

THE PHILIPS FINAL-PAY PLAN

*Everything you need to know about your
pension plan*
December 2001

No rights may be derived from this brochure, but only from the present by-laws of the pension plan.

This brochure is a joint publication of the Philips Pension Fund and Philips.

PREFACE

This booklet on the Philips final-pay plan is a radically revised version of the booklet 'Pensioen, hoe werkt dat?' A new version was necessary because the rapid and frequent developments in the world of pensions meant that the previous version was very much outdated. Also At the same time, we have tried to ensure that the layout and structure of the new booklet make it easier to read.

It is assumed that the reader of this booklet is a Philips CAO employee who is at present accruing pension benefits. If you are no longer employed, but are still accruing pension benefits, you should pay particular attention to the special boxes containing the rules applicable to you. The 'tranche' that was introduced as a result of changes in the CAO on the 1st of April 1999 is also dealt with in such boxes.

The Philips final-pay plan is described in broad outline in chapter 3. This is a handy general guide to your pension situation. There is a whole host of things that can happen in someone's life that can affect your pension situation. For that reason, you will find elsewhere in the booklet a description of the repercussions for your pension if, for example, you get married or if you become unfit for work. This booklet, therefore, is a kind of reference work that you can consult if any of these events actually occur.

We cannot discuss all the ins and outs of the Philips final-pay pension plan. That would make the booklet difficult to read. You cannot, therefore, derive any rights from what is written in the booklet. To check what your rights are, you should refer to the official statutes and pension by-laws of the Philips final-pay pension plan.

This booklet is being published on the eve of a particularly important event: the changeover from the guilder to the Euro. With that in mind, all amounts given in the booklet are in Euros.

It is possible, of course, that your situation is not discussed directly in this booklet. Or you may have questions about the content. In that case, feel free to contact Philips Pension Fund. You can call our general information number: + 31 (0) 40 273 11 10 (available on working days from 9.00 to 12.00 hrs and from 13.30 to 17.00 hrs). You can also send your questions by e-mail to pensioeninfo@schootsepoort.nl. If you prefer to discuss things in person with a member of our staff, then please call the above information number to make an appointment. Information is also available on our website (www.philipspensioenfonds.nl).

We welcome any reactions to this booklet. Your comments can make a valuable contribution to future editions.

Eindhoven, December 2001
Philips Pension Fund

CHANGE OF STRUCTURE WITH EFFECT FROM JANUARY 2002

Because of the disentanglement of the administrative organisation with effect from January 2002, the content of sections 1.2.2 and 1.2.3 has been changed. Four new sections (1.2.2 to 1.2.4) that replace the two former sections are shown below. The numbering of the section headed 'Income' has been changed to 1.2.6.

1.2.2 Board of Trustees

The main governing body of the Fund is the Board of Trustees. This board has twelve members. Four of them - the employer's members - are appointed by the Company. The other eight (the non-employer's members) are representatives of both the employees (six members) and the pensioners (two members). The employer's members have a double vote, so that employer's members and non-employer's members have an equal number of votes.

The Board of Trustees of the Philips Pension Fund has responsibility for policy-making. This relates to matters such as the adoption of the statutes and pension plan by-laws, the financing and premiums policy, the investment policy and the implementation of the indexation policy laid down in the by-laws. To prepare the policy activities, the Board of Trustees has established an Investment Committee and a Pension Committee. The Complaints Committee deals with complaints, while the Public Relations Committee prepares communication policy.

The implementation of the policy of the Philips Pension Fund has been contracted out to an external organisation (see 1.2.4 'Administrative Organisation').

1.2.3 Board of Directors

The Board of Directors of the Philips Pension Fund consists of one person. The director acts as the representative of the Board of Trustees and is also responsible for co-ordination and communication with the administrative organisation.

1.2.4 Administrative organisation

The Philips Pension Fund has contracted out the implementation of policy to an administrative organisation that until January 2002 was part of the Fund. With effect from that date, this administrative organisation was disentangled and incorporated into the company Schootse Poort Pensioen- en Vermogensbeheer. The management and staff formerly employed by the Fund work, from January 2002, under the name Schootse Poort. They are responsible for the implementation of the policy formulated and contractually laid down by the Philips Pension Fund.

1.2.5 Participation

You can also have your say on the Philips pension plans. Once a year the Philips Pension Fund arranges a 'Members Meeting', which all active and retired members are entitled to attend. At this meeting the Philips Pension Fund reports on the past year. Questions that have been put in writing in advance of the meeting are usually answered by the Fund by letter before the meeting. Questions that are of importance to all members are dealt with again at the meeting. This meeting is announced in the Bulletin of the Philips Pension Fund, which is published several times a year.

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1 PHILIPS PENSION FUND

Philips Pension Fund is the organisation that handles the Philips pension plans in the Netherlands. We look after the administration of the pension benefits that accrue to you, as well as ensuring that you receive your pension benefit each month if you have retired. And to make sure that your pension can be paid to you, we invest your pension capital in a sound, responsible manner.

1.1 Membership

Members

Members of Philips Pension Fund can be divided into three categories:

- current Philips employees who are accruing a pension with Philips Pension Fund (incl. those who because of disability or early retirement are no longer employed by Philips but are nevertheless accruing pension benefits). These persons are called 'active members';
- retired, ex-Philips employees (and their survivor's) who receive a pension benefit from Philips Pension Fund ('retired members') and;
- ex-Philips employees who have not yet retired and who have vested pension benefits with Philips Pension Fund. These are 'former members'.

Participant in final-pay plan

You are a participant in the final-pay plan if you are 25 years of age or older and were employed by Philips before the 1st of January 1997. Moreover, at the time when the Philips flex pension plan was introduced you opted for the final-pay plan (or remained in the final-pay plan if you were aged 58 or older).

If you are younger than 25 years old, then any survivor's are insured with Philips Pension Fund for the survivor's and orphan's pension in the event of your death.

1.2 Structure and participation

1.2.1 By-laws and statutes

Philips Pension Fund is a foundation ('Stichting'). So the Pension Fund's money is strictly separated from the Company's.

There are two official Pension Fund documents that are important for you as a participant in the final-pay plan. First of all, the by-laws of the Philips final-pay plan, which set out your rights as a member. Secondly, the statutes, which describe the Pension Fund's objectives, as well as the composition and powers of the governing bodies.

1.2.2 Board of Trustees

The main governing body of the Fund is the Board of Trustees. This board has twelve members. Four of them - the employer's members - are appointed by the Company. The other eight (the non-employer's members) are representatives of both the employees (six members) and the pensioners (two members). The employer's members have a double vote, so that employer's members and non-employer's members have an equal number of votes.

You can also have your say on the Philips pension plans. Once a year the Board of Trustees arranges a 'Members Meeting', which all active and retired members are entitled to attend. At this meeting the Board reports on the past year. The Board usually answers questions that have been put in writing in advance of the meeting by letter before the meeting. Questions that are of importance to all members are dealt with again at the meeting.

This meeting is announced in the Bulletin of Philips Pension Fund, which is published several times per year.

1.2.3 Board of Directors

The day-to-day management of the Fund is the responsibility of the Board of Directors. This board seeks to ensure that your pension capital is managed and invested soundly. In doing so, it is accountable to the Board of Trustees, for instance by issuing an annual report. The Board of Directors consists of a managing director and three directors.

1.2.4 Income

To safeguard the payment of pensions now and in the future, the Pension Fund has to make sure that it has sufficient funds. These funds are obtained from the following three sources:

1. your own pension contribution
2. contributions from the Company
3. the proceeds from the investment of capital

Your own pension contribution is deducted from your monthly salary. Generally speaking, the employer makes the main contribution to the funding of your pension benefits. An undertaking to provide you with a pension and to finance this undertaking is given by Philips in your terms and conditions of employment. This, together with the proceeds from the investment of the pension capital, pays for your pension.

2 PENSION TERMINOLOGY

Before the actual content of the final-pay plan is considered, it is important that you should know the meaning of a number of basic pension terms. Once you are familiar with them, we can properly explain the various aspects of the final-pay plan.

2.1 What is the gross pensionable salary?

The gross pensionable salary is the basis for the calculation of your pension. It is determined as follows:

$$\text{Gross pensionable salary} = 12 \times \text{regular gross monthly salary} + 10\%$$

The only exception is that the margin allowance, a special payment on top of your salary that you can receive in certain cases, also counts towards the calculation of your gross pensionable salary.

The gross pensionable salary is always based on full-time employment, even if you work less than 100%. In chapter 9 we describe how your pension is calculated if you work shifts or part-time.

Your gross pensionable salary is determined each year on the 1st of April. Your pension is finally established on the basis of the gross pensionable salary as of the 1st of April before your retirement date. If you leave Philips before your retirement date, we calculate your pension benefits with reference to the gross pensionable salary as of the 1st of April preceding the termination of your contract of employment.

2.2 What is the franchise?

In calculating your pension we take into account the fact that from the age of 65 you get a state pension benefit (AOW) from the Dutch government. We make allowance for this by deducting an amount from your gross pensionable salary. This part of your income on which you do not accrue pension benefits is known as the franchise.

The franchise is a fixed amount that applies to all members of the final-pay plan and is established each year by the Board of Trustees. It is not equal to the state pension (AOW). However, it is adjusted annually to increases in the AOW. As of the 1st of April 2001 it is € 12,780 for the period from the 1st of April 1999 and € 16,956 for the preceding period.

2.3 What is the pensionable salary?

The pensionable salary is that part of your income on which you actually accrue (earn) pension benefits. If you deduct the franchise from your gross pensionable salary, you know what your pensionable salary is. The pensionable salary is the basis both for the calculation of your pension and for your own contribution. Your own contribution is a fixed percentage of the pensionable salary and is automatically deducted from your salary each month (see also 3.6).

Pensionable salary = gross pensionable salary - franchise.

The pensionable salary is also established annually on the 1st of April.

2.4 What is the pensionable salary limit?

For incomes above a certain limit the employee's contribution (pension premium) is not simply a percentage of the total pensionable salary. Instead, the salary is divided into two parts. A lower percentage applies to the part below the limit than to the part above the limit. This limit is referred to as the pensionable salary limit. As of the 1st of April 2001 it is € 61,704.

The Board of Trustees establishes the pensionable salary limit each year on the 1st of April.

Situation before the tranche

For pension benefits accrued up to the 1st of April 1999 there is also a pensionable salary limit for the accrual of the pension benefits: the accrual percentage - the pension percentage that you earn each year - is lower above the limit. This pensionable salary limit is € 57,528 as of the 1st of April 2001. This is explained further on page 17.

2.5 What is a year of pensionable service?

You accrue pension benefits each year. The more years you have been in service with Philips, the more benefits you accrue and so the bigger your pension will be.

A year of pensionable service is a period of twelve months in which, on or after your 25th birthday, you have had uninterrupted membership of Philips Pension Fund as a full-time employee. In that case a year of pensionable service is the same as a year of service. If you work part-time, you accumulate only part of a pensionable year in the same period of twelve months. If your part-time percentage is 50%, you accumulate half a year of pensionable service in one year of service.

If, on the other hand, you work more than 100% (e.g. if you do shift work), you accumulate more than one year of pensionable service in a period of twelve months.

2.6 What is the income volume percentage?

The income volume percentage (IVP) is the percentage that you work in relation to full working time. By multiplying the income volume percentage in a given year by one year, you can establish how many years of pensionable service you have accumulated in that year. If you work full-time, your IVP is 100% and you accumulate exactly one year of pensionable service in a year of service.

If, for example, in a given year you work 16 hours per week for half a year (40%) and 20 hours per week for the rest of the year (50%), the income volume percentage is $0.5 \times 40\% + 0.5 \times 50\% = 45\%$. In that year you accumulate $45\% \times 1 \text{ year} = 0.45$ years of pensionable service.

If you work shifts, your income volume percentage will often be above 100 because of the shift work allowances. A common income volume percentage for shift workers is 121.25%. In that case, therefore, you accumulate for 1 year $121.25\% \times 1 \text{ year} = 1.2125$ years of pensionable service.

2.7 What is meant by the 'tranche'?

In 1998 the CAO agreements resulted in major changes in the Philips pension plans. The structure of the final-pay plan remained unchanged. However, a lot of amounts and percentages were altered. The changes took effect from the 1st of April 1999.

As a result of the changes the following distinction is made from the 1st of April 1999 as regards the accrual of pension benefits:

- Pension benefits that you accrued in the period before the 1st of April 1999. These benefits are calculated using the relevant pension amounts and percentages that were applicable up to that date. This relates to things like the amount of the franchise and the pensionable salary limit. These 'old' pension amounts continue to grow each year in line with increases in the state pension (AOW). The changes in the CAO do not affect pension benefits in this period.
- Pension benefits that you accrued in the period starting on the 1st of April 1999. These benefits are affected by the changes in the CAO. The new amounts and percentages are applicable.
The amounts are stated in the preceding sections.

Your accrued pension benefits are divided in two, as it were: benefits accrued before the 1st of April 1999 and benefits accrued after the 1st of April 1999. That is why we speak of the 'tranche'. Your pension consists of the benefits accrued before and after this tranche. Everyone who was on the Philips payroll on the 31st of March 1999 is affected by this tranche. This booklet takes as its starting-point the situation after the tranche. The situation before the tranche is briefly explained in separate boxes.

The tranche and WAO/VROM

Did you leave the Company's service before the 1st of April 1999 because of disability or under a severance scheme? Then your total pension, including the benefits accrued after that date, will be calculated entirely using the pension amounts and percentages that applied before the tranche. In this booklet you can see in the boxes 'Situation before the tranche' how your pension is calculated.

3 THE FINAL-PAY PLAN IN BROAD OUTLINE

As a participant in the Philips final-pay pension plan you are entitled to a number of benefits. To give you a general impression of the pension plan to which you belong, these benefits are briefly outlined in this chapter. Elsewhere in the booklet we look at these benefits in more detail, considering various events (such as marriage and death) that can affect your pension.

3.1 Your retirement pension

The retirement pension that you obtain from the Pension Fund forms part of your income when you retire. It takes effect from the first day of the month after you have reached the pensionable age (60 or 65 years of age). The retirement pension supplements the state pension (AOW) from the age of 65 and paid until the month in which you die.

3.2 Your survivor's and orphan's pension

It is not only reassuring to know that you will have an income when you retire. Many people also want to safeguard the income of their family in the event of their decease. For that reason, the Philips final-pay pension plan has two basic forms of provision for survivor's: the survivor's pension and the orphan's pension. Both these pensions take effect from the first day of the month in which you die.

The survivor's pension provides an income for your partner in the event of your death. Your partner is the person to whom you are married, the person with whom you entered into an officially registered partnership or the person with whom you cohabit. If you cohabit, you have to meet the definition of 'cohabitation' given in the Survivor's Act (ANW). It is also stipulated that the partner with whom you cohabit must be officially registered with the Pension Fund. Further information about these conditions is given in chapter 7 'Your partner and your pension'.

The orphan's pension is a benefit that is payable to your children in the event of your death until they reach the age of 21. If you left the Company's service before the 1st of April 1999, a different age limit is applicable (see page 30).

