

Basic principles of the pension plan to remain unchanged after 2019

Greater certainty of pension accrual

During the collective labour negotiations, Philips and Signify agreed to a series of changes to the pension plans. Those changes will take effect on 1 January 2019, and will apply for three years. Philips-Pensioenfond's has reviewed the updated pension plans to determine whether they are feasible for the Pension Fund. The conclusion of the Board of Trustees is that this is indeed the case. The Board has also made a number of related decisions about indexing its pensions. At a glance, the pension plans will change very little. Nevertheless, these decisions by the Board will affect you: you will have greater certainty of your pension accrual, and in the short term it will be more likely that we can grant you indexation on your accrued pension rights. Generaties explains in general terms what will change in the pension plan and what will remain the same.

Flex pension 2019: what the changes mean for you, in five steps:

1. Greater certainty of 1.85% pension accrual
2. Greater possibility of indexation under new indexation policy
3. Indexation ambition for active members to follow wage inflation
4. Accrued pension rights to be raised by 0.38% on 1 November 2018
5. Very slightly higher risk of pension cuts (in the longer term)

To find out more about the pension plan from 2019 forward, visit www.philipspensioenfond's.nl/2019 (in Dutch).

What will remain unchanged?

Type of pension plan

The pension plan is still a collective defined contribution (CDC) plan. Every year you accrue pension rights. Your total pension is the sum of all those accrued rights. That pension will start paying out when you retire, and will continue for the rest of your life. The precise amount that you accrue every year depends on the contributions that have been defined for your pension, and of course on your salary.

Pension contributions

Philips pays the pension fund a fixed rate in contributions toward your pension. The contributions will remain at 24% of your salary (26.2% for Senior Directors and Executives). However, the contributions will now be expressed as a portion of your pension base: your salary less a threshold value, called the 'offset'.¹ 24% of your salary corresponds to approximately 30% of the pension base. Those contributions include the portion that you pay for yourself, which will remain at 2% of your pension base. Your salary slip shows the gross amount that you pay towards the contributions.

¹ The 'offset' (franchise in Dutch) is the part of your income on which you do not accrue pension rights. Instead, you receive a state pension under the Dutch Old Age Pensions Act (AOW). The offset is deducted from your pensionable salary for the purposes of additional pension accrual, to reflect your state pension.



Accrual percentage

The accrual percentage for your pension will remain at 1.85%. This means that every year you will accrue 1.85% of your pension base.

What will change?

Greater certainty of accrual

As explained above, the accrual percentage will not change. However, as before, that percentage is not guaranteed. Nevertheless, the possibility that an accrual of 1.85% cannot be realised is extremely small – much smaller, in fact, than in recent times.

Indexation ambition for active members based on wage inflation

The ambition of Philips Pensioenfonds is to raise the accrued pension rights every year by the same rate as wage inflation

(the collective salary scale adjustments under Philips's collective labour agreement, including for Signify employees). This ambition is currently made up of two parts: an increase to reflect price inflation (the derived consumer price index published by Statistics Netherlands) and an increase to reflect the difference between wage inflation and price inflation if the wage inflation rate (the collective salary scale adjustments under Philips's collective labour agreement) is greater than the price inflation rate. This indexation ambition will change slightly on 1 January 2019. Philips Pensioenfonds will seek to raise your accrued pension rights by the same rate as wage inflation in all cases, even if the wage inflation rate is lower than the price inflation rate.



Key details of the flex pension	Pension plan for 2014 – 2018	Pension plan for 2019 – 2021
Valid for	5 years	3 years
Offset	€ 14,064 (level for 2018)	€ 14,064 (level for 2018)
Retirement pension accrual percentage	1.85% of the pensionable base (ambition)	1.85% of the pensionable base (ambition)
Survivor's pension accrual percentage	70% of the retirement pension	70% of the retirement pension
Orphan's pension	14% of the target retirement pension	14% of the target retirement pension
Disability pension	5% up to € 56,733, 75% above € 56,733 (level for 2018)	5% up to € 56,733, 75% above € 56,733 (level for 2018)
Reference retirement age	68	68
Retirement age preference range	60 – 70	60 – 70
Total pension contributions	24% of salary (for Flex ES 26.2% of salary)	24% of salary (for Flex ES 26.2% of salary), being approx. 30% of the pensionable base
Employee contributions	2% of the pension base	2% of the pension base
Indexation ambition for active members	Price inflation, plus the difference between wage inflation (as per the increase under Philips's CLA) and price inflation	Wage inflation, as per the increase under Philips's CLA
Indexation ambition for retired members	Price inflation	Price inflation
Possibility of partial indexation	Funding ratio at 116% or higher	Funding ratio at 110% or higher

Reduced lower threshold for the indexation table

The Pension Fund will also reduce the lower threshold for the 'indexation table' effective 1 July 2018, from 116% to the legal minimum of 110%. This means:

- that the Pension Fund can grant indexation on its pensions if its funding ratio is between 110% and 116%, which was not possible under the old policy;
- that more indexation will be granted if the funding ratio is between 116% and 123% than under the old policy, as shown by in the additional indexation of 0.38% on 1 November 2018;
- that the pensions of all members will rise in the short and medium term (1–5 years), even in financially leaner times;
- that the risk of forced pension cuts in those leaner times will be slightly higher.

See the article 'Additional 0.38% in indexation under new indexation policy' to find out more about the changes to the indexation table.

Slightly higher risk of pension cuts

These decisions also mean a slightly greater risk that we will be forced to cut our pensions. Additionally, the funding ratio will rise more slowly in the long term. Compared with the advantages described above, the Board felt that these were acceptable trade-offs. ■

Further information about the new pension plan

Visit www.philipspensioenfonds.nl/2019 (in Dutch) to find out more. If you have any questions, please contact the Philips Pensioenfonds Service Desk. You can reach the Service Desk by calling 030 – 277 56 40 between 9 a.m. and 5 p.m. on working days.

