

PDN has new pension scheme

With effect from 1 January 2011 PDN has a new pension scheme. DSM has recently informed you about this new scheme. By means of road shows and in DSM Connect the reasons for introducing this scheme were explained to the DSM employees. These reasons centred on the lower interest rates, disappointing returns on investments and a higher life expectancy.

The pension agreement concluded in December 2010 by the trade unions and DSM made it necessary to adapt the pension regulations. The new regulations were provisionally adopted by the PDN board on 29 March 2011 and were subsequently submitted to the employer for assessment whether all changes are in conformity with the pension agreements between the social partners. This newsletter outlines the changes in the regulations that relate to **active members** of the pension fund and to non-active members still building up pension benefits.

The changes in a nutshell

Average pay

In an average pay scheme your pension benefits are calculated on the basis of a percentage of your salary in a specific year.

In this way, you build up 'weighted average' pension benefits (previous years are disregarded) during your active years.

From 65 to 66

As from 1 January 2012, the pension accrual will be calculated on the basis of an (actuarial) retirement age of 66. This is in line with the (expected) rise in the state pension (AOW) age.

Granting of supplements (indexation) to start at a higher funding level

From now on, PDN pension indexation will start at a funding level of approximately 110% (if the fund's financial condition permits this). Until now, indexation, in the form of the so-called back-service, started when the funding level reached a value of approximately 105%. For pensioners, too, (partial) indexation will become possible at a 5% higher funding level. A major reason for raising this threshold is the wish to improve the pension fund's financial health and shock resistance.

There will always be risks

The new scheme does not eliminate all risks. The fund's financial situation may for instance be such:

- that no supplements can be granted
- that accrued pension entitlements and pensions in payment are cut.

Active members run an additional risk in that the future annual pension accrual may be reduced when the premium proves to be structurally too low.



If you have any questions about your pension, please see our website: www.pdnpensioen.nl or contact our Pension Desk: tel. 045 - 5788100, or email: info.PDN@dsm.com

Average pay

Average pay, how does it work?

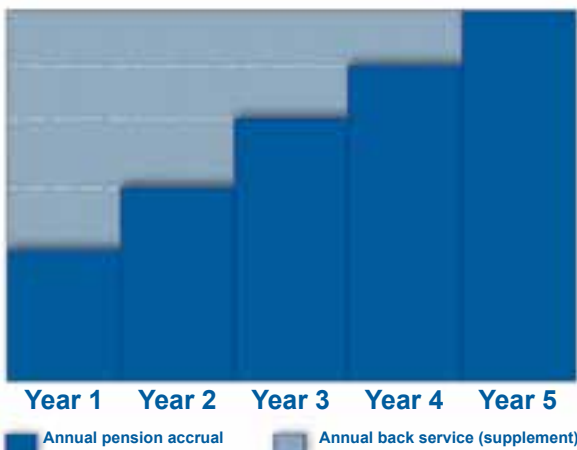
The average pay scheme is one way to determine how much pension you build up each year. In an average pay scheme you build up pension each year based on the income you earn that year. This means that pension accrual is not calculated on the basis of your last-earned pay, as in a final pay scheme, but is the sum of the pension accrual in the years you participate.

Annual pension accrual

In PDN's average pay scheme the annual pension accrual amounts to 2% of the pensionable base (your pensionable salary minus the franchise). This is the same percentage as in the final pay scheme that was effective until the end of 2010 (but higher than the accrual rates that applied before 2006). If your income increases a bit each year, your pension accrual in the same year also increases. This is shown by the vertical dark blue bars in the figures below.

