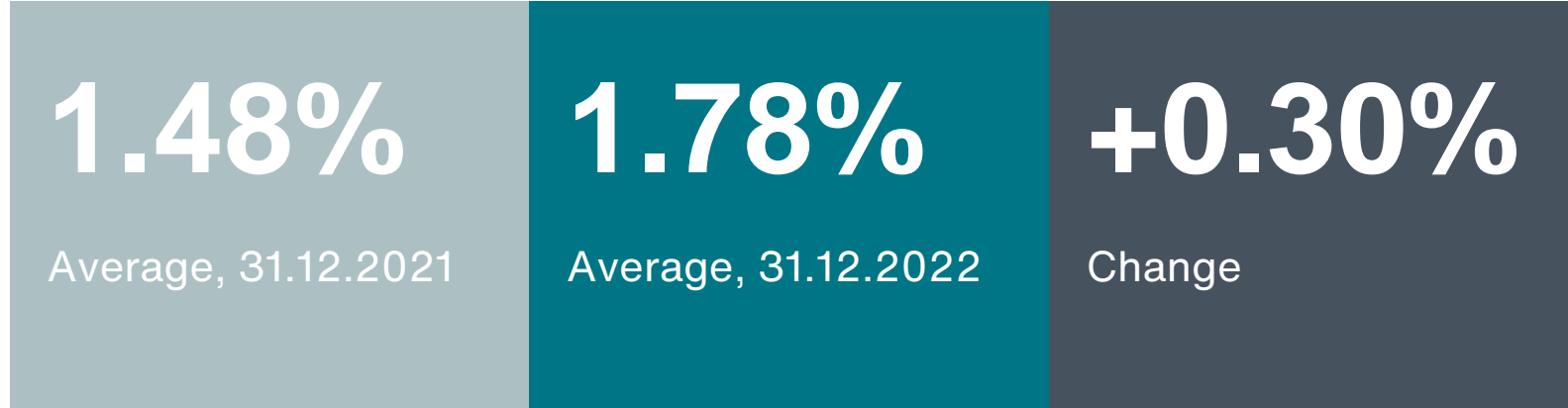


- The average assumption increased by 0.26 % from 0.97 % at 31.12.2021 to 1.23 % at 31.12.2022.
- The most commonly observed inflation assumption at 31.12.2022 was 1.25 %.

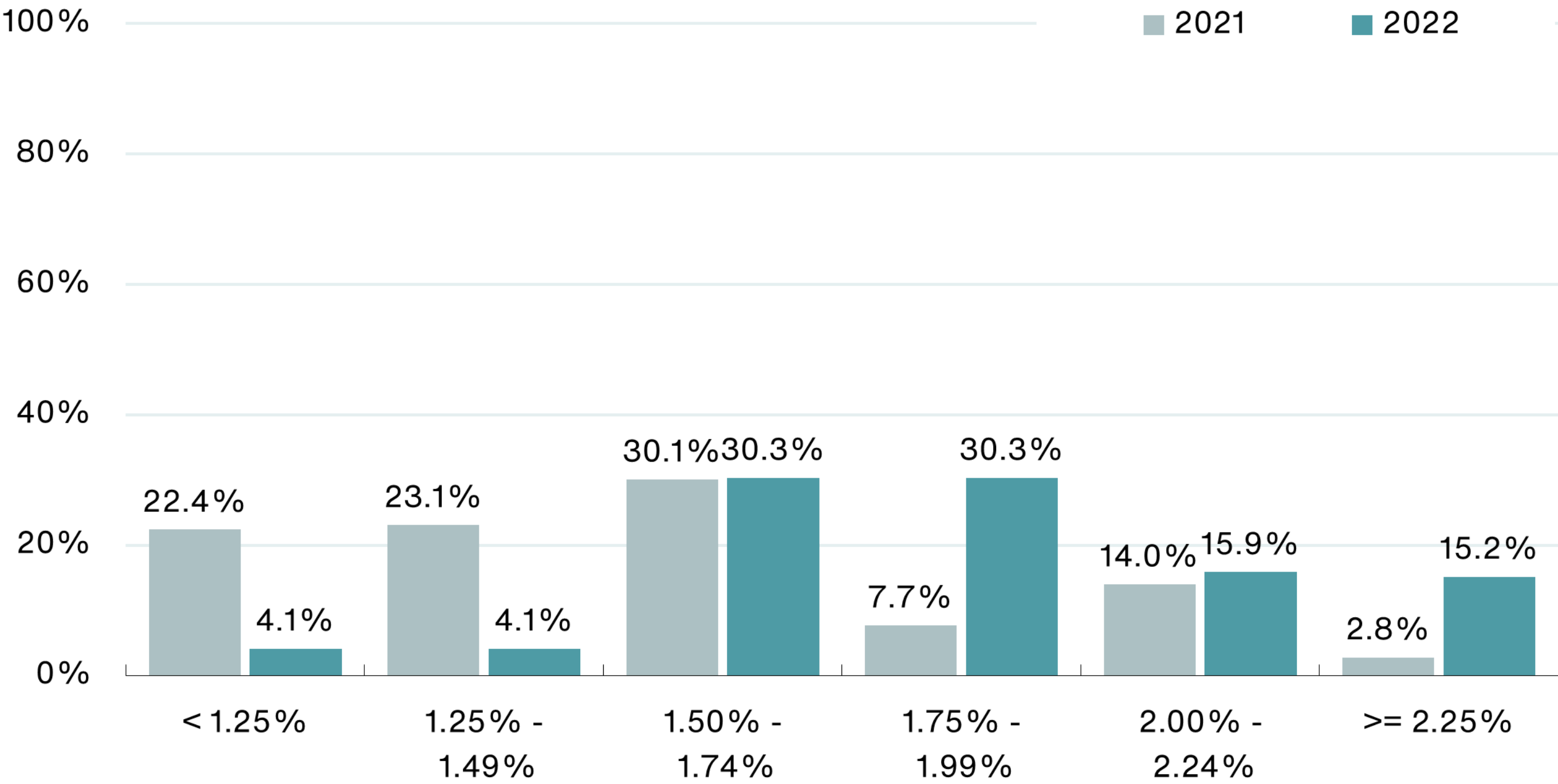


2022 – 145 responses, 2021 – 146 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Salary Increase Rate

