Incentive/Bonus Insurance

NOVARTIS

Regulations on Incentive/Bonus Insurance

Publisher: Novartis Pension Fund
valid from 1 January 2005

If any questions of interpretation arise, the German original is to be regarded as the authoritative text.

Table of contents

Art. 1 Terms

1. The following terms apply in these regulations:

Pension Fund	for the "Novartis Pension Fund"
Incentive/ Bonus Insurance	for the incentive/bonus insurance furnished by the Pension Fund in accordance with the present regulations
Pension insurance	for the pension insurance furnished by the Pension Fund
BVG insurance	for the BVG insurance furnished by the Pension Fund
Shift insurance	for the shift insurance furnished by the Pension Fund
Company	for Novartis AG or, depending on the context, companies which are close to it as defined in Appendix 1 and which are affiliated to the Pension Fund
Employee	for those in a work relationship with the Company
Insured persons	for those employees accepted into the Incentive/Bonus Insurance
Retirement age	the age of 65 for insured males and females; this is attained on the first of the month following the 65th anniversary of the date of birth
Insured remuneration for savings	for the insured remuneration according to which the savings contributions are determined
Insured remuneration for risk	for the insured remuneration according to which the minimum amount is determined for the lump sum on disability or death and the risk contributions
AHV	for the Federal Occupational Old Age and Survivor's Insurance and equivalent state insurance schemes in other countries
IV	for the Federal Disability Insurance and equivalent state insurance schemes in other countries
BVG	for the Federal Law on the Occupational Old Age Survivor's and Disability Benefit Plan
BVV2	for the Ordinance to the BVG

2. Articles 24 to 42 (Special stipulations, Finance and assets, Organisation of the Pension Fund, Election of the Board of Trustees) of the pension insurance regulations likewise apply to the Incentive/Bonus Insurance.

Art. 2 Purpose; structure

1. The purpose of the Pension Fund is to provide for employees in retirement and if disabled, and for the surviving dependents of these employees after their deaths. It conducts the mandatory Occupational Old Age Survivors' and Disability Benefit Plan in accordance with the BVG and has been entered in the Register for Occupational Benefit Plans for this purpose.

2. The Pension Fund operates a pension insurance scheme, a BVG insurance, a shift insurance, and an incentive/bonus insurance scheme in accordance with the stipulations of the appropriate regulations, on its own account and at its own risk. It may reinsure individual risks with an insurance company subject to the statutory Insurance Inspectorate.

3. The purpose of the incentive/bonus insurance is to furnish cover against the financial consequences of old age, death, and disability for the variable components of income, which are not covered by the pension insurance, and to provide for funding of early retirement in the pension insurance scheme.

Art. 3 Joining the incentive/bonus insurance scheme

Employees are accepted into the Incentive/Bonus Insurance scheme if

- they are accepted into the pension insurance scheme and
- have reached the BVG definition of age 25 (calendar year less birth year) and
- have not yet reached retirement age and
- receive payment of a variable component of income or are credited with a contribution, provided they are not insured in the Novartis Management Pension Fund or
- pay in a purchase sum as defined in Article 9 Paragraph 2.

Employees join on the 1st of the month in which the first variable component of income or contribution is paid, but not before attaining the BVG definition of age 25.

Art. 4 Disability

1. The insured person is considered disabled when he or she becomes completely or partially unfit for work due to bodily or mental injury arising from illness, affliction, or accident, and this can be expected to continue on a permanent or long-term basis; or when he or she is disabled under the terms of the IV. Someone is completely or partially unfit for work when he or she is no longer or only partially able to carry out the occupational activity performed before the beginning of the disability, or any other activity that may reasonably be expected of that person, and suffers loss of income as a result.

2. Reduction in capability for work of less than 25% does not constitute disability and therefore furnishes no grounds to claim disability benefits from the Pension Fund. If the degree of disability amounts to 70% or more, the insured person is deemed to be fully disabled.

3. The disability, its degree, and the time when it begins is determined by the Pension Fund at the request of the insured person or the Company on the basis of a medical report, and reviewed periodically. The degree of disability corresponds at least to the degree of disability stipulated by the IV.

4. The Pension Fund is entitled to order a medical report on an insured disabled person's state of health at any time. If the insured person refuses to undergo such an examination or refuses to accept employment which he or she could reasonably be expected to do taking into account his or her knowledge, abilities, and state of health, the Pension Fund is entitled to reduce, refuse, or withdraw the disability benefits.

Art. 5 Insured remuneration for savings and insured remuneration for risk

1. The insured remuneration for savings is equivalent to the variable components of income paid out in the current calendar year for the previous year.

2. The insured remuneration for risk is equivalent to the average of the last three variable income components paid out before the start of disability or before the death of the insured person.

