



## 2014 operating result

Occupational provisions  
Swiss Life Switzerland

# Editorial

*Dear Reader*



Swiss Life provided impressive proof in 2014, as in previous years, of its financial stability, efficiency and competitiveness. In an environment which continues to be characterised by low interest rates and low investment income, Swiss Life was able to pay insured persons attractive total returns on retirement savings on the basis of its balanced and security-oriented investment strategy. Swiss Life also generated pleasing growth in premium income and again increased its technical reserves to ensure continuity and long-term stability.

Demand for full insurance solutions remains high. As a result, total premium income grew by 11%. Savings premiums stood at CHF 7.3 billion, up 12% on the previous year. The volume of contract cancellations was kept at a very low level as in the previous year.

Insurance benefits paid out last year amounted to CHF 5.7 billion, thus remaining stable against previous years.

Administrative costs were again reduced in 2014 thanks to the systematic implementation of efficiency-enhancing measures. Costs per active insured person fell by 6.5% from CHF 492 to CHF 460.

Net return on book values was a solid 3.51% in 2014. This was an excellent result in view of the current investment environment, made possible by a targeted and security-oriented investment policy.

As in the previous years, additional technical reserves were set aside in 2014 amounting to CHF 783 million aimed at consolidating financial stability and ensuring the long-term financing of benefit commitments.

The distribution ratio in business subject to the statutory minimum distribution ratio stood at 92.6% in 2014, thus satisfying the legally stipulated value of 90%. Furthermore,

the result enabled allocation of a total of CHF 265 million to the bonus reserve (CHF 317 million in 2013). As a result, the bonus reserve at the end of the year remained at the prior-year level. This means that insured persons will also be able to benefit from high bonuses in the future.

The Pensions 2020 reform is a project which is central to the stability of the three-pillar system. It takes a holistic approach, which puts the interests of insured persons first and safeguards benefit levels under the 1<sup>st</sup> and 2<sup>nd</sup> pillars. Swiss Life is committed to comprehensive reform and to benefit parameters that are viable in the long term. The adjustment of the conversion rate in BVG mandatory benefits is particularly urgent against the background of the current interest rate environment and the continuing increase in life expectancy.

The growth recorded, the low volume of contract terminations, the further improvements in administrative costs and the stable investment result all prove that Swiss Life is on the right path with its offering and guarantees. As a full-range provider, Swiss Life provides its customers with solutions that meet their individual needs. Full-insurance solutions are particularly important to Swiss Life's offering. With the consistent and sustainable measures it has taken over the past years, Swiss Life has established a good basis to respond to customer requirements for guarantees and security even in the current market environment.

A stylized, handwritten signature in black ink, consisting of several fluid, overlapping loops and strokes.

*Hans-Jakob Stabel*  
*Head of Corporate Clients business area*  
*Member of the Executive Board*



# At a glance – Operating result, group life Switzerland

<b>Income</b>	<b>2014</b>	<b>2013</b>
<b>Premium income</b>	<b>8 196</b>	<b>7 374</b>
Savings premiums	7 304	6 505
Risk premiums	683	666
Cost premiums	209	203
<b>Investment income, net</b>	<b>2 074</b>	<b>1 999</b>
Direct investment income	2 047	2 005
Result from disposals	157	187
Currency result	1	-222
Balance from write-ups and write-downs	0	135
Interest expense	-3	0
Asset management costs	-128	-106
<b>Other income</b>	<b>24</b>	<b>31</b>
<b>Reinsurance result</b>	<b>-1</b>	<b>-1</b>
<i>Total income</i>	<i>10 293</i>	<i>9 403</i>
<b>Expenses</b>	<b>2014</b>	<b>2013</b>
<b>Insurance benefits, gross</b>	<b>5 671</b>	<b>5 553</b>
Benefits as a result of old age, death and disability	2 052	2 113
Vested benefits	2 923	2 793
Surrender values	662	613
Benefit processing expenses	34	34
<b>Change in insurance reserves, gross</b>	<b>3 907</b>	<b>3 086</b>
Retirement savings	2 371	1 991
Mathematical reserve for current retirement and survivors' benefits	414	869
Mathematical reserve for current disability benefits	-27	-64
Mathematical reserve, vested benefit policies	261	138
Provision for incurred but not settled claims	-11	14
Other technical reserves	899	138
<b>Costs for acquisitions and administration, gross</b>	<b>211</b>	<b>215</b>
<b>Other expenses</b>	<b>34</b>	<b>35</b>
<b>Bonuses allocated to bonus reserve</b>	<b>265</b>	<b>317</b>
<b>Operating result</b>	<b>205</b>	<b>197</b>
<i>Total expenses</i>	<i>10 293</i>	<i>9 403</i>

