

**SOME ASPECTS OF THE FUND'S ACTIVITIES IN 2005**

**The Governing Board (at 31 December 2005)**

<u>Members</u>	<u>Appointed by</u>
J. Bezemer (Alternate: J.-P. Ruder)	CERN Council
E. Chiaveri (Alternate: T. Lagrange)	Director-General of CERN
R. Fischer (Alternate: K. Banse)	Director-General of ESO
J. Lahaye (Alternate: vacant)	elected by the members of the Fund
P. Levaux (Alternate: F. Bello)	CERN Council
J.-P. Matheys (Alternate: F. Ranjard)	elected by the members of the Fund
S. Myers (Alternate: F. Sonnemann)	elected by the members of the Fund
A.J. Naudi (Alternate: P. Geeraert)	Director-General of CERN
I. Seis (Alternate: G. de la Fuente)	elected by the members of the Fund
M. Vitasse (Alternate: G. Deroma)	CERN Staff Association
<u>Observer for beneficiaries</u>	
J.-F. Barthélemy (Alternate: F. Wittgenstein)	Governing Board in agreement with the Staff Association

**Chairman's Group**

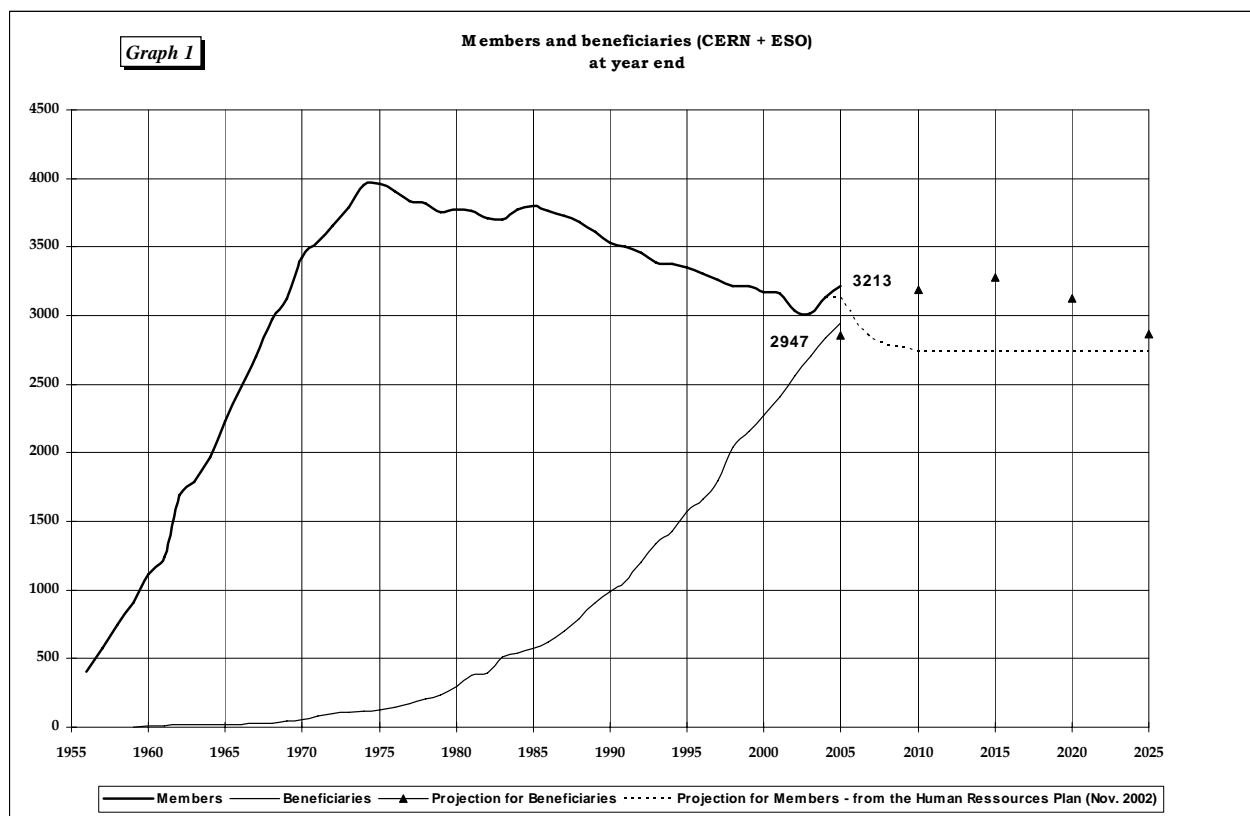
J. Bezemer, Chairman	appointed by the CERN Council
J.-P. Matheys, Vice-chairman	" " "
A.J. Naudi, Vice-chairman	" " "

