

Conversion Rate Adjustment 2022

Novartis Pension Fund 1

The Board of Trustees of the Novartis Pension Fund 1 in Switzerland has approved a small but important change to the pension plan. The change will come into force on January 1st, 2022. This document is intended to provide you with an overview; further information will follow in the course of the next few months.

The need for change

Challenges for pension funds

The pension landscape has changed substantially in recent years, thus increasing the challenges for pension funds. As you know, a pension fund's primary objective is to secure a financially healthy and sustainable occupational benefits scheme for the insured members in the long-term, despite the all-time low levels of interest and continuously increasing life expectancy.

Currently, pension annuities at retirement (age 65) are calculated using a conversion rate of 5.35%, introduced in 2016. This conversion rate was based on the then applicable mortality tables and an actuarial discount rate of 2.5%.

In accordance with the pension plan rules, the Board of Trustees periodically reviews the conversion rate and adapts it to the latest mortality tables and interest rate developments, if necessary.

A well-balanced solution

The Board of Trustees of the Novartis Pension Fund 1 has spent the last few months reviewing the parameters of the current pension plan.

After careful consideration, the Board of Trustees decided to adjust the conversion rate upon retirement. The change will come into force as of January 1st, 2022.

Reflecting updated assumptions on mortality and discount rate, the applicable conversion rate in Pension Fund 1 at age 65 will be adjusted to 5.0%.

What is a «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 career 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.

If the conversion rate is 5.0%, a capital of CHF 1 070 000 is needed for the same annuity.

At the same time, compensatory measures will be provided to offset the impact on benefits at retirement as much as possible:

- Increase individual account balances (based on age and years of service)
- Increase savings contributions (in the retirement plan)

With these accompanying measures, the Board of Trustees intends to place the insured members of the Novartis Pension Fund 1 in such a position that losses in terms of expected benefits are avoided as far as possible.

An overview of the changes

A new conversion rate

In line with updated assumptions on mortality and a lower actuarial discount rate, the conversion rate will be adapted to 5.0%.

Evidently, this change would lead to a reduction of benefits at retirement if the compensatory measures outlined below were not taken.

Compensatory measures

The approach is twofold: On the one hand, there will be an increase to the insured members' account balances in Pension Fund 1 (by way of compensation credits). On the other hand, the ongoing savings contributions will be increased. Together, the measures aim at offsetting the impact of the lower conversion rate on the annuity benefit level at age 65 for existing insured members.

Impact on benefits for existing associates

The Pension Fund 1 will grant compensation credits on the existing members' retirement accounts, based on their age and service years. This compensation will be calculated individually and credited to the existing members' retirement accounts in annual instalments over the next five years, starting in January 2022.

The maximum compensation credits for a member are 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.

This adjustment factor is calculated as follows:

- Add your age as of January 1st, 2022 to the number service years of your current employment. The result is your 'points'.
- If you have 60 points or more, you will then receive the maximum compensation credits.
- If you have fewer than 60 points, the reduction is 5% for each point below 60. Therefore, if you have 40 or fewer points, no transition credits are granted.

Example

Situation on January 1st, 2022 for **Luca Rossi**:

Age: 45

Novartis service: 9 years

Points: $45 + 9 = 54$

Reduction to maximum compensation credits:

$(60 - 54) \times 5\% = 30\%$

Adjustment factor: 70% $(100 - 30)$

Accordingly, the credit is 70% of the maximum possible amount.

The transition credits will be allocated to your retirement account over a period of 5 years, provided you remain in service.

Furthermore, there will be an increase of the savings contributions in the Pension Fund's retirement plan for both employer and employees.

Impact on contributions

The savings contributions to the retirement plan will be increased by 7%. The overall impact on the contributions may vary depending on age and on the different pensionable salaries:

Hans Huber, age 45, for example, has an insured salary of CHF 84 905 in the PF1 retirement plan. Currently his total employee contributions to PF1 (retirement plan with Standard contribution scale, savings plan and risk coverage) amount to CHF 7 939 p.a.

As from 2022, there will be CHF 8 363 p.a. to pay (i.e. the deduction increases by CHF 424 p.a. or CHF 35 per month)

Monika Meier, 55, whose insured salary in PF1 amounts to CHF 124 905 (i.e. CHF 150 000 minus coordination offset), expects to see an increase from currently CHF 13 177 to CHF 13 927 p.a. (i.e. by CHF 750 p.a. or CHF 63 per month).

Accelerated build-up of your retirement assets

Retirement account

As you are aware, your retirement benefits are based on the value of your individual retirement account at your date of retirement. If you earn more than CHF 150 000 then you have a retirement account in both Pension Fund 1 and Pension Fund 2.

Example – Account build-up

Take for example the retirement account of Jean Dupont, a new hire aged 25 with an insured salary of 47 059, based on an assumed 2% interest rate each year.

