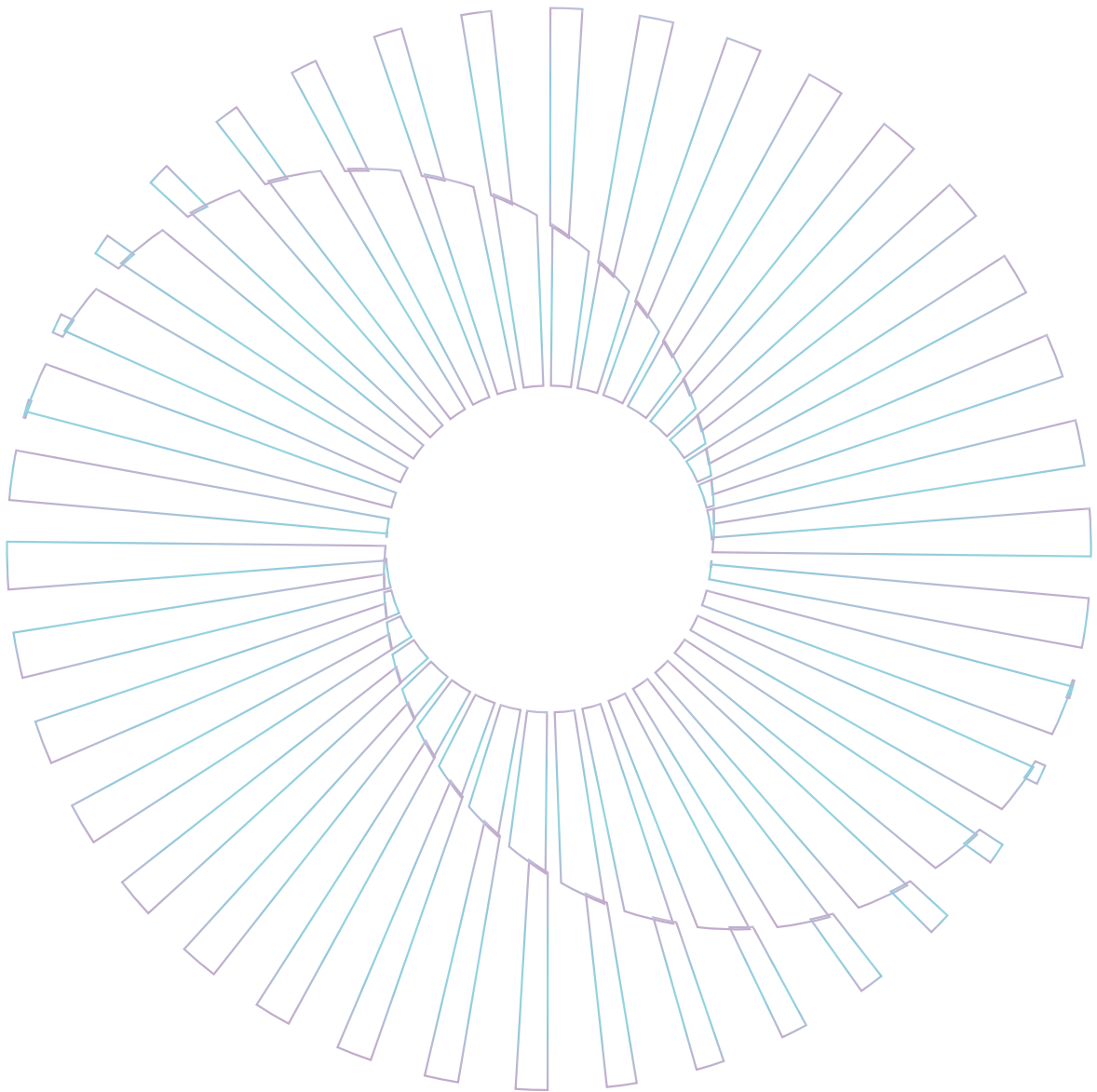


# PENSION FUND

## Statement of Funding Principles





# INTRODUCTION AND PURPOSE

Pursuant to the Pension Fund's Rules (Article I 2.05), the Pension Fund Governing Board (PFGB) approves, on the proposal of the Actuarial and Technical Committee (ATC), the Statement of Funding Principles, which compiles the decisions and principles relating to funding of the Fund (Article I 2.13)<sup>1</sup>. The Statement of Funding Principles describes the arrangements through which the Council shall ensure that the Fund has sufficient financial resources to achieve its purpose as defined in Article I 1.01 of the Fund's Rules.

