

## **The Philips Flex Pension Plan**

*Everything you need to know about your  
pension plan*

Eindhoven, January 2005

In spite of the fact that this brochure has been produced with all due care, no rights may be derived from it. Rights may be derived only from the latest version of the Pension Fund bylaws. This brochure was published in October 2004 and describes the new Philips flex pension plan which takes effect as of 1 January 2005. The figures used in this brochure are the regulation amounts that apply as of 1 January 2005. Where amounts are not known, the amounts that applied as of October 2004 are used.

At this moment legal developments are taking place concerning pre-retirement schemes which may affect the flex pension plan in general and the pre-retirement scheme in particular. At the time that this brochure was published the effects of these developments were not yet clear. It should be noted that rights and pension entitlements that have already accrued will not be affected.

Furthermore it is very likely that transition measures will be taken. Needless to say, we will inform you about the effects of the developments in due course.

Where reference is made in this brochure to 'indexation', the following applies: the indexation of your pension is conditional. Indexation cannot be regarded as a right but depends on the Pension Fund's finances. So in the longer term too it is not certain whether and to what extent indexation will take place.

# Introduction

This brochure on the Philips flex pension plan, as it applies from 1 January 2005, is intended for those who work at Philips and are at present accruing pension benefits under CAO-A or CAO-B.

Chapter 3 'Starting employment with Philips' describes the Philips flex pension plan in broad outline. It will give you an overall view of the pension plan. A number of things that occur in life can influence your pension situation. In subsequent chapters you will therefore find a description of the consequences for your pension when, for example, you retire or if you become unfit for work. So the brochure can be seen as a reference work that you can consult when such a situation actually occurs in your life.

Pensions and all the things related to this topic are quite complicated. This is why we have tried to explain the matter in a readable way and not to elaborate too much. For that reason, no rights may be derived from this brochure. Rights may be derived only from the latest version of the Pension Fund bylaws concerning the Philips flex pension plan. In chapter 14 you will find a glossary of pension terms.

It may be that your particular situation is not dealt with in this brochure. Or you may have a question. In that case do not hesitate to contact the administrator of the Philips Pension Fund: Philips Pension Management. You can call the general information line on telephone number 0800 - 023 15 01 (to be reached on workdays from 09.00-12.00 hours and from 13.30-17.00 hours). You can also send an e-mail to [pensioen.ppf@philips.com](mailto:pensioen.ppf@philips.com). If you prefer to have a personal meeting with one of our members of staff, please call the information line for an appointment. For further information, go to our website: [www.philipspensioenfond.nl](http://www.philipspensioenfond.nl).

We greatly appreciate all reactions to this brochure. After all, this brochure is for your benefit and your comments could contribute to a subsequent edition of this publication.

Eindhoven, October 2004, Philips Pension Fund

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# 1 Philips Pension Fund

Philips Pension Fund, in short the Fund, administers the Philips pension plans in the Netherlands. The Fund handles the accounting of your pension benefits and also makes sure that you receive your monthly pension payment when you retire. Accordingly, the pension premiums that are paid into the Fund are invested in a responsible manner.

## 1.1 Membership

### 1.1.1 Members

Apart from you there are many other people who participate in Philips' pension plans. We call these participants 'members' and divide them into three groups:

- Those who are currently employed by Philips and accrue their pension with the Philips Pension Fund (including those who are no longer in service due to incapacity or a severance scheme but still accrue pension benefits with the Philips Pension Fund). We call these people 'active members'.
- Retired employees of Philips (including the surviving dependants of deceased Philips employees) who receive retirement pension from the Philips Pension Fund: 'retired members'.
- Ex-Philips employees who have not yet retired but who have left their accrued pension benefits with the Fund (as a paid-up policy). These are the 'former members' or 'dormant members'.

### 1.1.2 Participants in the Philips flex pension

Everyone who starts working at Philips automatically becomes a participant in the Philips flex pension plan. It makes no difference what your age is when you start working at Philips – whether you are 20 or 40, you immediately participate in the pension plan. However, the date of employment and the date on which you become a participant in the pension plan may be different. If you start working on the first day of the month, then that is the date you start accruing pension with the Fund. If your employment starts after that date, you become a member of the Fund on the first day of the month following the date on which you entered employment.

If you are in Philips's employment on 1 January 2005 or are employed thereafter, you are a member of the flex pension plan that is described in this brochure. If on that date you are no longer employed at Philips due to incapacity or a severance scheme but still accrue pension with the Philips Pension Fund, then your pension will differ in some points from the plan as described in this brochure.

Under the new CAO every employee who was born on or after 1 January 1947 and participates in the Philips final-pay plan will automatically switch over to the Philips flex pension plan with effect from 1 January 2005.

## **1.2 Structure and employee participation**

### **1.2.1 Bylaws and Statutes**

Philips Pension Fund is a foundation, which means that its funds remain strictly separate from the company. Two of the Fund's official documents are important to you as a participant in the flex pension plan.

Firstly, the Bylaws of the Philips flex pension plan, which include your rights as a member. Secondly, the Statutes, which set out the objectives of the Fund and the composition and powers of the boards.

### **1.2.2 Board of Trustees**

The Fund's governing body is the Board of Trustees, which consists of twelve members. Four of the members were appointed by the company: the employer members. The other eight (non-employer members) are representatives of the employees (six members) and of the pensioners (two members). The employer members' votes count double, so that their voting rights are equal to those of the non-employer members. The Board of Trustees of Philips Pension Fund is a policy-making body and so is responsible for matters such as the adoption of the Statutes and Bylaws, the policy in respect of finance and premiums, the investment policy and the regulation indexation policy.