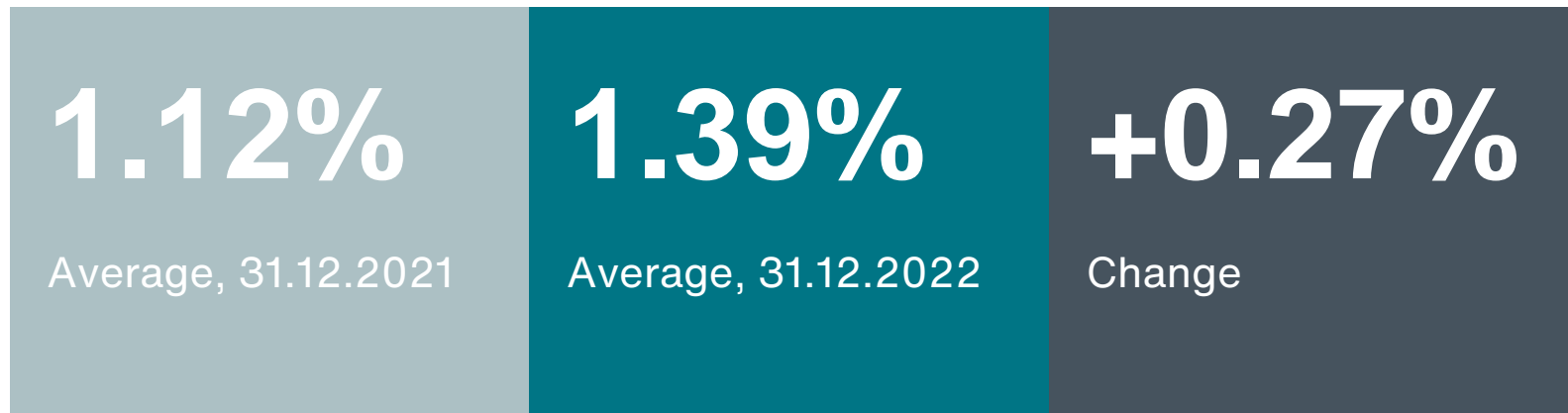


- The average assumption increased by 0.30% from 1.48% at 31.12.2021 to 1.78% at 31.12.2022.
- The average premium in excess of inflation (i.e. the merit component) was around 0.5%, which is similar to the prior year.

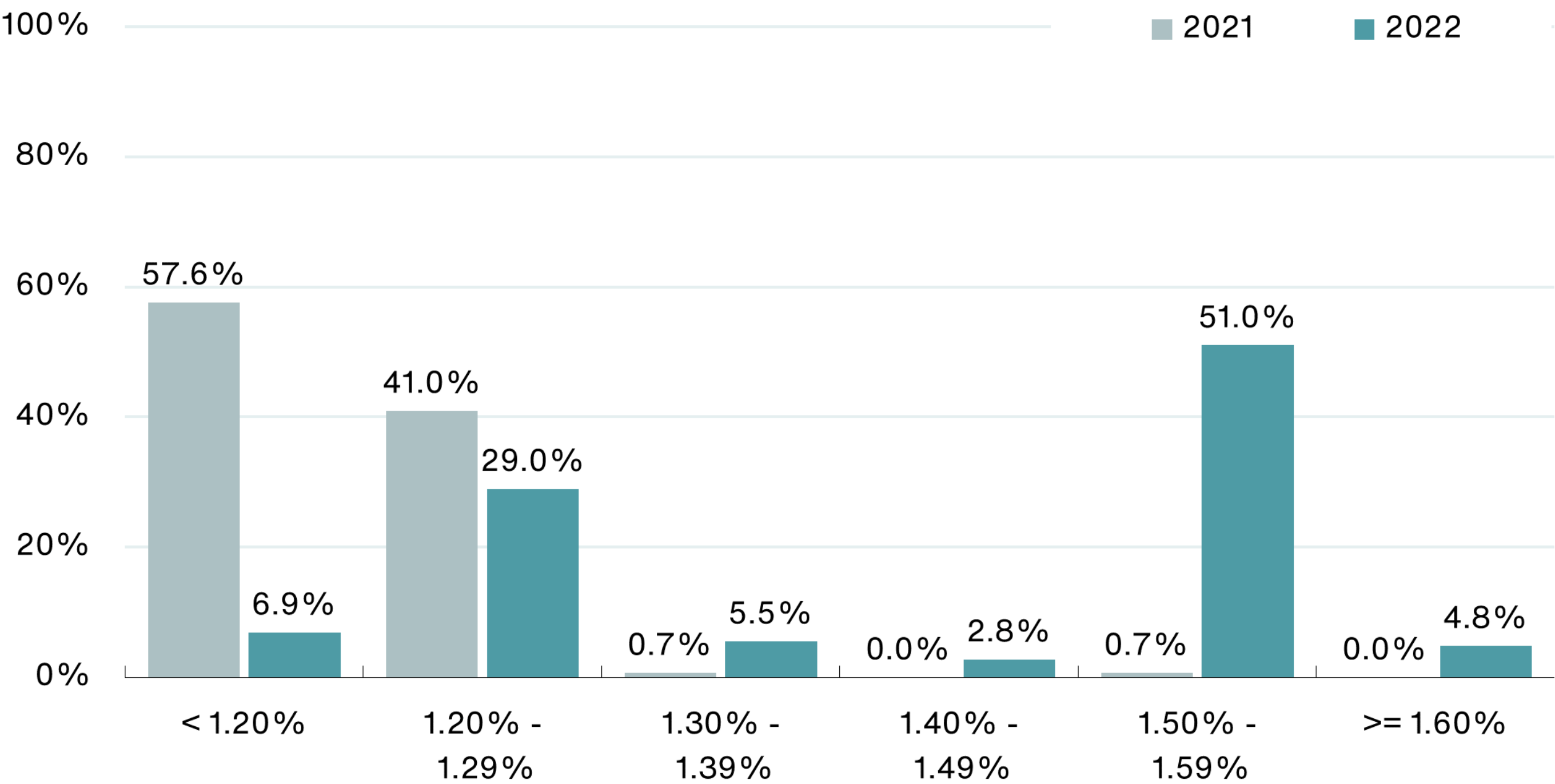


2022 – 145 responses, 2021 – 143 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Increase in Social Security Limits