Administrator: C. Cuénoud

appointed by the CERN Council on the proposal of the Governing Board with the approval of the Director General

**Members**

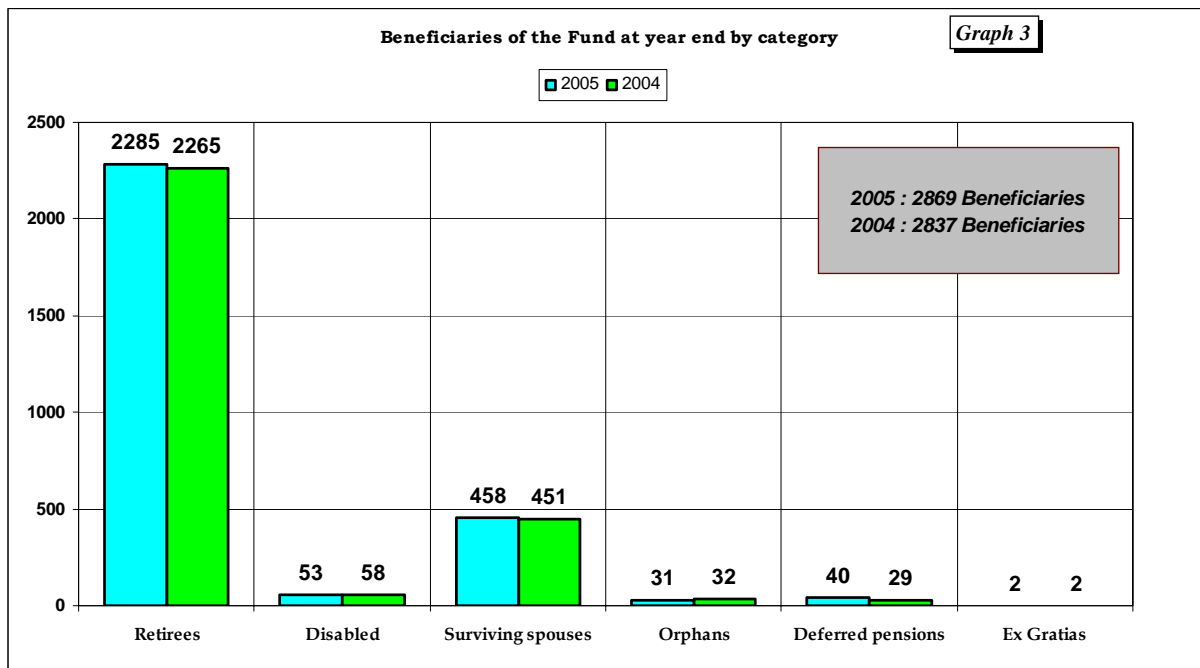
The graph below shows membership as at 31 December 2005.



In 2005, the total number of members was 3213 members, increasing by 79 since end 2004 (276 departures/355 entries), mainly due to an increase in the staff complement of both CERN and ESO. The average age of male and female members of the Fund at the end of 2005 was 42 years 11 months and 40 years 11 months respectively.