All figures in CHF million

# Breakdown of savings premiums

Breakdown of savings premiums	2014	2013
Contributions to retirement savings	2 254	2 127
Transferred retirement savings (commencement of employment, new affiliations)	4 171	3 709
Deposits for acquired old-age and survivors' pensions	71	40
Deposits for acquired disability pensions	26	16
Deposits for vested benefit policies	782	613
<i>Total savings premiums</i>	<i>7 304</i>	<i>6 505</i>

All figures in CHF million

## Accounting principles

The occupational provisions operating result comprises the occupational benefits business in Switzerland. The legal bases include the BVG (Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans), the VAG (Insurance Supervisory Law) and resulting decrees.

The main income figures presented in the operating result are periodic premiums, single premiums and investment income. The insurance benefits consist primarily of benefits for retirement, disability and death, as well as lump-sum benefits resulting from vesting and surrenders.

The material presented below is based on the statutory financial statements. The statutory financial statements for Switzerland describe the Swiss group life and individual life operations from an actuarial perspective. Based on these

statements, the Federal Financial Market Supervisory Authority FINMA can check compliance with solvency and other regulations. The statutory financial statements form the basis for the allocation of bonuses to policyholders, dividend policy and reporting to the supervisory authorities.

The statutory financial statements are not to be confused with the consolidated financial statements of the Swiss Life Group, which describe the business activities of the whole Group from a shareholder's point of view. They are produced in accordance with consistent rules conforming to IFRS (International Financial Reporting Standards) requirements. The results of the foreign subsidiaries are also consolidated in the annual financial statements. It is not possible to make a direct comparison with the operating result for Switzerland.

## Proof of adherence to statutory minimum distribution ratio

The occupational pensions business can be divided into the three processes of savings, risk and costs. The income is first used to cover the expenses allotted to each process. The

remaining income is then used to strengthen the reserves, to ensure that promised benefits will always be paid and to build up the bonus reserve.

Process	Income	Associated services
Savings process	Net investment income	Interest on retirement savings and mathematical reserves for current pensions, conversion of retirement savings into retirement pensions
Risk process	Risk premium	Payment of disability and survivors' benefits, formation of mathematical reserves for new pensions
Cost process	Cost premium	Services for the administration of occupational benefit and insurance solutions and for client advisory services

# Group business subject to statutory minimum distribution ratio

The bulk of the group business is subject to the statutory minimum distribution ratio. The legal provisions on the statutory minimum distribution ratio require that at least

90% of the income is used for the benefit of the policyholders. This ensures that they participate appropriately in any profit the insurance company makes.

	2014	2013
<b>Sum of income components</b>	<b>2 477</b>	<b>2 387</b>
Savings process	1 746	1 681
Risk process	536	517
Cost process	195	189
<b>Sum of expenses</b>	<b>1 463</b>	<b>1 146</b>
Savings process	933	610
Risk process	324	329
Cost process	206	207
<i>Gross result</i>	<i>1 014</i>	<i>1 241</i>
<b>Accumulation (+) or release (-) of technical reserves</b>	<b>692</b>	<b>846</b>
<b>In the savings process</b>		
Longevity risk	413	604
Insufficient funding upon conversion into pension	279	170
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
<b>In the risk process</b>		
Reported but not settled claims*	15	70
Incurred but not reported claims	2	1
Fluctuations in claims	-17	1
Rate adjustments and rate restructuring	0	0
<b>Costs of raising additional borrowed capital</b>	<b>0</b>	<b>0</b>
<b>Allocation to bonus reserve</b>	<b>139</b>	<b>214</b>
<i>Operating result</i>	<i>183</i>	<i>181</i>
<i>Distribution ratio</i>	<i>92.6 %</i>	<i>92.4 %</i>

All figures in CHF million

\*Including strengthening of mathematical reserve for disability and survivors' benefits

In 2014, Swiss Life used a total of CHF 2 294 million in favour of the insured persons in business subject to the statutory minimum distribution ratio. With a distribution

ratio of 92.6%, the minimum legal requirements have been met.

