

As of January 2017 new conversion rates will apply. Here you will find answers to frequently asked questions and find out how the adjustments affect your pension benefits.

What is the conversion rate?

The conversion rate is the factor used to calculate the amount of the annual retirement pension on the basis of the accrued savings capital. The amount of the pension is determined by multiplying the savings capital with the conversion rate. The current conversion rate of the ABB PF amounts to 6.5% at age 65.

Example: A savings capital of 400,000 francs and a conversion rate of 6.5% result in an annual pension of 26,000 francs at the age of 65 years.

Why does the ABB Pension Fund adjust the conversion rate?

When determining the conversion rate, the life expectancy and the future anticipated investment income have to be taken into account.

The capital still available during the pension period is calculated using the so-called "technical interest rate". The return achievable with secure investments has been very low for several years. Even though the return on investment of pension funds was gratifying during the past few years, we have to expect significantly reduced return opportunities on our investments due to this low interest level.

Life expectancy continues to increase for everybody, also for pensioners. We have to take this fact into consideration.

Our conclusion is: The savings capital accrued at retirement not only has to last longer (due to the increasing life expectancy) but also generates less return during this period. That is why the conversion rate has to be lowered.

When will the adjustment enter into force?

The reduction of the conversion rate will start as of January 2017.

How will the reduction of the conversion rate be effected?

The conversion rate will be adjusted gradually from 6.5% to 5.25% at the age of 65, from 2017 to 2022 over a period of 6 years.

Does the ABB Pension Fund not violate the law with these low conversion rates? The law stipulates a significantly higher minimum conversion rate.

A reduction of the conversion rate does not contradict the so-called minimum conversion rate according to the Federal Occupational Retirement, Survivors' and Disability Pensions Act (BVG). The ABB PF offers higher benefits than the minimum benefits according to the BVG. The legal rate only applies for minimum benefits. In order to demonstrate the compliance with legal obligations, for each active member a second calculation is made separately to calculate the minimum benefits using the minimum conversion rate according to the BVG and the BVG savings capital of each member. The ABB PF does not lower the BVG minimum conversion rate but the conversion rate according to its Pension Fund Rules. When we mention the conversion rate hereafter it always refers to the conversion rate according to the ABB Pension Fund Rules.

Example:

Retirement at age 65 in the year 2022

Retirement assets at ABB PF total 500,000 francs

Conversion rate ABB PF new 5.25%

Resulting in annual pension of 26,250 francs

Retirement assets according to BVG: 300,000 francs

Conversion rate according to BVG: 6.8%

Resulting in annual pension according to BVG of 22,400 francs

The regular retirement pension of the ABB PF is significantly higher than the minimum pension according to the BVG.

Which conversion rate will be applied by the ABB PF as of January 2017 for the retirement age 65?

Year	Conversion rate
2016	6.50%
2017	6.25%
2018	6.05%
2019	5.85%
2020	5.65%
2021	5.45%
2022	5.25%

How will the consequences of the adjustment be cushioned?

The measures taken by the Pension Fund result in a lower conversion rate and would lead to lower pensions for future pensioners. The financial situation of the ABB PF does not allow the financing of cushioning measures. However, ABB as an employer has agreed to support its members with 10 million CHF annually for the next 6 years via an additional interest on the savings capital.

You can make your own calculation of the effects that the reduction of the conversion rate as of 2017 and the additional interest will have on your projected pension on the Internet at.

www.avadis.ch/abb-pension-calculator

What does the additional interest of 1 % on the savings capital mean in practice?

The savings capital available at the Pension Fund (see insurance certificate) of active members will bear an additional interest at the rate of one per cent above the Pension Fund's rate. The Pension Fund's rate is aligned to the minimum interest rate prescribed by the Federal Council. The Federal Council determines the level of this BVG minimum interest rate annually (2015: 1.75%, 2016 1.25%). Even if the BVG minimum interest rate were 0%, the capital would still bear a 1% interest.

Until when do I have to resign if I want to retire before the reduction of the conversion rate goes into effect?

If you want to retire before the reduction of the conversion rate goes into effect, your employment has to finish on 31 December 2016 at the latest. Please observe the period of notice.

What happens to current pensions?

These adjustments do not apply to pensions that are already in payment before January 2017. The amount of these pensions remains the same.

Does the reduction of the conversion rate affect my vested benefits, if I depart from the ABB PF?

No, the reduction does not affect the vested benefits. The conversion rate is only used to determine pension payments. However, the additional interest leads to higher vested benefits.

Can I also receive a lump-sum payment instead of a pension?

The ABB Pension Fund is a progressive pension fund and it offers the option to choose between a pension annuity, a lump-sum payment or a combination of both. You can for example invest the lump sum at the Avadis Asset Growth and receive a monthly transfer according to a fixed payment plan.

I have submitted a request for a lump-sum payment for my retirement. What effect will the reduction of the conversion rate have on my request?

The reduction of the conversion rate has no effect on the option of receiving a lump-sum payment. It is important that the relevant application period of 6 months will be kept.

Will the amount of the lump sum be reduced due to the reduction of the conversion rate?

No, the conversion rate is not used to determine the lump sum. The remaining savings capital will be multiplied by the new conversion rate; this calculation determines the retirement pension.

What is the coverage ratio?

The coverage ratio corresponds to the relation of the effectively available assets to the actuarially required pension assets. A coverage ratio of below 100% is called underfunding, a coverage ratio of more than 100% is called overfunding.

