

11 July 2016

Reduction in conversion rate from 1 January 2018 – accompanying measures Increased contributions

Dear SVE Insured Members

The life expectancy of both men and women has increased over recent decades and will probably continue to increase. According to the latest statistics, it has increased by 0.3 years for women and 0.7 years for men aged 65. This very welcome trend means that people's retirement assets will have to be paid out in the form of a pension for longer, and it is therefore having an effect on the conversion rate. Moreover, 2015 was an unsatisfactory year for occupational pensions – the performance of the Sulzer Pension Plan (SVE) was just 0.5% compared with 5.7% the previous year. The current interest rate situation in Switzerland is making it difficult to achieve sufficient returns.

In order to safeguard long-term SVE funding and take account of the factors described above, the Board of Trustees decided on 21 June 2016 to further reduce conversion rates beyond 2017. It made the following resolutions:

1. **To reduce the technical interest rate** from the current 2.25% to **2.00%** and **use the latest basis for life expectancy calculations** (BVG 2015 generation tables) with effect from 31 December 2016.
2. **To reduce the conversion rate that comes into effect on 1 January 2017** from **5.80%** in steps of 0.25% per year starting on 1 January 2018 down to **4.80% on 1 January 2021**.
3. **Accompanying measure: To increase contributions from 1 January 2017** by a total of 0.4 percentage points and to reduce risk contributions by 0.4 percentage points (0.2 percentage points for insured members and 0.2 percentage points for the employer).

This decision will not affect existing pensions, which will continue to be paid at the same level as now.

Based on current market interest rates, existing external studies and its current investment strategy, SVE now expects to be able to achieve a net return of around 1.5–2.0% per year. Using an appropriate technical interest rate of 2% to calculate the actuarial reserve means that a future conversion rate of 4.80% should be used at age 65, with effect from 1 January 2021. This change will help to clear SVE's retirement losses, which at present amount to around 20% of retirement assets. In specific terms, the SVE conversion rates for age 65 will be reduced as follows during the transition period:

- to 5.55% from 1 January 2018
- to 5.30% from 1 January 2019
- to 5.05% from 1 January 2020
- to 4.80% from 1 January 2021.

The Board of Trustees has not taken this decision lightly, but it is convinced that this move is necessary for the long-term financial security of pensions. By 2021, this step will have completely cleared the retirement losses, which currently stand at around CHF 11 million per year, equating to an interest rate of 1% on the pension assets of its actively insured members. By taking these measures, it will be possible to halt the prevailing redistribution of as-

sets from actively insured members to pensioners by 2021. This should increase the likelihood of higher interest rates for actively insured members.

Accompanying measures – increased contributions

By undertaking accompanying measures, the Board of Trustees intends to ensure that SVE benefits can continue to be kept at an appropriate level despite these vital measures. For insured members approaching pension age, the gradual reduction in conversion rates will cushion the reduction in pensions over a four-year period. The contribution rate for actively insured members will be increased by 0.4 percentage points from 1 January 2017, while the risk contribution will be reduced by 0.4 percentage points (0.2 percentage points for insured members and 0.2 percentage points for the employer). Contributions will therefore remain unchanged for both insured members and employers overall, and all actively insured members will have larger pension assets when they retire or leave.

Switch to SVE Comfort or Super Plan / voluntary SVE purchase contributions

In addition, actively insured members have the option of increasing their monthly contributions by voluntarily switching from the SVE Basic Plan to the SVE Comfort Plan or the SVE Super Plan, thereby systematically increasing their pension assets. This may partially offset the reduction in pensions caused by the reduced conversion rate. Actively insured members can also increase their personal pension assets by making voluntary SVE purchase contributions, thereby boosting their future pension benefits. Both SVE purchase contributions and additional contributions in the Comfort and Super Plans are tax-deductible. Not all follow-on agreements include the option of choosing between different levels of savings contributions.

Summary

The Board of Trustees firmly believes that these resolutions are necessary in order to secure SVE's long-term financing and stability. With the continuing reduction or elimination of the retirement losses and a reduction in the technical interest rate, it will be possible to halt or at least greatly reduce the current unfair redistribution of assets between actively insured members and pensioners. For actively insured members, this increases the likelihood of better interest rates in the future.

The Board of Trustees' decision will only affect new pensions from 1 January 2018. **There will be no changes to the level at which existing pensions are paid.** The law does not permit any reduction in agreed pensions.

The Board of Trustees has provisional plans to hold information events on these important matters at the end of September and the beginning of October 2016 at various sites of affiliated companies. More detailed information will be available in SVE News 03/2016 in mid-September. If you have any urgent queries, please get in touch with your HR contact or SVE customer advisor. Further information can be found at www.sve.ch in the "Questions & answers" column and in the SVE Pension Calculator.

Kind regards

Sulzer Pension Plan (SVE)



Marius Baumgartner

President of the Board of Trustees



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(Important note: The German version is binding)