Novartis Pension Fund – Plan Change as of January 1, 2011

Information Events for Associates in Switzerland

August / September 2010

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Contents

What was decided and why?

- The Board of Trustees of the Novartis Pension Fund decided to change from the existing **defined benefits** to a **defined contributions plan**.
- The new plan comes into force on **January 1, 2011**.
- The change is intended to ensure that the funding of the pension plan is **sustainable** in the long term.
- The aim is a new, **flexible**, **risk-optimized** and **sustainable** occupational benefits scheme for Novartis associates in Switzerland.
- In most countries where Novartis is represented, the change from defined benefits to defined contributions has already taken place.
- In Switzerland most pension funds have already changed their plans to the defined contributions system.
- **Demographic, social** and **economic trends** are changing. The defined contributions plan better meets these changes.

Defined benefits vs. defined contributions

- Two different technical approaches.
- Both concepts aim to provide for appropriate benefits.

⇨In our **current** *defined benefits plan* the retirement benefits are pre-defined as a percentage of the (final) insured salary.

⇨In a *defined contributions plan* the contributions are pre-defined; the benefits are based on the accumulated savings capital (incl. interest) at retirement.

⇨ The existing guarantee on the level of retirement pension is dropped in favor of a more flexible solution.

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Defined benefits vs. defined contributions - Overview

Defined Benefit Concept

- Future level of retirement benefits defined in advance
- In our current DB plan, retirement pension = maximum 60 % of insured salary at age 65
- Actual benefits are based on number of contribution years and final salary at retirement
- Significant and uncertain financial liabilities for employer and pension fund to guarantee the defined benefits (salary increases, longer life expectancy, early retirement)
- Costs are uncertain; contributions from insured members, employer and pension fund will vary
- Limited choice/flexibility for insured members
- Pension Fund carries investment chances/risks

Defined Contribution Concept (new)

- Contributions are defined in advance
- Retirement pension = accrued capital x conversion ratio
- Actual benefits depend on accumulated capital and investment incomes
- Financial liabilities for employer and Pension Fund are more certain
- Fixed contributions both for insured members, employer and pension fund
- Greater choice/flexibility for insured members for:
  - contributions
  - investment options
  - capital versus annuity
- Insured members carry investment chances/risks

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The essentials of the new plan at a glance (1)

- The structure of the pension plans changes from defined benefits to defined contributions.
- The contributions in the new system are age-related, with members being able to choose between three contribution scales **("Standard", "Standard Minus"** and **"Standard Plus"**).
- The plan has been designed so that the **target benefit remains 60%** of the last insured salary on retirement at the age of 65 if the "Standard" contribution scale is chosen.
  - Actual benefits will vary, depending among other elements, on investment returns.
- Novartis and insured members' contributions are higher than under the current plan. The funding arrangements are based as before on a **2:1 ratio of employer and employee contributions** (if the "Standard" contribution scale is chosen).

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The essentials of the new plan at a glance (2)

- For associates earning over CHF 150 000 (base salary plus incentives), a choice of different **investment strategies** is offered.
  - To do this, the Novartis Pension Fund must be split into two legal entities (Pension Fund 1 and Pension Fund 2).
- **Early retirement** from age 60 onwards is still possible, but this will no longer be subsidized.
- An **additional savings plan** will be set up instead for all insured members aged 40 or older:
  - Equal contributions from associates/employer for this savings plan
  - This additional savings plan is compulsory.