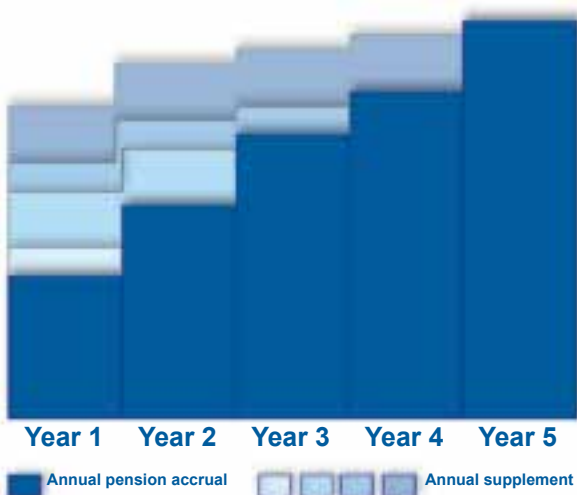
The characteristic difference between a final pay scheme and an average pay scheme is that there is no unconditional back-service on the basis of individual pay rises in the average pay scheme. This implies, therefore, that there is no difference in pension accrual between final pay and average pay for employees who no longer receive individual pay rises.

The graphs below illustrate the characteristic difference between final pay and average pay. In the first graph (final pay), it is assumed that the conditional back service (resulting from CLA increases) has been fully awarded. Both graphs are based on the same individual pay rise.



Final pay scheme

In the final pay scheme all pension entitlements built up in previous years are raised to the level of the last pension accrual (back service). If we look at the graph on the left, the entire light blue plane represents the back service.



Average pay scheme

In PDN's average pay scheme the aim is to increase your total pension accrual by the same percentage as the CLA wages. If the CLA wages rise by 2%, the fund aims for 2% indexation. However, this indexation (granting of a supplement) is conditional (see also: Granting of supplements). This results in the picture shown on the left.

So, if you receive no individual pay rises, your situation is virtually the same as in the average pay scheme (there being no unconditional back service). If you do receive individual pay rises, pension accrual will be lower than would have been the case in the final pay scheme.

More than 90% of Dutch employees build up pension in an average pay scheme. PDN's new scheme is in line with this trend.

Old pension entitlements

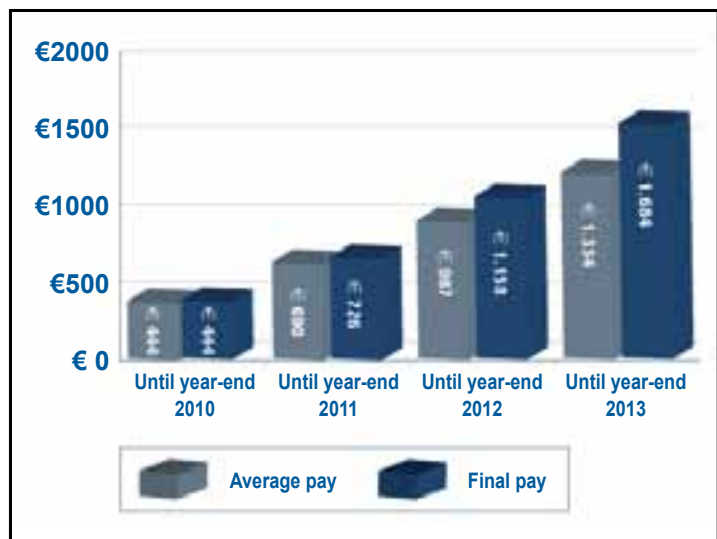
The switch from final pay scheme to average pay scheme will not affect the pension entitlements built up in the past, unless the fund's financial condition should prove insufficient and cuts are needed.

Calculation examples, final pay versus average pay

Using two fictional examples it is shown how pension is built up in both systems. For a member who can still expect many salary steps the difference between average pay scheme and final pay scheme is greater than for someone who will not get any further pay rises.