# Group business not subject to statutory minimum distribution ratio

Contracts with a special arrangement for participation in surplus are not subject to the statutory minimum distribution ratio. This includes contracts with their own profit

and loss accounts, where participation in any surplus (bonus) is determined by the risk experience of the individual contract.

	2014	2013
<b>Sum of income components</b>	<b>489</b>	<b>481</b>
Savings process	328	318
Risk process	147	149
Cost process	14	14
<b>Sum of expenses</b>	<b>250</b>	<b>255</b>
Savings process	177	163
Risk process	58	76
Cost process	15	16
<i>Gross result</i>	<i>239</i>	<i>226</i>
<b>Accumulation (+) or release (-) of technical reserves</b>	<b>91</b>	<b>107</b>
<b>In the savings process</b>		
Longevity risk	67	63
Insufficient funding upon conversion into pension	35	34
Interest rate guarantees	0	0
Fluctuations in value of investments	0	0
<b>In the risk process</b>		
Reported but not settled claims*	2	5
Incurred but not reported claims	0	1
Fluctuations in claims	-13	4
Rate adjustments and rate restructuring	0	0
<b>Costs of raising additional borrowed capital</b>	<b>0</b>	<b>0</b>
<b>Allocation to bonus reserve</b>	<b>126</b>	<b>103</b>
<i>Operating result</i>	<i>22</i>	<i>16</i>
<i>Distribution ratio</i>	<i>95.5 %</i>	<i>96.6 %</i>

All figures in CHF million

\*Including strengthening of mathematical reserve for disability and survivors' benefits

In 2014, Swiss Life used a total of CHF 467 million in favour of the insured persons in business not subject to the statutory minimum distribution ratio.

# Summary

	*MDR	**NMDR	Total
<i>Gross income</i>	2 477	489	2 966
<i>Benefits in favour of the insured</i>			
Sum of expenses	1 463	250	1 713
Change in technical reserves	692	91	783
Allocation to bonus reserve	139	126	265
<i>Operating result</i>	183	22	205
<i>Distribution ratio</i>	92.6 %	95.5 %	93.1 %
<i>Share of total income</i>	7.4 %	4.5 %	6.9 %

\* MDR: subject to minimum distribution ratio

\*\* NMDR: not subject to minimum distribution ratio

## Insurance reserves

<b>Insurance reserves, gross</b>		<b>Mandatory</b>	<b>Supplementary</b>
Retirement savings	33 003	16 965	16 038
Additional reserve for future pension conversions	1 581	1 028	553
Mathematical reserve for current retirement and survivors' benefits	9 840	4 421	5 419
Mathematical reserve for current disability benefits	2 101	1 272	829
Strengthening of mathematical reserve for current pensions	2 776	1 284	1 492
Mathematical reserve, vested benefit policies	3 283		
Provision for incurred but not settled claims	810		
Cost of living (COL) adjustment fund	858		
Credited bonuses	160		
Other insurance reserves	2 987		
<i>Total insurance reserves</i>	<i>57 399</i>		

All figures in CHF million

In view of the persistent low interest rate environment, Swiss Life has taken further steps to guarantee its obligations to beneficiaries. By building up additional insurance reserves it has been able to further reduce its future interest burden. This will guarantee that Swiss Life

can continue to fulfil its customer promise. In addition, Swiss Life has built up a generous bonus reserve, which will guarantee beneficiaries a high level of profit participation in the future.

# Bonus reserve

The bonus reserve is a reserve for future bonus distributions to policyholders. It serves to even out fluctuations in the course of business so that policyholder bonuses remain stable. The bonus reserve is used exclusively for the policyholders. It is built up using allocations from the operating

result. The distributions to policyholders are taken from this reserve. Money that flows into the bonus reserve must be passed on to the policyholders within five years at the most. No more than two-thirds of the bonus reserve can be distributed to policyholders in any given year.

<b>Bonus reserve as at end of 2013</b>	<b>585</b>
Allocated to employee benefits institutions	277
Valuation adjustment	0
Withdrawn from bonus reserve to cover an operating shortfall	0
Allocated to bonus reserve from operating result	265
<i>Balance as at end of 2014</i>	<i>573</i>

All figures in CHF million

From the 2014 result, Swiss Life allocated a total of CHF 265 million to the bonus reserve for group life insurance.