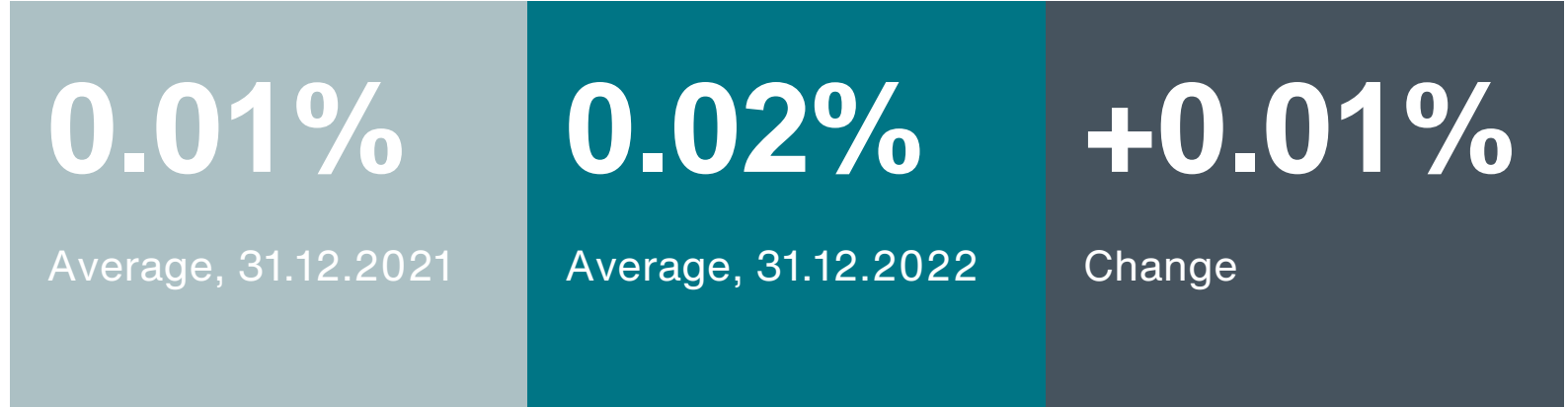


- The average assumption increased by 0.27 % from 1.12 % at 31.12.2021 to 1.39 % at 31.12.2022.
- The average premium in excess of inflation was around 0.15 %, which is similar to the prior year.

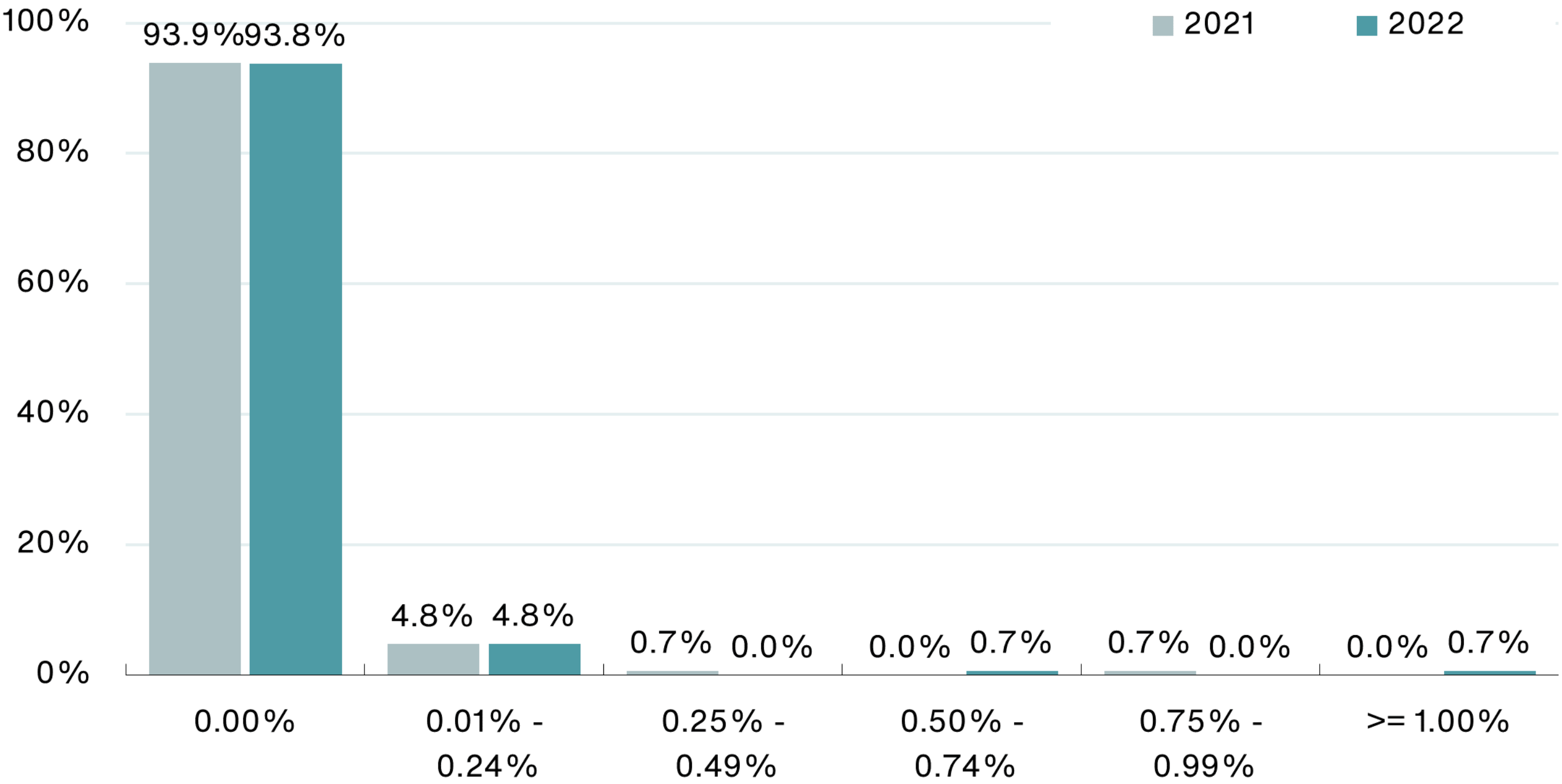


2022 – 145 responses, 2021 – 144 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Pension Increase Rate



- The average assumption increased by 0.01% from 0.01% at 31.12.2021 to 0.02% at 31.12.2022.
- Similarly to the prior year, more than 90% assumed no future pension indexation.
- For those assuming one, the average rate was around 0.3% at 31.12.2022 as compared with around 0.2% at 31.12.2021.



