



Fair pensions for all generations

PKE's Foundation Board is adjusting its conversion rates. This comes as a reaction to continuously increasing life expectancy and falling returns on asset investments. The conversion rate applicable to the retirement age of 65 will be gradually reduced from 5.65% as it is today to 5.0%. This will improve equality across generations, but also lead to lower pensions. However, target-oriented compensatory measures will safeguard pensions at the current level in the long term.

One of the principles of occupational pension provision is that everyone is owed the capital they have accumulated throughout their careers including employer contributions when they retire. This so-called retirement savings capital is paid out in the form of a pension.¹

The key value for the calculation of pension payments is the conversion rate, which dictates how much the pension fund takes from the savings capital to cover pension payments once someone has retired. If you have saved CHF 600 000 in capital, for instance, a conversion rate of 5% would result in pension payments of CHF 30 000 per year.

What determines the conversion rate?

The conversion rate is primarily dependent on two factors: life expectancy and the expected return on capital.

We are living ever longer lives. Those who are 65 years old today are likely to live another 19.8 (men) or 22.6 (women) years respectively. In 1981, life expectancy for 65-year-olds was significantly lower: 14.3 years for men and 18.2 years for women. While life expectancy continues to rise, interest rates have been at an all-time low for several years, and there is no change in sight.

¹ PKE also enables you to withdraw a lump sum, whether it be the entire capital or a partial amount, in lieu of a pension. This article addresses the topic of pensions.

Fair pensions – for our younger members too

Once a basic pension payment has been made for the first time, it is guaranteed by law until the end of the individual's lifetime and can no longer be altered. The conversion rate stipulated by the current second pillar policy has triggered a massive redistribution from active participants to pensioners. Without reforms, this redistribution from young to old will continue to increase. In the past four years alone, an average of CHF 7.1 billion per year has been redistributed to pensioners from the almost 5 million individuals in employment in Switzerland, that is, from active participants.² This means that, every year, an average of approximately CHF 1 500 is “taken away”

from each individual in work. This is both unfair and unintended within the framework of legal provisions on occupational pension provision.

PKE has largely been able to avoid this redistribution. The Foundation Board has always taken care to set pensions responsibly, sustainably and fairly. This is because all insured members should get back what they saved over the course of their careers when they retire. After all, this is the principle upon which the second pillar is based.

Safeguarding pensions sustainably for the long term

President of the Foundation Board and Employer Representative, Martin Schwab, and Vice President and Employee Representative, Peter Oser, discuss the challenges facing pension provision. They perceive the 2019 package of measures to be a key prerequisite in enabling PKE to sustainably and responsibly fulfil its duties to all generations.

A 9.6% return in 2017, now a reduction in benefit forecasts: is PKE cutting costs at its members' expense?

Martin Schwab: No, not at all. We are pleased to say that PKE's investment strategy has been very successful over the past few years, but, despite the good returns, we should not lose sight of the significantly lower income expectations for the coming years. In the first half-year of 2018 alone, returns dipped to -0.6%. From January to October 2018, returns have remained negative, recording -1.8%. Interest rates are at an all-time low. It is becoming increasingly difficult for Swiss pension funds to finance pensions correctly in the long term.

What does “correct” financing mean?

Peter Oser: The basic principle of occupational pension provision is that everyone gets back what they saved over the course of their careers when they retire. Upon retirement, most people choose to receive this money in the form of monthly pension payments. For pension funds to finance these payments correctly, they must do so without having any generation subsidise another. Should pension payments be too high, however, and income too low, pension funds make a loss. It is at this point that active participants shoulder the financial burden, with lower interest paid on retirement savings capital or even recovery contributions being required in the event of underfunding. Without the approved measures, we run the risk of redistributing assets from younger to older members.



Martin Schwab, President of the Foundation Board and Employer Representative

Martin Schwab: Our investment business is not the only challenge. Increasing life expectancy is also an issue. We are leading increasingly longer lives. For this reason, retirement savings capital has to sustain pensioners for much longer, without the pot of wealth

² According to the Swiss Occupational Pension Supervisory Commission.



Peter Oser, Vice President and Employee Representative

having grown any larger. The conversion rate determines how high pension payments are. The current rate no longer befits today's high life expectancy. In many instances, it is still too high. At PKE, the rate currently applicable at 65 years of age is 5.65%. Without any adjustments, younger members would have to finance pensioners. This is both contrary to the system and, above all, unfair. With this in mind, the gradual reduction of PKE's conversion rate to 5% is the correct measure.