## 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 members of 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).

## CHARACTERISTICS OF THE PENSION FUND

The Fund is placed under the supreme authority of the CERN Council. It is an integral part of CERN, with no separate legal personality but has operational autonomy. Its assets, held separately from those of CERN, may be used solely in connection with 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, fellows and graduates) as well as ESO staff members and fellows (admitted under conditions set out in an international agreement between the two employer organisations).

## 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 16 April 2025) 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.

# RESOURCES/ASSETS OF THE PENSION FUND

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

- 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.

## FUNDING OBJECTIVE

The funding objective is to fulfil the purpose of the Fund, as defined in Article I 1.01 of the Fund's Rules, in particular to have sufficient funds, on a sustainable basis, to pay pension benefits to current and future beneficiaries.

The CERN Pension Fund is fully funded when on a sustainable basis it has sufficient assets to pay all the benefits promised to current and future retirees. This is considered to be the fundamental definition of full funding and also serves as the funding objective. It has been formed and proposed by the PFGB and adopted by CERN Council.

The definition provides that the status of full funding shall be met, taken as an average across three consecutive years, when the actuarial funding ratio is a minimum level of 100% and in addition any fluctuation reserve, intended to act as a buffer against risk is at the level determined to be necessary by the PFGB.

The actuarial funding ratio, calculated as a percentage, is the ratio of the Pension Fund's assets to its long-term liabilities, as determined by the actuary, using parameters and assumptions that are consistent with a best-estimate evaluation<sup>2</sup>.

The fluctuation reserve is designed to allow the Pension Fund to continue to be able to pay benefits and to maintain a funding ratio above 100% in the event of a deterioration of the funding level caused by foreseeable events affecting assets and/or liabilities. This reserve helps to prevent the need for immediate or short-term measures affecting contributions or benefits. The fluctuation reserve shall be expressed as an additional percentage above the 100% funding ratio when assessing the funding level at which full funding is deemed to be achieved and shall be determined by mathematical means, considering the Fund's investment strategy.

The PFGB shall be responsible for:

- Setting this objective, taking account of the Council's definition of full funding;
- Defining the method used to calculate the fluctuation reserve and instructing any revisions to the calculation or calculation method;
- Advising the Council on any issues relating to the financial position of the Fund;

---

2. This is the existing actuarial method for measuring past service and forms the basis of the Periodic Actuarial Reviews

- 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;
- Confirming to Council, through its Annual Report and Financial Statements, when the Fund has reached a position of full funding.

## PRINCIPLES TO ADDRESS A FUNDING RATIO SHORTFALL

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

- The nature, magnitude and certainty of the 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.

## PRINCIPLES TO ADDRESS A FUNDING RATIO SURPLUS

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

- The nature, magnitude and certainty of the surplus;
- The equitable distribution of rights and 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 horizon looking out from any periodic actuarial review date;
- 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.

# KEY RISKS FACED BY THE FUND IN RELATION TO FUNDING

A summary of the principal funding risks faced by the Fund is provided below. These risks are included in the Fund's risk register and subject to regular review. The mitigation of these risks is managed as part of the Fund's Internal Control System. These risks could occur independently or simultaneously, in which case effects could be compounded.

RISK	DESCRIPTION OF RISK
Sponsor covenant	<ul style="list-style-type: none"> <li>- CERN and ESO are unable to fulfil their guarantee of the payment of future benefits.</li> <li>- If the resources of the Fund are insufficient to pay future benefits, CERN and ESO (through contributions of their respective Member States) must contribute the necessary additional funds.</li> <li>- Member States are unable to finance such obligations.</li> </ul>
Sponsor personnel policy	<ul style="list-style-type: none"> <li>- Future policy measures introduced by CERN and ESO and changes in future personnel headcount, recruitment and employment contracts could adversely impact the Fund's expectations and funding objective.</li> </ul>
Operational risks	<ul style="list-style-type: none"> <li>- Risks relating to operating the Fund and administering benefits, such as loss, theft or fraud, could have material impact.</li> </ul>
Adverse investment return	<ul style="list-style-type: none"> <li>- Actual investment returns lower than expected, which would increase the deficit creating an increased risk that the Fund would not be able to pay all the promised benefits without additional contributions and/or reducing future benefits for existing or new members</li> </ul>
Unsuitable investment management	<ul style="list-style-type: none"> <li>- Unsuitable or inappropriate setting or implementation of the Strategic Asset Allocation.</li> <li>- Such investments could create excessive risks or returns that are not aligned with the Fund's liabilities.</li> </ul>
Inflation	<ul style="list-style-type: none"> <li>- Inflation could be higher than assumed creating an increase in inflation-linked benefits higher than anticipated.</li> <li>- There could be losses arising that are not offset by the Purchasing Power Loss mechanism.</li> </ul>
Longevity	<ul style="list-style-type: none"> <li>- Members could live longer than expected such that retirement annuity payments continue longer than anticipated, increasing the overall cost of providing benefits.</li> </ul>
Salary increases	<ul style="list-style-type: none"> <li>- Salary increases are different to projected.</li> </ul>
Member options	<ul style="list-style-type: none"> <li>- The exercising of some options may have an impact on the funding level.</li> </ul>
Legal/claims	<ul style="list-style-type: none"> <li>- There is a risk of additional liabilities arising from tribunal judgements, changes in legislation, or backdated claims.</li> </ul>