2022 – 145 responses, 2021 – 147 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

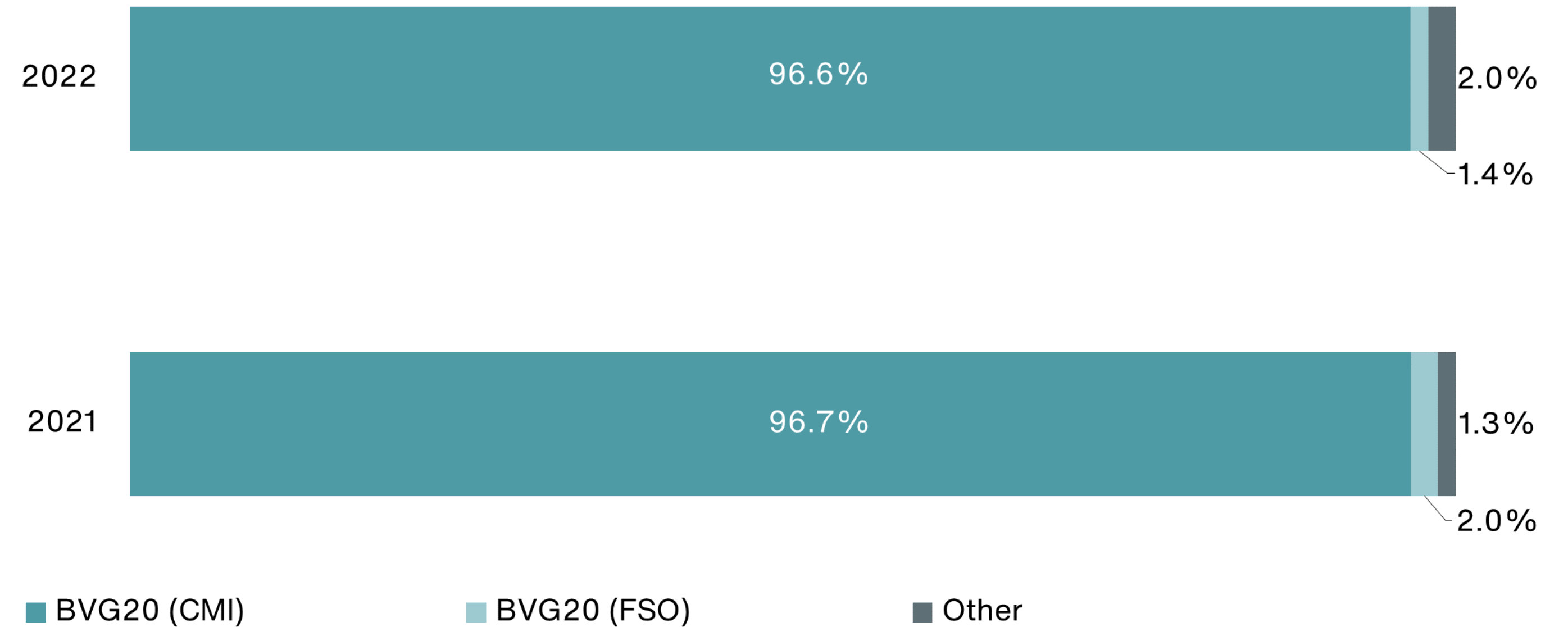
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Demographic Assumptions



Mortality

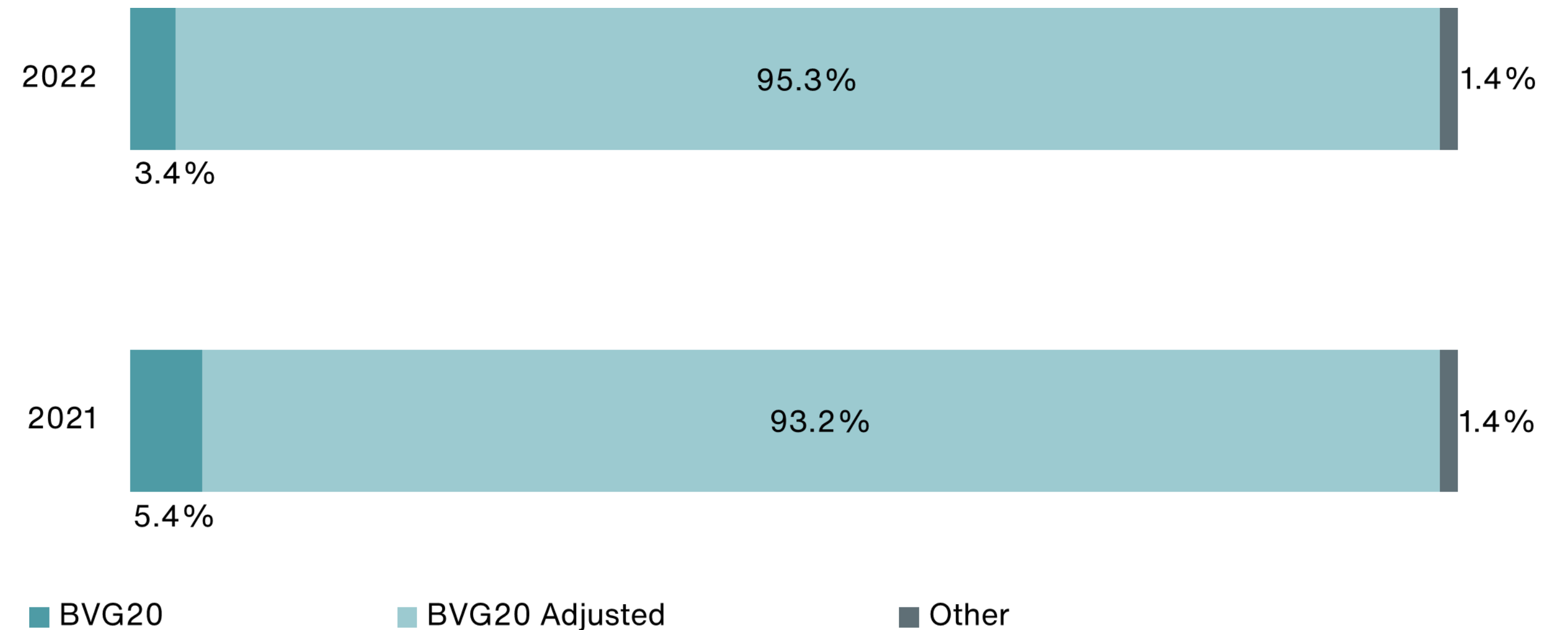
- No material changes were observed at 31.12.2022 compared to 31.12.2021.
- For determining future mortality improvements, more than 95% used the CMI model. Among those, around 90% assumed an average long-term rate of improvement of 1.5%, which is similar to the prior year.