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Structure of Novartis defined contributions plan

Risk CHF 0 – 220 000

CHF 150 – 220 000

Novartis Pension Fund 2 (PF 2)

- Contributions of employer and members in ratio 2 : 1
- Savings process in defined contributions plan (interest according to investment performance)
- Retirement benefits: lump sum
- Risk benefits (death/disability): accrued capital, at least 400% of insured salary
- Individual choice of investment strategy

Savings CHF 0 – 150 000

Novartis Pension Fund 1 (PF 1):

- Standard contributions of employer and insured members in ratio 2 : 1
- Savings process in defined contributions plan (minimum interest 0%)
- Retirement benefits: pension with sustainable conversion ratio / higher lump sum option (maximum 50% compared with 25% in currrent plan)
- Risk benefits (death/disability) in the form of a pension
- Additional savings plan from age 40

Examples

Monika Meier earns CHF 140'000 and received a bonus of 15%, so her total earnings are CHF 161'000. She is covered in Pension Fund 1 for the maximum (i.e. CHF 150'000 less coordination offset) and in Pension Fund 2 for CHF 11'000.

Hans Huber earns CHF 70'000 and received a bonus of 10% during the year. He is covered only under Pension Fund 1.

What do the new benefits look like?

- The benefits for **death/disability** remain insured in a defined benefits concept and are improved in many cases.
  - Death and disability benefits are linked directly to the insured salary. No deductions are made due to missing years of service.
- High **returns on assets** in principle benefit the insured member and can result in the target benefit level being far exceeded. On the other hand, the target benefit level may not be achieved if investment return is lower than anticipated.
- **Enhanced flexibility**:
  - Choice between 3 different contribution levels
  - Choice of 4 different investment strategies for associates earning over CHF 150 000.
- The **additional savings plan** set up for all members aged 40 years or more will complement benefits.
- All contributions paid by members within regulatory framework and **voluntary extra contributions** will remain deductible from the taxable income as before.

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Who is affected by the changes?

- Insured members born before 1956 and retirees are **not** affected by the changes.
- Insured members born in or after 1956 will automatically be transferred to the new plan on January 1, 2011.
  - Vested benefits accrued up to December 31, 2010 will be credited to the individual retirement accounts in the new plan.
- Associates hired during the remainder of 2010 will first join the defined benefits plan and will then transfer to the new defined contributions plan on January 1, 2011.
  - 2010 hires born before 1956 will remain in the defined benefits plan on January 1, 2011.

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Transition to the new plan - Overview

- The **vested benefits of associates** , calculated on December 31, 2010, are credited to the individual retirement accounts of the new pension plans as an initial account balance.
- In addition, to compensate for the fact that early retirement is no longer subsidized, **a transitional arrangement/payment** is provided for in the form of payments into the individual retirement accounts of transferring members.
  - This transitional payment for transferring members represents the difference in retirement benefits – if there is any – between the existing defined benefits plan and the new defined contributions plan for an associate retiring at age 62.
  - If there is such a difference, a transitional payment will be made.
  - "**Rule of 60":** The final sum to be paid will then further depend on **age** and **years of service** (see example next slide).

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Transition to the new plan – Example of how the "Rule of 60" is applied

- Age on 1.1.2011: 47 years 3 months
- Years of service: 10 years 9 months

- Calculation of total number of points:
  - Sum of age plus years of service = 58 points
  - Reduction (5% per credit< 60) = 10%

⇨ The insured member receives 90% of the transitional payment/arrangement calculated for him/her.

- The payment is spread over a period of 10 years and is credited every year to the insured member.
  - Payments will stop if the employment contract is terminated

Individual Comparison Statement - Example

Mister
Hans Huber
Hauptstrasse 99
4059 Basel

Basel, 23 June 2010

Plan changes: provisional comparative statement for 31.12.2010 / 01.01.2011

Personnel number	123456	Date of birth	01.02.1958
Company unit	213 - Novartis Pharma	Date of joining	01.02.1989
		Date of retirement	28.02.2023

	PREVIOUS / 31.12.2010	NEW / 01.01.2011
	CHF	CHF
Basis of calculation		
Total income (base salary) [1]	135'500.00	135'500.00
Bonus/incentive paid out in 2010	23'730.00	23'730.00
Current shift allowance (per annum)	0.00	0.00
Expected retirement benefits / year (assumed rate of interest: 2.75%)		
Retirement at age 62		
Retirement pension [2]	68'856.00	68'856.00
Supplementary pension until AHV age	18'000.00	18'000.00
Retirement at age 65		
Retirement pension [2]	74'640.00	86'556.00
Additional lump-sum payment (one-off payment from saving plan)		70'717.00