3.3 Your disability pension

Being unfit for work is a regrettable situation. It would be even more regrettable if your financial situation were to be adversely affected. Philips Pension Fund has made various provisions to minimise the financial impact. Thus, pension benefits continue to accrue without a premium having to be paid, so you are assured of a complete pension.

In addition, you receive an disability pension on top of the statutory WAO benefit until you retire. This pension is the same for everyone with a gross pensionable salary up to what is known as the maximum WAO annual wage (as of 1-7-2001: € 40,852). If your gross pensionable salary is higher, you also receive a supplement, the amount of which, among other things, is related to your gross pensionable salary.

3.4 Your bridging payment (if you retire at 60)

The accrual of your pension benefits takes into account the state pension (AOW) that you receive from the age of 65. That means that you are faced with a shortfall if you retire at the age of 60. To offset this shortfall, the final-pay plan provides for a bridging payment to cover the years between the ages of 60 and 65. So your total pension before the age of 65 is in line with your total pension (including AOW) after the age of 65.

3.5 The ANW shortfall insurance

The Survivor's Act makes basic provision for survivor's amounting to the social minimum. This law was adopted a few years ago, replacing the AWW (General Widows and Orphans Act). In the new law the conditions governing the provision of benefit have been tightened considerably, so that the financial provision for those who lose their partner is no longer so favourable. We refer to this as the ANW shortfall. You can take out insurance with Philips Pension Fund on certain conditions to cover an ANW shortfall for your partner. This ANW shortfall insurance is an optional rather than a regular component of the Philips final-pay plan.

3.6 How much do you have to pay in premiums?

All participants in the final-pay plan pay a contribution or pension premium for the regular benefits (retirement, survivor's, orphan's and disability pension and the bridging payment). The only exception is the ANW shortfall insurance, for which a separate premium is paid (see also section 5.2).

The member's contribution for the final-pay plan is a certain percentage of the pensionable salary and is automatically deducted from your gross salary. It is stipulated in the pension by-laws of the Philips final-pay plan that the pension premium paid by the employee is a maximum of 7%. The actual percentage that you pay is determined in the Philips CAO.

The amount of pension premium that you pay depends on your pensionable age. If you retire at the age of 60, you pay more than someone who retires at the age of 65 does. This is because your pension has to be paid five years earlier and you pay premiums for a maximum of 35 years instead of a maximum of 40 years. Furthermore, you receive a bridging payment for five years. So those who retire at the age of 60 at Philips pay a higher premium.

The pensionable salary limit is important in determining the premium that you have to pay. For the portion of your pensionable salary that is above this limit you pay a different, higher, percentage. As of the 1st of April 2001 the pensionable salary limit for the payment of premiums is € 61,704.

If you retire at 60, the premium you pay is:

- 4% up to the pensionable salary limit for premiums
- 6% above this limit

If, however, you retire at 65, then you pay:

- 2% up to the pensionable salary limit for premiums
- 6% above this limit
- A fixed, nominal premium of € 13.60 per month

The nominal premium of € 13.60 per month that you pay if you retire at 65 has to do with changes in the CAO as of the 1st of April 1999, namely the fact that you derive a greater advantage from these changes than if you were to retire at 60. It has been agreed, however, that the changes in the CAO should have roughly the same consequences for everyone. This is achieved by having a nominal premium of € 13.60 per month for all those who retire at 65.

4 WHEN YOU GO INTO RETIREMENT

At last the day comes when you can enjoy your well-earned pension after years of hard work. This is the situation that is described in this chapter. You should note, however, that information about your retirement pension is not only relevant at the time when you actually retire. It is also important to know at a younger age what you will get when you retire. If you know what your income will be later, you can plan for the future accordingly.

In this chapter we deal first of all with the retirement pension that accrues to you during your service with Philips. We then describe some items that are relevant if you retire at the age of 60, namely the bridging payment and the equalisation facility. And finally we look at the state pension (AOW).

4.1 Your retirement pension

4.1.1 When do you retire?

In the Philips final-pay plan you retire at the age of 60 or 65. (We sometimes speak of the final-pay 60 plan and the final-pay 65 plan.) You retire at the age of 60 if you were on the Company's payroll on December 31, 1990 and are in grade 40 or higher. All other employees who were on the payroll before the 1st of January 1997 have a retirement age of 65. You can see on the personal pension statement that you get from us each year what your retirement date and therefore what your pensionable age is.

There are special provisions if you entered into the Company's service before the 1st of January 1991 and are promoted from a lower grade to grade 40 or 45. If you are aged 46 or older at that time, you may make a once-only choice between a retirement age of 60 and 65. Philips Pension Fund notifies you of this. If you are younger than 46 at that time, you automatically move to the final-pay 60 plan.

4.1.2 How much retirement pension do you get?

Calculating your retirement pension is much simpler than you may think in the final-pay plan. There are three relevant factors: the years of pensionable service, the benefit accrual percentage and your last-established pensionable salary. Your retirement pension is worked out by multiplying these three elements.

Retirement pension =
pensionable years x benefit accrual percentage x pensionable salary

These terms have already been explained in chapter 2, but we shall take another brief look at them here.

Year of pensionable service

A year of pensionable service is equal to a calendar year for someone who works full-time. If you have worked full-time in a given year, then you have accumulated one year of pensionable service. If, for example, you have worked for Philips full-time for 20 years, you have accumulated 20 years of pensionable service. Someone who works part-time accumulates only a portion of a year of pensionable service in a given year. If, for example, you work 50%, you accumulate 0.5 years of pensionable years in one calendar year.

Benefit accrual percentage

The benefit accrual percentage indicates how much pension you accrue (earn) per year of pensionable service. This percentage is different in the final-pay 60 plan and the final-pay 65 plan.

Final-pay 60

For each year of pensionable service with Philips between the ages of 25 and 60, you accrue a retirement pension of 1.9%. With the maximum of 35 years of pensionable service you attain $35 \times 1.9\% = 66.5\%$ of your pensionable salary.

Situation before the tranche

The benefit accrual percentage of 1.9% for the whole pensionable salary has only applied since 1 April 1999. For each year that you accrued pension benefits before that date there is a benefit accrual percentage of 2% per year. If your pensionable salary before the 1st of April 1999 was higher than the pensionable salary limit (as of the 1st of April 2001: € 57,528), then there is a benefit accrual percentage of 1.5% above this limit.

For the years of pensionable service after the 1st of April 1999 the pensionable salary limit has been dropped.

From that date a percentage of 1.9% per year applies to your whole pensionable salary.

Final-pay 65

If you are in the final-pay 65 plan, you accrue a retirement pension of 1.65% for each year of pensionable service with Philips between the ages of 25 and 65. With the maximum of 40 years of pensionable service you attain $40 \times 1.65\% = 66\%$ of your pensionable salary.

Situation before the tranche

The benefit accrual percentage of 1.65% has only applied since 1 April 1999. For each year that you accrued pension benefits before that date there is a different benefit accrual percentage, namely 1.75% per year. If your pensionable salary at that time was higher than the pensionable salary limit (as of the 1st of April 2001: € 57,528), then there is a benefit accrual percentage of 1.3125% for the portion above the limit. The pensionable salary limit was dropped after the 1st of April 1999. From that date a percentage of 1.65% per year applies to your whole pensionable salary.

Accrual of pension benefits before the age of 25

In the past it was possible to accrue pension benefits before the age of 25. However, this is no longer the case. As a result, special transitional arrangements have been made, ranging from the refunding of premiums paid to the 'parking' of the benefits already accrued in the form of a paid-up policy. If you participated in the final-pay plan before the age of 25 and you want to know whether you accrued pension benefits for those years, please contact us.

Pensionable salary

The pensionable salary is calculated by subtracting the franchise from your gross pensionable salary (= 12 x your regular gross monthly salary + 10%). The franchise is an important term that has to be seen in connection with the General Old Age Pensions Act (AOW). This is the law that provides for a basic state pension at the age of 65 for all persons residing in the Netherlands. If the accrual of pension benefits did not take the state pension into account, employees would accrue too much supplementary pension. For that reason, a certain amount is deducted from the salary and no supplementary pension has to be accrued on this amount. This amount is called the franchise. The franchise in the Philips final-pay plan is an amount that is the same for everyone and that is adjusted annually to increases in the state pension (AOW). As of the 1st of April 2001 the franchise is € 12,780.

Pensionable salary = gross pensionable salary (12 x monthly salary + 10%) - franchise
--

Situation before the tranche

To determine your pensionable salary for benefit accrual up to the 1st of April 1999, the 'old' franchise is deducted from your gross pensionable salary. This 'old' franchise is derived from the amount of state pension (AOW) of a married couple who are both at least 65 years old. This is considerably higher than the franchise that applies after the tranche. The 'old' franchise is € 16,956 as of the 1st of April 2001. A higher franchise means that benefits are accrued on a smaller portion of your salary. However, the benefit accrual percentage is higher over this period.

Example:

Let us assume you are married and have an annual salary of € 25,000. So your gross pensionable salary is € 25,000 + 10% = € 27,500. The franchise is € 12,780.

First of all, a simplified example without taking account of the tranche:

The pensionable salary is:	Gross pens. salary	€ 27,500	
	Franchise	€ <u>12,780</u>	-
	Pensionable salary	€ 14,720	

If you have accrued pension benefits with Philips from the age of 25, you will get at the age of 65 a pension of (40 x 1.65% =) 66% of your pensionable salary. All in all, that means:

$$66\% \text{ of } € 14,720 = € 9,715$$

Add to this the state pension (AOW) from the age of 65:

AOW for you and your partner (incl. holiday pay)	€ <u>14,691</u>
Total	€ 24,405

If you have not been accruing pension benefits with Philips from the age of 25, then it is possible that you will not attain the maximum number of years of pensionable service. Let us assume that at the time of retirement you have only 25 years of pensionable service. Your pension will then be

$$25 \times 1.65\% \times € 14,720 = € 6,072$$

On top of this you get the state pension (AOW).

Most people in the final-pay plan are affected by the 'tranche' in the accrual of pension benefits. So the following example takes the tranche into account.

Your pensionable salary after the tranche is € 14,720 (see above). We calculate your pensionable salary before the tranche in the same way, but with the higher franchise of € 16,956.

So it is € 27,500 minus € 16,956 = € 10,544.

Let us assume that you had 20 years of uninterrupted membership of the Pension Fund before and 20 years after the 1st of April 1999.

Pension accrued up to	1-4-99:	20 x 1.75% x € 10,544	=	€ 3,690
Pension accrued after	1-4-99:	20 x 1.65% x € 4,720	=	€ <u>4,858</u>
		Total	=	€ 8,548

And, of course, you get the state pension (AOW) on top of this.

How much AOW you actually get depends, among other things, on your marital status and (up to 2015) on the age and income of your partner. You can read more about the AOW in section 4.4. If you do not have a partner at the time of retirement, then a different method of calculation is used - see section 4.1.4.

4.1.3 Trading in your survivor's pension

The survivor's pension that is a standard part of the final-pay plan (see also chapter 5) is of course primarily intended for your partner in the event of your death. However, from the 1st of April 1999 you also have the option of trading in the accrued survivor's pension for extra retirement pension. This option is available both to participants with and without a partner. If you do not have a partner, then it goes without saying that you should opt for a trade-in. If you do have a partner, then you should weigh up the pros and cons together. You could opt for a trade-in if, for example, your partner has accrued his/her own pension benefits. If you decide to do this, your partner has to give his/her consent.

You can also trade in a portion of the survivor's pension. There are five different possibilities in this regard: no trade-in, 25%, 50%, 75% or 100% trade-in of the survivor's pension.

The financial consequences of a trade-in depend on your pensionable age (retirement age). To give you an indication:

- If your pensionable age is 60, your retirement pension will be increased by approximately € 0.33 for each Euro of survivor's pension that you trade in.
- If your pensionable age is 65, your retirement pension will be increased by approximately € 0.40 for each Euro of survivor's pension that you trade in.

If your relationship ended during your period of employment with Philips, your ex-partner will be entitled to a portion of the survivor's pension. We refer to this as the special survivor's pension. This is dealt with in more detail in chapter 7. The portion to which your ex-partner is entitled cannot be traded in when you retire.

About three months before your retirement date you will be notified by us about the trade-in option. You do not have to make your choice until then. However, once made, the choice cannot be reversed.

4.1.4 If you do not have a partner when you retire

Since the changes made to the CAO on the 1st of April 1999, Pension Fund members with and members without a partner have the same entitlement to retirement pension. Both accrue pension benefits in the same way. They also accrue survivor's pension benefits in the same way. All members have the option, when they retire, of trading in the survivor's pension for extra retirement pension.

Situation before the tranche

Up to the 1st of April 1999 the retirement pension for people without a partner was calculated on the basis of the lower single person's franchise (as of the 1st of April 2001: € 11,916). As a result, the retirement pension was higher. On the other hand, there was no entitlement to a survivor's pension. This changed with effect from the 1st of April 1999. Now, even a person without a partner accrues a survivor's pension for the whole period of participation in the pension plan. When you retire, this survivor's pension can be traded in for extra retirement pension.

It was stipulated in the CAO, however, that persons without partners must not lose out on the pension benefits they accrued up to the 1st of April 1999 as a

result of these changes. For that reason, transitional provisions were made in the form of a 'single person's test'. As the name suggests, this applies only to single persons. It means that on the date of retirement two calculations are made in respect of the accrual of benefits up to the 1st of April 1999. First, a calculation based on the single person's franchise, which as from the 1st of April 2001 is € 11,916, without entitlement to a survivor's pension. Second, a calculation based on the married person's franchise, taking into account the conversion of the survivor's pension. The highest retirement pension will be awarded. The following example will illustrate this.

Example:

Let us assume you are a single person and you have had 15 years of pensionable service before the 1st of April 1999. Your present annual salary is € 30,000 and you will retire at the age of 65. Your gross pensionable salary will then be € 30,000 + 10% = € 33,000. The two calculations will always be based on the regulatory amounts before the tranche, since we are talking about the accrual of your pension benefits up to the 1st of April 1999.

Calculation method 1:

This calculation uses the 'new' calculation method. That means that the franchise for married persons is used and the survivor's pension is completely traded in at the time of retirement. The survivor's pension is 75% of the retirement pension.

Your pensionable salary:	€ 33,000 - € 16,956	=	€ 16,044
Your retirement pension:	€ 16,044 x 15 x 1.75%	=	€ 4,212
Your survivor's pension:	€ 4,212 x 75%	=	€ 3,159
Extra retirement pension after trade-in:	€ 3,159 x € 0.40	=	€ 1,264
In this case your pension is:	€ 4,212 + € 1,264	=	€ 5,476

Calculation method 2:

This calculation uses the 'old' method. That means that the single person's franchise is used and there is no entitlement to a survivor's pension.

Your pensionable salary:	€ 33,000 - € 11,916	=	€ 21,084
Your retirement pension:	€ 21,084 x 15 x 1.75%	=	€ 5,535

Your retirement pension under the second calculation (€ 5,535) is higher than under calculation method 1 (€ 5,476). Calculation method 2 is therefore used. So in this example your retirement pension for the period up to the 1st of April 1999 is € 5,535.