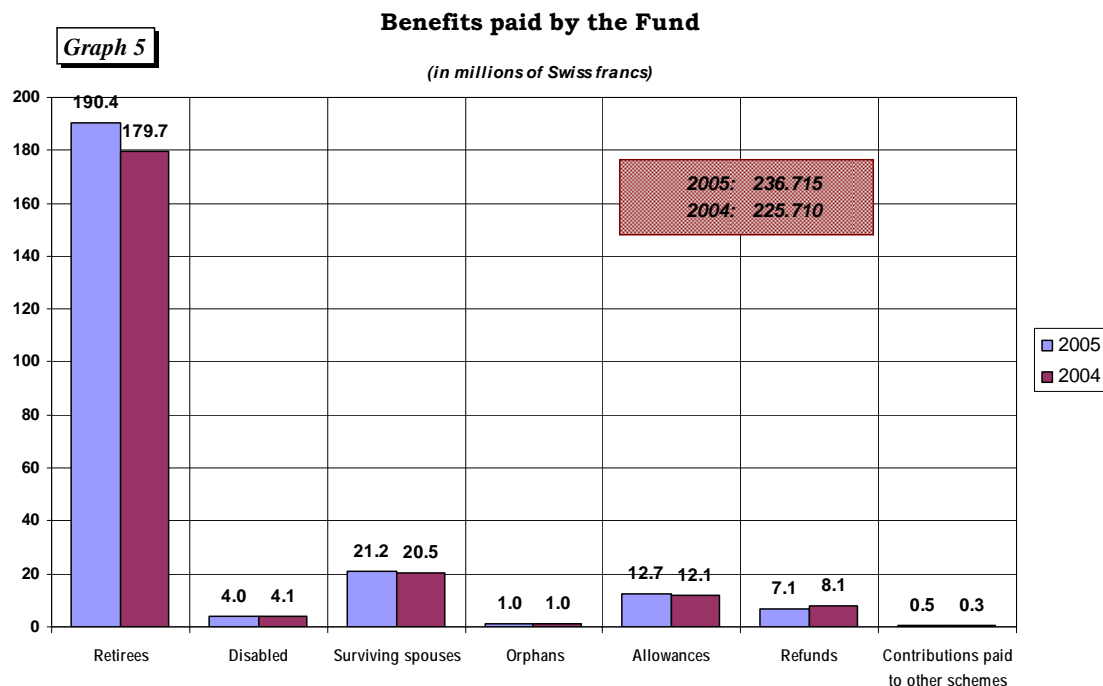
### Beneficiaries

In 2005 the total number of beneficiaries increased from 2837 to 2869. Their breakdown by category is shown in the graph below, Participants in the Progressive Retirement Programme (PRP) excluded. The average age of retirement pension beneficiaries at the end of 2005 was slightly above 70 years for the first time.



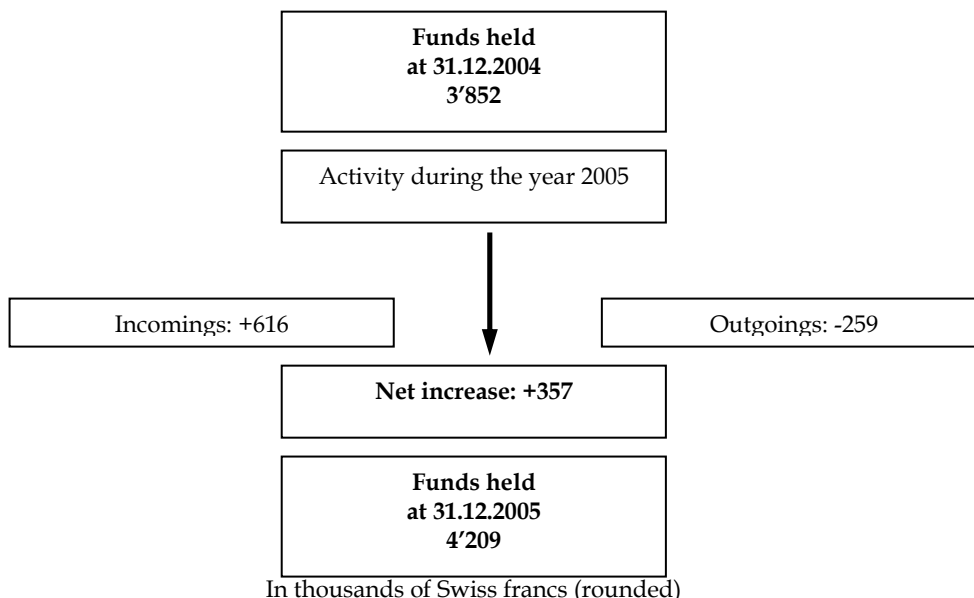
### Trends in benefits paid

The graph below shows the amounts of the various types of benefits paid by the Fund during the year under consideration and, for the purposes of comparison, the benefits paid in 2004. In absolute terms, the overall increase was 11.1 MCHF or 5% compared with the previous year. The total amount of benefits paid was 236.8 MCHF, which generated a negative cashflow of 111.9 MCHF between contributions and payments, which was absorbed by income from investments.