If fewer than three variable components of income were paid out during membership of the Incentive/Bonus Insurance scheme, the variable components of income actually paid out during membership of the scheme serve as the basis for calculating the average.

3. The insured remuneration for savings and the insured remuneration for risk are adjusted each year at the time when the variable components of income are paid out. If no variable component of income is paid out, then the figure zero is included for the corresponding calendar year when calculating the average according to Paragraph 2.

Art. 6 Savings account and savings balance

1. Every insured person has an individual savings account showing his or her savings balance.

The savings balance consists of

a) the annual savings contributions of the insured person and the company (Art. 7 and 8), with interest

b) the joining fees and payments made to buy contribution years, with interest

c) any other contributions, with interest.

2. The following rules apply for operating the savings account:

a) The interest rate is determined by the Board of Trustees. The basis for this decision is the return on assets after deduction of asset administration costs and allowance for the transfer of provisions and reserves.

b) Interest on the savings account is calculated at the end of each calendar year according to the savings balance at the start of the year. The savings contributions of the current calendar year are paid into the savings account without interest.

c) If a joining fee or buying-in contribution is paid into the Incentive/Bonus Insurance scheme in the course of the calendar year, the interest on this contribution will be calculated at the end of the year for the time that has elapsed since receipt of the payment. This is added to the savings contributions made in the current calendar year.

d) When a person leaves the Incentive/Bonus Insurance scheme in the course of the calendar year, interest on the savings balance at the start of the year is calculated up to the date of leaving. This is added to the savings contributions made in the current calendar year.

3. In the case of full disability, the savings account ceases to be operated.

4. In the case of partial disability, the existing savings balance is divided into two components according to the degree of disability. The part of the savings balance which corresponds to the disability component is discontinued as for a fully disabled person and that which corresponds to the active component is continued as for an active insured person.

5. If the employee ceases to receive variable components of income, the savings balance continues to be operated according to Paragraph 2 without any further contribution payments being made.

Art. 7 Contributions from the insured person

1. The insured person pays a savings contribution of 5.5% of his or her insured remuneration for savings.

2. The Company makes a one-off deduction of the savings contributions from the variable components of income and transfers them to the Pension Fund.

3. The contributions start from the time when the person is accepted into the Incentive/Bonus Insurance scheme and continue for as long as that person continues to receive variable income components, but not beyond the age of retirement. The contribution obligations lapse with the termination of the work relationship or with an insurance-related event (retirement age, death, disability). If a variable component of income is paid out on a *pro rata* basis when the work relationship is terminated, no contribution is paid.

4. For an insured person who is partially disabled and who remains in a work relationship with the Company, the contributions to be paid are calculated on the basis of the remuneration which continues to be insured for savings.

Art. 8 Contributions from the Company

1. The Company pays for each insured person a savings contribution of 10% of the insured remuneration for savings.

2. The Company pays a risk contribution of 1% of the sum of insured remuneration for risk.

3. The Company makes its contributions as a one-off payment into the Pension Fund.

4. Article 7 Paragraphs 3 and 4 apply *mutatis mutandis*.

Art. 9 Purchases

1. An insured person may make one or more additional purchase payments. In each case, the maximum purchase payment is equivalent to the sum of the savings contributions of the insured person and the Company (Art. 7 and 8) from the age of 25 up to the age at the time of purchase less the existing savings balance at the time of purchase. The insured remuneration for risk at the time of purchase serves as the reference for calculating the sum of savings contributions.

2. For financing early retirement in the pension insurance scheme, the maximum purchase sum as defined in Paragraph 1 is increased by the sum calculated according to the table in Appendix 3.

3. Paragraph 2 on the increase in the maximum purchase sum only applies if the insured person shows the maximum number of 40 contribution years in the pension insurance scheme at retirement age.

Art. 10 Insured benefits

1. The Incentive/Bonus Insurance scheme provides the following benefits for insured persons and their survivors:

- Lump sum on retirement (Art. 11)
- Lump sum on disability (Art. 12)
- Lump sum on death (Art. 13)

2. All insured persons receive a certificate each year detailing the retirement savings, the insured remuneration, the contributions, insured benefits and the sum transferable on leaving.

3. The above-mentioned insured benefits are furnished with the express provisos of Articles 23 and 24 of the regulations of the Pension Fund scheme. Also, the payment conditions of Article 14 apply.

4. In the case of divorce, the court may order the payment of part of the sum transferable to the providence scheme of the divorced spouse. This leads to a reduction in the insured benefits. The savings balance is decreased such that the present value of acquired benefits is reduced by the amount transferred. The insured person may repurchase contribution years as in Article 9 at any time, up to the amount transferred.

Art. 11 Lump sum on retirement

1. Retirement benefits accrue when the insured person reaches retirement age, or when the employment contract is terminated after that person reaches the age of 60.

