Outsourcing
of pension obligations

SwissLife

Outsourcing of pension obligations from the german and the international balance sheet

Primarily for historical reasons, the majority of occupational pension provision in Germany takes the form of a pension commitment. These obligations not only appear on the employer's balance sheet as reserves set aside (book reserves) for pensions, but also on the commercial balance sheet as well as in the annual financial statements according to international accounting standards. Multinational corporations, in particular, are always looking for ways to free their balance sheets from the constraints of these pension obligations.

German legislation provides the fiscal basis for shifting towards the external funding of pension commitments such that it has a neutral impact on the balance sheet. Swiss Life Pensionsfonds AG, a wholly owned subsidiary of Swiss Life in Germany, offers the option of taking over an employer's pension plan as an external pension provider. This allows the company to increase profits by eliminating their pension reserves in one step, while simultaneously reducing profits by paying the corresponding amount as a single premium to Swiss Life Pensionsfonds AG, with one impact effectively neutralising the other. If the one-off premium is higher than the special-purpose reserves accrued from past service, the difference is tax deductible gradually over a period of 10 years.

The general trend towards seeking solutions for eliminating book reserves accrued for pension obligations has increased since a new German accounting law came into effect in 2010. The amended law is aimed at increasing the informative value of the annual trade balance sheet and includes a higher actuarial valuation of pension obligations along the lines of international financial reporting standards (IFRS), consequently resulting in significant rises in book reserves recorded on the trade balance sheet in many cases. However, the valuation principles applicable to pension obligations on the tax balance sheet were not amended accordingly. The discount factor remained at the unrealistically high rate of 6 percent. Consequently, the pension obligations are significantly undervalued on the tax balance sheet. This leads to phantom profits – possibly with simultaneous losses under commercial law.

A change – from book reserves to a pension fund is ideal for defusing or even eliminating the negative implications resulting from traditional book reserve plans.

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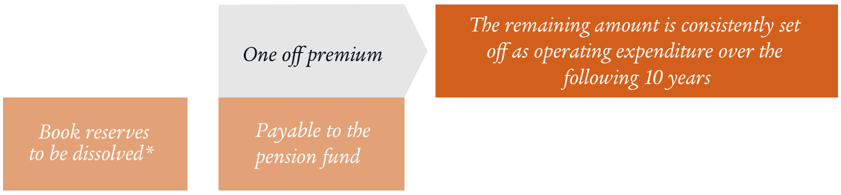
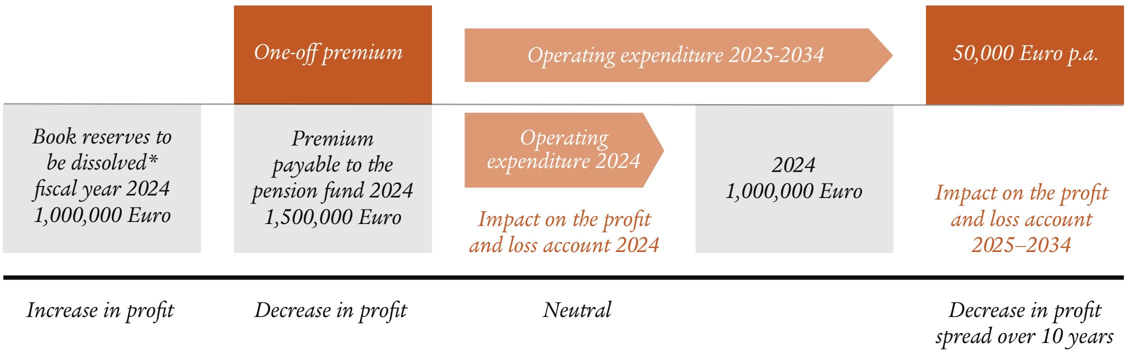
Outsourcing of book reserves to the pension fund – how does this neutralisation work?



* for past service

Outsourcing of book reserves to the pension fund – impacts on the profit and loss account



* for past service

The one-off premium is used to finance the pension benefit entitlements accrued for past years of service.

The pension reserves for past service are no longer featured on the balance sheet prepared for tax purposes or the commercial balance sheet. The balance sheet prepared according to international accounting standards, the liabilities are set off against total assets. There are various possibilities for entitlements deriving from future service. The customised solution depends on the specific circumstances of the case and should be determined individually.

Swiss Life Pensionsfonds AG, a 100 % subsidiary of Swiss Life Germany, offers outsourcing models for all needs. Swiss Life brings together a sophisticated investment concept with outstanding customer support and profound expert knowledge in the field of occupational pensions. As part of the leading global employee benefit network, Swiss Life assists a range of multinational clients from around the globe, every day.

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