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Individual Comparison Statement (2)

		PREVIOUS / 31.12.2010	NEW / 01.01.2011
Expected disability benefits / year			
Disability pension [2]		66'420.00	66'936.00
Expected benefits in the event of death / year			
Spouse's pension [2] / lifetime partner's pension [2]		39'852.00	40'164.00
Lump sum on death (one-off payment)		132'840.00	230'382.00
Expected contributions / month			
Total employee		563.55	1'091.55
Total employer		1'099.30	1'985.80
Information on the change in the benefits plan			
Vested benefits 31.12.2010 = starting assets 01.01.2011		547'791.55	
Starting assets 01.01.2011	Pension fund 1		510'419.15
Starting assets 01.01.2011	Pension fund 2		37'372.40
"Rule of 60" points			60.00
Compensation payment (in a maximum of 10 annual credits)			169'530.90
Annual credits from compensation payment			19'095.60
- part of retirement account Pension Fund 1			18'822.90
- part of saving account Pension Fund 1			272.70

[1] on the basis of full-time (100%) employment

[2] any retirement/disability children's or orphan's pension amounts to 20% per child

These calculations are provisional based on the data as of May 2010. The definitive calculations for the change in the benefits scheme will differ from these calculations as a result of changes in 2010 that are not yet known.

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Individual Comparison Statement (3)

- **Retirement benefits:** Calculated on the basis of the initial account balance, incl. expected future savings contributions and an assumed interest rate of 2.75% up to age 62/65 and converted into a pension.
  - Projected assets from Pension Fund 2 are added as a notional retirement pension.
- **Disability pension:** 60% of the insured salary in the risk plan.
  - Missing contribution years no longer lead to loss of benefits in the event of death or disability.
- **Spouse's pension:** 60% of the new insured disability pension (orphan's pension 20%).
  - **Lump sum on death:** 200% of the insured disability pension plus the assets from the savings plan (in PF 1) and the PF 2, as well as the assets from the incentive/bonus insurance and the shift insurance transferred at the time of changeover. Voluntary contributions from 1 January 2011 onwards, will be included, too.
- **Compensation credits:** The prospective old and new retirement benefits at age 62 are compared. If the expected benefits of the new plan are lower, the present value of the resulting difference will be (partly) compensated.

Enhanced Flexibility - Overview

One of the key features of the new plan is its **flexibility**.

There are a number of ways in which you can influence the value and form of the benefits payable from the new plan.

- **Regular contributions**: You have a choice of three different levels of retirement age credits (i.e. savings contributions, as a percentage of insured salary). You can switch between these contribution levels.
- **Additional voluntary contributions**: You may decide to contribute additional voluntary purchase payments, provided you are not already at the maximum level allowed by the plan.
- **Investment strategy**: If your insured salary is partly covered in Pension Fund 2, then for your Pension Fund 2 retirement account you can choose your investment option.

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Enhanced Flexibility – Overview (2)

- **Form of benefit at retirement**: In Pension Fund 1 you are able to choose, within limits, to take a portion of your retirement account as a lifelong pension and a portion as a lump sum (up to 50%).
- **Level of benefits for dependents**: At retirement, you can choose between different levels of pension to be paid by Pension Fund 1 to your spouse (partner) after your death.
- **Early retirement**: You can decide to retire before the plan's normal retirement age of 65, with the earliest age being 60.

  If you retire before your Social Security benefits ("AHV") start to be paid then you can choose to have part of your retirement account paid as an extra temporary 'bridging' pension for this period.