On top of that, there is the pension that you have accrued since April 1, 1999. We calculate this portion completely on the basis of calculation method 1. We also apply the regulation amounts and percentages that have been applicable since then. Your pension is the total of the pension before and the pension after the 1st of April 1999. On top of that you get the AOW state pension.

4.1.5 Payment of your pension

About three months before you retire, you receive from Philips Pension Fund an information package on your pension, including a statement of your pension situation giving both gross and net amounts. You also have a number of options. If you retire at the age of 60, you have the option of equalising (see section 4.2.2). You also have the option of trading in your survivor's pension for a higher retirement pension. You can do this if, for example, you do not have a partner or if your partner has an income of his or her own (from work or from pension benefits) that is sufficient to get by on in the event of your death.

We calculate your final pension on the basis of the choices you make shortly before retirement. You then receive your first pension payment at the beginning of the month following the month in which you reach the age of 60 or 65.

4.1.6 Adjustment of level of pensions

The Board of Trustees pursues a policy of adjusting pensions annually in line with increases in the cost-of-living index (inflation). This indexation ensures that pensions retain their value. This adjustment policy also applies to the vested pensions that are not yet being paid. This is the case if after terminating your contract of employment with Philips you decide to leave your pension benefits with Philips Pension Fund rather than have them transferred to another fund (for more on this subject, see chapter 8).

If such an adjustment takes place, this is published in the Bulletin that appears several times per year and on our website (www.philipspensioenfonds.nl). Your pension is adjusted in April. People who have already retired are notified of this on their pension statement, which is their equivalent of a salary statement.

4.2 Things to note if you retire at 60

If you retire at the age of 60, you have a number of extra provisions. First of all, you are entitled to a bridging payment, which you receive until the age of 65 to compensate you for the fact that you do not receive the AOW state pension until then. You can also opt for equalisation, so that your net pension before and after the age of 65 is more equal. These two options are dealt with in the following sections. We also devote attention to the situation in which you retire at 60 and receive a WAO disability benefit.

4.2.1 Your bridging payment

If you retire at 60, you do not yet receive the AOW state pension. However, the pension plan takes account of the AOW in the form of the franchise, for you only accrue pension benefits on the difference between your gross pensionable salary and the franchise - in pension terms, your pensionable salary. That would mean that you would have a lower income between the ages of 60 and 65, as you do not yet receive the AOW state pension. To make up for this, you receive a bridging payment together with your retirement pension until you are 65 years old.

The accrual of your bridging payment

You accrue 5% of the bridging payment each year between the ages of 40 and 60, so that after 20 years you have accrued 100%. If your contract of employment is terminated after the age of 40, you get a paid-up policy with a

partial bridging payment. When you retire, you thus get a partial bridging payment together with your pension.

If you only become a participant in the final-pay pension plan after the age of 40, you would not accrue a sufficient bridging payment, as you miss a number of years. For those who only join after the age of 40 there is therefore an alternative mode of accruing the bridging payment: 10% per year between the ages of 50 and 60. The highest result (5% per year between the ages of 40 and 60 or 10% per year between the ages of 50 and 60) is counted. Someone who joins at the age of 46 would, without the alternative method of accruing the bridging payment, therefore only accrue $14 \times 5\% = 70\%$ bridging payment. On the basis of 10% per year between the ages of 50 and 60, this participant would, however, obtain a 100% bridging payment.

Did you already work part-time before 1985?

If so, then in many cases there are different, more advantageous, provisions for the accrual of the bridging payment. For more information, consult the Pension Fund.

Participants who work part-time receive a pro rata bridging payment. If, for example, you work 100% between the ages of 40 and 50 and then 50% between the ages of 50 and 60, you are entitled to a bridging payment of 75% of the complete payment. This is because for 10 years you accrue 5% bridging payment (50%) and for 10 years 50% of 5% (25%). That makes a total of 75%.

How much bridging payment do you get?

The bridging payment serves to compensate you for not getting the AOW state pension. This does not mean that it is exactly equal to the AOW benefit payable to you at the age of 65. There can be differences, depending on your individual situation. The bridging payment is linked to the franchise. In case of 100% accrual, the bridging payment is 87.5% of the franchise. As of the 1st of April that is € 11,182 irrespective of your marital status.

Situation before the tranche

For the period up to the 1st of April 1999 the bridging payment is 75% of the 'old' franchise, with a distinction between married/cohabiting persons and single persons. The fully accrued bridging payment before the tranche for married and cohabiting persons (who have had their partner officially registered with the Pension Fund) is, as of the 1st of April 2001, € 12,717 and for single persons € 8,937.

It sometimes happens that a part of the bridging payment is accrued before the tranche and a part after the tranche. In that case, two calculations are made and added together.

Example:

A full-time married employee reached the age of 52 on the 1st of April 1999. By this time he/she has been accruing a bridging payment for 12 years: $12 \times 5\% = 60\%$. He/she will accrue for another 8 years after the 1st of April 1999, i.e. $8 \times 5\% = 40\%$.

His/her bridging payment will be calculated as follows:

$$\begin{array}{rcl} 60\% \times \text{€ } 12,717 & = & \text{€ } 7,630 \\ 40\% \times \text{€ } 11,182 & = & \text{€ } \underline{4,473} \end{array}$$

Total bridging payment **€ 12,103**

4.2.2 Equalisation

The previous section describes how the bridging payment makes up the deficit in your income between the ages of 60 and 65, as you do not receive the AOW state pension until you are 65.

As a result of this, however, the difference in your income before and after the age of 65 has still not completely disappeared. This is because before the age of 65 you pay various National Insurance contributions: the General Old Age Pension Act (AOW), the Survivor's Act (Anw) and the Exceptional Medical Expenses Act (AWBZ). Once you reach the age of 65, the contribution for the AOW is no longer payable, since you now start to receive the AOW state pension. As a result of no longer paying this contribution, there can be a considerable difference in your net income before and after the age of 65.

You therefore have the option of distributing your income so that your net income before and after the age of 65 is more equal. In gross terms this means that you receive a slightly bigger pension before the age of 65 than after. This facility is known as the equalisation facility.

No later than three months before your retirement age you receive a calculation of your retirement pension, stating both the gross and the net amounts. The amounts are also calculated for you with and without the application of the equalisation facility, if you are eligible for these provisions. You can then make your choice on the basis of these figures. You should bear in mind, however, that this is a once-only choice. You make it shortly before your pension is finally awarded. The choice cannot be reversed.

If you receive sickness benefit or disability benefit (WAO), then you may no longer be eligible for a (partial) bridging payment. If that is the case, you cannot make use of the equalisation facility. We consider this situation in the following section.

4.2.3 WAO and pension

If you are unfit for work, you will usually receive a WAO disability benefit. As a rule, this benefit is payable up to the age of 65, even if you retire at 60.

However, your pension is reduced if you receive a WAO benefit.

In any case, the level of the bridging payment is affected. If your WAO benefit is higher than your bridging payment - which is often the case - then you lose the whole bridging payment. If the WAO benefit is lower, then you get only a part of the bridging payment.

If your WAO benefit is higher than your bridging payment, a second maximum limit may also be applied. Your retirement pension and your WAO benefit together must not be higher than your last-established gross pensionable salary. If they are indeed higher, your retirement pension is set at a lower level, so that your WAO benefit and pension amount to the aforementioned 100%.

In applying the rules regarding maximum amounts we proceed from the WAO benefit that you actually receive (see also section 6.6). If, for example, you have the higher, wage-related benefit when you retire, then that will serve as the basis. If your WAO benefit is reduced between the ages of 60 and 65, in the form of the 'continuation benefit', we adjust the level of your pension benefit. You must notify us of this, however.

You should note that any benefit paid by the IAK in connection with the WAO shortfall insurance ends as soon as you retire.

Are you partially unfit for work and partially unemployed? Then it is important to know that your WAO benefit continues if you retire at 60. However, your unemployment benefit (WW/IOAW) stops as soon as you retire.

Once you are 65, you no longer get your WAO benefit. Your pension is no longer reduced, but is paid in full. The portion of your pension that was previously reduced is not paid to you after you reach the age of 65.

4.3 Special provisions

4.3.1 Commutation of your pension

Your pension benefit is paid to you each month until your death. In the past, pensions were sometimes commuted (cashed in). The value of all the monthly benefits was calculated and the amount was paid as a lump sum. However, since February 1994 this has been prohibited by law.

There are, nevertheless, two situations in which commutation is possible on certain conditions. The pension benefits concerned must in any case be small.

- First, you can commute your pension if you live or are going to live abroad - but only if your pension entitlement does not exceed a certain limit and if your contract of employment was terminated early (i.e. before retirement). For the year 2001 this limit has been set at € 636.93 gross per year.
- You can also commute your pension if your pension entitlement is small. This limit has been set for 2001 at a maximum of € 318.47 gross per year. If your entitlement is below this limit, the Pension Fund will automatically commute your pension into a lump-sum payment.

When a pension is commuted you also get the benefits of the insured survivor's pension, thus waiving any entitlement to a survivor's and orphan's pension in the event of your death.

4.3.2 Earlier or deferred pension

In the final-pay plan it is possible to have your pension commence a maximum of 5 years earlier than your retirement age. You can only do this if you actually stop working. In that case you also cease to accrue pension benefits.

Your pension benefits will be smaller if you decide to have your pension commence earlier. This is because the benefits are paid for a longer period of time and you miss a number of years of benefit accrual. If, for example, you have your pension commence 5 years earlier, the lifelong retirement pension and survivor's pension will be reduced by approximately 35%. Earlier payment of your pension also has consequences for the level of the bridging payment, if applicable.

If your retirement age is 60, you can also defer your pension. There are two possibilities here:

1. You can defer payment of both the retirement pension and the bridging payment.
2. You can defer payment of the retirement pension, but you have the bridging payment.

If you defer your pension, then your pension benefits will of course be bigger. You can defer payment of your pension even if your contract of employment with Philips was terminated earlier. However, the tax authorities at present stipulate that you have to be employed if you defer your pension. The Pension Management department of Philips Pension Fund can give you more information about this.

If, for example, you have your pension commence 5 years later, i.e. at the age of 65, the lifelong retirement pension and survivor's pension increase by approximately 40%. You have accrued a bridging payment, but you no longer need this. So you get an extra lifelong retirement pension and survivor's pension of 40% of the bridging payment. During the period of deferral you are treated as a 'pensioner'. This means that your pension is also adjusted each year in line with the policy of adjustment pursued by Philips Pension Fund (see section 8.4).

4.4 The basic state pension: AOW

As well as the Philips retirement pension, you get an AOW state pension from the Social Insurance Bank from the age of 65.

In principle, you do not have to apply for the AOW if you are entered in the population register of your municipality. About six months before your 65th birthday you are automatically sent the AOW application form. If the Social Insurance Bank has not been in touch with you three months before you reach the age of 65, you should contact them yourself.

The telephone number of the head office of the Social Insurance Bank in Amstelveen is + 31 (0) 20 656 56 56.

As of the 1st of July 2001 the full AOW pension benefit for married/cohabiting persons is € 581.73 per month plus € 30.40 holiday allowance per month per person. If the partner is younger than 65, there may be an entitlement to a supplement of the same amount. This supplement depends on your partner's income from or in connection with work.

A single person receives € 844.01 plus € 42.56 holiday allowance gross per month.

If you have always lived and/or worked in the Netherlands, you are entitled to the full AOW state pension. If that is not the case - because you used to live abroad or you worked abroad for a number of years - your AOW pension will be 2% lower for each missing year.

AOW shortfall

If you were born on or after the 1st of January 1950, you may be faced with an AOW shortfall. This will be the case if your partner is younger than you.

At present, everyone who is 65 and has a younger partner is eligible for an AOW supplement. The full AOW pension of married/cohabiting persons actually consists of two half benefits. When the older partner reaches the age of 65, he/she receives an AOW benefit. The younger partner is then eligible for an AOW supplement of the same amount as the AOW benefit. You should note, however, that if your younger partner has an income (from work or a pension), the AOW supplement will be reduced!

From 2015 there will no longer be an AOW supplement. So if you reach the age of 65 in or after 2015, your younger partner will not be eligible for an AOW supplement. As a result, your joint income will temporarily be lower than you expect. This is what is known as the AOW shortfall. This shortfall comes to € 7,346 for each year that your partner is younger than you, on the basis of the present AOW amounts.

A brochure on the AOW shortfall entitled 'Partnertoeslag AOW stopt in 2015' [AOW partner's supplement stops in 2015] has been published by the Ministry of Social Affairs and Employment. If you were born on or after the 1st of January 1950, your partner is younger than you and you would like to learn more about this new situation, the brochure can be requested from our Fund.

5 WHAT HAPPENS IN THE EVENT OF YOUR DEATH?

It is reassuring to know that your partner and children will have financial support in the event of your death. The final-pay plan makes three important provisions for this eventuality: the survivor's pension, the orphan's pension and the ANW shortfall insurance. The first two are fixed parts of the final-pay plan. The ANW shortfall insurance, on the other hand, is optional - you can take out this insurance for a certain premium, provided you meet the relevant conditions. The Dutch government also makes basic provision for survivor's. This statutory provision will also be dealt with in this chapter.

5.1 Survivor's and orphan's pension

Your survivor's are entitled to a pension from Philips Pension Fund in the event of your death. So a survivor's pension is insured for your partner, if you have one, and an orphan's pension for any children that you have. This applies to all participants in the final-pay plan. These provisions are included in the premium that you pay each month via your salary.

5.1.1 Survivor's pension

Who is eligible for this pension?

Your married partner is entitled to a survivor's pension. An officially registered partnership is regarded as equivalent to a marriage for the purposes of this insurance. So where reference is made here to 'married', it can also be understood to refer to 'officially registered'.

The local authorities automatically keep us informed of your marriage details, provided that you are resident in the Netherlands.

If you cohabit with a partner, your partner is likewise eligible for the survivor's pension. In this case, you and your partner have to conduct a joint household and make (financial) provision for each other. These are the same criteria for cohabitation as contained in the Survivor's Act (ANW). Furthermore, your partner must be registered with us. For this purpose a form is available from the Fund.

Getting married after your 65th birthday or registering your partner with us after that date, has no effect on your pension disability, because this partner is not entitled to a survivor's pension.

How much survivor's pension is paid?

The survivor's pension is 65% of your retirement pension. If you die before retirement, we base our calculations on the pension that you would have received on your retirement date. This is also referred to as the attainable retirement pension.

The pension benefit commences on the first day of the month in which you die and is paid up to and including the month in which your surviving partner dies. It is therefore a lifelong benefit. It continues to be paid even if your partner remarries or cohabits after your death. In many cases, however, the statutory benefit under the Survivor's Act is not payable.

Situation before the tranche

Before the 1st of April 1999 the survivor's pension was 75% of the retirement pension that had accrued up to that date. So the tranche affects the level of the survivor's pension if you were employed by the Company before the 1st of April 1999.

