



Brochure

Pension risks



Pension risks

According to a survey conducted by the Netherlands Authority for the Financial Markets (AFM), most people living and working in the Netherlands expect to receive a good pension when they retire.

What can SPF's members, deferred members and pensioners expect regarding their pensions?

General information about what you can expect regarding your pension is provided in the annual Uniform Pension Statement (UPS) and at Stichting Pensioenregister (Dutch only). Members and deferred members can also use SPF's pension planner. There you will find the amounts that provide an indication of your future pension entitlement.

However, these figures are necessarily based on assumptions. It is not yet possible to factor in a number of developments, risks, and uncertainties.

A 40-year-old's UPS does not offer any certainty about what his pension will be when he reaches the age of retirement. In the years up to that time there are all sorts of risks that could affect the amount of his pension.

Let's say that this 40-year-old is married, and divorces around his fiftieth birthday. Some of his retirement pension will go to his former partner, which means that his pension will be lower.

That's just one of the many developments that could seriously affect a pension that is being accrued or has already started.

This brochure provides a summary of the main risks and uncertainties that affect pensions. For more information, please see SPF's website (spf-pensioenen.nl).

At this website you will find information that cover all kinds of pension topics. You will also find the pension regulations, setting out precisely which rules apply to the SPF pension fund.



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A. Personal factors

First of all, there are the risks and uncertainties that will be different for individual members because they have to do with his or her person.

1. Divorce or separation

In our introduction we gave the example of someone who divorces or separates before their retirement date. Half of the pension you accrued during the marriage goes to your former partner. If both partners earn roughly the same, and therefore accrue virtually the same pension entitlements, the divorce will not have a serious impact on the pension income. As a rule, your former partner's pension will also have to be shared. However, in reality the partners' pension entitlements will rarely be equal. A divorce will certainly have serious implications for a household with a working and a non-working partner.

- Possible action: You can fully or partly compensate for the reduced pension after your divorce by keeping extra savings for your pension at a bank ('banksparen') or an insurance company (annuity).

2. Death

In the event of your death, SPF provides your partner with a partner's pension and your children – under certain conditions – with an orphan's pension. SPF arranges this on an 'accrual basis'. This means that you accrue partner's pension and orphan's pension in the same way as your retirement pension. Some funds have term life insurance for this. If you are no longer a member, you are not automatically entitled to a partner's or orphan's pension.

- Possible action: *SPF makes good provision for the partner's pension. Make sure that this is also the case if you change jobs and join another pension fund.*

3. Incomplete state pension accrual

For each year that you live or work in the Netherlands, you accrue 2% state pension (AOW) in the 50 years prior to your statement retirement age. If you have not lived or worked in the Netherlands for the full 50 years, you will not receive a full AOW benefit for your state pension. Some people only receive a partial AOW benefit because they moved to the Netherlands as adults or lived abroad for a number of years.

- Possible action: *You can check at the Sociale Verzekeringsbank whether your AOW accrual is complete (SVB website: svb.nl). If your AOW accrual is not complete, you can take out extra insurance at the SVB.*

4. Incomplete pension accrual

If you do not work or work less for a number of years, you accrue no or less pension during that period. If you take early retirement, you lose a period of pension accrual. That means that your pension will be lower.

- Possible action: *Members and deferred members can use SPF's pension planner to see what pension they are expected to have accrued on retirement. That way, they won't face any unpleasant surprises when they retire. Information is also provided in the annual UPS.*

5. Individual salary developments and average salary scheme

In an average salary pension scheme like SPF's, pay raises can result in the pension turning out significantly different from the pensionable salary. That will certainly be the case if you have had large individual pay raises during your career. But the collective pay raises (Collective Labor Agreement, CLA) and the fact that the pension accrual is maximized to

threshold amount may in themselves cause substantial differences.

In an average salary scheme, your pension is based on your average pensionable salary throughout your career. That means that you accrue a 'weighted average' pension throughout your working life. An individual pay raise, expressed in euros, is favorable to your pension accrual.

- Possible action: *The UPS provides information about the level of the pension that you will expect to receive, based on current information. If it is lower than you had expected, you can opt to save for more pension by saving at a bank ('banksparen') or an insurance company (annuity).*



6. Disability

Becoming disabled during your working life will have consequences for your pension. You may be entitled to a disability pension. This is paid in addition to the statutory benefit.

If you stop working as a result of a disability, you will continue accruing pension entitlements under certain circumstances. However, if you are disabled, you will not receive any further pay raises that increase your pension accrual.