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Retirement credits – 3 different scales to chose from

Age	Retirement credits ("Standard") % of insured salary			Standard plus	Standard minus
	Member	Novartis	Total	Member	Member
25 – 29	3.50	7.00	10.50	5.50	1.50
30 – 34	4.00	8.00	12.00	6.00	2.00
35 – 39	4.50	9.00	13.50	6.50	2.50
40 – 44	5.00	10.00	15.00	7.00	3.00
45 – 49	6.25	12.50	18.75	8.25	4.25
50 – 54	6.75	13.50	20.25	8.75	4.75
55 – 59	7.25	14.50	21.75	9.25	5.25
60 – 65	7.75	15.50	23.25	9.75	5.75

A further credit of 3.50% applies to all members aged 40 and over. This is paid into an additional savings plan within Pension Fund 1. Half of this amount (i.e. 1.75%) is contributed by Novartis and half by members. Further contributions are paid by members and by Novartis towards risk benefits

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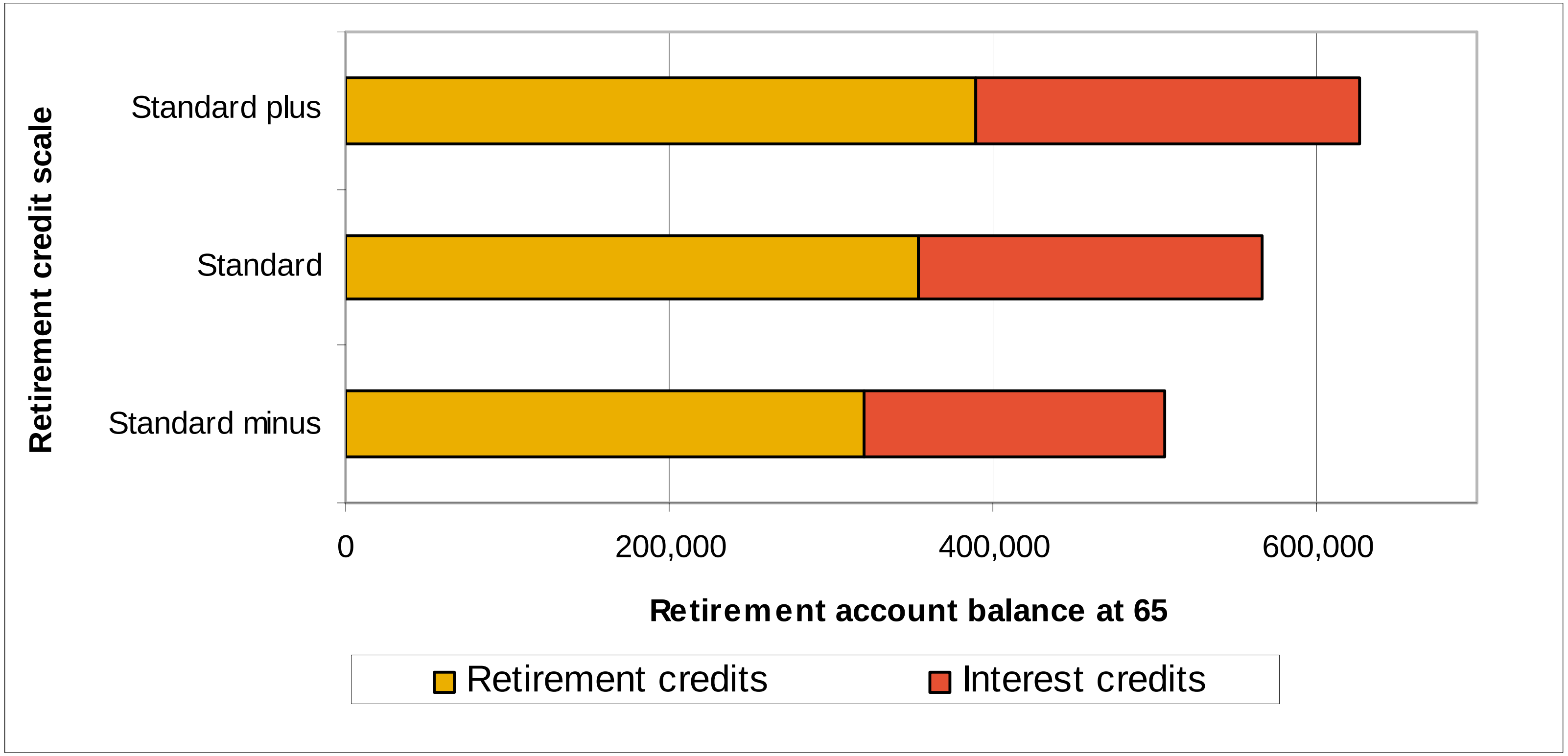
Influence of different contribution scales