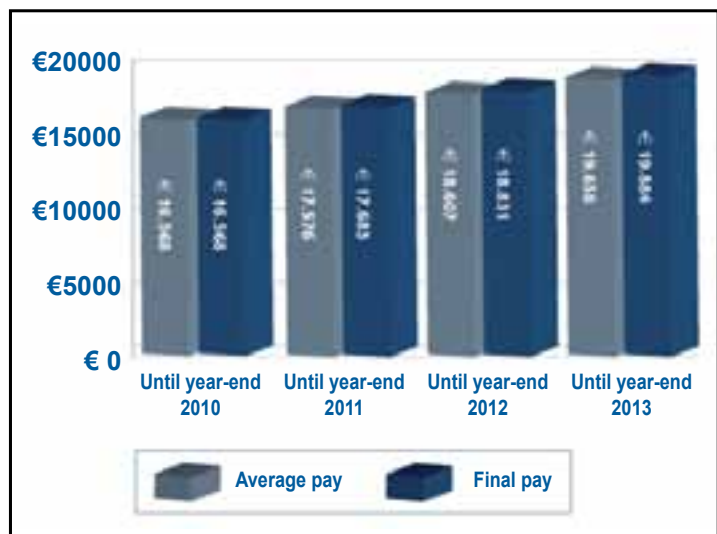
Example 1: José, aged 31

José is 31, grosses €25,000 a year and expects her career will progress rapidly. In this example her salary therefore rises much faster than the general wage development. We assume that José's salary will rise annually by €2,500 the next two years. It is further assumed that a supplement of 1% a year is granted. In the two years that José has worked for DSM before 2011 she has already built up an annual pension amounting to €444.



Example 2: Daan, aged 55

Daan is 55 and now grosses €55,000 a year. In this example we will assume that Daan's salary will increase in line with the general wage development at DSM each year (let's say: 1.5% in 2011, 1% in 2012, 2.0% in 2013). An annual supplement of 1% is also taken into account. Until 2011, Daan has already built up an annual pension of €16,568 in the 20 years he has worked for DSM.



Individual consequences

If you want to find out how the introduction of the new pension scheme will affect you, then log in to the PDN pension planner on the PDN website (by clicking on 'Employee' and then 'My pension') and compare the amounts shown by the pension planner with those on your most recent Uniform Pension Statement (UPS 2011).

(Actuarial) retirement age from 65 to 66

The pension entitlements you have built up before 2012 are paid when you reach the retirement age of 65. For the entitlements you build up after 2012 the (actuarial) retirement age is 66, reflecting the (expected) rise in the state pension age.

Does this mean that everyone retiring after 2011 will have to work until age 66?

No, it doesn't; the new pension scheme, too, offers enough options enabling earlier retirement.

What are the consequences of the rise in the (actuarial) retirement age to 66?

For members with many years of service at DSM the effect will be lower than for members with fewer years. Long-time employees have already built up a high amount in pension entitlements for the retirement age of 65 before 2012.

The table below gives an impression of the effect of the rise in retirement age to 66. The data are based on the assumptions that you continue working until age 65 and that payment of the full pension will start at that age. Depending on your situation, this will make it possible to estimate the consequences for yourself.

Example:

Accrued old-age pension		The percentage by which your pension is reduced when you retire at age 65
before 2012	after 2012	
100%	0%	0%
75%	25%	1.82%
50%	50%	3.65%
25%	75%	5.47%
0%	100%	7.30%

Now let's see what happens when a member builds up 50% before and 50% after 2012.

Suppose someone has built up a € 15,000 pension before 2012 and will build up another € 15,000 after 2012 until he/she reaches age 65. In the new scheme this means that, while building up € 15,000 in pension entitlements after 2012, the employee will receive € 13,905 of this amount when deciding to retire at age 65. This pension will be paid a year longer, however, starting at age 65 rather than 66. The pension received from the age of 65 will then be € 28,905 gross a year.



Granting of supplements

Supplements for members

It is PDN's ambition to ensure that the pension you have built up in the past is annually increased in line with the general wage development at DSM (CLA increases) by means of supplements (indexation). In this way the accrued pension (the pension entitlements) will continually increase in value. However, there are no guarantees that PDN can increase the accrued pension every year. Indexation takes place only in years in which the funding level is higher than approximately 110%. This is 5% higher than the level at which back service was applied in the old scheme.