If you have accrued pension benefits both before and after the 1st of April 1999, two calculations are made. The results of these calculations are added together to obtain the total amount of the survivor's pension.

Example:

Let us assume that when you retire you have a gross pensionable salary of € 33,000. You accrued pension benefits for 30 years before the 1st of April 1999 and for 10 years after that date. The calculation of the survivor's pension will then be as follows:

	Before the 1st of April 1999	From the 1st of April 1999
Pensionable salary	€ 33,000 - € 16,956 = € 16,044	€ 33,000 - € 12,780 = € 20,220
Pensionable years	30	10
Accrual percentage	1.75%	1.65%
Retirement pension	€ 1,044 x 30 x 1.75% = € 8,423	€ 20,220 x 10 x 1.65% = € 3,335
Survivor's pension	€ 8,423 x 75% = € 6,317	€ 3,335 x 65% = € 2,168

You obtain your total survivor's pension by adding together the amount before the 1st of April 1999 and the amount after the 1st of April 1999:
€ 6,317 + € 2,168 = € 8,485

If there is an age difference of more than 20 years between you and your partner, you should read section 5.3 carefully, because this age difference can affect the amount of survivor's pension benefit.

5.1.2 Orphan's pension

Who is entitled to an orphan's pension?

In the event of your death, your children up to the age of 21 are entitled to an orphan's pension. The orphan's pension is payable to legitimate and legitimised children. If other children are financially dependent on you, they too may be entitled to an orphan's pension. This is decided by the Board of Trustees.

How much orphan's pension is paid?

The level of the orphan's pension is derived from your (attainable) retirement pension. The attainable retirement pension is the pension that would have been payable to you if you had worked for Philips up to the pensionable age. Each child receives 15% annually of this (attainable) retirement pension in the event of your death. For complete orphans - children who have lost both parents - this amount is doubled.

To whom is the orphan's pension paid?

Payment of an orphan's pension for children younger than 18 is made to the legal representative (parent or guardian). Payment of the pension for children who have reached the age of majority may, at their own written request, be made direct to them. Orphans are liable to pay tax and social security premiums on the orphan's pension.

Situation before the tranche

If you left Philips before the 1st of April 1999 because of disability (WAO) or under a severance scheme, the orphan's pension is paid to your children up to the age of 18 or, if they are in full-time education, up to the age of 27. The amount is unaltered and is 15% of the (attainable) retirement pension.

5.2 ANW and the ANW shortfall insurance

In the Netherlands there is basic state provision for people whose partner dies, in the form of the Survivor's Act (ANW). Unfortunately, not everyone is eligible for benefit under this Act. You can therefore take out insurance for your partner with Philips Pension Fund, so that your partner receives benefit in lieu of the ANW benefit in the event of your death. The ANW state benefit and the voluntary insurance - the ANW shortfall insurance - are both dealt with in this section.

5.2.1 The Survivor's Act (ANW)

In addition to the supplementary pensions under the final-pay plan, your survivor's will often be entitled to a statutory benefit under the Survivor's Act. This law came into force on the 1st of July 1996, replacing the older and outdated General Widows' and Orphans' Benefits Act (AWW).

When is your partner eligible for ANW benefit?

There are a number of conditions your partner has to meet in order to be eligible for an ANW benefit. First of all, your partner has to be younger than 65. In addition, at least one of the following three situations must apply:

- Your partner was born before 1950;
- Your partner is pregnant or has a child younger than 18;
- Your partner is at least 45% incapacitated for at least 3 months.

If your partner does not meet the conditions, there is no entitlement to an ANW benefit. In that case, we speak of an ANW shortfall or gap.

If the surviving dependant no longer meets the conditions, then there is no longer an entitlement to an ANW benefit. For example, when the youngest child reaches the age of 18. This situation is sometimes referred to as a future ANW shortfall.

How much ANW benefit is paid?

As of the 1st of July 2001 the ANW benefit is € 908.63 gross per month. If you have children below the age of 18 you receive an additional sum of € 206.91 per month - the 'semi-orphan's benefit'. The holiday allowance is € 53.82 per month. This is increased by € 15.38 if your surviving partner has children below

the age of 18. Orphans, i.e. children both of whose parents have died, receive an orphan's benefit under this law.

If your partner has his/her own income, he/she may be faced with an ANW shortfall, despite being entitled to an ANW benefit. This is because this income is deducted from the benefit.

As part of the income is exempted, your partner will be eligible for a full benefit if his/her income is € 590.21 per month or less. If your partner earns more, then 75% of the excess amount is deducted from the ANW benefit. And if your partner earns more than € 1953.16, there is no entitlement at all to an ANW benefit. Income in connection with work, such as unemployment (WW) or disability (WAO) benefit, is deducted in full.

The ANW benefit ceases to be paid when your partner reaches the age of 65. Your partner then receives a state retirement pension (AOW)

For additional information, please refer to the various brochures on the ANW, available from the Social Insurance Bank (SVB)

5.2.2 ANW shortfall insurance

It was explained in the preceding section that your partner will not be entitled to ANW benefit if one of the specified conditions is not met. And that if your partner does meet the conditions but has his or her own income, the benefit will be reduced.

To make up this ANW shortfall, which can arise now or in the future, Philips Pension Fund offers you the option of taking out insurance - ANW shortfall insurance - that compensates for missing out on a statutory ANW benefit or not receiving the full benefit.

For whom can you take out ANW shortfall insurance?

You can take out ANW shortfall insurance for your married partner, an officially registered partner or a partner with whom you cohabit. To be recognised as cohabiting partners, you have to conduct a joint household with your partner and make (financial) provision for each other. Your partner must also have been born on or after the 1st of January 1950 and be officially registered with Philips Pension Fund.

When can you take out ANW shortfall insurance?

If your partner satisfies the aforementioned conditions, you can take out the insurance. It is also stipulated that you can only take out the insurance at certain times, namely on one of the following occasions:

- when you start employment;
- when you marry, enter into a registered partnership or officially start to cohabit;
- when you get a child.

If you wish to take out the insurance at any of these times, you must notify us within two months, using the special application form for ANW shortfall insurance.

How much is the benefit paid under the ANW shortfall insurance?

Unlike, for instance, the survivor's pension, the benefit paid under the ANW shortfall insurance is a fixed amount that is not related to your income. The maximum benefit, as of the 1st of April 2001, is € 12,960 per year (€ 1,080 per month). These amounts are related to the statutory ANW benefit and are adjusted annually on the 1st of April. The ANW shortfall benefit is paid from the first day of the month of your decease up to and including the month in which your partner reaches the age of 65 (or up to your partner's death, if earlier). If there is a large age difference between you and your partner, then you should also read section 5.3 carefully, as this may affect the amount of benefit paid.

You can also opt for partial cover. There are two possibilities here: one-third or two-thirds of the maximum amount. This might be appropriate if, for example, your partner is eligible for the ANW benefit but this benefit is reduced because of your partner's own income. No reduction is applied to the benefit payable under the ANW shortfall insurance.

The insured level can only be raised within two months after the birth or adoption of a child. If you have a new partner, the current insurance in your ex-partner's name ceases. If you wish, you can then take out ANW shortfall insurance for your new partner, provided that you satisfy the aforementioned conditions.

How much do you pay for the ANW shortfall insurance?

The premium that you pay for the ANW shortfall insurance depends on your age and sex. The following table shows the gross monthly premiums as of the 1st of April 2001. These premiums are for full cover. If you opt for one-third or two-thirds cover, then you pay one-third or two-thirds of the amounts given here. From the age of 65 an individually calculated premium is payable.

Age	Men	Women
Upto 34	€ 17.28	€ 10.80
35 to 39	€ 21.60	€ 15.12
40 to 44	€ 32.40	€ 19.44
45 to 49	€ 45.36	€ 25.92
50 to 54	€ 58.32	€ 30.24
55 to 59	€ 51.84	€ 25.92
60 to 64	€ 23.76	€ 10.80

The above amounts are gross premiums. They are deducted from your gross monthly salary. This means that your taxable salary is lower, which is advantageous in tax terms. However, tax will later be payable by your partner on the ANW shortfall benefit.

It is your personal decision whether you take out ANW shortfall insurance and, if so, with what level of cover. An application form is available from Philips Pension Fund.

ANW shortfall insurance and VROM/WAO

Normally, your ANW shortfall insurance automatically ends when you stop working for Philips. This, however, is not the case when you leave because of disability or in connection with a severance scheme. In those situations you can continue your ANW shortfall insurance. It is not possible to take out this insurance after termination of your employment. Nor can you alter the level of insurance cover. You can, however, discontinue the insurance at any time. The premium that you pay continues to be based on the table on page 32 up to the age of 65. And after the age of 65 you can continue the insurance until your partner is 65. However, from the age of 65 the premium is set on an individual basis, of which you are notified in advance.

Were you already insured before the 1st of July 2001? Then the 'old' conditions continue to apply to you. This means that you can alter the level of cover at any time you wish and that your partner's year of birth does not affect what you can do. As soon as you discontinue the current insurance policy and take out another one, the new conditions apply.

5.3 Reduction due to a large age difference

If your partner is more than 20 years younger than you, the benefit payable under the survivor's pension and the ANW shortfall insurance is reduced. This reduction is 2.5% for every full year that your partner is more than 20 years younger than you.

6 WHAT HAPPENS IF YOU BECOME INCAPACITATED?

It is frustrating not to be able to work any more because of illness or disability. Fortunately, Philips continues to pay your salary in full for the first year of illness, so that you do not suffer any adverse financial consequences. You also continue to accrue pension benefits in that first year. And for the subsequent years too, extensive provisions are made for you. You can find out more about them in this chapter.

If you are still unfit for work after the first year, the provisions of the disability Insurance Act (WAO) cover you. You then receive a benefit, which Philips supplements, for 2 years, to 90% of your former salary. You can find out more about this in section 6.6. At the same time, you continue to accrue pension benefits to the full extent (i.e. 100%).

At the end of this three-year period, Philips stops paying your salary. Your contract of employment is usually terminated at the end of this period. From then on, your pension plan makes two forms of provision. First, you accrue pension benefits without paying any contribution. Second, you are entitled to a disability pension. This is explained in detail in this chapter.

6.1 Continued accrual of pension benefits

If your contract of employment with Philips is terminated due to disability, you continue to accrue pension benefits with Philips Pension Fund without having to pay any contribution (premium). This applies to the retirement pension, the survivor's pension and orphan's pension and, if applicable, the bridging payment. Your pension benefits continue to accrue on the basis of the conditions set out in the by-laws of the Philips final-pay pension plan, as applicable on the last day before the termination of employment. If changes in the by-laws after the termination of your employment are applicable to you, it will be specifically stated in the later version of the by-laws. The accrual of pension benefits will be based on your gross pensionable salary at the time when you become incapacitated. This gross pensionable salary is subsequently increased each year in line with the collective salary increases paid by Philips.

If you are not fully incapacitated, then a proportion of your pension benefits continues to accrue without payment of a premium. The table in section 6.3 shows you what proportion.

6.2 Disability pension

If your contract of employment is terminated due to disability, you are eligible for an disability pension. There are two forms of disability pension: a non-income-related and an income-related disability pension. Everyone is eligible for the non-income-related disability pension. You receive the income-related pension only if your gross pensionable salary exceeds the maximum WAO daily earnings per year (as of the 1st of July 2001: 40,852). You can find out more about this in section 6.2.2.

6.2.1 Non-income-related disability pension

You are always entitled to a non-income-related disability pension if your employment is terminated due to disability. This pension is 5% of the franchise per year. As of the 1st of April 2001 that is 5% x € 12,780 = € 639 gross per year in the case of complete disability. If you are in a lower disability category, then you get a percentage of this amount (see 6.3).

Because the franchise was lowered substantially as a result of the changes to the CAO on the 1st of April 1999, transitional arrangements have been made. Everyone who is eligible for a non-income-related disability pension before the 1st of April 2009 is given a supplement. How much this supplement is depends on the difference between the old and the new franchise and on the date on which the disability pension commences. The supplement is expressed as a percentage of the difference between the two franchises. The percentage decreases over time from 5% to 0%.

As of the 1st of April 2001 the supplement is 4% of the difference, which comes to € 167.04 (= 4% van € 4,176 (= € 16,956 - € 12,780)).

In total, you receive € 806.04 (= € 639 + € 167.04) if you are granted a disability pension between 1 April 2001 and 1 April 2002.

6.2.2 Income-related disability pension

If your gross pensionable salary is higher than the maximum WAO daily earnings on an annual basis (as of the 1st of July 2001 € 40,852), you get an income-related disability pension as well as your non-income-related disability pension.

The amount of this income-related disability pension is set on the basis of the following formula:

Gross pensionable salary - max. WAO

----- x attainable retirement pension x disability percentage

Pensionable salary

Example:

Let us assume that you are 100% incapacitated. The following amounts show how much disability pension you receive from Philips Pension Fund.

Gross pensionable salary	€	45,000
Franchise	€	- <u>12,780</u>
Pensionable salary	€	32,220
Attainable retirement pension with full accrual of benefits (66.5% of € 32,200)	€	21,426
Maximum WAO daily earnings, annually	€	40,852

The **non**-income-related portion of the disability pension is 5% of the franchise.

5% of € 12,780	€	639.00
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The supplement is, as of the 1st of April 2000, 4% of the difference between the old and the new franchise.

4% of € 4,176 (€ 16,956 - € 12,780)	€	<u>167.04</u>
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Total	€	806.04
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The calculation of the income-related portion of the disability benefit is as follows, in the case of complete disability:

€ 45,000 - € 40,852					
-----	x	€ 21,426 x 100%	=	€	<u>2,758.38</u>
€ 32,220					

Altogether, that means an disability pension of:	€	3,564.42
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In addition, you get your WAO benefit and - if you were insured for this with the IAK- the benefit paid under the WAO shortfall insurance policy.

Situation before the tranche

The tranche for the accrual of pension benefits resulting from the CAO changes of the 1st of April 1999 is also reflected in the method of calculating the income-related disability pension. This will not be worked out here.

6.3 Categories of disability

For each degree of disability (also referred to as disability category) there is a specific WAO benefit percentage. By multiplying this benefit percentage by the factor 10/7, we obtain what is known as the 'percentage award'. This percentage award is used to determine the amount of disability pension. This same percentage indicates in what proportion pension benefits continue to accrue without a premium having to be paid. It is important to note that the various percentages are only used in the case of partial disability.

These percentages are as follows:

Disability	WAO benefit Percentage	percentage award
> 80% (category 7)	70.00%	100.00%
65-80% (category 6)	50.75%	72.50%
55-65% (category 5)	42.00%	60.00%
45-55% (category 4)	35.00%	50.00%
35-45% (category 3)	28.00%	40.00%
25-35% (category 2)	21.00%	30.00%
15-25% (category 1)	14.00%	20.00%

Needless to say, the level of the benefits (both WAO benefits and disability pension benefits) changes if the degree of disability changes. Therefore, if your disability percentage changes, you should notify the Fund as soon as possible.

