

Subject: Changes to the Defined Contribution Scheme (DC scheme)

Dear Sir/Madam,

**Why you are receiving this letter**

You are a member of the Defined Contribution Scheme (DC Scheme), which is part of AkzoNobel's pension scheme. The structure of the scheme is changing, which means that before long you will only be able to purchase a lower pension with the capital you have built up. In this letter we tell you what is changing and what has been done to limit the consequences for you. In appendix I you will find a personal calculation of the consequences of the changes. Appendix II tells you more about the background to the changes.

**What is changing**

We purchase a pension for you on your retirement date, or upon prior termination of employment, from the capital that you have built up in the DC scheme. We use specified rates for the purchase of pensions. These rates will be adjusted on May 1, 2011.

**Why these rates have to be adjusted**

- Because the population of the Netherlands is ageing;
- Because we are legally required to keep reserves to meet the DC scheme's pension obligations;
- Because we have to take future administration and future costs of administering and paying pensions into account.

**What this means to you**

This means that you will receive a lower pension from the capital you have built up in the DC scheme than was stated in the last Uniform Pension Overview (UPO).

**What has been done to limit the consequences**

In consultation with AkzoNobel and the trade unions we have looked at how we could limit the consequences for you as much as possible. We have jointly made the following agreements:

- AkzoNobel will pay a higher contribution for your DC scheme with retroactive effect from July 1, 2010;
- The pension fund will increase the capital you have already built up in the DC scheme with a one-off deposit from a special reserve;

□ With effect from July 1, 2010 you will no longer pay the 3% employee contribution above the maximum accrual amount. The excess contributions paid during the period from July 1, 2010 will be repaid.

**More information**

We would have preferred to give you only good news about the DC scheme but we think that it is important to keep you well informed about these important developments in regard to your pension. If you have any questions you will find more background information about the pension scheme on our website, [www.pensioenfond-akzonobel.nl](http://www.pensioenfond-akzonobel.nl). You can also contact us by phone (+31 (0) 13 462 33 12) or by e-mail ([apf.pensioenservices@achmea.nl](mailto:apf.pensioenservices@achmea.nl)).

Kind regards,

C.D. Kuijken  
Chairman

## **APPENDIX II: EXPLANATION**

In this appendix we provide a more detailed explanation as to why the rates have changed. You will also discover more about the way in which we are trying to limit the consequences for you as much as possible.

### **GENERAL**

#### **How the Defined Contribution Pension Scheme (DC Scheme) works**

The DC scheme provides for pension accrual from your gross annual salary above the accrual limit (€ 58,710 as of January 1, 2011). Every month you receive a contribution from the employer which can be invested wholly or in part in the AkzoNobel (APF) Pension Fund. We purchase a pension from the total capital you have built up at the retirement date or on termination of employment. We use fixed rates that are applicable at that time for purchasing a pension. We call these purchase rates. We pay the pension to you monthly from the retirement date.

#### **How much pension the DC scheme will give you**

It can never be said with certainty how much pension your DC capital will provide. This is e.g. because the premiums are invested at your own risk. If things go well it is to your advantage. If things go badly, you will see that too. We call this investment risk. With the DC scheme you bear that risk yourself. What's more there can also be changes in the purchase rates, for example because the population of the Netherlands is ageing. The consequences arising from that – be they positive or negative – will be at your own risk.

### **ADJUSTMENT OF THE RATES**

#### **Why increased life expectancy affects purchase rates**

For years APF has been taking increased life expectancy into account. However at the end of August 2010 it was discovered that life expectancy is increasing even faster than was previously estimated. In itself this is of course good news. For pension funds, however, it means that they will have to pay the average person's pension for longer than had been calculated and for which premiums were paid in the past. This means that you will ultimately receive a lower pension per year from the capital you have built up in your DC scheme than you had anticipated. In fact, expectations are that the pension will have to be paid out for longer.

#### **Why pension funds have to hold a reserve**

Pension funds have a statutory requirement to hold a reserve (solvency reserve) to cover their pension obligations. You can regard this as a buffer, which can (to some extent) absorb financial setbacks.