- Possible action: *If you want to insure yourself against missing future pay raises and therefore receiving a reduced pension as a result of a disability, you can save extra or take out insurance with an insurance company.*

B. General factors

7. Changing legislation

In addition to the more 'personal' risks, there are some risks that apply to all those living and working in the Netherlands. Your pension accrual could be affected by changing tax laws, as new legislation could change tax benefits for pension accrual. Your total pension could be affected by new disability legislation. This could be especially important to people with lower incomes: the AOW share of the total pension of this group is relatively high.

8. Economic developments

Economic developments in the Netherlands and the rest of the world also have a significant impact on the level of current and future pensions. The situation and the economy affect interest rates and share prices, for instance. A low interest rate or low share prices could reduce the funding level of pension funds. This could result in no indexation being applied, or in pensions or pension accrual being reduced.

9. Living environment

Our living environment, the way we live and interact with one another, influences our investments and, as a result, our pensions. The value of future pensions can fall as a consequence of events or circumstances relating to the environment, social developments or governance, including climate change, scarcity of natural resources and social unrest. SPF aims to identify these risks where possible and to limit the consequences of these in its investment policy. However, it is not possible to entirely exclude such sustainability and other risks.

10. Low interest rates

Interest rates in the Netherlands have fallen sharply. This low interest rate reduces the funding level of pension funds, resulting in no or less indexation, or even the pensions or pension accrual being reduced.

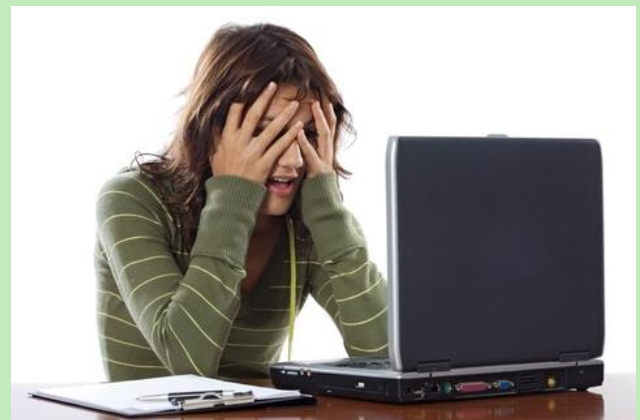
11. Inflation

If it has not been possible to keep pace with years of high inflation by means of indexation, this reduces the purchasing power of current and future pensions. At an inflation level of 2 to 3% a year, the pension's purchasing power will go down by 10 to 15% if no indexation is applied.

12. Rising life expectancy

The fact that people are living for longer than pension funds had expected not only means that people are having to work for longer before they retire. It is already causing funding levels to fall, which makes it harder to maintain the level of pensions through indexation. Pensions have to be paid for longer, which increases the pension funds' pension obligations.

- *Possible action: Individual members have little power to mitigate these risks, which may affect the level of pensions.*



C. Factors related to the pension fund

13. No or reduced indexation

There are also developments surrounding the pension fund itself that affect the level of pensions. Some of these developments are prescribed by the Dutch Pensions Act, the Dutch Authority for the Financial Markets (AFM) and De Nederlandsche Bank (DNB). Possible developments include no indexation

being applied or pensions or pension accrual being reduced. If no indexation is applied over a long period of time, or the pension or pension accrual is reduced, this will affect the purchasing power of current and future pensions by many percentage points.

14. Reduction in pension accrual

In some cases, the pension contributions at SPF may not be sufficient to cover costs. If the contributions are then not raised, the pension accrual will be reduced accordingly with effect from that point in time.

That is not the case if the social partners take measures in order to ensure that the contributions once again cover costs.

15. Reduction of pensions

In certain situations, SPF is obliged to reduce the accrued and payable pensions. This is done, for example, if the funding level is so low that it does not return to the level of the minimum required capital within a certain period of time (SPF is subject to a funding level of approximately 105%). This period is laid down in SPF's recovery plan, which has been approved by DNB. If no indexation is applied over a long period of time, e.g. ten years or more, or the pension or pension accrual is reduced, this will affect the purchasing power of current and future pensions.

16. Pension investments

The pension fund itself is exposed to all sorts of risks that ultimately affect the level of SPF's pensions. Take the pension investments, for example. Those investments must yield a return, but setbacks may cause the pension fund to suffer losses. This would have a knock-on effect on current and future pensions. SPF's investment policy is designed to recognize and cover risks and uncertainties as effectively and promptly as possible.

SPF sets out to mitigate the investment risks in several ways. One way is to spread the investments over various investment categories. The main categories are shares, fixed-yield securities, real estate, and

alternative investments.

There is also a division within the categories to spread the risks even further. Shares, for example, are spread over many companies and different regions.

- *Possible action: For questions about the Board's policy (and individual questions about pensions) you should contact SPF's Pension Desk (phone +31 (0)88 3601555 or email info.PensioenfondSABIC@dsm.com).*

Contact



If you have any questions about your pension visit the website: spf-pensioenen.nl

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