

## ***Questions and answers on the impact of the financial crisis on the Sulzer Pension Plan (SVE)***

### ***How is the Pension Plan doing in terms of its financial position?***

The global financial and economic crisis has also had a major impact on the Sulzer Pension Plan (SVE). The fluctuation reserves formed in the years of good stock market returns have been used up. The cover ratio has fallen from 113.9 (at the end of 2007) to 95.2% (at the end of 2008) and the first quarter of 2009 even saw it dip to around 93%.

This means that the SVE is now experiencing a coverage shortfall. In comparison with many other pension funds, the situation is not one which gives cause for alarm. However, the SVE has always attached great importance to maintaining a high degree of security and has therefore decided to take countermeasures at an early stage and with immediate effect. The measures in question were announced in the SVE Information sent out since mid-April 2009. The SVE is financially sound and despite the coverage shortfall is in a position to meet all its obligations vis-à-vis its insured members on time.

### ***How much are employees and employers contributing to the restructuring measures?***

In the SVE Information dated 27 December 2008, we pointed out that it would be appropriate to levy extraordinary contributions should the cover ratio fall below 95% in March 2009. This was, unfortunately, the case, so the Board of Trustees has confirmed that this measure, which had already been decided, is to be implemented. With effect from 1 July 2009 the employer and employee will each pay an extraordinary contribution of 1% on the insured salary. These additional contributions will be used exclusively to remedy the undercoverage and will not result in an increase in retirement capital. This measure will provisionally remain in force until December 2010.

### ***How large is the gap at the SVE?***

As of the end of 2008, the SVE had a shortfall of around CHF 175 million. The measures taken, in combination with the expected recovery of the financial markets, are intended to help achieve this target. The Board of Trustees periodically assesses the situation.

### ***Can the SVE continue to meet its financial obligations? Will my pension be at risk in 5 years' time?***

There are no grounds for concern. The SVE can meet all current obligations on time – e.g. lump-sum benefits, pension payments, home purchase withdrawals, vested benefits payable on departure etc. This is also guaranteed over the medium and long term. The pension plan has sufficient liquidity.

### ***Has the SVE invested in high-risk assets?***

No – the SVE has a balanced investment strategy, with equities and non-traditional investments accounting for around 28% of the total as of the end of 2008. The bulk of its assets – accounting for around 62% of the total – are invested in bonds and real estate. The SVE has not invested in high-risk structured financial markets. The reason for the funding shortfall is the general trend on the financial markets, which completely collapsed in 2008.

***Why doesn't the SVE dispense with equity investments altogether?***

A pension fund cannot be financed solely by contributions from employees and the employer. A large proportion of the benefits need to be generated by the performance (returns) of the financial market. Thus, the SVE needs to achieve an annual average return of between 4 and 4.5% to enable it to meet its obligations toward its insured members. Over the long term, this is only possible if the assets are broadly diversified (spread) and if some are also invested in equities.

***Do the restructuring measures affect members who are already receiving pensions?***

No – under current law, pensioners cannot be called upon to participate in any restructuring measures. Their current pension entitlement remains unchanged. That said, it should be pointed out that in previous years pensioners have no longer received any voluntary pension increases. So indirectly pensioners certainly are affected inasmuch as they cannot expect a cost-of-living bonus in the event of undercoverage.

***Wouldn't it have been possible to wait a little longer before taking the restructuring measures?***

No – in a situation in which there is a coverage shortfall, the SVE Board of Trustees needs to act to ensure that the performance capacity of the pension plan is guaranteed over the long term. The Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) permits temporary undercoverage as a pension fund does not need to pay out all benefits at once. However, it does call for targeted restructuring measures to enable the undercoverage to be remedied within a reasonable period of time. Determining the scale and timing of the measures is admittedly difficult. The SVE is always keen to maintain a high level of security and has therefore acted swiftly and decisively.

***Will it still be possible to make early withdrawals of capital for the purpose of buying your own home?***

Early withdrawals to fund home ownership (home-ownership promotion scheme) are still possible under the current SVE Rules.

***Should I now make a home purchase withdrawal (withdrawal under the home-ownership promotion scheme) or pay off my mortgage?***

Each insured member needs to give careful consideration to the question of a home purchase withdrawal or mortgage repayment in light of his or her personal financial situation and accept any resulting pension reductions (retirement and disability pensions). They should also assess how much risk they are willing to assume themselves.

***Can insured members choose between a lump-sum and a pension when they come to retire?***

When insured members reach retirement age, the SVE still allows them to choose between a monthly pension, a one-off lump-sum payment or a combination of the two.

***If they opt for a lump-sum withdrawal instead of a pension, will the amount be reduced as a result of the restructuring measures?***

All or part of the retirement capital accumulated at the time of retirement may be drawn as a lump sum. This capital withdrawal will be paid out without any reduction.

***How will the restructuring measures affect retirement pensions and interest paid on retirement capital?***

Interest is an important component of future retirement benefits. The pension plan and the benefits it promises are calculated on the basis of an interest rate of 3.5%. If the interest rate falls, as is the case during the present restructuring process, less retirement capital will be formed. As no-one knows at the moment how long the restructuring measures will remain in place, or what scale they will assume, it is impossible to put a precise figure on the pension an insured member will receive when he or she comes to retire. This does not apply to insured members due to reach retirement age within the current year, who are the only group for whom precise figures can be calculated.

***What impact will the restructuring measures have on the conversion rate?***

The conversion rate is also a key factor in calculating the retirement benefit. It is crucial for the healthy financial development of a pension fund that the conversion rates used to calculate pensions are actuarially and financially viable. In particular in the event of undercoverage, structural losses must be avoided when a pension obligation arises. As announced, over the past few weeks a review of conversion rates was thus conducted in conjunction with the expert. The key influences in determining the conversion rates are life expectancy and projected investment income. The findings of the review clearly show that the rates currently in force are too high from an actuarial standpoint. Solely factoring in a steady increase in life expectancy, at age 65 a rate of 6.4% would be correct as opposed to 6.65%. (see also SVE Information April 2009)

***What impact will the restructuring measures have on vested benefits?***

Employees who leave the company will still be entitled to the full vested benefit. This corresponds to the retirement capital accrued by the time of departure. Subject to decisions taken in the context of a partial liquidation.

***The economic outlook is muted. What if there is a further deterioration in the situation?***

It is exceptionally difficult to make predictions about the future in this uncertain economic situation, but if the situation continues to deteriorate, the restructuring phase will have to be extended and/or the restructuring measures will have to be stepped up.

***Who can the insured members contact if they have any questions about the Pension Plan?***

Your customer advisor will be pleased to answer any questions you may have about the Pension Plan. You will find the name of your contact person on your insurance certificate. The SVE Information mentioned above can also be found on our website at [www.sve.ch](http://www.sve.ch), along with additional information.

Sulzer Pension Plan