Year 1: Retirement credit of 47 059 x 12.75% = 6 000

Over 5 years:

Age	Ret. credits	Interest	Year-end balance
25	6 000	0	6 000
26	6 000	120	12 120
27	6 000	242	18 362
28	6 000	367	24 729
29	6 000	495	31 224

Due to higher savings contributions (retirement credits, as shown below), and the aforementioned compensation annuities, the value of your personal retirement account in Pension Fund 1 will grow faster in the years to come (as from January 1st, 2022) which will increase your account balance at retirement – and, of course, the value of your vested benefits at any given time before that date, as well.

Retirement credits

Retirement credits are the amounts credited to your account depending on the regular contributions paid by you and Novartis towards your retirement benefits.

They are calculated as a percentage of your insured salary and increase with your age, as shown in the table below:

PF1 retirement credits (Standard) as from 2022 % of insured salary			
Age	Member	Novartis	Total
25–29	4.25	8.50	12.75
30–34	4.90	9.80	14.70
35–39	5.55	11.10	16.65
40–44	6.20	12.40	18.60
45–49	7.50	15.00	22.50
50–54	8.15	16.30	24.45
55–59	8.80	17.60	26.40
60–65	9.45	18.90	28.35

Further contributions:
 A further credit of 3.50% (unchanged) applies to all members from age 40. This is paid into an Additional Savings Account within Pension Fund 1. Half of this amount (i.e. 1.75%) is contributed by Novartis and half by members.
 In addition, a contribution of 1.80% is paid by members (0.6%) and by Novartis (1.2%) towards risk benefits (unchanged)

If you wish to do so, you can contribute at a rate which is either 2 percentage points higher («Standard Plus» scale) or 2 percentage points lower («Standard Minus» scale) than the member contributions shown in the above table. Novartis' contribution would remain the same. This will affect how your retirement account grows and will ultimately lead to higher or lower benefits.

Frequently asked questions (FAQ)

- *How, exactly, was the maximum compensation uplift calculated?*

For each insured member of Pension Fund 1 who is affected by the upcoming conversion rate adjustment, his/her old and new expected retirement pension benefits at age 65 were compared individually (based on the «Standard» contribution scale and applying a projection interest rate of 2.0%).

The difference in pensions was then capitalized. The resulting capital represents the calculative value of the compensation credit («uplift») needed to maintain the expected level of benefits at age 65. The latter amount was discounted to its present value at the time of the plan adjustment on January 1st, 2022, and converted into a five-year annuity.

In short, the cost of the maximum compensation credit to the individual's retirement account equates to the present value of the projected difference in retirement benefits at age 65 under the old (5.35%) and new conversion rates (5.0%).

- *I have chosen the contribution scale «Standard Plus» and am currently contributing 2% more myself. Will this have an effect on my compensation uplift?*

The compensation credit was calculated strictly on the basis of the «Standard» contribution scale. Therefore, the effects of a higher – or lower – contribution scale were both excluded.

- *I'm thinking about making an extra voluntary contribution in 2021. Will this increase my compensation uplift?*

Voluntary extra contributions between January 25, 2021 and the implementation date of the change, although they will increase your retirement account balance, are not taken into account for the calculation of the compensation credit.

- *Speaking of this compensation uplift – will it be credited to the entitled insured members' retirement accounts all at once?*

No, the compensation credits will be allocated in instalments over a period of 5 years, each on January 1st of the year.

- *If I leave the pension scheme before retirement, may I take the compensation credits with me?*

The compensation credit will be staggered over a period of five years in the form of a corresponding annuity credited to the retirement account once a year, starting in January 2022 and as long as the person's employment contract in Switzerland remains in force.

Upon leaving the Pension Fund, the not-yet credited annuities will forfeit, in principle.

However, should you retire during this 5-year transition period (or in case of disability or death in service), the remaining instalments will come due at once.

- *Will new hires joining the plan as from January 2022 profit from the compensation measures, too?*

New entrants will also profit from higher savings contributions of which Novartis takes over twice as much as the employees.

However, unlike existing associates, they will not receive the compensation credits. Their pension benefits therefore depend on the amount of vested benefits they take along from previous employers' pension schemes.

- *What proportion of the over-all contributions is paid for by the Company?*

The funding arrangements continue to be based on a 2:1 ratio of employer to employee contributions (exception: Savings Plan).

The Company thus covers about two-thirds of the over-all contributions, provided the «Standard» contribution scale is chosen.

More Information

Comparison Statement, Information Events and more

Enclosed please find a provisional individual comparison statement as of January 1st, 2022, enabling you to better assess the expected effects of the change on your own personal situation.

A series of information events in different languages (German, English and French) will be held in the period April through May 2021. For the exact dates please refer to the enclosed letter.

A package containing the new pension rules, a summary booklet and your personal benefit statement will be sent to your home address (January 2022).

A personal appointment can be arranged if you have additional questions or concerns.

We hope that this information has been helpful and that we were able to provide you with a good overview of the upcoming changes to the Novartis pension plan in Switzerland.

If you have any questions, please do not hesitate to contact us at +41 61 324 24 20.

Sincerely

Novartis Pension Funds

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