



Questions and answers on the new Pension Fund Rules

What are the most important changes to the new Rules as of January 1, 2018?

- The conversion rate at age 65 will be reduced from 6.0% to 5.2% (for those born in 1953); it will be reduced by a further 0.01 percentage points for every birth year thereafter
 - The actuarial interest rate is to be reduced from 3.0% to 2.5%
 - Move from the actuarial to the generational method of calculation
 - Higher savings contributions and one-off credits to soften the impact of the reduction in benefits
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Why is it necessary to reduce the conversion rate and the actuarial interest rate?

The continuing rise in life expectancy and historically low or even negative interest rates pose a major challenge for pension funds. Pensions must be paid for an increasingly long time, while at the same time the return on assets is declining sharply. Having adapted the investment strategy to the new investment climate some time ago, the Board of Trustees has now decided to take steps on the benefits and contributions side to ensure the financial and structural stability of the Schindler Pension Fund in the long term.

The Board of Trustees last decided to reduce the conversion rate – in stages from 6.25% to 6.0% (at age 65) – in 2012. The transitional period for this reduction will end on December 31, 2017. In the meantime, the framework conditions for what constitutes a conversion rate that is appropriate in actuarial terms have changed markedly. There has been a further sharp fall in interest rates, with most CHF-denominated bonds now displaying negative yields to maturity, and at the same time there has been a further rise in average life expectancy. Since the BVG Occupational Pensions Act came into effect in 1985, the average life expectancy of a 65-year-old man has increased from 15 to around a further 22 years, while a 65-year-old woman can now expect to live a further 24 years, compared with 21 in 1985.

What is the generational method of calculation, and what will be the effects of the change to this new approach?

The new conversion rate has been calculated on the basis of an actuarial interest rate of 2.5% (previously 3%), and the Pension Fund will also move from the actuarial to the generational method of calculation. The latter already factors in the anticipated increase in average life expectancy for every year of birth.

The move to the generational method means that each year of birth now has its own conversion rate. The starting point is 1953. Those born in this year will turn 65 in 2018. Their conversion rate is 5.2%. The conversion rate for those born after 1953 is 0.01 percentage points lower for each year.

Examples:

Year of birth	Conversion rate at age 65
1953	5.20%
1954	5.19%
1955	5.18%
1956	5.17%
1957	5.16%
1958	5.15%
1959	5.14%
1960	5.13%
1961	5.12%
1962	5.11%
1963	5.10%
1964	5.09%
1965	5.08%
1966	5.07%

As in the past, the conversion rate is reduced by 0.15 percentage points per year in the event of early retirement, and increased by 0.15 percentage points per year if retirement is deferred.

If the Schindler Pension Fund's broadly diversified investment strategy, with its high proportion of real estate, succeeds in generating a long-term average return of 2.5%, these conversion rates will only have to be amended if the anticipated increase in life expectancy – which is already factored in to the generational method of calculation – is very different to the expected trend.

What general measures are being taken to reduce the impact of the reduction in pensions?

- Higher savings contributions
- One-off credits

The savings contributions made by all age categories from the age of 25 upwards are being increased by 1.5 percentage points. At the same time, one-off credits will be paid to insureds aged 32 and over. This credit will be based on their retirement capital on December 31, 2017.

How will the savings contributions be funded?

The increase in the savings contributions will be financed as follows:

0.60 points	reduction in the current contribution to administrative costs
<u>0.90 points</u>	charged to the companies (0.55) and the insureds (0.35)
1.50 points	Total increase in savings contributions

All in all, contributions by insureds to the Pension Fund will rise by 0.35 percentage points. In the case of an insured salary of CHF 65,000, for example, the employee's contribution will thus increase by CHF 19.00 per month. The companies' contributions will be 0.55 percentage points higher.

Total contributions will increase by CHF 1.2 million per year for insureds and by CHF 1.8 million annually for the companies.

The higher savings contributions will have a positive effect for younger insureds, in particular, as they will have longer in which to build up their retirement capital.