The chart shows an example on how changing contribution rates can affect the level of retirement benefits at age 65.

Investment allocation PF2 - 4 strategies to chose from

	Money Market	Bonds	Equity 25	Equity 40
Money Market JP Morgan MM CHF	100%	0%	0%	0%
Bonds CHF SBI	0%	50 %	50%	30%
Bonds World heged CHF Barclays Global Aggregate CHF	0%	50 %	25%	30%
Equity World MSCI All Countries ex CH	0%	0%	20%	30%
Equity Switzerland SPI	0%	0%	5%	10%

„Default"-strategy

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Investment allocation PF2 - Practical Approach

- The pension fund is investing the savings contributions for the insured member according to the investment strategy chosen by this person.
  - The investment is made by “purchasing” shares in the investment vehicles of the chosen strategy rather like shares in a fund credited to a fund account.
  - The insured person is entitled to benefits from the pension fund to the value of the fund account, but not less than the minimum vested benefits defined by law
- By means of secure access to information on the platform of the provider, the insured person can see the value of his /her account at any time.
  - The value of the fund account on the last day of the month is imported into the technical administration system of the pension fund via interface.
- The effective settlement at the time of leaving is initiated by the pension fund, whereupon the legally required comparative calculations are at the responsibility of the pension fund, too.
- The processing of the vested benefits claims (or pension claims), as such, does not differ from the usual procedures in the field of “non-individualized” benefits.

Contact

- For further pension advice please do not hesitate to contact the Novartis Pension Fund team.
  - Internet: http://www.pensionskasse-novartis.ch
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- As always, we‘re happy to help!

Back up

- Overview of contributions/benefits
- Tax aspects for cross-border commuters
- Overview of insured salaries

Overview of contributions

Pension Fund 1

Age	Savings Contribution[1]		Risk Contribution[2]		Additional Savings Plan Contributions[3]		Total Contributions	
	Employee[4]	Employer	Employee	Employer	Employee	Employer	Employee[4]	Employer
up to 25	-	-	0.5%	1.0%	-	-	0.50%	1.00%
25-29	3.50%	7.0%	1.4%	2.8%			4.90%	9.80%
30-34	4.00%	8.0%	1.4%	2.8%			5.40%	10.80%
35-39	4.50%	9.0%	1.4%	2.8%			5.90%	11.80%
40-44	5.00%	10.0%	1.4%	2.8%	1.75%	1.75%	8.15%	14.55%
45-49	6.25%	12.5%	1.4%	2.8%	1.75%	1.75%	9.40%	17.05%
50-54	6.75%	13.5%	1.4%	2.8%	1.75%	1.75%	9.90%	18.05%
55-59	7.25%	14.5%	1.4%	2.8%	1.75%	1.75%	10.40%	19.05%
60-65	7.75%	15.5%	1.4%	2.8%	1.75%	1.75%	10.90%	20.05%

[1]on insured salary PK1 (base salary plus incentive minus social security offset) up to CHF 150k

[2]on insured salary risk (base salary minus social security offset) up to CHF 220k base salary

[3]on total insured salary (base salary plus incentive minus social security offset) up to CHF 220k base salary