But surely life expectancy can't keep rising forever?

Martin Schwab: The fact is that life expectancy has increased significantly in recent years. Many factors have had a positive influence on this in recent decades. Increasing prosperity, medical advances and healthier lifestyles are the main drivers of this development. They will continue to have a beneficial effect on life expectancy in the future. It is prudent to work on the assumption that it will continue to rise, even if less so than over the past few years. For PKE, this means that ever more pensioners are receiving pension payments for longer durations than originally calculated.

Other pension funds offer conversion rates of 6% or higher. Where is PKE going wrong?

Peter Oser: PKE hasn't done anything wrong; in fact, it has acted responsibly. The Foundation Board has always made very careful decisions. The implementation of the new measures will ensure benefits are financed sustainably in the long term. Conversion rates

of 6% or more can no longer be financed without taking untenable investment risk. Pension funds offering rates of this kind either have a particularly beneficial member structure or are hoping to see a massive hike in interest rates. Hope, however, is the wrong strategy in the current retirement planning environment. Or, quite simply, they allow younger members to pay the price, subsidising pensions that are too high for decades. In the medium and long term, these sums do not add up.

In that case, why would legislators stipulate a conversion rate of 6.8% for 65-year-olds?

Martin Schwab: It is wrong in itself to define the conversion rate in legislation. Legislators have no influence over future returns or life expectancy. And these are the very factors upon which the conversion rate depends. This is where policy-making has to step in. It has to define the framework conditions for fair, fundable pension provision. The 6.8% conversion rate, however, is far removed from reality. PKE has room for manoeuvre in setting its conversion rate, because the benefits it offers far exceed the mandatory benefits stipulated by the Swiss federal law on occupational retirement, survivors' and disability pension plans (BVG). This means that the conversion rate, as a mixed calculation, can be lower than the 6.8% stipulated, as long as the mandatory benefits are provided.

"Without any adjustments to conversion rates, younger members would have to finance pensioners. This is both contrary to the system and, above all, unfair."

Peter Oser: I think it's important to stress, though, that, even though the conversion rate is being reduced to 5%, those insured by PKE still benefit from above-average coverage. Of course, the lower conversion rate will lead to slightly lower pension benefit forecasts. Thanks to the transition period over several years and the target-oriented compensatory measures, however, we have ensured that the adjustment is tenable, especially for older insured members. And we are providing employers and employees with the opportunity to maintain previous benefit levels. PKE is and always will be a reliable and responsible partner in retirement planning.

Information for pensioners

Those currently receiving pension payments or a spouse's or partner's pension will incur no changes. PKE will continue to pay out your pension as before.

Conversion rates to be reduced

The PKE Foundation Board has approved a package of measures. The main measure will be to reduce the conversion rate applicable upon retirement at the age of 65 from 5.65% as it is today to 5.0%. This measure aims to secure PKE's financial stability at current levels and to ensure future pension payments can be made without resorting to cross-financing from younger insured members.

The Foundation Board sees the correct financing of future pension benefits as its value proposition and regularly checks that it is meeting this criterion. The Foundation Board has analysed the situation and commissioned various evaluations by pension

fund experts. The results were uniform and clear: PKE has to reduce conversion rates.

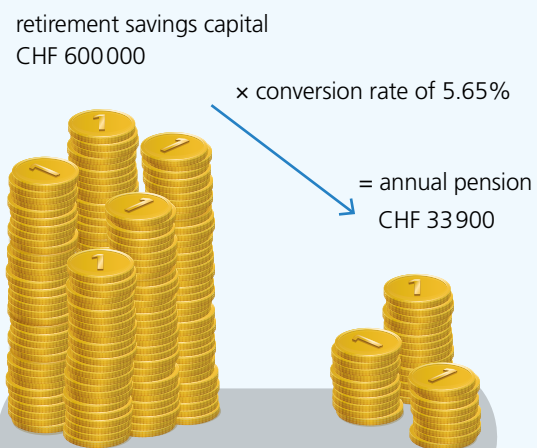
The reduction will be spread across five years and commence on 1 October 2019. Thanks to this conversion rate adjustment, future

pensions will once again be determined in a responsible and fair manner.

What is a conversion rate?