6.4 Adjustment of your disability pension

The level of your disability pension is set when you leave Philips. The adjustment policy of the Board of Trustees of Philips Pension Fund determines by what percentage your disability pension will be increased each year in connection with the rising cost of living. In section 8.4 the adjustment policy is described and the adjustment percentages of the past 6 years are also given.

6.5 Termination of your disability pension

Disability pension benefits cease to be paid when you reach the pensionable age, if you become less than 15% incapacitated or in the event of your death. Your disability pension is not paid when you retire. From that time, you receive a retirement pension.

6.6 The basic state provision for disability: WAO

During the first year of your illness your salary continues, as a rule, to be paid in full by Philips. You also continue to accrue pension benefits.

If you are still disabled after one year, the provisions of the Disability Insurance Act (WAO) take effect. Whether you are incapacitated and, if so, to what percentage, is determined by GAK Nederland BV. To determine the degree of disability, the income that you can still earn from your usual work is compared with the income you earned before you became incapacitated. For example, 40% incapacitated means that you can still earn 60% of your 'old' income by working.

For a certain period the WAO benefit is based on the income that you earned from your employment. In WAO terms, this is called the daily earnings, for which there is a maximum of € 156.52 per day (as of 1-7-2001). During this period the benefit is 70% of the daily earnings. This is known as the wage-loss benefit. How long you receive a WAO wage-loss benefit depends on the age at which you become entitled to WAO benefit. The following table shows you how long this period is for you.

Age at commencement of WAO	Duration of wage-loss benefit
32 or younger	No entitlement to benefit
33 to 37	0.5 year
38 to 42	1 year
43 to 47	5 years
48 to 52	1.5 years
53 to 57	3 years
58 or older	6 years
59 or older	At most up to 65

After the wage-loss period there is an entitlement to what is called the continuation benefit. This also applies to those who were not entitled to the wage-loss benefit because they were below the age of 33. The continuation benefit continues to be payable for so long as you are incapacitated, and at the latest until you are 65 years old. The amount of benefit is based on the minimum wage plus a supplement ('continuation wage'). This supplement is 2% of the difference between the daily earnings and the minimum wage for every year that you are older than 15. So if you are 40 years old, the supplement is 25 x 2% of the difference between your daily earnings and the minimum wage. As of the 1st of July 2001 the minimum wage is € 1,180.40 gross per month. The benefit is 70% of the continuation daily earnings.

The difference between your wage-loss benefit and your continuation benefit is known as the WAO shortfall. When your employment began you were able to insure yourself with the IAK against this shortfall. The WAO benefit and the benefit payable under the WAO shortfall insurance together amount to 70% of your last-earned income, with a maximum of 70% of € 40,852. Once you retire, you no longer receive the benefit under the WAO shortfall insurance. Your WAO benefit continues to be paid until you reach the age of 65. It may be, however, that your pension is reduced as a result of this. You can find out more about this in section 4.2.3.

More information about the WAO and the WAO shortfall can be found in the booklet 'Als u langdurig ziek bent' [What to do in the event of long-term illness] published by the Social-Economic Department of Philips and available from your personnel officer.

During the first two WAO years your contract of employment with Philips continues and Philips supplements the WAO benefit, under the terms of your contract of employment, to 90% of your gross income before disability (assuming that you are insured against the WAO shortfall). At the same time, you continue to accrue pension benefits to the full extent during this period.

After this period of three years of continued payment of salary (100% for the first year and 90% for the second and third year) your contract of employment with Philips is usually terminated. From then on, the provisions of Philips Pension Fund that we have described above cover you.

7 YOUR PARTNER AND YOUR PENSION

You fall in love, you get engaged, and you get married. That's how it usually worked in the past. But nowadays there are far more variations in inter-personal relations. Cohabiting without being married, a registered partnership, a 'living-apart-together' relationship - all this is common today. Needless to say, the form that your relationship takes is a matter of personal choice. But this choice has repercussions for your pension.

Since the 1st of January 1998 it has been our principle that people who cohabit should be treated in the same way as married couples. However, you do have to meet certain conditions and take certain action yourself. At the same time, there are differences in some respects between married and cohabiting people. This chapter deals with all the consequences for your pension according to the form of your relationship. But first we outline the pension situation in general for participants with and without a partner.

7.1 Your pension entitlement with and without a partner

Philips Pension Fund no longer distinguishes between participants with and without a partner as regards the level of the pension benefits. Whether you have a partner or not, you always accrue a retirement pension and a survivor's pension. The survivor's pension is the pension that your partner receives in the event of your death.

If you have a partner when you retire, you have the choice of retaining the survivor's pension that has accrued or trading it in - in full or in part - for extra retirement pension. If you do not have a partner when you retire, we automatically convert the survivor's pension into extra retirement pension, since there is no partner to whom a pension would have to be paid in the event of your death (and since the pension cannot be transferred to others).

You should note, however, that if your relationship with a partner ended before your retirement, your ex-partner will be entitled to the survivor's pension that accrued up to the time when the relationship ended. When you retire you can only trade in the portion of the survivor's pension that accrued afterwards.

Situation before the tranche

Before the 1st of April 1999 there was a difference in the pension entitlement of married persons (and their equivalent) and single persons. The retirement pension for single persons was higher, but such members were not entitled to a survivor's pension. This distinction was abolished with effect from the 1st of April 1999. At the same time, however, it was agreed that the pension benefits already accrued by a single person must not be reduced as a result of the change. For that reason, transitional arrangements were adopted, known as the single person's test (see the example in 4.1.4). This means that for the accrual of pension benefits up to the 1st of April 1999 both the 'new' and the 'old' method of calculation are used if the person concerned is single at the time of retirement. The method that yields the best pension outcome is adopted.

In the following sections we shall take a closer look at the various forms of relationship and their consequences for your pension.

7.2 Marriage

7.2.1 You are married

If you are married, your partner is entitled to a survivor's pension in the event of your death. You can find out more about this form of pension in chapter 5 'What happens in the event of your death?'

If you reside in the Netherlands, we are automatically notified that you are married. We get this information from the local authority in which you reside. If you do not live in the Netherlands, you have to register your partner with us together with evidence of your marriage. Your partner's details are stated on your annual personal pension statement. In this way you can always see whether we have the correct details.

7.2.2 You are going to get married

If you get married during your employment with Philips in the Netherlands, the Pension Fund is notified of this by the local authority. This is very important, because it means that your partner is entitled to a survivor's pension in the event of your death. If you get married abroad, you have to notify the Pension Fund of this yourself. At the same time, you have to submit evidence of the marriage. Your partner's details are stated on your annual personal pension statement. In this way you can always see whether we have the correct details.

7.2.3 You are going to get divorced

If your marriage is dissolved, this has a number of consequences for your pension. If you reside in the Netherlands, the local authority will notify us of your divorce. If that is not the case, you must notify us of the divorce yourself. The pension consequences of a divorce are derived from the 'Wet Verevening van Pensioenrechten bij Scheiding' (WVPS) [Settlement of Pension Entitlements of Divorcees Act] and the 'Pensioen- en spaarfondsenwet' (PSW) [Pension and Savings Funds Act].

These laws prescribe the following:

1. The retirement pension that accrues during the marriage is to be divided between the partners (WVPS).
2. The ex-partner is entitled to the survivor's pension that accrues up to the date of divorce (PSW).

These two consequences are further explained below:

1. Division of retirement pension

Your retirement pension is divided between you and your ex-partner. We call this division the 'settlement' of your pension. In the standard situation the retirement pension that accrued during your marriage is divided 50/50. This pension commences for you and your ex-partner when you retire, i.e. when you reach the age of 60 or 65, depending on the pension plan in which you participate. In the event of your death, the entitlement to a retirement pension ceases, both for you and your ex-partner. In that case, your ex-partner is, however, entitled to a survivor's pension (see point 2). If your ex-partner dies, irrespective of whether this is before or after your retirement, you then obtain the portion of the retirement pension to which your ex-partner was entitled.

Special provisions and conversion

It is possible to depart from these standard 50/50 provisions. However, this has to be laid down in a prenuptial or other written agreement. You can also opt for conversion. That means that your ex-partner's portion of the retirement pension and special survivor's pension (see point 2) is converted into an independent entitlement to a retirement pension for your ex-partner. In that case the pension is paid to your ex-partner when he/she reaches the pensionable age under the pension plan. All obligations between the two of you cease to exist, because the date on which your ex-partner's pension commences no longer depends on your decease or on the date on which you retire. However, if your ex-partner dies before you, you do not get any pension back.

An application for settlement of the retirement pension has to be submitted to us within two years after the divorce, either by you or your ex-partner. To do this, you have to use the form that is appended to the brochure 'Verdeling van Ouderdomspensioen bij Echtscheiding' [Division of Retirement Pensions of Divorcees] published by the Ministry of Justice. This brochure can be obtained from post offices and libraries and from the Pension Fund.

There are costs associated with the execution of the law on the settlement of pension entitlements for divorcees. The cost of the standard division is € 136. In other cases, a charge of € 272 is made. You and your ex-partner share these costs. Philips Pension Fund looks after payment of the pension that has been divided in this way.

The Settlement of Pension Entitlements of Divorcees Act came into force on the 1st of May 1995. If you got divorced before this date, then different provisions are applicable to you. You can get information about this from the Pension Fund or from the brochure 'Verdeling van Ouderdomspensioen bij Scheiding' [Division of Retirement Pensions of Divorcees] published by the Ministry of Justice and available from post offices and libraries and from the Pension Fund.

2. Division of survivor's pension

Your ex-partner is entitled to the whole survivor's pension that accrued up to the time of the divorce. We refer to this as the 'special survivor's pension'. Your ex-partner has a 100% entitlement to the accrued survivor's pension, also to any portion that accrued before you married. This is different only if you were previously in an official relationship. In that case, a special survivor's pension may already have been split off for your first ex-partner. Your second ex-partner will then be entitled to at least the survivor's pension that accrued in the period between the end of your first relationship and the end of your second relationship.

The splitting-off of the special survivor's pension is carried out automatically by us. If you wish to give up this entitlement, it must be explicitly stated in a written agreement that the right to the 'special survivor's pension' has been waived. This agreement has to be signed by both parties.

There are no costs associated with the splitting-off of the special survivor's pension. Only if you make different arrangements, for example if your ex-partner waives the right to the special survivor's pension, costs of are € 113 charged.

7.3 Officially registered partnership

Since 1 January 1998 it has been possible to have your partnership registered with the registry of births, deaths and marriages. In such cases we speak of an officially registered partnership. If you have entered into an officially registered partnership you will be treated by the Pension Fund the same, in all respects, as a married person. In section 7.2 'Marriage' you can therefore find out what pension consequences it has if you enter into or terminate an officially registered partnership.

7.4 Unmarried cohabitation

7.4.1 You cohabit, but are unmarried

Your partner may also be entitled to a survivor's pension if you cohabit without being married. In that case, however, you have to meet the following conditions:

- You have to cohabit at a single address;
- You have to make (financial) provision for each other;
- You have to register your partner with us.

This last condition is particularly important: if you have not registered your partner with us, you will be regarded as living alone. And in the event of your death your partner will not be entitled to a survivor's pension! You can see on your personal pension statement whether you have registered your partner with us. You can do this by filling in the partner registration form that is obtainable from your personnel officer or from the Pension Fund. Unlike many other pension funds we do not make it compulsory to enter into a cohabitation contract. If, however, you do have such a contract, that will be sufficient proof for us that you satisfy the second condition.

If you do not register your cohabiting partner...this partner will not be entitled to a survivor's pension in the event of your death.

7.4.2 You are going to cohabit

If you start to cohabit during your employment, you can also register your partner with us (see also 7.4.1). You must notify us of this yourself. Registering a partner may also have consequences for the level of your retirement pension (see, for example, 7.4.3). Enquire with the Pension Fund about this. If you fail to register your partner with us, we regard you in all respects as living alone.

7.4.3 You terminate cohabitation

If you did not register your partner with the Pension Fund, then you do not have to do anything if you and your partner split up. In this case we already regarded you as living alone, and so splitting up has no consequences in terms of pension entitlement.

If you did register your partner with the Pension Fund and you and your partner split up, then it is most important that you notify the Pension Fund as soon as possible of the termination of the cohabitation. You should do so immediately after the relationship has ended, because your ex-partner is entitled to the whole survivor's pension that accrued up to the termination of the cohabitation. This is referred to a 'special survivor's pension'. Such a special survivor's pension is

paid to your ex-partner in the event of your death. Your ex-partner has a 100% entitlement to the survivor's pension, including any portion that accrued before you started to cohabit. If you had an official relationship previously, things are different. In that case, a special survivor's pension may already have been split off for your first ex-partner. Your second ex-partner will then be entitled to at least the survivor's pension that accrued in the period between the end of your first relationship and the end of your second relationship.

If you do not de-register your partner immediately, that will have consequences for the further accrual of a survivor's pension for any subsequent partner. It will also have consequences if you intend to trade in the survivor's pension for a bigger retirement pension. For so long as you do not de-register your partner, you continue to accrue a survivor's pension for your ex-partner. You must de-register your partner with us yourself, using the partner registration form available from the Pension Fund or from your personnel officer. After de-registration of your partner you will once again be regarded, for the purposes of the pension plan, as living alone.

If you and your partner split up, that does not affect the retirement pension that has accrued. This pension is not divided. This is because the Settlement of Pension Entitlements of Divorcees Act, which prescribes the division of the retirement pension in the event of divorce, does not apply to cohabiting couples. Of course, you may have agreed that, if the relationship ends, the retirement pension should be divided in accordance with this law. If that is the case, you should read what is stated in section 7.2.3.

7.5 Living alone

In spite of the fact that you do not have a partner, you accrue a retirement pension and a survivor's pension. If you are still living alone when you retire, the survivor's pension that has accrued is automatically converted into extra retirement pension benefits. How this is done is described in section 4.1.3. In the event of your death, your links with the Pension Fund come to an end. No pension benefits are paid, unless you have children younger than 21 years of age, who are entitled to an orphan's pension (see also section 5.1.2.).

This equal treatment of participants with and without a partner was introduced on the 1st of April 1999. The aforementioned conversion of the survivor's pension is applied for the whole period in which pension benefits accrued. However, a transitional measure was taken to prevent the pension benefits that you had already accrued up to the 1st of April 1999 from being reduced as a result of the change in method of calculation. This is explained in more detail in section 4.1.4.

7.6. Changes in your relationship after retirement

The level of your pension is finally set when you retire. Your relationship at that time (with or without a partner) actually determines how your pension is calculated. Any subsequent changes in your relationship have no effect on your pension entitlement.

The only exception is changes in relationship between the ages of 60 and 65 if you retired at 60. Such changes do affect your pension. This is because your pension is recalculated if, for example, you get married or if you register a new partner with whom you cohabit with the Pension Fund. Also if your partner dies before you reach the age of 65, the pension already granted to you is recalculated to reflect your single status.

We are automatically notified of most changes by the local authority. But if you start to cohabit or get married abroad, we have no knowledge of this. So if you want your partner to be entitled to a survivor's pension, you must register your partner with us yourself. If you terminate the cohabitation or if your marriage is dissolved in a country other than the Netherlands, you must likewise notify us. Because this also has consequences for your pension. If this change takes place before you are 65, the pension that has already been granted will be recalculated. At the same time, your ex-partner will be entitled to the survivor's pension and in both cases also to a portion of your retirement pension. This is dealt with in sections 7.2.3 and 7.4.3.