## 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.

# 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).

# 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 reflect anticipated experience with no provision for risk of adverse deviation.

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.

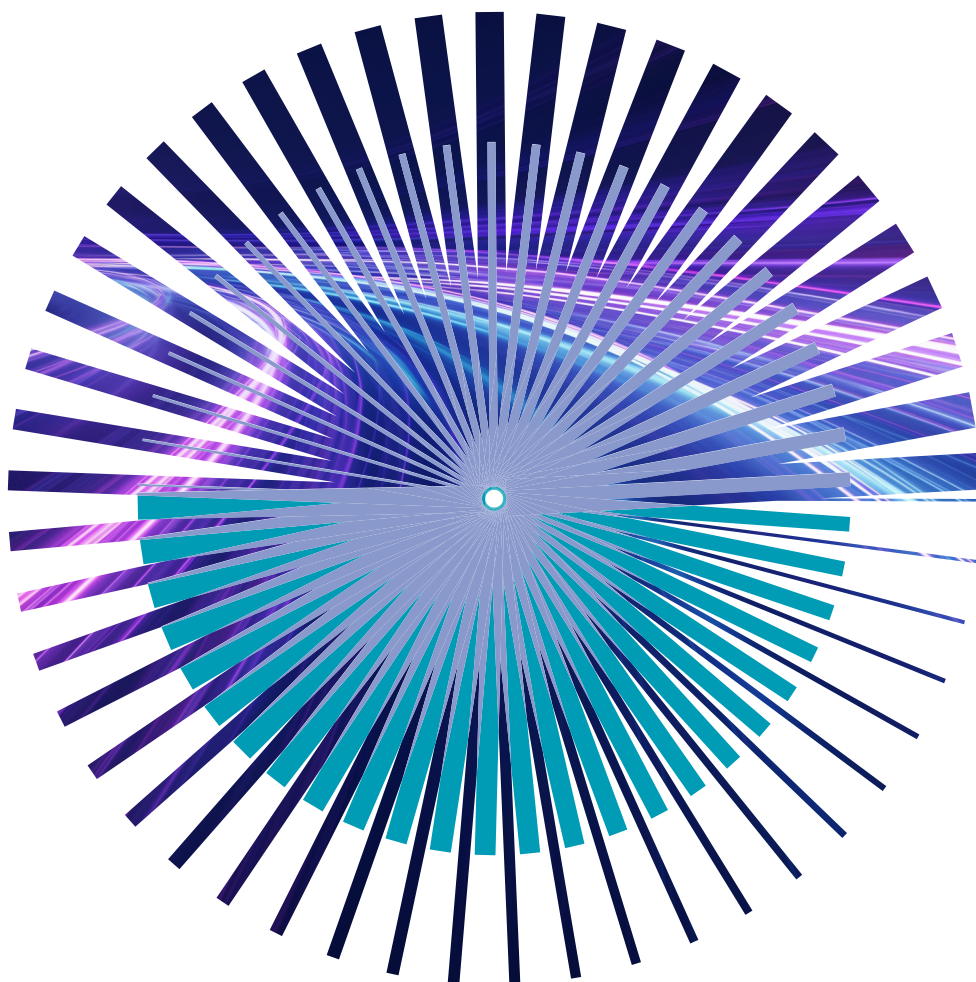
# MEASURES TAKEN TO RESTORE THE FUND'S EQUILIBRIUM

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 based on the funding objective in place at that time.

# REVIEW

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





CERN  
CH-1211 Geneva Switzerland  
Pension Fund  
<https://pensionfund.cern.ch/>

Copyright 2024