Who will receive a one-off credit?

To significantly reduce the loss in pension benefits for older insureds, those who are aged 60 or over on December 31, 2017 will receive a one-off credit of 15.38% of the retirement capital in their accounts on that date. The credit will be made effective January 1, 2018. Those born in or after 1958 will receive a lower credit that is reduced on a straight-line basis by 0.3 percentage points per month or 3.6 percentage points per year. No credit will be paid to those born in or after 1987.

The way in which this one-off credit works is shown below:

Year of birth	One-off credit as % of retirement capital on 31.12.2017
1953 - 1957	15.38%
1958	14.83% (96.4% of 15.38%)
1959	14.27% (92.8% of 15.38%)
1960	13.72% (89.2% of 15.38%)
1961	13.17% (85.6% of 15.38%)
1962	12.61% (82.0% of 15.38%)
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1985	0.98% (6.4% of 15.38%)
1986	0.43% (2.8% of 15.38%)
from 1987	0.00%

The one-off credit will also be paid under the following circumstances:

- Lump-sum withdrawal instead of an annuity as of January 2018
 - Short-term membership of the Schindler Pension Fund, e.g. entry in 2017
 - Withdrawals from January 2018
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What funds will be used to finance the one-off credit?

The costs of the one-off credit come to approximately CHF 72 million. The Alfred Schindler Fund will cover CHF 10 million of this figure, and a further CHF 8 million will be financed by the write-back of a provision that the Schindler Pension Fund no longer requires. A total of CHF 54 million will thus be charged to the Schindler Pension Fund's operating result. The corresponding provision will be created in the 2016 financial year, reducing the cover ratio by approximately 3.5 percentage points.

What further individual measures can be taken to offset the reduction in pensions?

You can choose between the following three options to increase your retirement pension on a voluntary basis:

- Select / change to the Maximum contribution plan
- Voluntary contributions
- Defer retirement in consultation with the company.

Maximum contribution plan

The difference between the Standard and Maximum plans is currently 1.6 percentage points for all age groups. The gap between the two contribution plans will widen as follows from January 1, 2018:

Age	Difference betw. Standard and Maximum plans
25 - 44	1.60%
45 - 54	2.60%
55 - 70	3.60%

Voluntary contributions

As is currently the case, retirement benefits can be improved by making additional voluntary contributions (AVCs). These AVCs can be deducted from taxable income. As of January 1, 2018, the AVC table will also be adjusted in line with the Pension Fund's new operating framework, i.e. the potential for making AVCs will be increased.

Deferral of retirement

Although average life expectancy is rising all the time, it seems that the Swiss population is not yet willing to accept an increase in the retirement age of 65, at least not at AHV state pension level. Although the official retirement age at the Schindler Pension fund is 65 for both men and women, the Pension Fund Rules provide for retirement to be deferred with the consent of the company.

The period of deferral allows more retirement capital to be accumulated thanks to the additional savings contributions. At the same time, the conversion rate increases by 0.15 percentage points for each year of deferral. This means that the reduction in pension benefits which results from the new conversion rate can be cancelled out relatively quickly. For example, an insured person born in 1962 would have to work for around a year longer to reach the level of the previous retirement pension.

What changes should those currently receiving a pension expect?

Those currently receiving a pension, and those retiring up to and including December 31, 2017, are not affected by the changes to the Rules that are described here. Current pensions will continue to be paid out unchanged.

However, in the Schindler Pension Fund's financial statements for 2016, pensioners' current retirement capital will be stated on the basis of the same actuarial interest rate of 2.5% (previously 3.0%) as applies to that of active insureds, and the generational rather than the actuarial method of calculation. The move to this new approach means that these pensioners' retirement capital must be increased by approximately CHF 70 million. The Pension Fund has already made the necessary provisions for this, in the financial statements as at December 31, 2015.

What level of retirement pension will the Pension Fund pay under the new Rules?

The Excel tool available for download enables you to calculate your future retirement pension. To do this, you will need various figures from the insurance certificate that you received in May 2016.