PKE maintains an individual account for each person it insures. Savings contributions, any deposits and interest payments are registered to this account. When a person retires, the accumulated retirement savings capital is converted into pension payments. This calculation is made using a conversion rate, which depends on the age at which the individual retires.

For example: An insured member retires at the age of 65 at the end of 2018. The conversion rate for 65-year-olds is currently 5.65%. If the retiree has retirement savings of CHF 600 000, PKE will pay out a pension of CHF 33 900 per year or CHF 2 825 per month ($\text{CHF } 600\,000 \times 5.65\%$, please see the table of conversion rates including transition periods).



Compensatory measures

The adjustment of the conversion rates forms part of a package of measures. By means of the transition period over several years and target-oriented compensatory measures, PKE has made provisions to ensure the conversion rate reduction is manageable for all insured members. We would like to take this opportunity to present the individual measures to you.

Retirement savings capital to be increased

The conversion rate reduction will have a direct impact on the height of your future pension payments. In order to approximately maintain current pension levels, PKE has approved compensatory measures.

Thanks to its good coverage level, PKE will be able to increase its insured members' re-

tirement savings capital by 13% as of 1 October 2019. This is possible thanks to its good investment results as well as the sustainable and prudent interest payments on retirement savings over the past few years. It is for this reason that the package of measures will have little bearing on older insured members in particular. The pension envisaged for you thus far will remain largely unchanged.

In tangible terms: On 1 October 2019, PKE will pay 13% into your retirement savings account based on your retirement savings capital as of 31 December 2018. This will apply to your basic pension plan as well as to any shift allowance and other bonus plans you may have. To qualify, you must have been insured by PKE from 31 December 2018 to 1 October 2019 without interruption. Assets pertaining to "Saving 60"

plans (for the financing of early retirement) will not benefit from the increase. Voluntary buy-ins into the pension fund (including deposits from pillar 3a), repayments of early withdrawals for residential property or in the event of divorce made from 1 January 2018 will also be exempt.

You will receive the deposit from PKE in 60 equal monthly instalments over five years. Should you retire or leave the pension fund before this period has ended, you will be allowed to keep the deposit instalments received to date.

Adjustment of savings contributions

Alongside the one-off booster to your retirement savings capital from PKE, higher contributions will also be necessary in order to avoid a reduction in forecast benefits. Employers may choose to increase contributions, or insured members themselves can make voluntary contributions.

Whether and to what degree employers wish to increase their contributions is in their discretion.

Should your employer decide not to increase their contributions, you may choose to counter the effect of the conversion rate reduction and maintain your previous pension benefit forecast by means of voluntary contributions of 5.5%.

Continuing to work pays off

Despite the conversion rate reduction, early retirement may be unwise. On the contrary, continuing to work increases your pension. This is because the conversion rate will continue to increase slightly

from year to year despite the reduction over the next five years. At the same time, your pension increases thanks to the savings contributions and interest.

Conversion rates (CR) with transition periods

Age	Current CR	1.10.2020	1.10.2021	1.10.2022	1.10.2023	1.10.2024
58	4,70%	4,60%	4,50%	4,41%	4,31%	4,21%
59	4,80%	4,71%	4,61%	4,51%	4,41%	4,31%
60	4,90%	4,81%	4,72%	4,62%	4,51%	4,41%
61	5,05%	4,92%	4,83%	4,73%	4,62%	4,52%
62	5,20%	5,07%	4,94%	4,84%	4,74%	4,63%
63	5,35%	5,22%	5,09%	4,96%	4,86%	4,75%
64	5,50%	5,37%	5,24%	5,11%	4,98%	4,87%
65	5,65%	5,53%	5,39%	5,26%	5,13%	5,00%
66	5,80%	5,69%	5,56%	5,42%	5,28%	5,15%
67	5,95%	5,85%	5,72%	5,58%	5,44%	5,30%
68	6,15%	6,01%	5,89%	5,76%	5,61%	5,46%
69	6,35%	6,22%	6,08%	5,94%	5,79%	5,64%
70	6,60%	6,45%	6,29%	6,14%	5,98%	5,83%

For example: From October 2019 onwards, 60-year-old employees may choose to increase their conversion rate of 4.9% year by year by continuing to work until the end of the transition period. At the end of the first year of the transition period, at the age of 61, the conversion rate for employees will have reached 4.92%, at 62 it will be 4.94%, at 63 it will be 4.96% and at 65 it will be 5.0%. Together with the contributions and interest payments over the course of the five years, forecast pension benefits would continue to increase steadily until age 65.