2. The lump sum is equivalent to the savings balance, together with interest, at the time of retirement.

Art. 12 Lump sum on disability

1. If an insured person becomes disabled before reaching retirement age, he or she is entitled to a lump sum settlement.

2. For a fully disabled person, the lump sum on disability is equivalent to the savings balance existing at the start of the disability, but not less than 200% of the insured remuneration for risk.

3. For a partially disabled person, the lump sum on disability as described in Paragraph 2 is reduced according to the degree of disability. The savings balance is reduced according to the degree of disability.

Art. 13 Lump sum on death

1. If an insured person dies before reaching retirement age, a lump sum will be paid to those with entitlement.

2. The lump sum on death amounts to the savings balance at the time of death, but at least 200% of the insured remuneration for risk.

3. Irrespective of inheritance law, those with entitlement are:

a) the surviving spouse of the deceased insured person, or if there is no surviving spouse

b) the children of the deceased insured person, or if there are no children

c) those persons substantially supported by the deceased insured member or the person who lived continuously with the deceased in a domestic relationship bound by a mutual obligation of support during the last 5 years before death or who has to support one or more children from this relationship, or if there are no such persons

d) the parents of the deceased insured person, or if there are no parents

e) the siblings of the deceased insured person.

The insured person may choose a different sequence, by notifying the Pension Fund in writing, and indicate the rights of those with entitlement more precisely, with the proviso that the spouse or, if there is no spouse, the children receive at least half the lump sum on death. The written letter must be submitted to the Pension Fund during the lifetime of the insured person. If there are special circumstances or cases of hardship, the Pension Fund can deviate from the above sequence or the wishes of the insured person, and distribute the lump sum among the survivors as it deems fit.

If no one is entitled to the lump sum on death, it is forfeited to the Pension Fund.

Art. 14 Payment conditions

1. The benefits as defined in Article 10 take the form of capital payments.

2. The insured person may receive the lump sum on retirement as defined in Article 11 in the form of a retirement pension and transfer the retirement capital to the pension insurance scheme. The level of the retirement pension will be calculated from the retirement capital at the time of retirement according to actuarial principles and using the net present value factors defined in Appendix 2.

The provisions laid down in Article 12 Paragraph 10 (level of expected widow(er)'s pension) and Paragraph 7 (childrens' pension), Article 14 (widow(er)'s pension), Article 15 (lifetime partner's pension), Article 17 (orphan's pension), Article 18 (lump sum on death) and Article 19 (payment conditions) of the pension insurance regulations also apply by analogy to the retirement pension calculated according to the aforementioned conversion principles.

The insured person must notify the Pension Fund at least one month beforehand in writing if he wishes to receive the lump sum in the form of a pension, otherwise the conversion option is forfeited.

3. Payments are made by means of transfers to the post office or bank account in Switzerland designated by the entitled person. At the request of the entitled person, and at his or her own risk, the transfers may also be made to accounts outside Switzerland.

D Termination of the providence contract

Art. 15 Settlement, subsequent cover, refund

1. If the employment contract is terminated by the insured person or the Company and if there is no entitlement to a Pension Fund benefit under the foregoing provisions, then the insured person leaves the Pension Fund and is entitled to the sum transferable in accordance with the following stipulations.

2. The sum transferable becomes due on leaving the Pension Fund. From this point on, interest is payable at the minimum rate of interest defined in the BVG. If the Pension Fund has not transferred this portable sum within 30 days of receiving the necessary details, interest is payable from this point onwards at the interest rate on arrears determined by the Federal Council.

3. The insured person continues to be insured against disability and death for a further month after termination of the providence contract, but at the most until new employment is taken up.

4. If the Pension Fund has to furnish survivors' or disability benefits after having paid out the sum transferable, as much of the sum transferable as is necessary to cover the survivors' or disability benefits must be repaid to it. The survivors' or disability benefits will be reduced if and to the extent such repayment does not take place.

Art. 16 Amount of the sum transferable

The sum transferable is equivalent to the current savings balance (defined contribution scheme).

Art. 17 Use of the sum transferable

1. If the insured person joins a new providence scheme, the Pension Fund will transfer the sum to that new pension scheme.

2. Insured persons who do not join a new occupational benefits plan must inform the Pension Fund whether the portable sum should be used for opening a vested benefits account with a bank fund or to establish a vested benefits policy with an insurance institution that is accountable to the insurance supervisory authority.

If the Pension Fund is not duly informed, the portable sum will be transferred to the suppletory institution, together with the interest, between 6 months at the earliest and 2 years at the latest after the person leaves the Pension Fund.

