



Novartis Pension Funds

# Novartis Pension Fund 1 Changes as of January 1, 2022

**Information Sessions for Novartis Associates in Switzerland**

**Spring 2021**

# Agenda

- Introduction
- Adjustment of conversion rate
- Compensatory measures
  - A twofold approach
  - “Rule of 60”
- For more information ...

[www.pensionskassen-novartis.ch](http://www.pensionskassen-novartis.ch)

- Your questions

# Introduction

- In 2011, the Swiss Novartis Pension Fund 1 was changed from a final salary Defined Benefit (DB) plan to a cash-balance Defined Contribution (DC) plan.
  - In accordance with the pension plan rules, the Board of Trustees is obliged to review the conversion rate every 5 years and adapt to the latest mortality tables and discount rate.
  - The last adjustment was made in 2016 when the current conversion rate of 5.35% was introduced.
- Based on the decision of the Board of Trustees of Pension Fund 1, this presentation outlines
  - **Conversion rate** applicable as from **January 1, 2022**, and
  - **Compensatory measures** to offset the impact of the new conversion rate.
- For the avoidance of doubt, this review does *not* apply to the Pension Fund 2, the Management Pension Fund and existing retirees.

## What exactly is this «conversion rate»?

This is the factor for converting the accrued cash-balance at retirement into a life-long pension annuity.

For example, if during your life you have accumulated retirement savings of CHF 1,000,000 and the conversion rate is 5.35%, your annuity at age 65 will amount to CHF 53,500 a year, or CHF 4,458 a month

# Adjustment of conversion rate

- The decision taken by the Board of Trustees of the Pension Fund 1 is the following:
  - Adjust the conversion rate from **5.35% to 5.0%**, in accordance with the latest mortality tables and a lower actuarial discount rate, *and* implement the following **compensatory measures**:
    - Increase individual account balances
    - Increase savings contributions
- With these measures the Board of Trustees intends to keep the plan participants whole to the extent feasible.
  - However, it is worth knowing that *no* such measures would be required to mitigate the impact of a plan change since future benefits are not yet «vested».
- The conversion rate is effective as of **January 1, 2022** and should remain unchanged for at least the next 3 years.

## How do the compensatory measures work?

As shown in the previous example, accumulated retirement savings of CHF 1,000,000 and a conversion rate of 5.35% would lead to an expected annuity at age 65 of CHF 53,500 a year, or CHF 4,458 a month.

If the conversion rate is 5.0%, a capital of CHF 1,070,000 is needed for the same annuity. This uplift is what the combined compensatory measures aim to provide.

# Compensatory measures

## A twofold approach

To remain competitive and keep associates whole, the following compensatory measures were approved by the Board of Trustees:

- **Increase individual account balances**
  - Compensation credits paid by the Pension Fund into individuals' retirement accounts, to be spread over 5 years
  - Payments are financed out of the Pension Fund's own reserves
- **Increase savings contributions**
  - increase of future savings contributions in the PF1 retirement plan (by 7%)
  - split 2/3 employer and 1/3 employees
- Together, the measures aim at fully offsetting the impact of the lower conversion rate.

### Also worth knowing:

- For each insured member of PF1, the **compensation credits** are **calculated individually**, based on his/her **old and new expected retirement pension benefits at age 65** (using the “**Standard**” **contribution scale** and applying a projection interest rate of **2.0%**)
- The **impact on contributions** of the change may vary depending on age and on different pensionable salaries but is not expected to exceed CHF 63 per month (CHF 750 p.a.).

# Compensatory measures

## “Rule of 60”

- Pension Fund 1 will grant compensation credits on the existing members' retirement accounts, based on their age and service years.
- The **maximum compensation credit** for a member is calculated based on the present value of the projected difference in retirement benefits at age 65.
- This maximum amount is then subject to an **adjustment factor**.
  - Add your age as of 1 January 2022 to the number service years of your current employment. The result is your 'points'.
  - If you have 60 points or more, you will receive the maximum compensation credit.
  - If you have less than 60 points, the reduction is 5% for each point below 60.
  - Therefore, if you have 40 or fewer points, no transition credit is granted.
- The transition credit will be allocated to your retirement account over a period of 5 years, provided you remain in service.

### Example

- Age: 45
- Novartis service: 9 years
- Points:  $45 + 9 = 54$
- Reduction to maximum compensation credit:  
 $(60 - 54) \times 5\% = 30\%$
- Adjustment factor: 70%  
(100-30)
- Accordingly, the credit is 70% of the maximum possible amount

# For more Information...



Pension Funds

Defined contributions plan

Retiree

Knowledge

## Welcome to the Novartis Pension Funds' website

Here you can find information, the latest news and downloads pertaining to the Novartis pension plans in Switzerland.