[4]indicates standard contribution; employees can chose to contribute 2% more or 2% less

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Overview of benefits

Pension Fund 1

Age	Death	Disability
Lifelong retirement pension • Conversion rate at age: - 65: 6.10% (5.42%*) - 64: 5.95% (5.30%*) - 63: 5.80% (5.18%*) - 62: 5.65% (5.06%*) - 61: 5.50% (4.94%*) - 60: 5.35% (4.82%*) of the existing retirement assets (*) Conversion rate for a survivor‘s pension • Lump-sum pay-out instead of pension up to max. 50% possible (time limit 3 months before retirement) **Retirement child pension** • 20% of pension up to age 20/25 **Available savings plan assets** can • be used to finance a bridging pension until to statutory (AHV) retirement age (temporary retirement pension) or • be paid out as a one-off retirement lump sum.	**Spouse’s or domestic partner’s pension** for active insured members: • 60% of insured/current disability pension Retirement pension recipient: • 60% of retirement pension, or with the survivor’s pension option 100% of retirement pension **Orphan’s pension** • 20% of insured or current disability or retirement pension up to age 20/25 **Lump sum on death** Active insured members: • 200% of insured disability pension plus accrued savings plan assets plus • assets transferred from incentive/bonus and shift insurance on 1.1.2011 plus voluntary extra contributions since 1.1.2011 paid into retirement and savings account minus early withdrawals WEF / divorce pay-outs minus retirement/disability benefits already paid put	**Disability pension** • 60% of insured salary Risk up to age 65 • From age 65 onwards: conversion of continued retirement assets with current conversion rate (at present 6.10%) **Disability child pension** • 20% of disability pension received up to age 20/25 **Disability lump sum** (with 100% disability) • Accrued savings plan assets

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Overview of contributions

Pension Fund 2

Age	Savings Contribution[1]		Risk Contribution[2]		Total Contributions	
	Employee[3]	Employer	Employee	Employer	Employee[3]	Employer
up to 25	**-**	**-**	**0.4%**	**0.8%**	**0.40%**	**0.80%**
25-29	**3.50%**	**7.0%**	**0.4%**	**0.8%**	**3.90%**	**7.80%**
30-34	**4.00%**	**8.0%**	**0.4%**	**0.8%**	**4.40%**	**8.80%**
35-39	**4.50%**	**9.0%**	**0.4%**	**0.8%**	**4.90%**	**9.80%**
40-44	**5.00%**	**10.0%**	**0.4%**	**0.8%**	**5.40%**	**10.80%**
45-49	**6.25%**	**12.5%**	**0.4%**	**0.8%**	**6.65%**	**13.30%**
50-54	**6.75%**	**13.5%**	**0.4%**	**0.8%**	**7.15%**	**14.30%**
55-59	**7.25%**	**14.5%**	**0.4%**	**0.8%**	**7.65%**	**15.30%**
60-65	**7.75%**	**15.5%**	**0.4%**	**0.8%**	**8.15%**	**16.30%**

[1]on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

[2]on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

[3]indicates standard contribution; employees can chose to contribute 2% more or 2% less

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Overview of benefits

Pension Fund 2

Retirement	Death	Disability
Lump sum on retirement • Assets available at the time of retirement	**Lump sum on death** • Assets available at the time of death, • at least 400% of insured salary	**Lump sum on disability** • Assets available at the time when the disability pension starts, • at least 400% of insured salary

Tax Treatment of Pension Benefits for Cross-Border Employees – General Overview

Cross-border employees from France and Germany are taxed in the state of residence.

Because there is a double taxation agreement with Germany and France, the tax deducted at source can be reclaimed.

Pension benefits in the form of pension annuities are generally taxed as income.