**Financial situation**

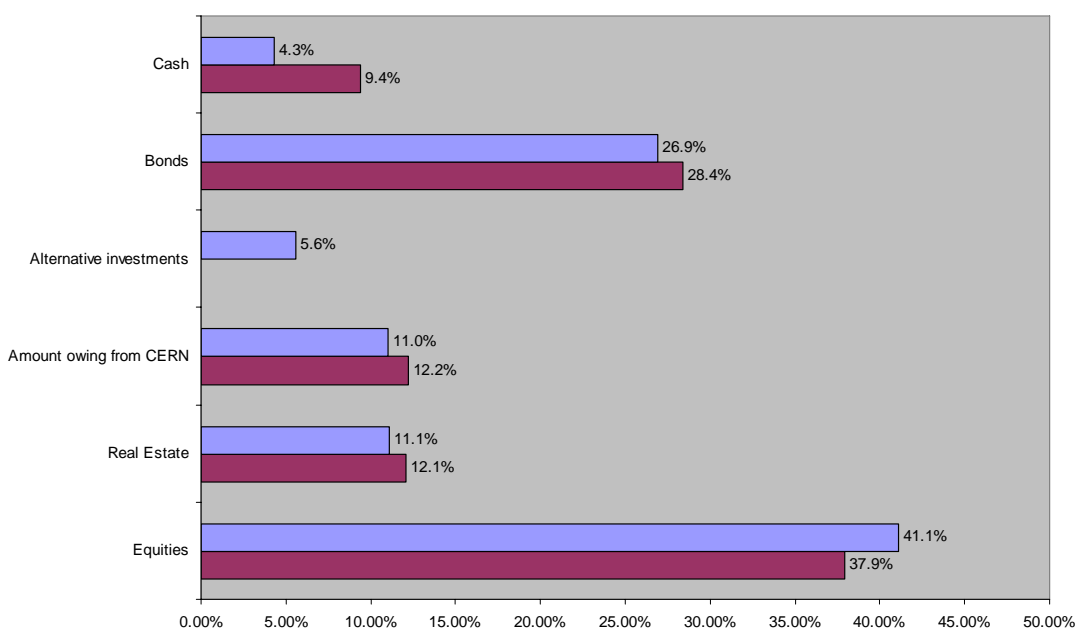
The overall trend in the Fund's financial position in 2005 is presented below in a very condensed form. It should be noted that the Fund's overall cash flow position, namely the sum of investment results at end-of-year market prices, taking account of value adjustments, and the balance between contributions and benefits, is 357 MCHF. This substantial increase is attributable to the very positive increases in value across all the asset categories managed by the Fund, which resulted in a very good overall performance.



**Breakdown of the Fund's Assets**

The breakdown of assets into different investment categories plays a very important role in the management of the Fund. The percentage breakdown of assets for 2005 is shown in the graph below and includes the figures as at the end of 2004 for comparison purposes. It should be remembered that each asset category has its own particular risk/return ratio and that studies made have shown that if the Fund wished to achieve its long-term return target, which under the new actuarial assumptions stands at 5%, it should invest an average of 40% of its assets in equity. The increased proportion of equities in the portfolio in 2005 is attributable first and foremost to the mechanical effect of the market recovery, but it was accompanied and amplified by targeted investments essentially on the Asian markets. It should be noted that the decision taken in October 2004 to withdraw the euro from the currency overlay programme has had the beneficial effect of increasing assets by about 13 MCHF in 2005.

**Breakdown of the Funds' assets as at 31.12.2005**



## **Results of the Pension Fund in 2005**

With an overall performance of +12.4%, the Fund has recorded an excellent result which has significantly increased its funding ratio. For the purposes of comparison, it should be noted that the average performance of Swiss pension funds was 13% and that the Fund's result is therefore in line with the average of Swiss pension funds.