[www.pensionskassen-novartis.ch/en/](http://www.pensionskassen-novartis.ch/en/)

Pension Funds Novartis

Happy to help

Focus Items

Novartis Pension  
Fund 1 - Conversion  
Rate Adjustment  
2022

Services

Insurance Services  
Novartis



# Your Questions



# Annex

# Overview of contributions

## *Pension Fund 1*

Age	Savings Contribution <sup>1</sup>		Risk Contribution <sup>2</sup>		Additional Savings Plan Contributions <sup>3</sup>		Total Contributions	
	Employee <sup>4</sup>	Employer	Employee	Employer	Employee	Employer	Employee <sup>4</sup>	Employer
up to 25	-	-	0.5%	1.0%	-	-	0.50%	1.00%
25-29	4.25%	8.50%	0.6%	1.2%			4.85%	9.70%
30-34	4.90%	9.80%	0.6%	1.2%			5.50%	11.00%
35-39	5.55%	11.10%	0.6%	1.2%			6.15%	12.30%
40-44	6.20%	12.40%	0.6%	1.2%	1.75%	1.75%	8.55%	15.35%
45-49	7.50%	15.00%	0.6%	1.2%	1.75%	1.75%	9.85%	17.95%
50-54	8.15%	16.30%	0.6%	1.2%	1.75%	1.75%	10.50%	19.25%
55-59	8.80%	17.60%	0.6%	1.2%	1.75%	1.75%	11.15%	20.55%
60-65	9.45%	18.90%	0.6%	1.2%	1.75%	1.75%	11.80%	21.85%

<sup>1</sup> on insured salary PK1 (base salary plus incentive minus social security offset) up to CHF 150k

<sup>2</sup> on insured salary risk (base salary minus social security offset) up to CHF 220k base salary

<sup>3</sup> on total insured salary (base salary plus incentive minus social security offset) up to CHF 220k base salary

<sup>4</sup> indicates standard contribution; employees can chose to contribute 2% more or 2% less

# Overview of benefits

## *Pension Fund 1*

Age	Death	Disability
<b>Lifelong retirement pension</b> <ul style="list-style-type: none"> <li>• Conversion rate at age: <ul style="list-style-type: none"> <li>- 65: <b>5.0 %</b></li> <li>- 64: <b>4.85%</b></li> <li>- 63: <b>4.72%</b></li> <li>- 62: <b>4.60%</b></li> <li>- 61: <b>4.48%</b></li> <li>- 60: <b>4.36%</b></li> </ul> </li> <li>• of the accrued retirement plan assets.</li> <li>• Lump-sum pay-out instead of pension up to max. 50% possible (time limit 3 months before retirement)</li> </ul> <b>Retirement child pension</b> <ul style="list-style-type: none"> <li>• 20% of pension up to age 20/25</li> </ul> <b>Available savings plan assets</b> can <ul style="list-style-type: none"> <li>• be used to finance a bridging pension until to statutory (AHV) retirement age (temporary retirement pension) or</li> <li>• be paid out as a one-off retirement lump sum.</li> </ul>	<b>Spouse's or domestic partner's pension</b> for active insured members: <ul style="list-style-type: none"> <li>• 60% of insured/current disability pension</li> </ul> Retirement pension recipient: <ul style="list-style-type: none"> <li>• 60% of retirement pension, or with the survivor's pension option 100% of retirement pension</li> </ul> <b>Orphan's pension</b> <ul style="list-style-type: none"> <li>• 20% of insured or current disability or retirement pension up to age 20/25</li> </ul> <b>Lump sum on death</b> Active insured members: <ul style="list-style-type: none"> <li>• 200% of insured disability pension plus accrued savings plan assets plus</li> <li>• 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</li> </ul>	<b>Disability pension</b> <ul style="list-style-type: none"> <li>• 60% of insured salary</li> <li>• Risk up to age 65</li> <li>• From age 65 onwards: conversion of continued retirement assets with current conversion rate</li> </ul> <b>Disability child pension</b> <ul style="list-style-type: none"> <li>• 20% of disability pension received up to age 20/25</li> </ul> <b>Disability lump sum</b> (with 100% disability) <ul style="list-style-type: none"> <li>• Accrued savings plan assets</li> </ul>

# Overview of contributions

## *Pension Fund 2*

Age	Savings Contribution <sup>1</sup>		Risk Contribution <sup>2</sup>		Total Contributions	
	Employee <sup>3</sup>	Employer	Employee	Employer	Employee <sup>3</sup>	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%

<sup>1</sup>on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

<sup>2</sup>on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

<sup>3</sup>indicates standard contribution; employees can chose to contribute 2% more or 2% less

**Novartis Pension Funds**

# Overview of benefits

## *Pension Fund 2*

Retirement	Death	Disability
<b>Lump sum on retirement</b> <ul style="list-style-type: none"><li>• Assets available at the time of retirement</li></ul>	<b>Lump sum on death</b> <ul style="list-style-type: none"><li>• Assets available at the time of death,</li><li>• at least 400% of insured salary</li></ul>	<b>Lump sum on disability</b> <ul style="list-style-type: none"><li>• Assets available at the time when the disability pension starts,</li><li>• at least 400% of insured salary</li></ul>