1 January 2020. This will facilitate a conversion rate of 5% upon retirement at 65. In purely technical terms, PKE would have to lower the rate to 4.85%.

already very good-value risk contributions. Both insured members and companies will benefit from this.

Depending on the benefits insured, risk contributions will be reduced to between just 0.25% (previously 0.8%) and 0.65% (previously 1.2%) of the insured salary. As a rule, employees pay 40% and employers pay 60% of these contributions (see your corporate pension plan).

Voluntary savings contributions*

Previously	Additionally from 1 January 2020 onwards
2% from 25 years of age	2% from 25 years of age
2% or 4% from 45 years of age	2% or 5.5% from 45 years of age

* Voluntary savings contributions may not be possible for some pension plans. Please ask your employer or PKE.

Employers to contribute

Employers will also play their part in cushioning the impact of the lower conversion rates on insured members. PKE will be collecting an additional contribution of 0.55% of the insured salary from companies from

Reduction of risk contributions

To finance benefits in the event of disability or death, pension funds collect so-called risk contributions on a monthly basis. From 1 January 2020 onwards, PKE will be offering a discount of 0.55 percentage points on the

Fit for the future

The package of measures presented here sees the PKE Foundation Board fulfil the duties arising from its new environment. All of these measures aim to ensure PKE's finances stand the test of time. In particular, they correct the subsidisation of overly high pensions by younger insured members. At the same time, the measures offer

opportunities to render the adjustments as manageable and fair as possible across the board. This forward-thinking and consistent Foundation Board leadership has proven itself in the past and will continue to do so in the future.

What does... mean?

At www.pke.ch, you can find informative explanatory videos, a glossary and answers to frequently asked questions (available in German, French and Italian).

How high will my pension be?

As of February 2019, you will be able to calculate your pension benefits online: www.pkesimulation.ch

Active participants will be receiving a new pension certificate from PKE in October/November 2019. The certificate will give you an overview of your new forecast benefits and the deposit received from PKE in compensation for the conversion rate reduction.



The measures at a glance

The PKE Foundation Board has approved the following measures:

Gradual reduction of the conversion rate applicable to 65-year-olds from 5.65% to 5.0%	from 1.10.2019 to 30.9.2024
Increase in retirement savings capital of 13%	from 1.10.2019
Possibility to make additional voluntary savings contributions of 2% and 5.5% (previously only 2% and 4%)	from 1.1.2020
Collection of an additional contribution from employers of 0.55%	from 1.1.2020
Additional reduction of risk contributions	from 1.1.2020
Refund of one-off deposits in the event of death before retirement	since 1.7.2018

Improved death benefits

Recently, the PKE Energy Pension Foundation decided to refund any voluntary buy-ins in the event an insured member should pass away before they retire. This means that any deposits you have made into the pension fund will be left to your loved ones.

This so-called refund applies to voluntary buy-ins, repayments of early withdrawals for residential property or in the event of divorce during the term of the last pension relationship with PKE. Should you pass away before you retire, your loved ones will receive your deposits including interest as a death benefit, irrespective of whether PKE is to pay a pension to your spouse, partner or children.

Previously, the entire retirement savings capital, including any deposits, formed the

basis for the calculation of the capital with which to finance pensions. This meant that loved ones missed out on the deposits in most cases.

Please take note of the information sheets on buy-ins into the pension fund (available in German, French and Italian, e.g. "Einkauf in die Pensionskasse", www.pke.ch → Aktivversicherte → Einkäufe in die Pensionskasse) and lump-sum death benefits (e.g. "Todesfallkapital", www.pke.ch → Aktivversicherte → Begünstigung im Todesfall).

Voluntary contributions now pay off threefold at PKE:

- Buy-ins are investments into your retirement planning. They increase your pension.
- You save on tax. Buy-ins financed through private assets reduce your taxable income.
- In the event of death, PKE buy-ins are refunded to your loved ones.



2019 Interest

PKE's Foundation Board has decided to apply an interest rate of 2% to the retirement savings capital of those insured by the collective pension fund in 2019. Interest payments for the 15 individual pension funds are to be set by the respective Pension Committees.