The forms for notifying us of changes in your partner's details are available from the Pension Fund.

8 WHAT HAPPENS IF YOU LEAVE PHILIPS?

It is no longer so common for people to stay with one employer for the whole of their working life. Members of the younger generation, in particular, frequently change jobs. This is not an exception at Philips either. In this chapter we consider what consequences it has for your pension if you leave the company.

8.1 Your membership of Philips Pension Fund

When your contract of employment with Philips is terminated, your membership of Philips Pension Fund automatically ends too. In other words, you stop accruing pension benefits. If you enter the service of another employer, there is a strong likelihood that that employer will also have a pension plan, where you can continue to accrue pension benefits.

If you opted to insure yourself against the ANW shortfall, this insurance will automatically be discontinued. You do not have to undertake action yourself. This insurance does not involve the accrual of pension benefits. That means that when you leave the company you lose the entitlement to a benefit under the ANW shortfall insurance.

8.2 What happens to the pension benefits that you have accrued?

During your employment with Philips you were a member of the Pension Fund and you accrued pension benefits. When you leave, we give you what is called a 'paid-up policy'. This is a statement of the pension benefits that you accrued until your employment with Philips terminated.

These pension benefits will be paid to you or your survivor's on your retirement date or in the event of your decease. 'Paid-up' means that no further premiums have to be paid for these pension benefits.

The pension benefits in your paid-up policy are determined on the basis of the pension plan by-laws applicable at the time when you leave the company. The rules and conditions that apply to you are set out in these by-laws. If Philips Pension Fund brings out new by-laws after you have left the company, they will not be applicable to you, unless it is explicitly stated in the new by-laws that a particular article also applies to persons with a paid-up policy.

If you change address in the Netherlands, the Pension Fund is notified of this by the (new) local authority, so that we can always find you on the date of retirement. If you relocate to another country, you must notify us of your new address yourself. You are automatically contacted by us for the payment of your pension. So you do not have to get in touch with us to make sure that your pension is paid.

If you have also accrued pension benefits with your other employer(s), your total pension is paid by several pension funds and/or insurers, of which Philips Pension Fund is one. This is not a problem in itself. It may be, however, that your retirement age is different in the various pension plans in which you have participated, so that some of your pension is paid earlier and some later.

For example: your Philips pension is paid when you are 60. You later worked for a company where the retirement age is 65. So the pension that you have accrued there is not paid until you reach that age. In such a case it is possible, however, to defer your Philips pension benefits until the age of 65 (you will find more information about deferring pension benefits in section 4).

8.3 Transferring your pension to your new employer

Legally, you have the right to transfer the pension benefits that you have accrued with our Fund to your new employer's pension insurer. As a result, your pension entitlement with Philips Pension Fund is converted into new pension benefits based on your new employer's pension plan. If, for example, your retirement age at Philips was 60, whereas with your new employer it is 65, then a retirement age of 65 applies to the pension benefits that you have transferred. And of course the level of the pension benefits that you would have obtained from Philips from the age of 60 changes if you do not retire until the age of 65. Such a conversion always takes place on a financially neutral basis at the time of conversion. In other words, there is no loss of value of the pension benefits that are transferred. If you decide to transfer your pension, then when you retire you receive your pension from only one pension insurer.

Your new employer is obliged to inform you about your right to transfer your pension benefits and also to tell you how to apply for this. In general, you must apply for a transfer of pension benefits within two months after joining your new employer. The new pension insurer then contacts our Fund to exchange the necessary data. On that basis, a quote is prepared for you, which you can either accept or reject. If you decide to transfer your pension, you are no longer entitled to any benefits from Philips Pension Fund. You should bear in mind that the transfer procedure takes at least six months.

It is certainly advisable to transfer your pension benefits if your new pension plan is, like your Philips pension plan, a final-pay plan. In such a plan your pension is based on your end-of-career earnings. When you transfer your pension benefits, the years of pensionable service with Philips also count towards the calculation of your pension. You should note that, if you transfer your pension benefits, the number of years of pensionable service that you had in the Philips pension plan will usually change. You will see this on the quote. This difference in the number of years of pensionable service is because, for example, the retirement age in your new pension plan is different or because your earnings are bigger or smaller with your new employer.

If you transfer your pension benefits to an average-pay plan, under which your pension is based on your average earnings during membership of the plan, it is important to compare the adjustment (indexation) policies of the two pension insurers. At Philips the adjustment of paid-up policies is at present based on the derived price index (see section 8.4). If the annual indexation of the pension benefits that have already been accrued is higher in your new pension plan, for example on the basis of collective wage increases, then it likewise makes sense to transfer your pension. This is often the case.

8.4 Adjustment of your pension

The level of the pension stated on the paid-up policy will, as a rule, be indexed in future on the 1st of April of each year. This is done in the same way as the indexation of pensions that are being paid (to people already receiving a retirement, survivor's, orphan's or disability pension). The basis for this is the adjustment policy adopted by the Fund's Board of Trustees. At present the paid-up pensions are adjusted annually on the basis of the derived price index of the Central Bureau for Statistics. In the past five years the adjustments made by our Fund have been as follows:

Adjustment percentage 1996 – 2001	
1996	1.81%
1997	1.51%
1998	2.17%
1999	1.74%
2000	4.30% (including 2% Millennium increase)
2001	3.77%

8.5 Information about pension levels when you have left the Company

If you opt to leave your pension benefits with Philips Pension Fund, you will not automatically be informed of the annual adjustment of your paid-up pension. The adjustment percentage will, however, always be published on our website (www.philipspensioenfond.nl). If you require information about the level of your pension at a specific time, you can always request it from us in writing.

9 SPECIAL SITUATIONS

We described in the preceding chapters what happens to your pension in particular situations. However, many more situations arise that can affect your pension. What happens, for example, if you work shifts, if you take parental leave or if you go and work abroad as a Philips expatriate? The effects that these and other situations can have on your pension are dealt with in this chapter.

9.1 Working shifts

The retirement pension

If you work shifts, this affects your pension. The starting point for calculating your pension benefits is, however, your regular annual salary, with your shift work allowance not taken into account. As regards the calculation of your pension, the fact that you work shifts is reflected in the number of years of pensionable service. As a shift worker, you accrue more years of pensionable service during one year of employment, depending on your income volume percentage. If, for example, your income volume percentage is 121.25%, you accrue 1.2125 years of pensionable service in one year of employment.

The following example shows you, step by step, how your pension as a shift worker is calculated. But to understand this better, you are advised first to read chapter 4, so that you know how the pension of someone working an ordinary day roster is calculated.

Example

Let us assume that you are 50 years old and have been working shifts at Philips since the age of 30. You are in grade 25 and at present your regular gross annual salary is € 18,500. Your income volume percentage is 121.25% (3 shifts).

To keep things simple, we shall disregard the effect of the tranche of the 1st of April 1999.

To calculate the pension you have to follow a number of steps:

Step 1 *Calculating your gross pensionable salary.* This is your regular gross annual salary (reference date 1 April) + 10%. So the shift work allowance does not count towards the calculation of your gross pensionable salary.
Your gross pensionable salary is € 18,500 + 10% = € 20,350.

Step 2 *Calculating your pensionable salary.* This is the gross pensionable salary minus the franchise. The franchise is set each year. As of the 1st of April 2001 it is € 12,780 in the final-pay plan. This amount is deducted from the gross pensionable salary, because everyone gets a state (AOW) pension from the age of 65. So at Philips you do not accrue additional pension benefits on part of your salary.
Your pensionable salary is € 20,350 – € 12.780 = € 7,570.

Step 3 *Multiplying your pensionable salary by your accrual percentage and the number of years of pensionable service.* The accrual percentage is 1.65% per year of pensionable service. For a full-time employee working a normal daytime roster a year of pensionable service is the same as a year of employment. Because you work shifts, the number of years of pensionable service is calculated by multiplying your years of service by your income volume percentage (IVP).

Your accrued retirement pension is: 20 (pensionable years) x 121.25% (IVP) x 1.65% (accrual percentage) x € 7,570 (pensionable salary) = € 3,029.

If you were to continue working shifts up to your retirement age (65) and your salary at 65 were € 20,500, then your pension would be as follows: 35 (pensionable years) x 121.25% x 1.65% x € 9,770 (= (€ 20,500 + 10%) – € 12,780) = € 6,841.

By way of comparison: the pension that accrues after 20 years of pensionable service to an employee working a normal daytime roster with the same salary is € 2,498 (20 x 100% x 1.65% x € 7,570) and after 35 years of pensionable service € 5,642 (35 x 100% x 1.65% x € 9,770).

Additional shift work allowance

Shift workers aged 40 or older who have been members of the Pension Fund as shift workers for 15 years also accrue extra pension benefits for each additional year of shift work. The way in which this is calculated is very complex. And it would take too long to explain that here. However, we do want to give you an indication of the amount of additional pension. This pension, after 20 additional years of shift work with an income volume percentage of 121.25%, is € 358 gross per year. The level of the salary does not determine the level of this extra pension. If we add the additional pension to the regular retirement pension calculated in the previous example, the total retirement pension is: € 6,841 + € 358 = € 7,199 gross per year from the age of 65.

If you are interested in the way these extra pension benefits are calculated, you should consult the brochure 'Beloningsregeling Ploegenwerkers' [Remuneration Regulations for Shift Workers] that is available from your personnel officer.

If you already worked shifts before the 1st of January 1989, that will affect the way in which your pension is calculated.

If you already worked shifts before the 1st of January 1989, that affects the method of calculation. This is because the method of calculating the additional pension was introduced on the 1st of January 1989. The years of pensionable service that you accrued before that date count, just like the years that you have accrued after that date, towards the calculation of your retirement pension. For the additional shift work allowance, on the other hand, only the years from 1989 onwards count.

The pension benefits that accrued on the basis of the old shift work allowance regulations are safeguarded in the 'shift work allowance guarantee'. If you are entitled to this, you will find this amount on the personal pension statement that you receive each year from the Fund. These 'old' benefits are adjusted each year in line with the collective wage developments at Philips.

The bridging payment

If your retirement age is 60, you accrue a bridging payment. This takes place in the same way as for a full-time employee working a normal daytime roster. You can find out more about this in section 4.2.1.

Other pension benefits

The survivor's pension and the orphan's pension that are paid to your partner and children in the event of your decease are calculated in the same way as for full-time employees working a normal daytime roster. The same applies to the disability pension that is payable to you if your employment is terminated due to unfitness for work. These pensions are derived from your retirement pension. As a result of your shift work allowance your retirement pension is higher than that of an employee who works a daytime roster, and so indirectly this is also reflected in the other pensions.

9.2 Working part-time

The retirement pension

If you work part-time, then of course that is reflected in the amount of pension you get. For calculating your gross pensionable salary and pensionable salary, however, we proceed on the basis of your salary in full-time employment. Your part-time situation is taken into account in the number of years of pensionable service. This is because your part-time percentage determines how many years of pensionable service you accrue. If you work 20 hours, your part-time percentage is 50% and you accrue 0.5 years of pensionable service in one year of service/employment. If you work 30 hours, your part-time percentage is 75% and you accrue 0.75 years of pensionable service in one year of service/employment.

For calculating the accrual of your pension benefits we proceed on the basis of the average part-time percentage that you worked in the preceding period from the 1st of April to 1 April. The premium, on the other hand, is based for a whole year on your part-time percentage on the reference date of the 1st of April. If your part-time percentage changes before the end of the year, it will affect the pension benefits that you accrue but not your pension premium. So there is no adjustment of the premium. However, this is indeed the case with min/max contracts, about which you can find out more in section 9.3.

The following example shows you, step by step, how your pension as a part-time employee is accrued (you may also wish to look at chapter 4 for the general method of calculating the retirement pension).

Example

Let us assume you at present have a regular gross annual salary of € 23,000 based on full-time employment and you work 30 hours per week (75%). In your first year of employment you worked 20 hours per week (50%). Your retirement age is 65.

Step 1 *Calculating your gross pensionable salary.* This is your regular gross annual salary (reference date 1 April) + 10%. For the calculation of your gross pensionable salary we disregard your part-time salary. In your case the gross pensionable salary is € 23,000 + 10% = € 25,300.

Step 2 *Calculating your pensionable salary.* This is the gross pensionable salary minus the franchise. The franchise is set each year. As of the 1st of April 2001 it is € 12,780. This amount is deducted from the gross pensionable salary, because everyone gets a state pension (AOW) from the age of 65. So at Philips you do not accrue additional pension benefits on part of your salary. Your pensionable salary is € 25,300 – € 12,780 = € 12,520.

Step 3 *Multiplying your pensionable salary by your accrual percentage and the number of years of pensionable service.* The accrual percentage is 1.65% per year of pensionable service in the final-pay 65 plan. For a full-time employee a year of pensionable service is the same as a year of employment. Because you work part-time, the number of years of pensionable service is calculated by multiplying your years of service by your part-time percentage.

Your accrued retirement pension is: (1 year x 50% + 1 year x 75%=) 1.25 (pensionable years) x 1.65% (accrual percentage) x € 12,520 (pensionable salary) = € 258.

By way of comparison: the pension accrued by a full-time employee with the same salary is € 413 (= 2 x 100% x 1.65% x € 12,520).

If the number of your working hours changes, you do not have to notify the Pension Fund personally. We are informed about this by your personnel department and salary accounts department (CIAN).

Other pension benefits

You have already read that your retirement pension will be smaller as a result of the deduction of the number of years of pensionable service. Because, in the final-pay plan, many benefits are linked to the level of the attainable retirement pension, these pension amounts will also be proportionately smaller. For instance, the survivor's pension will be 65% of the attainable retirement pension.

If you work part-time, the bridging payment will be based on your part-time percentage. In the case of a full-time contract you accrue 5% per year bridging payment between the ages of 40 and 60. If your part-time percentage is 50% in a given year, the accrual of the bridging payment will be 2.5% (50% x 5%).

If you started to participate in the final-pay plan before the 1st of January 1985, there are different provisions governing the accrual of your bridging payment. You may, if you wish, consult Philips Pension Fund.

9.3 Min/max contract

If you have a min/max contract, the number of hours you work per week can vary. In such cases it is not possible, therefore, to adopt the usual reference date of the 1st of April for the data used for calculating your pension. For that reason, special rules have been drawn up for those with a min/max contract. First of all, the accrual of your pension is based on the average number of hours worked in the period from April 1 to April 1. This is always done after this period on the basis of information with which we are provided by the salary administration [Centrale Inkomens Administratie Nederland (CIAN)]. As a result, you are guaranteed a pension that takes into account your varying number of working hours. Your pension is calculated in the same way as that of part-time employees with a fixed number of hours (see 9.2).

On the other hand, your pension premium is based for the duration of a year on the minimum number of hours worked. At the end of that year a premium adjustment takes place in line with the number of hours actually worked. The amount of premium that is payable then is deducted from your salary. This is different from the method of premium payment in the case of part-time employees with a fixed number of hours.