During the past few years the coverage ratio increased continuously. Why are measures necessary nevertheless?

Pensioners live longer today than was projected at the time of calculation of the retirement pensions. This additional obligation and the continuing low interest level force the pension funds to take measures.

Is early retirement still possible due to the new conversion rates?

Each member has to validate individually whether an early retirement suits him. The ABB Pension Fund has reduced the conversion rate gradually over a period of six years with regard to older members or those who will retire soon. This shall avoid that members be pressured into early retirement due to the measures taken. The ABB Pension Fund offers individual advice to members if desired.

What do the adjustments mean for my future pension benefits?

All active members will be informed about their personal pension situation in the first quarter of 2016. At www.avadis.ch/abb-pension-calculator you will find a calculation tool to simulate a comparison of your previous and new retirement pension.

How can I as a young employee make sure that I will later have sufficient capital at my disposal?

Young members can influence the amount of their savings capital with their choice of the contributions table. The highest savings are credited in the contributions table Standard plus.

Does the ABB PF want to save money with this reduction of the conversion rate in this difficult economic situation?

The ABB Pension Fund is an autonomous foundation. It must ensure that it can continue to fulfil the obligations it has assumed in the decades to come. The reduction of the conversion rate is a measure to sustainably secure the pension payments.

Will the conversion rate be adjusted again with the Pension Reform 2020?

As of 2017 the ABB Pension Fund will reduce the conversion rate at age 65 from 6.5% to 5.25% within six years. The reduction of the conversion rate is a measure to sustainably secure the pension payments. Further adjustments are not planned but they cannot be ruled out either.

I will retire soon and I have been paying contributions for many years. Now in the decisive years for me, I receive low interests on my savings capital and apart from that I have to accept a lower conversion rate. Wouldn't it be possible to wait for a few years with the reduction until interest rates go up again?

The financial markets were marked by several crises during the past few years. As a consequence hardly any money could be gained with stocks during the years 2000 to 2011. With interest rates at record lows on the capital markets, the situation took a turn for the worse and a speedy recovery is not expected. There is also the increase in life expectancy of members which amounts to about 2 years over the past 10 years alone. That means that members receive a pension for two more years on average, however, the accrued capital at the time was planned for a shorter pension period. We have to counteract this imbalance to sustainably secure the financing of pension payments. However the conversion rate will be reduced gradually over a period of 6 years from 1 January 2017 until 1 January 2022.

How can the Board of Trustees decide how the interest rate situation and the stock markets will develop in the future? Who knows what will happen in 4 years ...?

The Board of Trustees acts proactively to set the Pension Fund on a solid footing for the future. The financial markets were marked by several crises during the past few years. As a consequence hardly any money could be gained with stocks during the years 2000 to 2011. With interest rates at record lows on the capital markets, the situation took a turn for the worse and a speedy recovery is not expected. There is also the increase in life expectancy of members which amounts to about 2 years over the past 10 years alone. That means that members receive a pension for two more years on average, however, the accrued capital at the time was planned for a shorter pension period. We have to counteract this imbalance to sustainably secure the financing of pension payments.

Would the conversion rate be increased if the situation allowed it?

If the financial situation of the ABB Pension Fund improves, the Board of Trustees will reassess the situation. Furthermore, our members will benefit from a higher interest rate. A higher interest rate increases the savings capital and therefore the pension payments.

I have always read that the ABB Pension Fund does a very good job and that its performance is mostly above average. Now it reduces the conversion rate. What does that mean?

Pensioners live longer today than was projected at the time of calculation of the retirement pensions. This additional obligation and the continuing low interest level force the pension funds to take measures.

Will the bridging pension fall victim to the savings measures, too? I am thinking of early retirement and I have to clarify the financial aspects now.

At this moment there are no plans to change flexible retirement options. Each member has to validate individually whether an early retirement suits him. The ABB Pension Fund will reduce the conversion rate gradually over a period of six years with regard to older members or those who will retire soon. This shall avoid that members be pressured into early retirement due to the measures taken. The ABB Pension Fund offers individual advice to members if desired.

Would I be better off if I left ABB? What is the situation at other pension funds? How can I compare them?

Other pension funds, too, had to reduce their conversion rate due to the demographic development and the negative interest environment. The ABB Pension Fund now deems this step inevitable, too, and will therefore reduce the conversion rate gradually over 6 years as of 1 January 2017.

Does the reduction of the conversion rate affect current pensions?

No, current retirement pensions will not be affected by the reduction of the conversion rate.

Which version of the Pension Fund Rules applies for a (partial) retirement as per 31 December 2016?

The version that is valid at the time of the insured event applies. For a (partial) retirement as per 31 December 2016, the moment of the insured event is 31 December 2016 and therefore the regulatory provisions of 2016 apply.

How long will the new conversion rates be valid?

The Pension Fund periodically examines its actuarial parameters. Should further measures become inevitable due to changed circumstances, the Board of Trustees would have to implement such measures. At this moment the Board of Trustees considers that in the short run no adjustments will be necessary.

What will change for death and disability benefits?

These benefits will stay the same. Survivors' benefits depend partly on the amount of the savings capital and can therefore be affected.

Legal notice

These questions and answers shall give a simplified overview of the topic. No claims may be derived from this information. Only the Pension Fund Rules and the relevant legal bases are legally binding.