2022 – 148 responses, 2021 – 150 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Disability

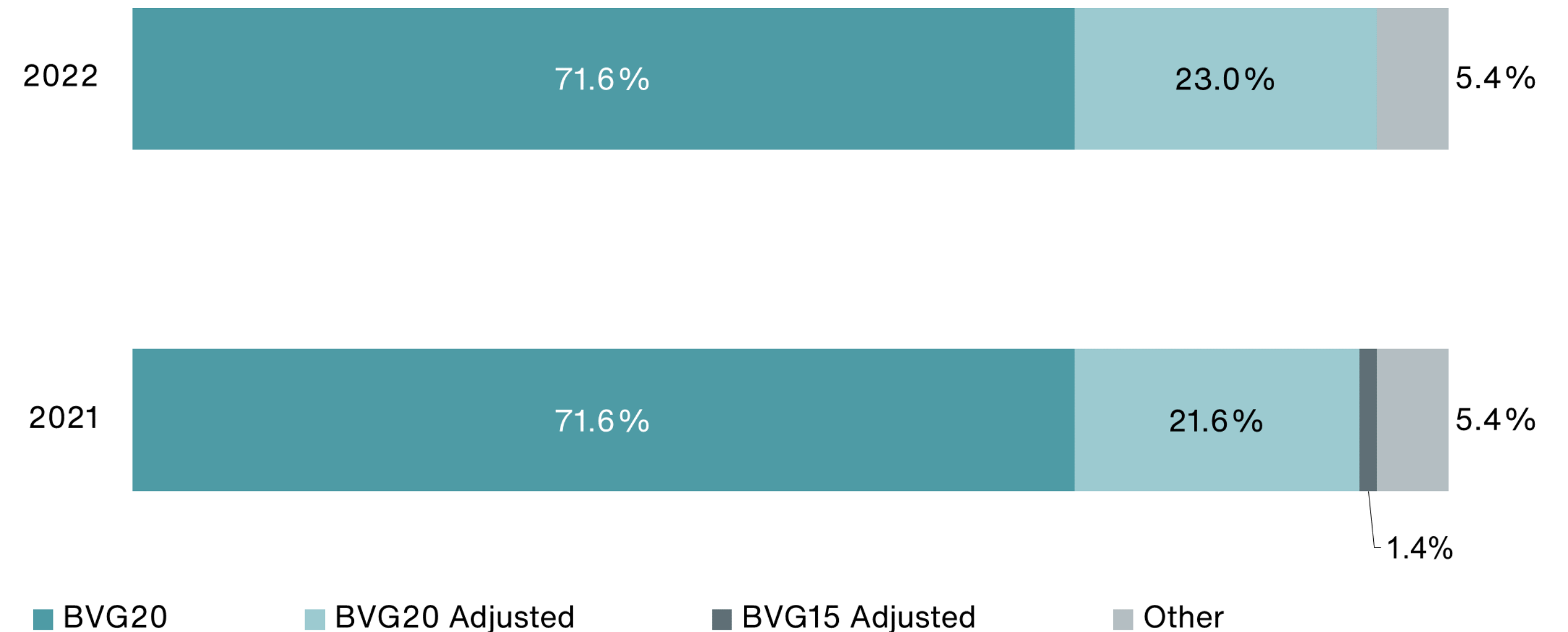
- No material changes were observed at 31.12.2022 compared to 31.12.2021.
- Around 95% of our clients continue to apply an adjustment factor to the standard BVG table in order to better estimate the effective costs arising from the occurrence of disability. Indeed, the standard table only reflects the probability of becoming disabled, with no distinction between full and partial disability. The average factor used to scale the rates was around 80%, which is similar to the prior year.



2022 – 148 responses, 2021 – 148 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Turnover