#### **Why the make-up of this reserve has an impact on the purchase rates**

Until now, when pensions were purchased from built-up DC capital, money went from APF's own capital to this reserve. Consequently the fund was eating into its own capital, as it were. Moreover this caused a lag in the recovery of the fund's financial position. DNB, our regulator, does not approve of this. The board has therefore decided that from May 1, 2011, when a pension is purchased from built-up capital the contribution to the reserve (solvency surcharge) will no longer be made by the fund but will be paid out of your own DC capital. This will mean a lower pension for you from the DC scheme than the pension

estimate in the Uniform Pension Overview you received in 2010. The 2010 UPO was based on the situation as it was before the changes we are informing you about now.

**Why future administration and costs of administering and paying pensions will impact on the rates**

The same answer applies as for the solvency surcharge. Until now these costs were also paid from the fund's capital. This is undesirable and therefore a surcharge will be applied in connection with future administration and disbursement costs. This surcharge will be deducted from your DC capital, which means your DC capital will purchase a lower pension for you.

**Are there also charges linked to the investment of my DC capital?**

No, there are no administration, management, transaction or switch charges linked to the investment of your DC capital.

**Do these developments impact on the average salary scheme?**

You may be wondering whether these developments will affect the average salary scheme, i.e. the pension that you are accruing up to the accrual limit. This is indeed the case, but the pension fund and the employer together will offset the consequences for you. Unfortunately, for tax reasons the pension fund and the employer are not entirely able to offset the impact on the DC scheme.

**I still have an outstanding balance from the Voluntary Pension Savings Scheme (VP Scheme). Do these developments also affect this balance?**

These developments will have the same effect on any possible balance from the VP Scheme. For ease of reading we decided to only use the term DC Scheme in this letter. In the calculation example we do include the possible value from the VP Scheme. The compensatory measures which have been taken by AkzoNobel, the trade unions and the pension fund do not apply to this.

**LIMITING THE CONSEQUENCES**

**What has been done to limit the consequences for you on the DC capital still to be saved**

In consultation with AkzoNobel and the trade unions we looked at how we could limit the consequences for you as much as possible. In doing so, we took careful account of the tax authorities' conditions. These place limits on the amount of the contribution the employer may pay for a DC scheme and the level of the pension that we are allowed to purchase from the capital you have built up. Your employer has already informed you about the fact that AkzoNobel and the trade unions have agreed higher premiums for the DC scheme within the tax limits. It means that the employer will be paying more. This higher premium applies retroactively from July 1, 2010. The higher premium for the period from July 1, 2010 until today will be added to your DC capital in May 2011 by means of a one-off payment. The pension fund will check whether the pension you are able to buy with the capital you have built up falls within the tax limits. In fact the pension fund never assigns more pension to you than tax law permits. The higher premium for the period July 1, 2010 to December 31, 2010 is included in the personal calculation in the appendix.

**What we have done for you to limit the consequences for the DC capital that you have already saved**

The social partners have agreed that the DC capital that has been accrued on July 1, 2010 will be increased with a payment from an existing reserve in the pension fund. We call this the 'employee

indexation reserve'. The payment will be made by the pension fund in May 2011. This payment has already been included in the personal calculation in appendix I.

**Has anything more been done to limit the consequences?**

Yes, the social partners will further accommodate you with regard to the employee contribution that you are paying. Until now, as an employee, you have also paid a 3% premium on your income in excess of the accrual limit. This has changed with retroactive effect from July 1, 2010. From now on you will only pay the 3% premium on your income below the accrual limit amount.

**Hasn't the fund's financial position improved over the past few months? Why then is my pension from DC capital going to fall?**

The pension fund's financial situation did indeed improve somewhat in the last quarter of 2010. This improvement was the result of rising interest rates and rising share prices. This development primarily has consequences for the financing of the average wage scheme. This scheme provides for your pension accrual for the salary below the accrual limit.

**When will I receive a DC/VP half yearly report?**

Normally speaking you receive a report about the capital you have built up every six months. The changes in the DC scheme have resulted in the cancellation of the second 2010 half yearly report. You can expect this year's first half yearly report in September 2011