Supplements for pensioners and former members

Pensioners will also start receiving a supplement (based on the derived consumer price index published by Statistics Netherlands) at a higher funding level. Previously, partial indexation started at a funding level of approximately 105% and full indexation at a level of approximately 116%. These thresholds have now been raised by 5%, to 110% and 121%, respectively. In concrete terms this means that no supplements will be granted as long as the funding level is lower than 110%. Partial indexation is possible when the funding level is between 110 and 121%, and full indexation when the level is higher than 121%.

It is important to note that no premium is paid for these supplements - they are paid fully from the returns on PDN's investments.

Why a higher funding level?

The decision to start granting supplements at a higher funding level was taken to improve PDN's financial health and shock resistance. When the return on investments is used directly for indexation, it will of course be more difficult for PDN to build up the required financial buffers. By starting indexation at a higher funding level, the risk of the fund getting into problems is reduced. This measure helps us prevent having to cut pension entitlements and pension rights as much as possible.

Pension premium

To pay the pensions, money is needed. The pension fund receives premiums from DSM and from the DSM employees. Together they pay a pension premium of 22% of the pensionable salary. PDN and DSM have agreed that after premium payment DSM can no longer be held accountable for any deficits of the pension fund. DSM therefore pays the fixed premium irrespective of PDN's financial situation. In pension jargon this is called a CDC (Collective Defined Contribution) scheme.

Deficits may for instance be caused by lower returns on investments, a low interest rate or an unexpected rise in life expectancy. On the other hand, DSM cannot claim part of the pension fund's money if the fund is reporting good financial results, for instance thanks to good returns on its investments.

In determining the level of the premium to be paid by DSM and the employees (trade unions), no surcharge was added for the granting of supplements. The money for the supplements must come from the returns on PDN's invested pension premiums. If these returns are too low, no supplements can be granted.



There will always be risks

Supplement

For supplements to be granted (indexation) the fund's financial situation must be good enough. Each year the board assesses whether this is the case. (Partial) indexation should not result in the funding level dropping below the 110% limit. If, after one or more years without indexation, the fund is again doing better, it is possible that the missed supplements are still granted.

Pension accrual reductions

The pension premium is based on solid starting points and the risk that it is too low is slim. Nevertheless, if, for instance, the interest rate is very low over a long period of time, a situation may arise in which the pension scheme becomes so expensive that the current premium no longer suffices. In that case, the premiums which the pension fund receives from employer and employees will be structurally too low for unchanged implementation of the pension scheme. The premiums no longer cover the costs of pension accrual. In such a situation, the premiums will not be raised, but pension accrual by the employees will be cut (reduced) accordingly from that moment, unless the social partners take measures to ensure that the premiums again cover the costs. Cutting is not a measure taken lightly - there are strict rules for this.

Pension accrual or not?

The rise in the (actuarial) retirement age to 66 will affect people who build up a PDN pension after 2012. These are, therefore, the employees as well as those who no longer work but continue to build up pension, which may comprise a number of groups.

- 1) The group of disabled people no longer employed by DSM. They are still building up pension. For this group the old scheme continues to apply, so nothing will change for them. For employees becoming disabled after 2010 the new pension scheme will apply.
- 2) The group of post-active members who have left DSM under a special scheme. For this group, continued partial pension accrual as if they are still employed by DSM is customary. The new scheme therefore applies to them. Since pension accrual under the new scheme is of limited duration, the effect of the new scheme will also be limited.
- 3) The group of pre-pensioners includes both people who still build up pension and people who do not. People who have retired under the pre-pension scheme (PPS) or the flexible pension scheme (FPS) and people receiving a temporary old-age pension from NeoResins no longer build up pension. People who have taken early retirement under the early retirement scheme (VUT) and early pensioners at DSM Gist and people who have taken early retirement under the early individual retirement scheme (VIP) do continue to build up pension. For those who are not building up pension anymore, the new scheme will have no effect on the pension level. For those who do continue to build up pension for one or a few years, the new scheme will apply. Since pension accrual under the new scheme is of limited duration, for this group, too, the effect of the new scheme will be limited.



