Schindler

Revision of Pension Fund Rules Effective January 1, 2018

Ladies and Gentlemen

The continuing rise in life expectancy and historically low or even negative interest rates pose a major challenge for pension funds. Pensions must be paid for an increasingly long time, while at the same time the return on assets is declining sharply. Having adapted the investment strategy to the new investment climate some time ago, the Board of Trustees has now decided to take steps on the benefits and contributions side to ensure the financial and structural stability of the Schindler Pension Fund in the long term.

The Fund's new direction will be achieved by adjusting the actuarial foundations on which it rests. Meanwhile, compensation measures are planned to soften the effects on future benefits as much as possible. The revision covers the following points, in particular:

- The conversion rate at age 65 will be reduced from 6.0% to 5.2% as of January 1, 2018 (for those born in 1953); it will be reduced by a further 0.01 percentage points for every year thereafter
- The actuarial interest rate is to be reduced from 3.0% to 2.5%
- Move from the actuarial to the generational method of calculation
- A one-off credit as of January 1, 2018, which for older insureds in particular will largely offset the reduction in the retirement pension as a result of the lower conversion rate
- Higher savings contributions from January 1, 2018, which will significantly reduce the impact of the lower conversion rate on younger insureds, in particular.

1. Reduction in the conversion rate from January 1, 2018

The Board of Trustees last decided to reduce the conversion rate – in stages from 6.25% to 6.0% (at age 65) – in 2012. The transitional period for this reduction will end on December 31, 2017. In the meantime, the framework conditions for what constitutes a conversion rate that is appropriate in actuarial terms have changed markedly. There has been a further sharp fall in interest rates, with most CHF-denominated bonds now displaying negative yields to maturity, and at the same time there has been a further rise in average life expectancy. Since the BVG occupational pensions act came into effect in 1985, the average life expectancy of a 65-year-old man has increased from 15 to around a further 22 years, while a 65-year-old woman can now expect to live a further 24 years, compared with 21 in 1985.

The new conversion rate has been calculated on the basis of an actuarial interest rate of 2.5% (previously 3%), and the Pension Fund will also move from the actuarial to the generational method of calculation. The latter already factors in the anticipated increase in average life expectancy for every year of birth.

The move to the generational method means that each year of birth now has its own conversion rate. The starting point is 1953. Those born in this year will turn 65 in 2018. Their conversion rate is 5.20%. The conversion rate for those born after 1953 is 0.01 percentage points lower for each year. Examples:

Year	Conversion rate at age 65	Year	Conversion rate at age 65
1953	5.20%	…..	
1954	5.19%	1993	4.81%
1955	5.18%	1994	4.80%

As in the past, the conversion rate is reduced by 0.15 percentage points per year in the event of early retirement, and increased by 0.15 percentage points per year if retirement is deferred.

If the Pension Fund's broadly diversified investment strategy, with its high proportion of real estate, succeeds in generating a long-term average return of 2.5%, these conversion rates will only have to be amended if the anticipated increase in life expectancy – which is already factored in to the generational method of calculation – is very different to the expected trend.

2. Compensatory measures

The effect of the lower conversion rate will be offset by the following measures:

a) Higher savings contributions

Savings contributions will be increased by 1.5% for all age groups from the age of 25. This increase will be funded as follows:

0.60%	Reduction in current contribution to administrative costs
0.90%	Charged to the companies (0.55%) and the insureds (0.35%)
1.50%	Total increase in savings contributions

Insureds' contributions to the Pension Fund will increase by 0.35 percentage points in total. In the case of an insured salary of CHF 65,000, for example, the employee's contribution will thus increase by CHF 19.00 per month. The companies' contributions will be 0.55 percentage points higher.

Total contributions will increase by approximately CHF 1.2 million per year for insureds and by CHF 1.8 million annually for the companies.

The higher savings contributions will benefit younger insureds, in particular, as they will be able to accumulate retirement capital over a longer period.

b) One-off credits

To significantly reduce the loss in pension benefits for older insureds, those who are aged 60 or over on December 31, 2017 will receive a one-off credit of 15.38% of the retirement capital in their accounts on that date. The credit will be made effective January 1, 2018. Those born in or after 1958 will receive a lower credit that is reduced on a straight-line basis by 0.3 percentage points per month or 3.6 percentage points per year. No credit will be paid to those born in or after 1987. The way in which this one-off credit works is shown below:

Year of birth	One-off credit as % of ret. capital on 31.12.2017
1953-1957	15.38%
1958	14.83% (96.4% of 15.38%)
1959	14.27% (92.8% of 15.38%)
……	
1985	0.98%
1986	0.43%
from 1987	No credit

The one-off credit will also be paid under the following circumstances:

- Lump-sum withdrawal instead of an annuity as of January 2018
- Short-term membership of the Pension Fund, e.g. entry in 2017
- Withdrawals from January 2018

The costs of the one-off credit come to approximately CHF 72 million. The Alfred Schindler Fund will cover CHF 10 million of this figure, and a further CHF 8 million will be financed by the write-back of a provision that the Pension Fund no longer requires. A total of CHF 54 million will thus be charged to the Pension Fund's operating result. The corresponding provision will be created in the 2016 financial year, reducing the cover ratio by approximately 3.5 percentage points.