3. The insured person may demand cash payment of the sum transferable if

a) he or she is leaving Switzerland permanently

b) he or she becomes self-employed and is no longer subject to the obligatory occupational benefit plan, or

c) the sum transferable amounts to less than his or her yearly contribution.

Cash payment to insured persons who are married is only allowed if the spouse gives written agreement.

E Final stipulations

Art. 18 Implementing provisions, enforcement of the regulations, and filling of gaps

1. Any implementing provisions necessary for the regulations are issued by the Board of Trustees.

2. The Board of Trustees may, in special cases, choose to forego the stipulations of these regulations if enforcing them would mean hardship for those concerned and the decision is in line with the purpose of the Pension Fund.

3. The Board of Trustees decides in line with the purpose and spirit of the Pension Fund on matters which these regulations cover either insufficiently or not at all.

Art. 19 Revision of the regulations

1. Revision of the regulations is effected through the Board of Trustees. Changes to the regulations must be reported to the authorities responsible.

2. Decisions which provide for or result in additional benefits from the Company are not valid without the Company's agreement.

Art. 20 Disputes

1. Disputes between the Foundation and the employer or those entitled to claim will be settled by the cantonal court responsible according to the BVG in compliance with the due process of law.

2. The legal venue is the place of residence in Switzerland of the defendant or the place where the insured person was employed.

Art. 21 Entry into force

1. These regulations come into force on 1 January 2005, superseding the Incentive/Bonus Insurance regulations of 1 January 2001.

2. Until 1 January 2006, an insured female may take her lump sum on retirement five years before her regular AHV retirement age.

Companies affiliated to the Pension Fund

Novartis International AG, Basel
Novartis Pharma AG, Basel
Novartis Pharma Services AG, Basel
Novartis Pharma Stein AG, Stein
Novartis Pharma Schweiz AG, Bern
Novartis Pharma Schweizerhalle AG, Schweizerhalle
Pharmanalytica SA, Locarno
Ciba Vision AG, Embrach
Novartis Consumer Health SA, Nyon
Novartis Consumer Health Schweiz AG, Bern
Novartis Tiergesundheit AG, Basel
Novartis Centre de Recherche Santé Animale SA, St-Aubin
Novartis Forschungsstiftung, Zweigniederlassung Friedrich Miescher Institut, Basel
Novartis Stiftung für nachhaltige Entwicklung, Basel
Interpharma, Verband der forschenden pharmazeutischen Firmen der Schweiz, Basel

Net present value (NPV) factors for determining retirement pension as defined in Article 14 para. 2

NPV factors

Age	Men	Women
60	16.9129	16.8092
61	16.5309	16.4386
62	16.1347	16.0588
63	15.7246	15.6681
64	15.2954	15.2654
65	14.8436	14.8496

These NPV factors refer to whole years. Months completed are taken into account proportionately using linear interpolation.

Example of calculation

Insured man aged 62, retirement at age 62:

- Retirement capital at age 62 — CHF 100,000.–
- Retirement pension from age 62 100,000 / 16.1347 rounded up — CHF 6,204.–

Increase in purchase sum as defined in Article 9 para. 2

The increase in the maximum purchase sum as defined in Article 9 para. 2 is determined from a Part A and a Part B. Part A is defined as a percentage of the insured retirement pension in the pension insurance scheme and serves to buy out the reduction for a person who receives the insured retirement pension early. Part B is defined as a percentage of the difference in the maximum AHV pension and the supplementary pension and serves to finance the bridging pension.

Premature retirement at age 63

Age	Part A % retirement pension	Part B % difference
25	14.17	42.95
26	14.74	44.66
27	15.33	46.45
28	15.94	48.31
29	16.58	50.24
30	17.24	52.25
31	17.93	54.34
32	18.65	56.51
33	19.39	58.77
34	20.17	61.13
35	20.98	63.57
36	21.81	66.11
37	22.69	68.76
38	23.59	71.51
39	24.54	74.37
40	25.52	77.34
41	26.54	80.44
42	27.60	83.65
43	28.71	87.00
44	29.85	90.48

Age	Part A % retirement pension	Part B % difference
45	31.05	94.10
46	32.29	97.86
47	33.58	101.78
48	34.93	105.85
49	36.32	110.08
50	37.78	114.49
51	39.29	119.07
52	40.86	123.83
53	42.49	128.78
54	44.19	133.93
55	45.96	139.29
56	47.80	144.86
57	49.71	150.66
58	51.70	156.68
59	53.77	162.95
60	55.92	169.47
61	58.15	176.25
62	60.48	183.30
63	62.90	190.63

The age of the insured person is determined from the difference between the current calendar year and the year of birth.

Editor:
Novartis Pension Fund, P.O. Box, CH-4002 Basel

This document is also available in German, French and Italian. All language versions can be accessed on the Internet under:

www.pensionskasse-novartis.ch

NOVARTIS