Not everything has changed

Some elements of the new pension scheme are the same as in the old scheme. The key points of the unchanged elements are as follows

Old-age pension

Each year you build up pension at a rate of 2% of your pensionable salary, less the franchise. The franchise (sometimes called deductible) is the part of your salary that is not taken into account in pension accrual since you are also entitled to a state pension (AOW).

Partner's pension / orphan's pension

The partner's pension amounts to 70% of the old-age pension that has been built up. Eligible for a partner's pension / orphan's pension are:

- your marriage partner
- your partner registered as such at the register of births, marriages and deaths
- your partner (no relation by blood or affinity in the direct line) in a partnership that has been registered by a notary public and reported to the pension fund
- orphans

Upon your death, your children, in so far as they are under age or studying, receive an orphan's pension amounting to 14% of the old-age pension. For a full orphan (both parents dead) this is doubled to 28%. When you die before your retirement date, the orphan's pension will be based on the old-age pension that you would have built up until reaching the state pension age.

If you die while still working for DSM

If you die before your retirement date, your partner will receive a pension of 70% of the old-age pension that you would have built up until reaching the state pension age. In addition, your partner will receive a temporary partner's pension and a supplementary partner's pension until he/she reaches the state pension age.

Disability pension

If you are permanently disabled, you may be entitled to a PDN disability pension in addition to a benefit under the WIA Act (Work according to Labour Capacity Act). In case of dismissal on grounds of disability, you can - under certain conditions - continue to build up pension with PDN.

Voluntary Pension Saving (VPS)

PDN members can also save for an additional pension on top of their 'normal' pension. This can be done under the Voluntary Pension Saving (VPS) scheme. This is an interesting option if for some reason you want to build up a higher pension. Voluntary Pension Saving via the DSM Netherlands pension fund is attractive because it involves certain tax benefits.

The Voluntary Pension Saving brochure on the PDN website (www.PDNpensioen.nl) gives further details and explains who can join this scheme. In determining the return on PDN's investments the investment costs are taken to be 0.15%. No costs are deducted from the VPS contributions.





Transitional entitlements (conditional pension)

In 2005, agreements were made to the effect that, under certain conditions, employees born after 1949 and employed on 31 December 2005 can be eligible for extra pension entitlements. To be able to realize these additional pension entitlements, the tax deferral capacity that was not yet fully utilized at the time was used in the calculations carried out 2005. If there was scope for this, additional pension entitlements were awarded, the so-called 'versleepaanspraken' (transitional entitlements). These are awarded in at most 15 yearly instalments, but awarding is to be completed at the latest upon reaching the age of 60. For employees reaching the age of 60 within 15 years, the total amount is therefore divided in fewer instalments.

The agreements made by the social partners on 22 December 2010 imply that the transitional entitlements to be awarded in the period 2011-2020 will no longer be granted annually but on a one-off basis (in two steps).

- The transitional entitlements for the period 2011-2015 were awarded in their entirety on 1 January 2011, but exclusively to those who were employed by DSM on 1 January 2011.
- The transitional entitlements for the period 2016-2020 will be awarded in their entirety on 31 December 2020, but exclusively to those who were employed by DSM on 31 December 2020 or, if earlier, when they reached the age of 60.

How can I find out more about my own pension situation?

Quite simple - just log in to the pension planner on PDN's website (click on Employee >> My Pension)! This planner shows PDN members what pension they will receive at ages 65 and 66.

It also shows the consequences for your pension of certain choices, such as taking early retirement. The planner includes various instruction videos explaining its operation.

Who can use the pension planner?

The pension planner can be used by active PDN members born after 1949. After you have logged in using your personal log-in code and password, the planner retrieves your personal pension data as valid on 31 December 2010. On the basis of your pension data the planner shows your pension situation for retirement at ages 65 and 66. Subsequently you can make various choices, and the planner calculates the consequences of these.

UPS

Much information on your pension situation can be found on the Uniform Pension Statement (UPS) that you receive from PDN each year.