Whereas in 2004 the equity portfolio recorded a performance of +7.7%, this asset category achieved a performance of +25.7% in 2005. As an indication, the Morgan Stanley Capital International (MSCI World) Index increased by 26.9%. On the bonds investments side, the overall result was 8.1% compared to the JP Morgan benchmark performance of + 8.3%. It should be noted that the currency overlay programme recorded a deficit of 77.5 MCHF, essentially due to the strength of the US dollar (+15.9% against the Swiss franc) and, to a lesser extent, to that of the pound sterling (+3.6% against the Swiss franc). In 2005, the real-estate portfolio achieved a performance of 8.9% in terms of the average value of the properties. In this sector, the depreciation due to the situation in the Netherlands was offset by a positive balance sheet in the other countries. The CERN debt yielded 4.7%. During 2005, performances on all the major markets without exception were positive. Asian markets performed particularly well.

## **Actuarial position in closed fund terms**

As the actuary has underlined in his report attached to the Fund's 2005 Annual Report, « the main cause of the deterioration in the Fund's financial balance » was the Council's decision to lower « the technical interest rate by a straight 1% » as from 1st January 2005 with the result that « the actuarial commitments of the Fund at the start of 2005 increased by 373.4 MCHF or by 9.3%, entailing a corresponding deterioration in the technical deficit. » The actuary further underlined that: « In 2005 excellent stock market performances were recorded and the CERN Council took a number of decisions that are likely to consolidate the financial balance of the Fund in the future. These two aspects have already contributed to a significant improvement in the financial position of the Fund at the end of 2005 and the beginning of 2006, since the funding ratio rose to 101.0% as at 1st January 2006. » By taking account of the new equilibration measures approved by the CERN Council in December 2005 (CERN/FC/4993-CERN/2637), and particularly the decision to use a simulation based on the actual choices made by staff members between a transfer value and a deferred pension (Recommendation No. 3), and of the Fund's performance in 2005, the funding ratio has seen a significant improvement, rising from 87.65% as at 1st January 2005 to 101.0% as at 1st January 2006. Almost half of the reduction in the technical deficit with respect to the beginning of 2005 may be attributed to the exceptional historical performance obtained, which corresponds to a 5.9 pp reduction in the technical deficit (using the old calculation method). The remainder of the improvement in the funding ratio (7.2 pp) is attributable in particular to the new method chosen to simulate the take-up rate of transfer values.

With a funding ratio of 100%, the Fund's capacity to bear risk (i.e. primarily the scope for seeking equity performance) has improved, but remains insufficient. In the current circumstances only a funding ratio of 120% would offer the safety margin needed to absorb market fluctuations in optimum conditions, particularly in the light of the chosen technical interest rate (4.5%). The results of the last three years after three particularly difficult years do not substantially modify the long-term performance over the 49 years of the Fund's existence. It should be noted that the actuarial rate of return assumption of 5% adopted by the Council at the end of 2005 following the substantial fall in the rate of return on capital investments since 2000 has been only marginally exceeded.

## **Conclusions**

Without accompanying structural measures, the funding ratio would have permanently remained below 100%, which is not consistent with the Governing Board's desire to maintain a fully capitalised Fund. This is why, at the end of 2005, on the Board's recommendation, the Council approved changes to the actuarial parameters and a package of measures aimed at re-establishing the long-term balance of the Fund. Even if the effect of these measures combined with the excellent performance of 2005 have resulted in a significant improvement in the current financial position of the Fund, it should be borne in mind that the Fund's position is always vulnerable to sharp downturns in the financial markets, especially as it has no funding ratio margin. Consequently, it would be premature to deduce that the Fund has overcome all its difficulties. Moreover, the CERN Council has insisted on an overall review of the Pension Fund Rules and Regulations, on a comparison of the Fund with other European pension funds and on the need for a complete open-fund triennial actuarial review during 2007 so as to be in a position to examine the overall impact of the measures taken and to re-examine the overall position of the Fund in terms of its commitments.

These graphs and statistics are taken from the 2005 Annual Report of the Pension Fund (CERN/2670-CERN/FC/5045), which members and beneficiaries may obtain from Departmental Secretariats or the Administration of the Fund (Tel. 767 91 94) respectively. The Annual Report contains detailed information on all aspects of the Fund's activities, including movable assets and real-estate investments, trends in the situation concerning members and beneficiaries, and the main matters dealt with and the work done by the Fund's bodies. If you are interested in the affairs of your Pension Fund, we strongly encourage you to read the Annual Report or to consult the Fund's Web site (<http://cern.ch/Pensions>) and to attend the Annual General Meeting, whose agenda you will find above.