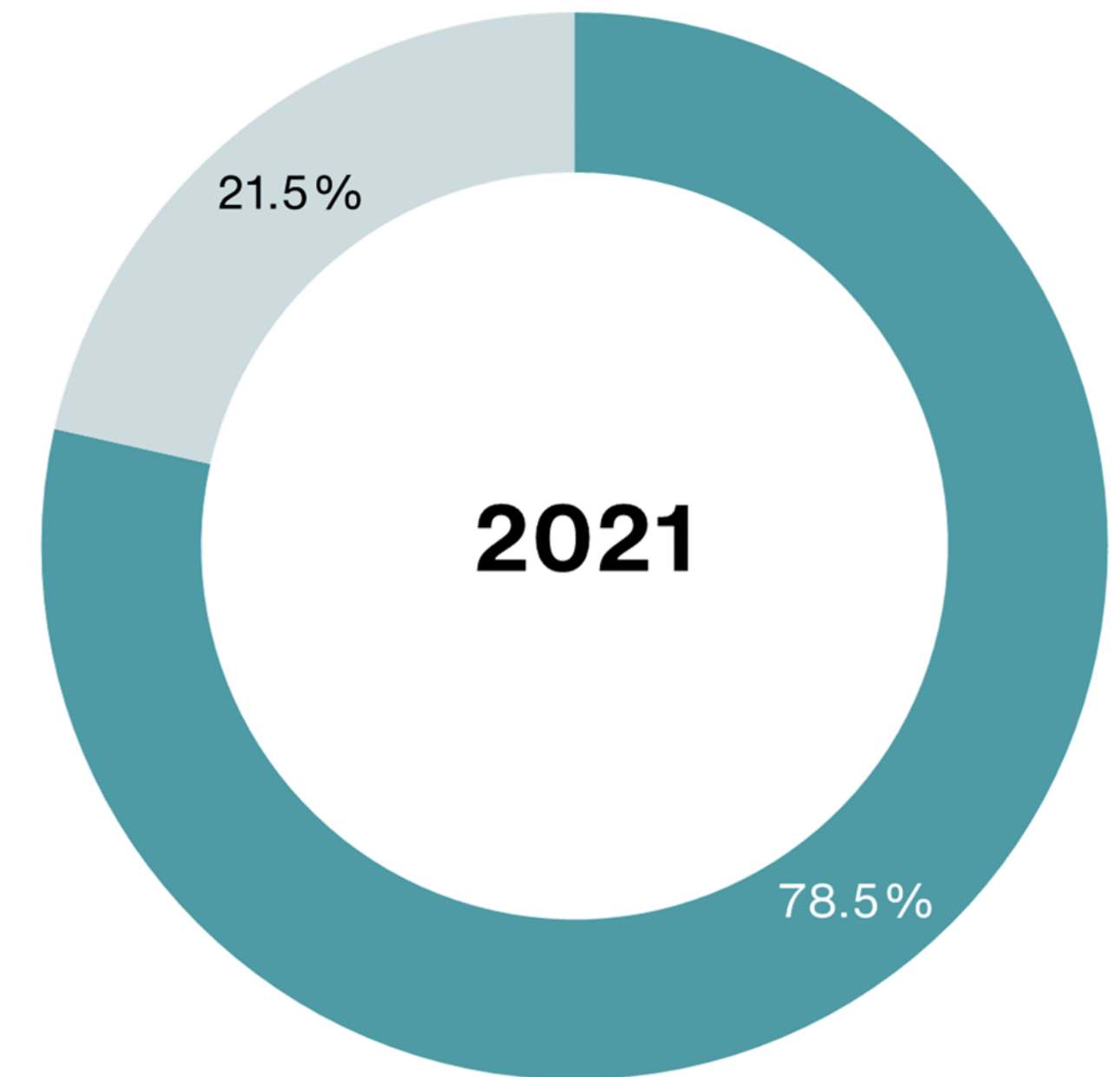
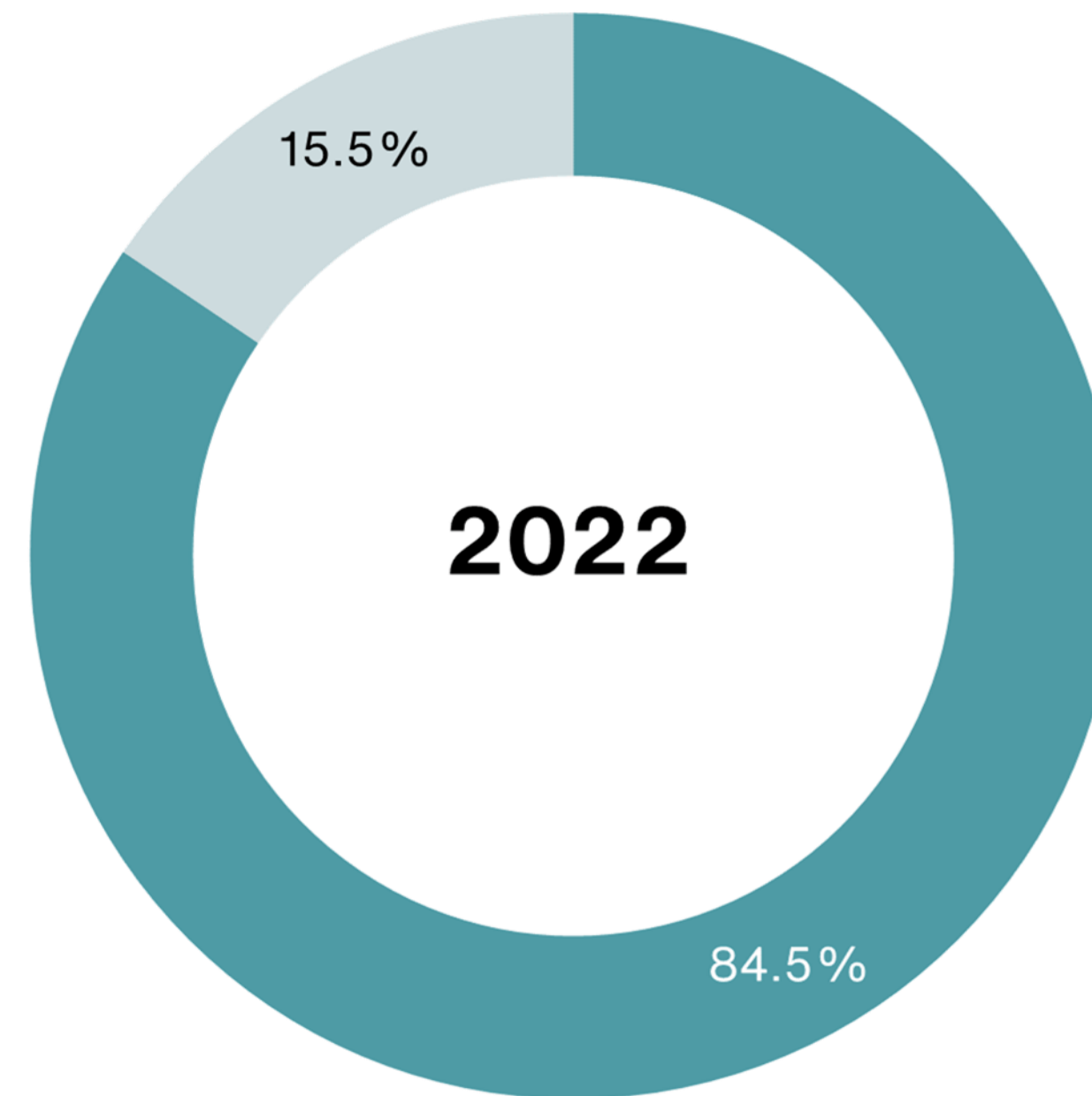
- No material changes were observed at 31.12.2022 compared to 31.12.2021.
- For those applying an adjustment factor, essentially to better reflect client-specific turnover expectations, the average factor used to scale the standard rates of the BVG 2021 turnover table was around 130%.



2022 – 148 responses, 2021 – 148 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Early Retirement

- There was a slight increase in the number assuming early retirement.
- In recent years, Aon has made a concerted effort to add more sophistication in the assumption setting process. More specifically, Aon developed an early retirement table from studying the distribution of early retirements for about 7'000 cases over a recent 5-year period. As a result, this table is available for our clients to use in cases where their data is unavailable or not credible.
- Of the almost 85% that allowed for early retirement at 31.12.2022, around 60% are using the Aon table.