9.4 Demotion

If you are demoted during your career and, as a result, your salary declines, this will usually have an adverse effect on your pension. This is because your total pension is based on your last gross pensionable salary. To avoid adverse consequences, guarantee provisions have been agreed in the CAO. These provisions are called the gross pensionable salary guarantee. This means that we calculate your pension over the years of pensionable service already accrued on the basis of your former, higher gross pensionable salary. The pension yet to be accrued is calculated with reference to your new, lower gross pensionable salary. If your new salary goes above the old level after a period of time, then these guarantee provisions become. All years of pensionable service, both before and after demotion, are then multiplied again by the new, higher gross pensionable salary.

9.5 Parental leave and other unpaid leave

The popularity of unpaid leave is increasing, particularly since parental leave was made a statutory right. Such forms of leave have consequences for your pension. The consequences are different for parental leave than for the other forms of unpaid leave.

Parental leave

If you exercise your right to parental leave, you will work fewer hours for a certain period of time. And during this period you will accrue less retirement pension, just as you do if you work part-time. So consult section 9.2 if you want to find out exactly how that works. To determine your gross pensionable salary

we take as the reference date April 1 preceding the date on which parental leave began. You can offset the loss of years of pensionable service by using the option of making additional voluntary pension contributions (see chapter 10).

Decease or disability during parental leave

In the event of your death or becoming unfit for work during your parental leave, your other pension benefits (survivor's, orphan's and disability pension) are calculated on the basis of the gross pensionable salary that you had before parental leave began. The number of years of pensionable service still to be accrued is based on the specific understandings regarding your parental leave. Let us assume that you were going to work 50% for another 6 months and then work 100% again, and that you die in the meantime. We then proceed on the basis of the agreements that were made regarding your part-time percentage during and after the parental leave. On that basis we calculate the amount of survivor's pension and orphan's pension.

If you have taken out ANW shortfall insurance, you can simply continue this insurance during the period of parental leave.

Other forms of unpaid leave

If you agree with Philips on unpaid leave for a particular period of time, this is reflected in your pension benefits.

If you take unpaid leave, in part or in full, you accrue fewer years of pensionable service. What consequences this has for your retirement pension is described in section 9.2. You can offset the loss of years of pensionable service by using the option of making additional voluntary pension contributions (see chapter 10).

It is important to be aware, however, that decease or disability during your unpaid leave will be reflected in the disability pension, survivor's pension and orphan's pension. This is because the calculations for these pensions are based on your current part-time percentage, also for years that are still to be accrued. Similar agreements to those for parental leave have not been made, though they are expected within the foreseeable future. If you wish to avoid these risks in the meantime, it is advisable to find out whether you can reach understandings on this with your personnel department.

9.6 Pension and the VROM severance scheme

If you are 55 or older and your job is discontinued, then you may be eligible for the VROM severance scheme. This means that your contract of employment is terminated and you become unemployed. At present, Philips supplements your unemployment benefit up to 87.5% of your last net salary by means of a lump sum until your retirement. A detailed brochure on this scheme published by the Social-Economic Department is available from your personnel officer.

What happens to your pension if you leave Philips under this severance scheme? Fortunately you don't have to worry about this. It has been arranged that you continue to accrue pension benefits until retirement. At that time you do not earn a salary. For the calculations we use your last gross pensionable salary. Furthermore, this grows each year together with collective wage increases at Philips. In this way we make sure that your pension retains its value. The continued accrual of pension benefits is, however, subject to a condition. You are obliged to apply to the Stichting Financiering Voortzetting

Pensioenverzekering (FVP) for a contribution to the premiums payable by you. The application form for this contribution is sent to you after you have registered with the GAK for unemployment benefit. If you do not fill in this form, your pension benefits will cease to accrue. It is most important, therefore, that you should be aware of this.

You continue to accrue pension benefits, but we also take into account the date on which your employment is terminated. This is because in principle we base ourselves on the pension conditions applicable at the time when you leave Philips. All changes to the pension plan by-laws that are implemented after your employment is terminated do not apply to you. Unless it is explicitly agreed that particular changes do apply to those who are no longer employed by the Company. Thus, for example, the equal treatment of cohabiting unmarried persons with effect from the 1st of January 1998 has been declared to be applicable to all participants in the VROM severance scheme, irrespective of when their employment actually terminated.

Once your contract of employment has been terminated, you no longer have to pay pension premiums. This is because your VROM benefit is based on your net salary, from which the pension premium has already been deducted.

You also continue to accrue pension benefits if you find other employment during your VROM period. If you also accrue pension benefits with your new employer, then when you retire the Philips pension will be reduced by the pension that has accrued elsewhere, with a maximum of the pension benefits accrued with Philips during the same period.

ANW shortfall insurance

If, before leaving Philips, you were already insured against the ANW shortfall, you have the option of continuing this insurance during the VROM period. It is not possible to increase the degree of insurance cover during this period. And if you discontinue the insurance, you will not be able to take it out again in the future. So when your VROM period begins, you have to give careful consideration to your partner's financial situation in the event of your death in order to be able to make the right decision regarding the ANW shortfall insurance.

As the premium for the ANW shortfall insurance can no longer be paid via automatic deduction from your salary or pension, you will be notified separately about the method of payment.

Provision of information

Since you continue to accrue pension benefits, we shall of course continue to keep you informed about your pension when you stop work under the VROM scheme. You will continue to receive your personal pension statement from us each year until you retire. No later than three months before you retire we shall contact you to inform you about the final level of your pension.

9.7 Early Retirement scheme (Overgangsregeling Eerder Beëindigen)

The early retirement scheme (Overgangsregeling Eerder Beëindigen) enables CAO-A employees whose retirement age is 65 to take early retirement. This scheme runs until 1 January 2004. Up to the date of retirement the employee receives a certain percentage of his/her salary. The contract of employment with Philips continues to exist throughout this period. A brochure on this subject, published by the Social-Economic Department, is available from your personnel officer.

Throughout the early retirement period the employee continues to accrue pension benefits. We base these on the gross pensionable salary that you had on the 1st of April prior to your participation in the scheme. Each year this gross pensionable salary is adjusted in line with collective wage increases at Philips. Benefits accrue on the basis of the part-time percentage that you last had when you were actively employed. For shift workers, the income volume percentage at that time is applicable.

You are able to continue your ANW shortfall insurance, since you remain in employment with Philips.

You do not have to notify Philips Pension Fund if you make use of this early retirement scheme, since we are informed about this by the CIAN.

9.8 Working as an expatriate

If you are posted abroad by Philips to work as an expatriate, you remain a member of Philips Pension Fund in the Netherlands. Corporate HRM/Expatriate Transfers informs us about the level of your gross pensionable salary, which is set each year on the 1st of April. Further information about the way in which your gross pensionable salary is determined can be obtained from that department.

Your retirement pension is calculated in the same way as for Philips employees who work in the Netherlands. You can find out more about this in chapter 4.

In addition, there are a number of specific pension conditions that apply to expatriates. For this, consult section 6.6. in the Guideline for Corporate Expatriation "Green Book", which you get when you are sent abroad by Expatriate Transfers.

You do not have to notify us of any change of address. This information is sent to us by Corporate HRM.

9.9 Relocation in or outside the Netherlands

If you move to another address within the Netherlands, you do not have to notify the Pension Fund. We are informed of your new address by the local authority to which you move. If, however, you move abroad, you must always let us know.

If you wish to receive your pension benefit abroad, then that can of course be arranged. Whether you are liable to pay tax in the Netherlands depends on the

country in which you reside. The Netherlands has concluded a tax convention with a number of countries, so that in many cases it is agreed that the country of residence levies tax. If you relocate to one of these countries, it may be, therefore, that you will not have to pay tax in the Netherlands. We are allowed not to tax your pension if you provide us with a dispensation order from the Tax Authorities in Heerlen, Private Persons and Companies Abroad department.

10 INCREASING YOUR PENSION BY MEANS OF ADDITIONAL VOLUNTARY CONTRIBUTIONS

If you participate in Philips's collective pension plan or in a comparable plan of another company throughout your working life, you are assured of a good pension. If you have worked for several employers, you may suffer a loss of pension benefits. In other words, you have a smaller pension than if you had accrued pension benefits with only one employer. You may also suffer a loss of pension benefits if because of certain circumstances you did not work for a time or if you worked for a company that did not have a pension plan. In such a case it is worth thinking about topping up your pension.

It may also be the case that you want to retire early or that you simply want to increase your pension provision, so as to have more to spend when you retire. There can be various reasons, therefore, for topping up your pension. The additional voluntary contributions facility of Philips Pension Fund offers you a secure way of increasing your pension provision. This chapter explains how this facility works.

10.1 What are additional voluntary contributions?

Additional voluntary contributions form part of the Philips à la carte system. Under this system you can use, according to your own choice, certain "sources" to purchase extra pension provision. You can make additional voluntary contributions three times per year. You directly purchase extra pension provision for the amount that you contribute.

Each year the additional pension benefits are increased by the Pension Fund's adjustment percentage. In this way, your pension enjoys a degree of protection against inflation.

10.2 What do you get back for your additional voluntary contributions when you retire?

The most important thing, of course, is what you get back for your additional voluntary contributions in the way of pension. What you get depends on your age at the time when you make the contributions and your retirement age (60 or 65). The younger you are when you make the additional voluntary contributions, the greater the amount of additional pension you will receive.

You acquire both extra lifelong retirement pension and extra survivor's pension. It is not possible to opt for only one of the two forms of pension. The following table shows you, for a number of different ages, how much extra pension you get for every € 1,000 that you pay in. The pension for which you make the additional voluntary contributions is added on to the regular retirement pension that you accrue.

In addition, in the event of your death your partner will have an additional entitlement to a survivor's pension amounting to 65% of the additional retirement pension.

This amount too is added on to the regular survivor's pension that accrues. If you do not have a partner or if your partner has no need for a survivor's pension,

you can exchange this additional entitlement to a survivor's pension for a higher retirement pension when you stop working (see section 4.1.3).

Additional pension per year per payment of € 1,000

Age at time of contribution	60 years old		65 years old	
	Retirement pension	Survivor's pension	Retirement pension	Survivor's pension
25	165	107	216	140
30	140	91	185	120
35	119	77	157	102
40	101	66	134	87
45	86	56	114	74
50	73	47	97	63
55	61	40	83	54
60	51	33	70	46

10.3 Why should you exercise this option?

It is always possible to make additional voluntary contributions, but it is a particularly attractive proposition if you have not accrued sufficient pension benefits. It is an excellent way of making up a pension shortfall.

There can be various reasons for such a pension shortfall, for instance:

- You did not work, or only worked part-time, for a number of years;
- You worked in a sector where there was no occupational pension plan;
- You are divorced, with the result that your ex-partner is entitled to part of your pension;
- You and your partner both work and both accrue pension benefits. In the past, many pension plans provided for a franchise on the assumption that the member would receive a 100% state pension. This means that pension benefits are not accrued with the employer on the amount of the franchise. In the case of membership of two pension plans the full state pension is in effect included twice (200%), whereas you will together receive only a maximum of 100% state pension. As a result, the total pension income, including the state pension, will by no means be the more or less usual norm of 70% of the previously earned family income in the case of a full period of membership from the age of 25 onwards.

10.4 What proportion of your salary can you use?

There are tax rules governing additional voluntary contributions from your salary. Philips Pension Fund has calculated the maximum additional voluntary contributions that can be made per year within the constraints of the tax system. The most important factor is your age at the time when you make the additional voluntary contributions. The maximum contribution is expressed as a percentage of your gross annual salary (12 times your regular monthly salary). As we are also able to take into account part of your period of service, the total maximum additional voluntary contributions can mount up considerably. The CIAN can inform you about the maximum amount applicable to you. At the same time it will indicate how much of this amount you have already utilised and how much remains.

By way of indication, the following table shows you the maximum contribution you can make for various ages and for various numbers of years of participation in the pension plan.

Maximum additional voluntary contribution per pension plan at the age of 35, 45 or 55 (as % of gross annual salary)

Age at time of contribution	No. of years in pension plan					
	Retirement age 60			Retirement age 65		
	1 - 2	4 - 5	10 >	1 - 2	4 - 5	10 >
35	6	14	28	7	17	34
45	8	19	38	10	23	47
55	11	25	53	13	32	64

In many cases you cannot make your maximum additional voluntary contribution in one go. There is a maximum per year of 8.33% of your gross annual salary. This amounts to your regular gross monthly salary. Of course, you may not want to make such a large contribution, in which case you can choose a lower percentage than the maximum of 8.33%.

The amount indicated by you is deducted in full from your gross salary, so that you pay less tax and social security premiums. And you are assured of extra pension provision which, in the future, is taxed in the same way as your "ordinary" pension.

Example:

You are 45 years old, participate in the final-pay plan with a retirement age of 65 and you have been employed by Philips without interruption since the age of 25. Your gross annual salary is € 22,000 and the maximum additional voluntary contribution that you can make is 47%. You wish to make a contribution of 3% of your annual salary. So you pay in € 660 (3% of € 22,000) as an additional voluntary contribution. You can pay in the remaining 44% in the coming years, of which you pay in another 5.33% (8.33% - 3%) this year.

The table on page 59 shows that per € 1,000 you can acquire an extra pension provision of € 114 gross per year. For your payment of € 660 you will get, from the age of 65 until your decease, an extra retirement pension of € 75.24 (= 0.66 x € 114) gross per year. In the event of your decease your surviving dependant will get 65% of this amount, namely: € 48.91 gross per year.

N.B.: the specified payments are gross amounts; the net amount depends on your tax rate.

10.5 What to do if you wish to participate

Three times a year you receive a participation form, on which you indicate the amount you wish to contribute. Once this form has been received, the desired amount will be deducted from your salary, subject to the maximum amounts permitted. If you indicate on the form an amount that is higher than permitted, the CIAN will reduce this to the maximum. If you participate, the purchased amount will be deducted from your overall maximum contribution. Your remaining maximum contribution will thus be reduced.

The amount is debited from your monthly salary in one go. If you do not have sufficient salary in the month in question to allow the total amount to be debited from your salary in one go, the remaining amount will be debited in the following month(s). In that case, interest will be payable by you to Philips on the amount not yet deducted. In 2001 the rate of interest is 5.4% per annum.

Within a few months after the deduction from your salary, you will receive from us a paid-up policy stating the amounts of additional pension that you will get when you retire.

Participation in this facility is not possible if you no longer work for Philips. Amounts that are contributed are deducted directly from an employee's salary. If this is not done, the percentage is not regarded as a pension premium and does not qualify for tax relief. Once Philips no longer pays you a salary, you are not able to make additional voluntary contributions. For the same reason, people who are temporarily working abroad for Philips (expatriates) are not able to participate.

10.6 Is the additional pension also index-linked?

In principle, the additional pension is adjusted in line with increases in the cost of living (inflation). The additional pension that you obtain is what is known as a paid-up policy. And this policy is subject to the same adjustment percentage as pensions that have already taken effect. The Pension Fund's Board of Trustees determines this percentage and aims at annual indexation on the basis of inflation.