3. Comparison of benefits

We have calculated the changes to benefits for a number of model insureds. The assumption was that these individuals are insured under the Standard plan, and have a level of retirement capital that reflects their age and insured salary. Insureds who have made advance withdrawals to purchase a home, or as the result of divorce, may find that the percentage differences vary considerably from the figures given below.
While retirement pensions are lower in all cases, higher savings contributions and the one-off credit mean that insureds taking a lump sum can expect a higher level of retirement capital.
Examples:

Year of birth	Reduction in ret. pension	Increase in ret. capital
1957	- 2.8%	+13.0%
1962	- 6.8%	+ 9.5%
1967	- 9.0%	+ 7.8%
1972	- 11.3%	+ 6.2%
1982	- 12.7%	+ 6.7%
1992	- 12.7%	+ 9.1%

4. Options for offsetting the reduction in pensions

Active insureds can choose between the following three options to increase their retirement pension on a voluntary basis:

- Select / change to the Maximum contribution plan
- Voluntary contributions
- Defer retirement in consultation with the company.

a) Maximum contribution plan

The difference between the Standard and Maximum plans is currently 1.6 percentage points for all age groups. The gap between the two contribution plans will widen as follows from January 1, 2018:

Age	Difference between Standard and Maximum plans
25 – 44	1.6 points (as now)
45 – 54	2.6 points
55 – 70	3.6 points

b) Voluntary contributions

As is currently the case, retirement benefits can be improved by making additional voluntary contributions (AVCs). These AVCs can be deducted from taxable income. As of January 1, 2018, the AVC table will also be adjusted in line with the Pension Fund's new operating framework, i.e. the potential for making AVCs will be increased.

c) Deferral of retirement

Although average life expectancy is rising all the time, it seems that the Swiss population is not yet willing to accept an increase in the retirement age of 65, at least not at AHV state pension level. The Pension Fund's official retirement age for men and women alike is also 65, but for many years now the Pension Fund Rules have provided for retirement to be deferred with the agreement of the company.

The period of deferral allows more retirement capital to be accumulated thanks to the additional savings contributions. At the same time, the conversion rate increases by 0.15 percentage points for each year of deferral. This means that the reduction in pension benefits which results from the new conversion rate can be cancelled out relatively quickly. For example, an insured person born in 1962 would have to work for around a year longer to reach the level of the previous retirement pension.

5. No change for current pension recipients

Those currently receiving a pension, and those retiring up to and including December 31, 2017, are not affected by the changes to the Rules and thus will not receive the one-off credit on retirement capital. Current pensions will continue to be paid out unchanged.
However, in the Pension Fund's financial statements for 2016, pensioners' current retirement capital will be stated on the basis of the same actuarial interest rate of 2.5% (previously 3.0%) as applies to that of active insureds, and the generational rather than the actuarial method of calculation. The move to this new approach means that these pensioners' retirement capital must be increased by approximately CHF 70 million. The Pension Fund has already made the necessary provisions for this, in the financial statements as at December 31, 2015.

6. What happens now?

Our www.schindler-pk.ch website features an Excel tool which you can use to calculate your future retirement pension. To do this, you will need various figures from the insurance certificate that you received in May 2016. The website also provides answers to the most frequently asked questions about the switch to the new system, as well as the following tables:

- Conversion rates as of January 1, 2018
- One-off credits as at January 1, 2018
- Contributions as of January 1, 2018
- AVC table as of January 1, 2018.

In view of further changes to the law that are expected soon, the new Pension Fund Rules will not be available until around the middle of 2017.

The Board of Trustees has both the authority and the responsibility to ensure the financial and structural stability of the Pension Fund, and to institute the necessary action in good time to protect its interests. We firmly believe that this revision of the Pension Fund Rules will mean that our Pension Fund can continue to pay good, secure benefits to future generations of Schindler employees.

Should you require any further information, please do not hesitate to contact HR officers, Pension Fund staff or members of the Board of Trustees at any time.

Yours sincerely
Schindler Pension Fund

Heinz Risi	Mario Passerini	
Chairman of the Board of Trustees	Managing Director	Ebikon, September 2016