

Uw ref.	Telefoon	Onze ref.
---	(013) 462 33 12	APF120127
onderwerp	datum	
Financial position pension fund	27 januari 2012	

Dear Madam, Sir

In 2008 the pension fund was hit by the financial crisis. Subsequently, in 2010 the national statistics office announced that life expectancy had increased strongly and in 2011 the financial position of Stichting Pensioenfonds APF (APF Pension fund) decreased further due to the euro crisis. This is a worrying situation, as the pension fund has to be able to pay the pension benefits now and in the future. Below we have listed the most important information for you.

#### **Which Measures did the Pension Fund take to improve the Financial Position?**

In the years since 2009 the pensions in payment and the pension entitlements of deferred participants have not been increased. The Board has decided that no indexation will be granted to these pensions as of 1 January 2012. In addition the investment policy has been adjusted to the changed circumstances.

#### **Will there be a Curtailment of the Pensions?**

At this moment a curtailment of the pensions is not required. However, economic conditions do need to improve or we may have to decrease the pensions in the future. Early 2013 the Board will check again if the pensions need to be decreased. You will be informed about this in February 2013.

#### **More Information**

On the back side of this letter you find explanatory notes on this issue. We recommend visiting our website for current information on the fund's financial position.

Kind regards



C.D. Kuijken, chairman



G.J. Niezen, deputy chairman

## **EXPLANATORY NOTES**

### **The Financial Position of the Pension Fund**

Share prices have dropped considerably in the last few months, which effects the financial position of pension funds. An even bigger problem is the low interest rate. If the interest rate is low, pension funds have to reserve more capital in order to still be able to pay the pensions in the future. The funding ratio is a benchmark used by the pension fund to determine if there is enough capital to pay the pensions, now and in the future. The recent developments on the financial markets have resulted in a huge drop of the funding ratio. At the end of December 2011 the funding ratio level was 98.6%, which means that there is 0.986 euro cent available for each euro that is paid out for pension. This is not enough. According to law, the funding ratio level of the APF pension fund should be at least 104.2%. The Dutch Central Bank has given pension funds until 31 December 2013 to get back at the level of 104.2%.

### **Recovery Plan**

The Dutch Central Bank (DNB), supervisor of the Dutch pension funds, requires a recovery plan from pension funds with insufficient financial reserves. The most important objective of this recovery plan is to restore the financial position within a few years. In 2009 the APF pension fund prepared such a plan with the possible measures, such as no indexation and more prudent investments. Curtailment of the pensions is an extreme emergency measure.

### **Adjustment of Investment Policy**

In the past years the APF pension fund has adjusted the investment policy to the changed market circumstances. Current investments in shares are only 30%. If necessary, the fund will reduce that to 20%. The fund has invested in put options to cover the risk of further drops in share prices. At an earlier stage the fund had already covered the interest rate risk by 50% (used to be 20%). These risk-reducing measures do decrease the chance of extreme falls, but they also affect the chance of a major recovery when share prices increase again. As long as the recovery situation is applicable, the pension fund is not allowed to invest more risky.

### **No Curtailment of Pensions for now**

Curtailment of pensions is a last resort. It is a drastic step as pension benefits will be effected immediately. The pensions of active participants will also be reduced. On the basis of the situation as of 31 December, 2011 and in view of the short-term expectations, the Board has come to the decision that, fortunately, such an extreme measure is currently not required. However, economic conditions do need to improve or we may have to curtail pensions in the future.

The Dutch Central Bank, the supervisor of the Dutch pension funds, still has to approve the resolution of the Board to currently not implement a curtailment of the pensions.

### **What's next?**

Economic conditions need to improve in 2012. At the end of 2013 the funding ratio level must be at 104.2% again. If the financial markets do not show enough improvement, curtailment of pensions may be necessary. The situation requires the constant attention of the Board. If the financial position as of 31 December 2012 is disappointing, the Board must decide if curtailment of pensions is required after all.