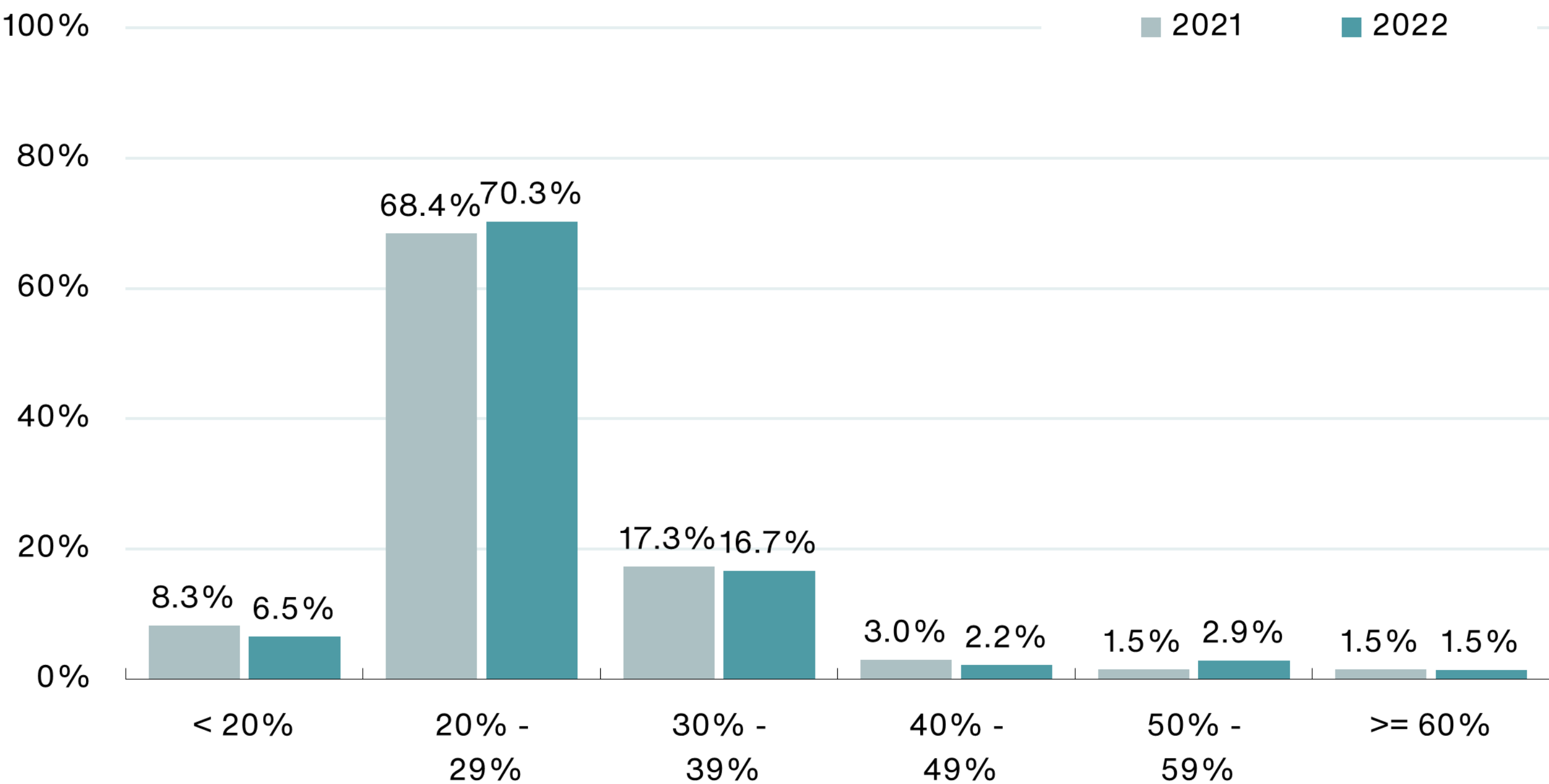
■ Yes ■ No

2022 – 148 responses, 2021 – 149 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Lump Sum Payments on Retirement