# Cost of living (COL) adjustment fund

The cost of living adjustment fund is an insurance reserve used to finance future adjustments of current disability and surviving dependants' pensions to price developments.

The fund is financed by cost of living premiums paid by the active insured persons.

<b>Cost of living adjustment fund as at end of 2013</b>	<b>842</b>
COL premiums received	12
Premium interest	4
Expenditure for COL increases in risk pensions	0
Withdrawal in favour of operating account	0
<i>Balance as at end of 2014</i>	<i>858</i>

All figures in CHF million



## Other key figures

Number of group insurance contracts	41 277
Number of insured persons at end of accounting year	604 148
Number of active insured persons	438 179
Number of pension recipients	76 473
Number of vested benefit policies	89 496
Interest rate for retirement savings in mandatory insurance, guaranteed	1.75%
Interest rate for retirement savings in mandatory insurance, with interest surplus	1.75%
Interest rate for retirement savings in supplementary insurance, guaranteed	1.25%
Interest rate for retirement savings in supplementary insurance, with interest surplus	2.20%
Conversion rate for women's supplementary insurance (retirement age 64)	5.72%
Conversion rate for men's supplementary insurance (retirement age 65)	5.84%

## Information on the 2014 investment year

In 2014, long-term interest rates continued to fall, reaching a record low at the end of the year. Deflationary fears, fuelled in the second half of the year by the collapse in the crude oil price, were a key driver. Furthermore, geopolitical tensions led to a renewed flight to safe haven assets, so that the yield on a 10-year Swiss Confederation bond at the end of the year was equivalent to that on a Japanese Government Bond at just above 0.3%. Due to expectations of a tightening in monetary policy in 2015, US treasury yields were less affected.

Unlike in the preceding years, performance varied greatly between the major stock indices in 2014. Despite strong economic growth, the UK stock market index was the worst performing, ending the year on minus 2.7%, while the SMI reported positive growth of almost 9% and the S&P500 ended the year as the best performer with double-digit growth of 12.4%. Common to all indices was the notable stock market correction in October and December 2014. Geopolitical risks, uncertainties regarding the future development of the Eurozone and the free fall in the price of oil continued to curb the risk appetite of investors and led to increased volatility in the last quarter.

We can look back on a year in which the US dollar celebrated a resurgence. The euro, on the other hand, continued its downward trend. Faced with increasing risk aversion among investors, the Swiss National Bank was forced towards the end of the year to introduce a negative interest rate and make renewed interventions in the foreign exchange market to support the value of the euro.

Against this background, Swiss Life continued to pursue its strategy of previous years. In the persistent low interest rate environment, Swiss Life invested in high-quality corporate bonds. The sharp drop in interest rates had an extremely positive impact on bond values. As in previous years, further expansions were made to the real estate portfolio. In addition, the equity holding was increased from its low level. These measures enabled Swiss Life to generate a net return on investment for occupational benefits insurance of 3.51% (2013: 3.66%). Market value investment performance stood at 11.44% (2013: -2.38%).

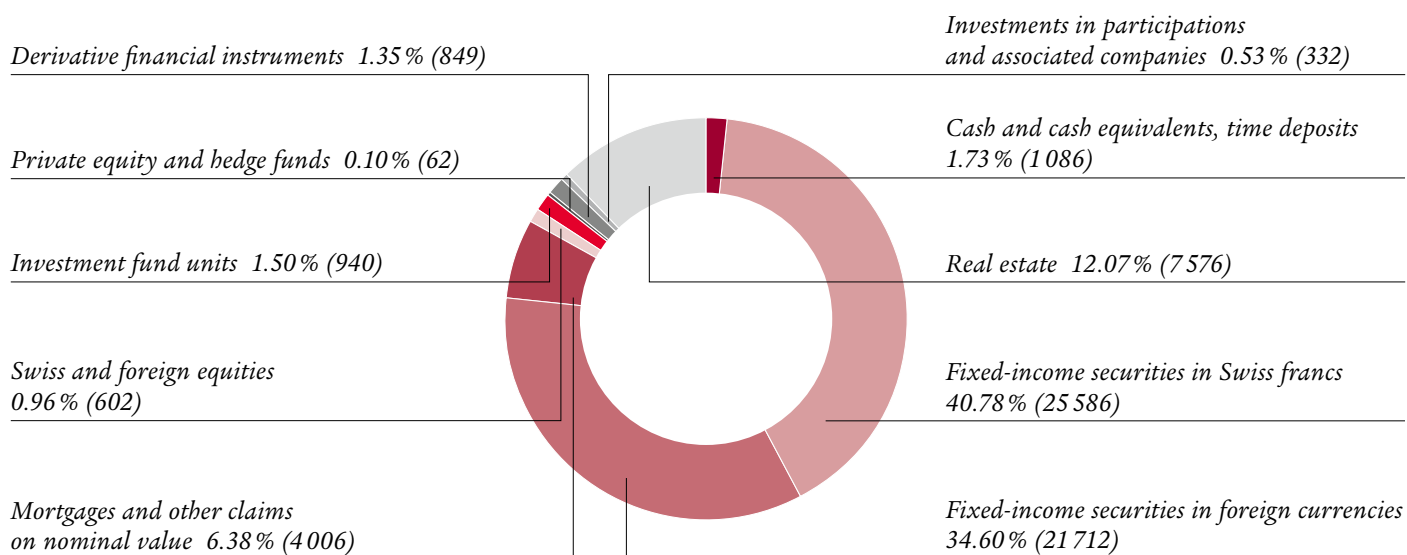
# Information on Swiss Life's investment policy