PKE is to apply an interest rate of 2.0% to retirement savings capital, "Saving 60" savings accounts and all assets in supplementary pension plans (shift allowance and other bonus plans) in 2019 (previous year: 2.5%). This constitutes attractive and steady interest despite the negative return on investment assets of -1.8 % (January to October 2018). It also falls in line with PKE's new technical interest rate. This means that assets held by active participants will continue to benefit from the same interest rate as assets held by pensioners.

The 2.0% rate also clearly exceeds the minimum pension interest rate stipulated by the government of 1.0%, as well as any interest rates to be expected from savings accounts held with banks. Bearing in mind the lower

inflation rate, this means that real interest rates continue to be significantly higher than those offered by the collective pension fund in the 1990s. Although an interest rate of 4% was then applied to pension accounts, inflation of up to 6% was recorded.

The Pension Committees representing the individual companies in the 15 individual pension funds are responsible for setting interest rates for 2019. The insured members will receive further information from their Pension Committees directly.

No pension adjustments

The current pension benefits forecast for 2019 are to remain unchanged. Due to the incomplete accrual of PKE's value fluctuation reserve and with inflation remaining

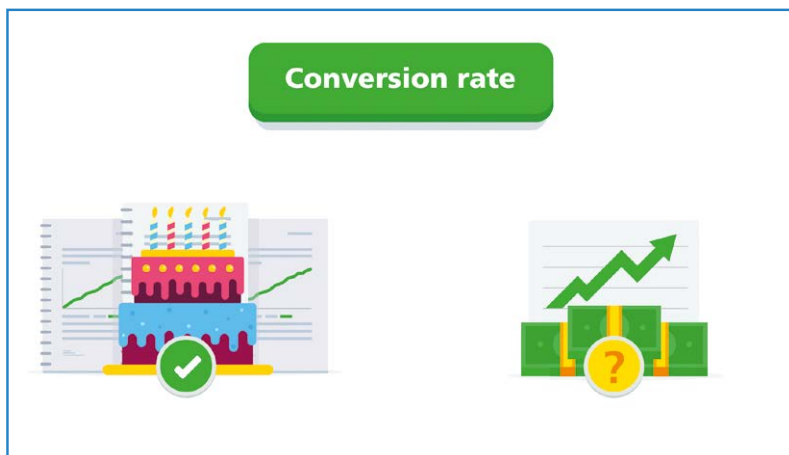
low, we will have to go without making any adjustments to pension benefits once again in 2019.

Informative and concise – the new explanatory videos

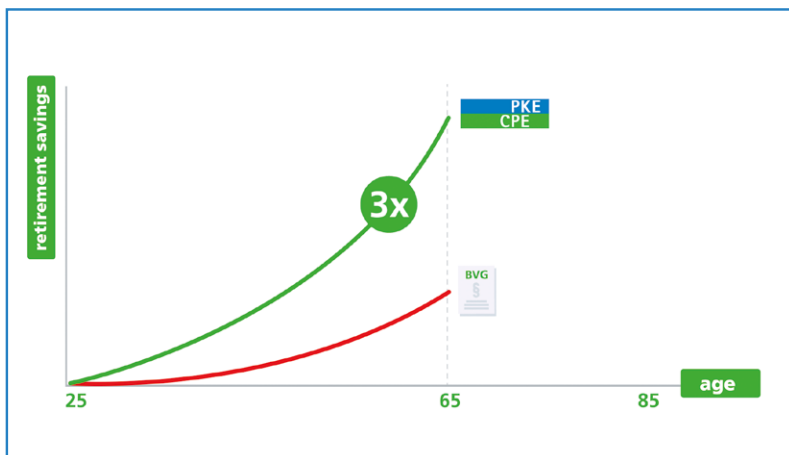
A new video on the conversion rate and PKE's measures is now online.

How do pension funds calculate pension payments? And how are conversion rates determined? Why do many pension funds have conversion rates lower than the 6.8% stipulated by law? Find out by watching PKE's new short and sweet explanatory videos.

Click on our videos for further information (available in German, French and Italian) at www.pke.ch/videos-de or consult the "PKE CPE" YouTube channel.



The "PKE explains" video series provides you with a broad overview of the occupational pension system in German, French and Italian.



Find out why, on average, those insured by PKE have three times more retirement savings than the minimum required by law.

PKE Energy Pension Foundation

Freigutstrasse 16
8027 Zurich
www.pke.ch

Phone 044 287 92 88
contact@pke.ch