The table in section 8.4 shows you the adjustment percentages of the past 6 years.

10.7 Other questions about additional voluntary contributions

Can you use money in a salary savings scheme/premium savings scheme to make additional voluntary contributions?

Money that you have in a salary savings scheme or premium savings scheme can be used to make additional voluntary contributions, though this can only be done indirectly. If you make use of this facility, the desired amount is deducted from your salary. The amount deducted is specified on your salary statement. You can release money in a salary savings scheme or premium savings scheme to a maximum of the amount specified on your salary statement. This must be done within six months after the additional voluntary contribution has been made. The money in the salary savings scheme or premium savings scheme will then be transferred to your unrestricted bank account. A form for releasing employee savings can be obtained from your salary accounts department. You should bear in mind that it can take a few months to release the money in the employee savings account.

Are there tax consequences if you make additional voluntary contributions?

The total pension benefits that you accrue with Philips Pension Fund, including the additional pension provision arising from additional voluntary contributions, remain within the statutory tax limits. Making additional voluntary contributions will not have any consequences for the standard annuity premium relief of € 1,036 (for 2001), unless you use the money in your salary savings account or premium savings account. In that case your additional voluntary contributions are deducted from the standard relief.

If you make additional voluntary contributions, relief on annuity premiums above the standard allowance is also affected. You then have to demonstrate that you have a pension shortfall. Making additional voluntary contributions reduces a

shortfall. If you have used, or intend to use, the facility for extra annuity premium relief, you are strongly advised to contact your insurer or a tax consultant.

Do additional voluntary contributions affect the level of social security benefits?

If you decide to make an additional voluntary contribution, a certain amount is deducted from your salary. This amount is regarded by the tax authorities as a pension premium. You do not pay wage tax and social security contributions on that portion of your salary. It is this tax relief that makes additional voluntary contributions so attractive. There is a drawback, however. A pension premium does not count towards the calculation of the level of income-related social security benefits. If you should be dependent on such benefits in the near future, for instance because of unfitness for work (WAO) or because of unemployment (WW) as a result of taking part in the VROM severance scheme, then the level of your salary in a particular period, known as the reference period, will be taken into account. For unemployment benefit (WW) this period is the 26 weeks before the date on which the contract of employment is terminated. If you made additional voluntary contributions in this period, the benefit that is paid will be based on the lower-than-usual salary.

If you make additional voluntary contributions, this does not affect the test for the health insurance fund limit that takes place annually on the 1st of November. By making additional voluntary contributions you cannot, therefore, prevent having to take out private health insurance if you go above the limit.

Will additional voluntary contributions affect the standard pension?

It will not affect the standard pension that you will receive. You continue to accrue this in the normal way.

11 FROM GROSS TO NET: TAX AND SOCIAL SECURITY CONTRIBUTIONS

When we discuss the level of your pension, we are always talking about your gross pension. Wage tax and social security contributions are payable on this pension when you retire. As a result, your net pension will be a bit lower. Exactly how much lower it is difficult to predict. Tax rates and social security contributions vary from one year to the next. That is why we do not inform you about your net position until a few months before your retirement. However, we would still like to let you know in broad outline how your gross pension becomes a net pension. That is the subject of this chapter.

11.1 Deduction of income tax and social security contributions

The wage tax and social security contributions payable on your pension are, in principle, calculated in the same way as for your salary. Only certain tax rates are sometimes different when you receive a pension instead of a salary. A new tax system was introduced with effect from 2001. The tax-exempt sum has given way to what is known as the tax credit. The difference between these two terms is as follows: the tax-exempt sum lowered your total income, so that tax was payable on a smaller income. Starting from 2001, tax is calculated on the whole salary/pension. From this calculated amount, the tax credit is deducted. What remains is the tax actually payable by you. It used to be possible to transfer (part of) your partner's tax-exempt sum to yourself, but from 2001 this is no longer possible. Everyone gets his/her own, non-transferable tax credit.

Before 2001

Gross pension - Tax-exempt sum (a certain deductible amount) = *Taxable income*
Taxable income x Tax bracket = Wage tax/soc.sec. contributions payable

From 2001

Gross pension x Tax bracket = *Calculated wage tax/soc.sec. contributions*
Calc. wage tax/soc.sec.contr. - Tax credit = Wage tax/soc.sec. contr. Payable

The more pension or salary you get, the more tax you pay. There are four different tax brackets, each with its own tax rate. This system will remain in force from 2001. You will find the exact amounts of the tax brackets further on in this chapter.

The level of the tax credit

The tax credit is different for those aged 65 or older and those who are younger. Everyone who is younger than 65 has a tax credit of € 1,576 in 2001. For those aged 65 or older, the level of their income determines the applicable tax credit. If the income in 2001 is less than € 27,705 per year, then the tax credit is € 940. If the income is higher, then the tax credit is € 704. If your income is less than the tax credit, the tax authorities will refund the difference. And if you have no income, the tax credit will be paid to you!

Level of tax credit in 2001

	65-	65+
Income € 27,705 or less	€ 1,576	€ 940
Income € 27,705 or more	€ 1,576	€ 704

Tax codes

Until 2001 there were five tax codes for pensioners, from 0 to 4. With the help of a wage tax declaration, you were assigned to one of these five codes. From 2001, tax codes for wage tax, as we knew them, will no longer exist. If your tax code was formerly 0, then we take no account of the tax credit from 2001. Another organisation will then take account of this. This will be the case, for example, if you already receive a state pension (AOW). The Social Insurance Bank, the organisation responsible for implementing the state pension, will apply the tax credit. This may also be the case if you get a larger pension from another pension insurer or pension fund. This body will then apply the tax credit instead of Philips Pension Fund.

If you were formerly in tax code 1, 2, 3 or 4, then Philips Pension Fund will apply the tax credit from 2001 to calculate your net pension.

If you do not agree to this procedure, you can request a wage tax declaration. If you fill this in and return it to us, we shall proceed on the basis of what you have filled in.

Boxes and tax brackets

From 2001 the tax system will have three boxes, with different tax rates for each box.

Your wages, and also the pension benefits paid to you by Philips Pension Fund, are taxed only in box 1. This box is comparable to the old tax system that operated until 2001. The other boxes are not relevant to your salary or pension. The table below shows the tax brackets that apply as of 1 January 2001. For each higher bracket a different, higher percentage of income tax/ national income contributions is payable, since the higher your income is, the more wage tax you pay.

Tax brackets 2001, box 1

Income	65-	65+
Up to € 14,870	32.55%	14.65%
From € 14,870 to € 27,009	36.85%	18.95%
From € 27,009 to € 46,309	42%	42%
From € 46,309	52%	52%

The first two tax brackets contain a tax component and a component for social security contributions (e.g. the AOW contribution). As people aged 65 or older no longer pay an AOW contribution, the first two tax brackets for people aged 65 or older are considerably lower. The third and fourth brackets consist solely of tax. Tax is payable by you on your total pension income from Philips.

Example

You retire at 60 and receive a retirement pension of € 27,000 gross per year. You are also entitled to a bridging payment of € 11,000 gross per year until you are 65. From the age of 65 you also get a state pension of € 7,250. You are not entitled to an AOW supplement, because your partner's own income is too high. What is your net pension before and after the age of 65? (For the sake of convenience, we disregard here the possibility of equalisation (see 4.2.2.).)

	Up to 65	From 65
Retirement pension	€ 27,000	€ 27,000
Bridging payment	€ 11,000	€ 0
AOW	€ 0	€ 7,250
TOTAL GROSS	€ 38,000	€ 34,250
Basic calculation of tax	$32.65\% \times € 14,870 +$ $36.85\% \times € 12,139 +$ $42\% \times € 10,991 =$ € 13,944	$14.65\% \times € 14,870 +$ $18.95\% \times € 12,139 +$ $42\% \times € 7,241 =$ € 7,519
Tax credit	€ 1,576 -	€ 704 -
Tax payable	€ 12,368	€ 6,815
TOTAL NET	€ 25,632	€ 27,435

11.2 Health insurance premiums

When you retire, all that you pay on top of wage tax and social security contributions is a premium for health insurance. The amount you pay depends on whether you are insured with a health insurance fund or have private insurance. These two possibilities are explained below. So you no longer have to pay any other social insurance contributions, such as the contribution for unemployment benefit (WW).

The main rule regarding health insurance is how you were insured prior to retirement. As a rule, the same form of insurance remains applicable. So, if you were insured with a health insurance fund, you remain insured with it. If you have other income besides your pension, such as ANW, WAO or income from regular employment, and your total gross annual income is more than € 29,813, then you will have to leave the health insurance fund. However, if you had private insurance, you remain privately insured. If your total family income after the age of 65 is less than € 18,986 (2001 level) and you formerly had private insurance, you are allowed to opt, on a once-only basis, to change over to health fund insurance. In that case the Social Insurance Bank has to issue a declaration proving that your family income is less than the specified amount.

11.2.1 Health insurance fund

If you are insured with a health insurance fund, then of course you have to pay a health insurance fund premium. Before the age of 65 you pay 7.95% on your pension income up to € 26,767. After the age of 65 you pay 7.95% on your state pension and 5.95% on your pension income (up to a total income of € 26,767). Philips Pension Fund automatically deducts this premium from your monthly pension benefit. In addition, you pay a fixed sum, known as the nominal

premium, direct to the health insurance fund. This nominal premium differs according to health insurance fund. The average level in 2001 is € 147 per year per adult.

11.2.2 Private health insurance

For more information about your private health insurance, refer to the insurance company with which you have taken out the insurance. You retain the allowance paid by Philips towards the cost of your health insurance if you retire immediately after active employment insofar as this allowance continues to part of the conditions of employment at Philips.

VROM and health insurance

If you stop working as part of a severance scheme, you are then regarded as unemployed and are entitled to an unemployment benefit (WW). As someone receiving WW benefit you have to be insured with a health insurance fund, even if you were privately insured during your active employment with Philips. So in that case you are obliged to switch to a health insurance fund. And, of course, from that time on you no longer receive an allowance from Philips towards the cost of health insurance.

Once you retire, you no longer get the WW unemployment benefit. You remain insured with the health insurance fund. Only if you have other income alongside your pension and your total gross annual income is more than € 29,813 you do have to take out private insurance again. Then, however, you are no longer entitled to an allowance towards the cost of health insurance from Philips. That is only possible if you retire immediately after active employment.

12 ANNUAL STATEMENT AND OTHER INFORMATION

Pension Funds have become increasingly aware of the importance of good communication with their members. Hence this brochure. This is not the only information that you get from us, however. Every year you receive a personal pension statement containing financial information about your pension. And apart from that, we are always ready to listen to you if you do not agree with certain decisions. For this purpose there is a complaints commission. This chapter tells you about these and the many other facilities for providing information about your pension.

12.1 Your annual pension statement

It is important for you to know what your financial situation will be when you retire. For this reason you get a personal pension statement from Philips Pension Fund every year, containing all the information about your own pension.

Personal Pension Statement

First of all, the statement specifies all the data relevant to the calculation of your pension. For example, your gross pensionable salary, pensionable salary, income volume percentage, date of commencement of membership and retirement date and the number of years of pensionable service that you have accrued.

You then find information about the insured sums to which your survivor's are entitled in the event of your decease, i.e. the amounts of your survivor's and orphan's pension and, where appropriate, your ANW shortfall insurance.

Your pension statement also shows you how much pension you yourself will receive when you retire, distinguishing according to whether you have a partner or not. This distinction is also reflected in the amounts that you have accrued, which are shown up to and including December 31 of the year in question.

The pension statement also shows how your pension is made up, in other words the different components it consists of. For instance, you can see whether you accrued pension benefits before and after the tranche (information about the tranche is given in chapter 2).

Finally, for the sake of completeness, the pension statement shows the statutory amounts to which you may be entitled, the AOW and the ANW.

12.2 What to do if you have a complaint

If you have a complaint about the handling of your pension by Philips Pension Fund, you can submit it to the complaints commission of the Board of Trustees. You have to do so in writing. The complaint will then be considered by the complaints commission.

The address of the complaints commission of the Board of Trustees is:

Klachtencommissie
p/a Philips Pensioenfond
Postbus 80040
5600 JP Eindhoven
The Netherlands

If your complaint is not dealt with to your satisfaction, there is a national body that specialises in complaints relating to pensions: the Pensions Ombudsman. The ombudsman, who only deals with a complaint after it has been dealt with by the complaints commission of Philips Pension Fund, takes a close look at our by-laws and on that basis decides whether or not your complaint is well-founded. You cannot have recourse to the ombudsman if you disagree with the content of the pension plan. In that case your only remedy may be legal proceedings against the Fund.

The address of the Pensions Ombudsman is:

Mr. J. de Ruiter
Postbus 93560
2509 AN Den Haag
The Netherlands
+ 31 (0) 70 333 89 99

12.3 If you want more information

It is possible that this brochure did not deal directly with your personal situation. Or perhaps you simply want a piece of additional information. If so, don't hesitate to contact the Pension Fund. You can call our general information number: 0800 - 023 15 01 (available on working days from 09.00 to 12.00 hrs and from 13.30 to 17.00 hrs). If you are calling from outside The Netherlands, then dial (+ 31 40) 273 11 10. You can also send your queries by e-mail to: pensioeninfo@ppf.nl. Or if you prefer to talk face to face with a member of our staff, you can always make an appointment by calling the aforementioned information number.

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13 DEFINITIONS

13.1 Definitions

Period of membership

The period for which, during your employment with Philips, you are a member of Philips Pension Fund.

Attainable retirement pension

The level of your retirement pension if you continue to work for Philips until your retirement age.

Gross pensionable salary

Income on which the pension is based: 12 times the monthly salary + 10%. The gross pensionable salary is set once per year, on the 1st of April.

Franchise

Part of the income on which you do not accrue pension benefits. This is because you receive an AOW state pension from the age of 65. By deducting this franchise from the gross pensionable salary, the Philips occupational pension takes account of the AOW.

Income volume percentage

The percentage that you work in relation to full working time. By multiplying the income volume percentage in a particular year by one year, we determine how many years of pensionable service you accrued in that year.

Survivor's pension

Pension for your partner in the event of your decease. This applies both to a married partner and an unmarried cohabiting partner.

Accrual percentage

Percentage used for calculating the annually accrued pension benefits.

Bridging payment

Temporary pension that you receive from your retirement date up to the age of 65 to compensate you for the fact that you do not yet receive the AOW state pension. In the final-pay plan this is between the ages of 60 and 65.

Pensionable salary

The pensionable salary is the gross pensionable salary minus the franchise.

Pensionable salary limit

Limit in the pensionable salary. Above the limit the accrual of pension benefits is lower than below the limit. Following the changes of the 1st of April 1999 there is no longer a pensionable salary limit for the accrual of pension benefits. However, it continues to exist for the calculation of the employee's contribution.

Years of pensionable service

The number of years for which you participate in a pension plan, with a maximum of 40 in the Philips final-pay plan in the case of a retirement age of 65 and 35 in the case of a retirement age of 60.