Pension benefits in the form of lump sum are handled differently:

- Switzerland: Capital pay-out is taxed separately at a privileged rate of approx. 3% - 10%
- France: Capital pay-out is tax exempted (system currently under revision).
- Germany: Fraction of capital pay-out (2010: 60% of capital) is taxed as income. Reduction based on so-called **“Öffnungsklausel”** available on request where applicable. Conversion into a so-called **“Rürup- Rente”** possible.

Pension annuities from life insurance (3rd pillar) are partially taxed as income.

Income tax ranges between 10% - 45% depending on amount, residence and marital status.

Tax Treatment of Pension Benefits for Cross-Border Employees - Germany

- New tax law since 2005 re taxation of company pensions (incl. AHV, BVG)
  - Only a fraction of the company pension (2010: 60%) is subject to income tax, but the fraction is increasing by 2% p.a. until 2019 and by 1% from 2020 to 2040. Decisive date is the year when the pension starts to be paid out.

2005	2006	2007	2008	...	2040
50%	52%	54%	56%	...	100%

  - Based on the so-called "Öffnungsklausel" a reduction may be obtained on request.
- 25% of the pension from a life insurance (3rd pillar) is subject to income tax.
- The income tax ranges between 10% - 45% depending on amount, martial status and age at the time when the benefits come due.
- Lump sum benefits are subject to income tax the same way as ordinary pension annuities, i.e. 60% (2010) of the capital pay-out is subject to income tax
  - Controversial issue: Tax system (progression) leads to an extremely high income tax in the year the capital is paid out.
  - Conversion into a so-called „Rürup-Rente" is a possible way out.
- A bilateral work group is currently assessing possible solutions:
  - Suggestion to tax only the mandatory part of pensions (AHV and BVG minimum)
  - New approaches for the treatment of pension vs. capital pay-out.

Tax Treatment of Pension Benefits for Cross-Border Employees - France

- Tax entity: State of residence in France (Départment)
- Taxation of company pensions (including AHV, BVG)
  - Pension annuities are fully subject to income tax.
  - Income tax range depends on income amount, residence and martial status.
  - Pension annuities from life insurance are fully subject to income tax.
    - But this is not yet approved by tax authorities, because we got contradictional information.
    - Another input is that life insurance annuities are not fully taxed, but at a fraction of 30% - 50% (depending on age of the pensioner).
  - Lump sum pensions are not subject to any tax, however this tax issue is under revision and this tax treatment could change anytime.

Overview of insured salaries

Pension Fund 1 and 2

Base salary
+ Incentive / bonus
+ Shift allowance

= Annual salary

Risk plan	Retirement plan PF1	Savings plan	Retirement plan PF2
Base salary Max. 220,000 minus **coordination offset** (23,940) = **Insured salary** (max. 196,060)	**Base salary**	**Base salary**	**Base salary**
	+ Incentive / bonus	**+ Incentive / bonus**	**+ Incentive / bonus**
	+ Shift allowance	**+ Shift allowance**	**+ Shift allowance**
	= Annual salary Max. 150,000 minus **coordination offset** (23,940) = **Insured salary:** (max 126,060)	**= Annual salary** Without upper limit minus **coordination offset** (23,940) = **Insured salary**	**= Annual salary** Without upper limit minus **coordination offset** (150,000) = **Insured salary**

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Overview of insured salaries

Pension Fund 1 and 2 (for associates also insured in the Management Pension Fund)

Base salary (< 220,000)	
Base salary (> 220,000)	Covered by **Management Pension Fund**
Incentive / bonus	

Risk plan	Retirement plan PF1	Savings plan	Retirement plan PF2
Base salary Max. 220,000 minus **coordination sum** (23,940) = **Insured salary** (max196,060)	**Base salary** Max. 150,000 minus **coordination sum** (23,940) = **Insured salary** (max126,060)	**Base salary** Max. 220,000 minus **coordination sum** (23,940) = **Insured salary** (max196,060)	**Base salary** Max. 220,000 minus **coordination sum** (150,000) = **Insured salary** (max 70,000)

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