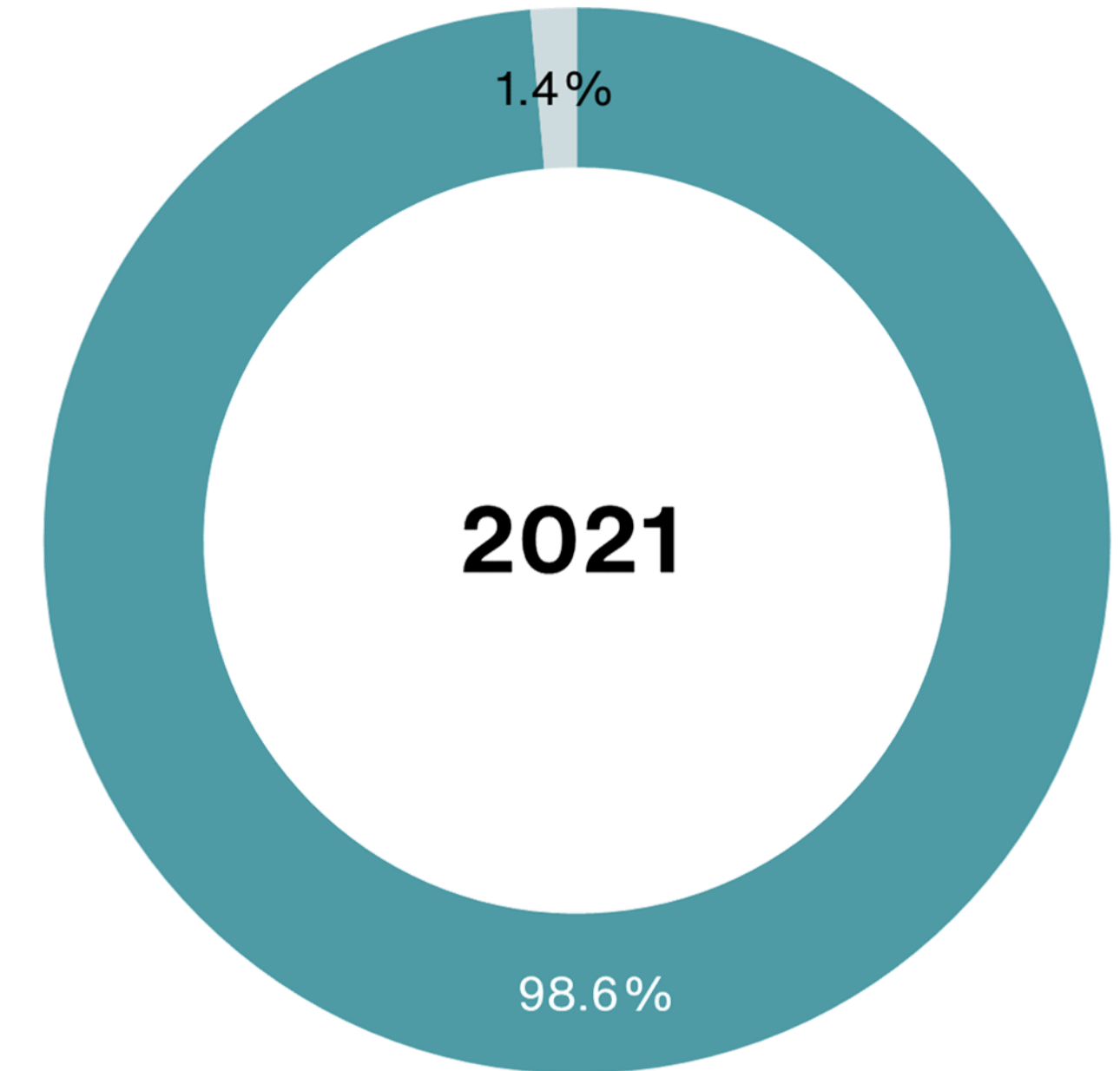
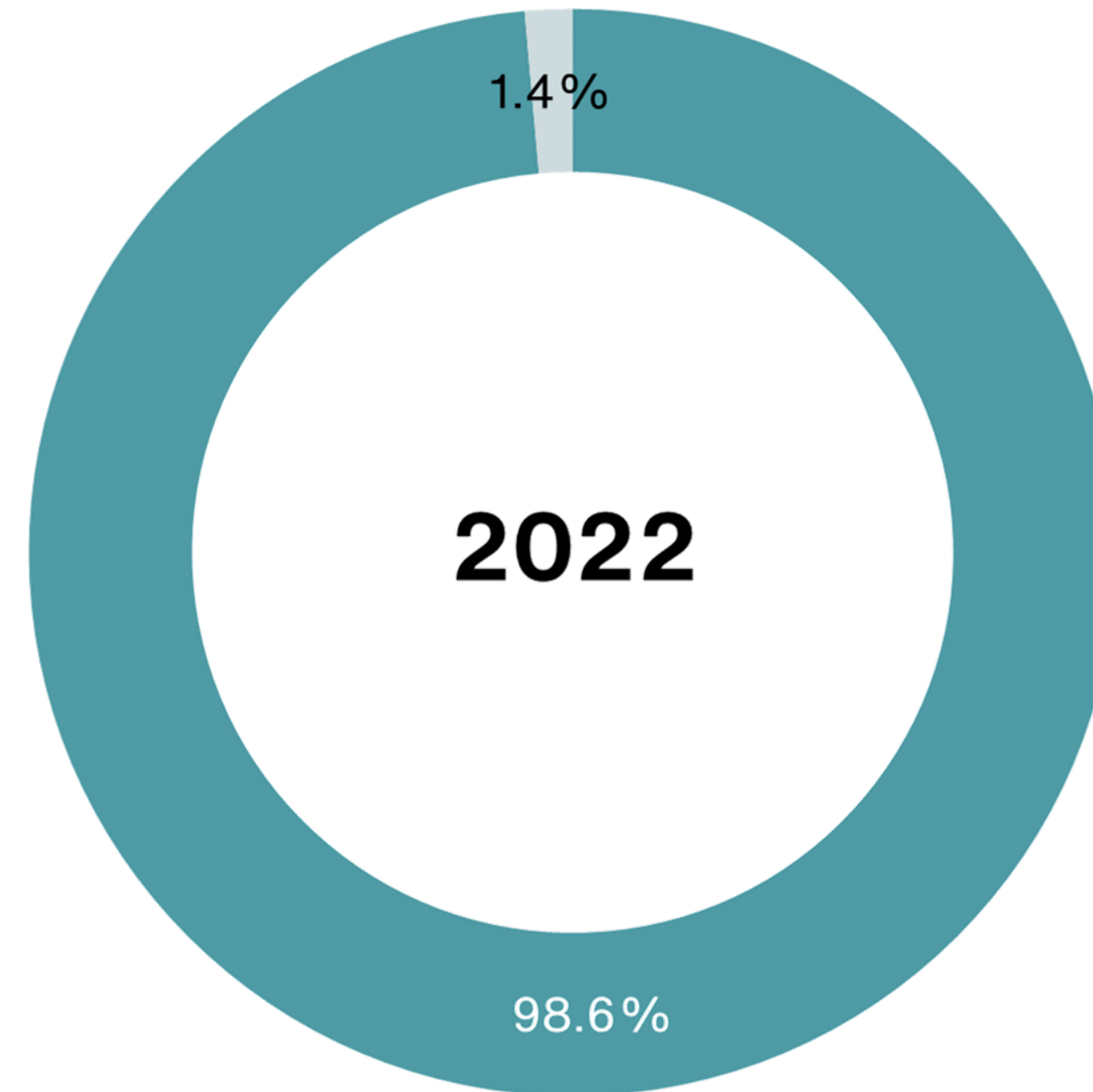
- The average assumption stayed the same.
- Similarly to the prior year, over 85% of our clients assumed a lump sum election rate between 20% and 39%.



2022 – 138 responses, 2021 – 133 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Proportion of Members With Spouse's/Partner's Pension

- No material changes were observed at 31.12.2022 compared to 31.12.2021.
- Similarly to the prior year, nearly all of our clients used the BVG table (age-by-gender).



■ BVG20 ■ Single Rate by Gender

2022 – 142 responses, 2021 – 143 responses
Source: Internal Aon Survey for 2022 Fiscal Year-End

Contact List

If you have questions, please contact your local Aon consultant or one of the consultants below:

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