Swiss Life manages investments in such a way that the economic risk capital is efficiently used in line with its risk appetite. The company's asset and liability management (ALM) is applied for this purpose, and the investment strategy is based on these risk assessment findings. The aim is to be in a position to pay benefits whenever they fall due and

always to have sufficient equity to absorb fluctuations in the value of assets and liabilities. Clearly defined criteria on security, yield and liquidity are taken into account when policyholder assets, the company's free reserves and shareholders' equity are invested.

## The investment portfolio in detail

Investments by asset class as at 31 December 2014 (as a percentage of the book value).  
The total is CHF 62 751 million (all figures in brackets in CHF million).



# Investments

Investments	Book value	Market value
Investments at beginning of accounting year*	56 655	59 920
Investments at end of accounting year*	61 521	70 155
Percentage of collective investment schemes**		1.40 %
Percentage of capital investments that are not cost transparent**		0.54 %

All figures in CHF million

\*Total investment income minus obligations under derivative financial instruments

\*\*Measured by market value of investments at end of accounting year

## Valuation reserve

Valuation reserve at beginning of accounting year	3 265
Valuation reserve at end of accounting year	8 634
Change in valuation reserve	5 369

## Yield and performance

	gross	net
Investment income	2 202	2 074
Return on book values*	3.73%	3.51%
Market value performance**	11.64%	11.44%

All figures in CHF million

\*Investment income as percentage of average book value

\*\*Investment income and change in valuation reserve as percentage of average market value

# Asset management costs

## Asset management costs

Asset management costs*	128
As percentage of investments at market value	0.20%

\*in CHF million

The asset management costs comprise all internal costs resulting from investment activities as well as external costs.

External costs include, for instance, custodian and other fees.

# Cost premiums and operating expense

	Operating expense (in CHF million)	per capita (in CHF)	Cost premiums (in CHF million)	per capita (in CHF)
Active insured persons	202	460	201	460
Vested benefit policies	6	65	5	54
Other	3		3	
<i>Subtotal</i>	<i>211</i>		<i>209</i>	
Pensioners	34*	441		
<i>Total</i>	<i>245</i>			

\*Operating expense for pensioners is borne by the savings and risk process

Breakdown of expense by cost unit is as follows:

		to brokers and intermediaries	to own sales force
Acquisition expenses including commission to brokers, agents, sales force	60	36*	24
Benefit processing expenses	34		
Marketing and advertising expenses	5		
Other general administrative expenses	146		
Reinsurers' share in operating expense	0		
<i>Total net operating expense</i>	<i>245</i>		

All figures in CHF million

\*incl. commissions for distribution agreements

The administrative costs of CHF 211 million include all the costs for acquisitions and administration, which Swiss Life incurs in managing its group life business. Thanks to the efficiency-enhancing measures introduced, Swiss Life was

able to reduce administrative costs by 1.9%, from CHF 215 million to CHF 211 million. Swiss Life aims to reduce these costs still further in the future.





*The future starts here.*

*Swiss Life Ltd  
General-Guisan-Quai 40  
P. O. Box  
8022 Zurich  
[www.swisslife.ch](http://www.swisslife.ch)*