### **1.2.3 Committees**

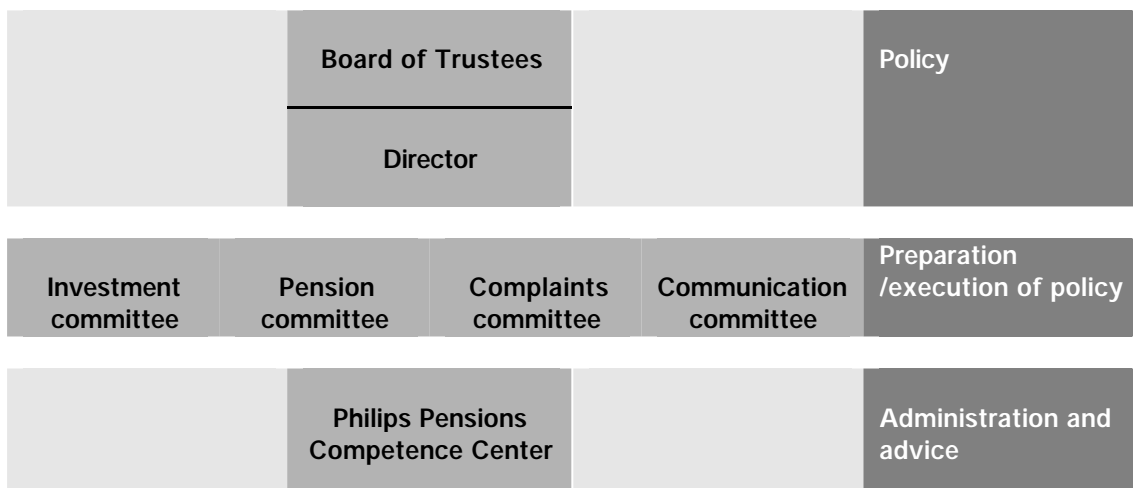
The Board of Trustees has appointed an investment committee and a pension committee to prepare the policy activities. There is also a complaints committee and a communication committee. The administration of Philips Pension Fund's policy has been entrusted to Philips Pensions Competence Center.

### **1.2.4 Board of Directors**

The management of 'Stichting Philips Pensioenfond's' consists of one person only. The managing director represents the Board of Trustees and is also responsible for coordination and communication with the administrative organisation.

### **1.2.5 The administrative organisation**

Philips Pension Fund has entrusted the administration of its policy to the administrative organisation, which until January 2002 formed part of 'Stichting Philips Pensioenfond's'. As of that date the administrative organisation became a stand-alone organisation. The new name of this separate organisation is Philips Pensions Competence Center. It is responsible for the execution of the policy as formulated and stipulated in a contract by Philips Pension Fund.



### 1.2.6 Employee participation

You can also have a say on Philips' pension plans. Once every year Philips Pension Fund convenes the Meeting of Members. All active and retired members can attend this meeting, in which Philips Pension Fund reports on the preceding year. Questions that are put in writing are usually answered by the Fund by letter in advance of the meeting. Questions that are relevant to all members of the Fund will be raised during the meeting. The meeting is announced in the magazine 'Generaties' (published by Philips Pension Fund), which comes out several times a year.

### 1.2.7 Revenues

The Fund has to make sure that it has sufficient finances to safeguard the pension payments now and in the future. The money needed is obtained from three sources:

- your pension contribution;
- the company's contribution;
- the return on invested capital.

Ever since the introduction of the Philips flex pension in 1997 your pension contribution is 0%. At present your entire pension accrual is financed by your employer. In your employment package, Philips undertakes to pay you a certain pension and Philips has also committed itself to finance these pension undertakings. Philips may, however, agree with the trade unions in the CAO negotiations on your paying part of the contribution. This, together with the return on the invested capital, will pay for your pension.

## 2 Pension terms

Before we go any further it is important that you understand the meaning of a few pension terms. These terms can be regarded as basic to an understanding of the flex pension plan. After that we can explain the various parts of the flex plan properly.

*What is the gross pensionable salary?*

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

*The gross pensionable salary = 12 x fixed gross monthly salary + holiday allowance + thirteenth month allowance + shift work allowance + variable elements of income (such as bonuses, overtime allowance).*

The gross pensionable salary is always based on full-time employment, even if you work less than 100%. In Chapter 4 we describe how your pension is calculated if you work shifts or part-time.

*What is the franchise?*

In calculating your pension entitlement we take into account the fact that from the age of 65 you receive a state pension (AOW) from the Dutch government. This is why you do not have to accrue pension for that amount. Part of the gross pensionable salary will therefore not count for your pension accrual. After all, you receive AOW benefits. We call this part of your income the franchise.

The franchise is a fixed amount that applies to all participants in the flex pension plan. As of 1 January 2005 the franchise amounts to € 14,100. This level will be maintained (frozen) up to and including 2006 (freezing). After that the franchise will follow the collective salary scale adjustment at Philips.

*What is the net pensionable salary?*

The net pensionable salary is calculated by subtracting the franchise from the gross pensionable salary.

*The net pensionable salary = the gross pensionable salary – franchise.*

The net pensionable salary is determined monthly because within the flex plan you accrue pension every month.

## 3 Starting employment with Philips

When you start employment with Philips you are immediately confronted with issues affecting not only your retirement pension but also the survivor's pension for your partner. If you do not give thought to this now, you might regret it later. That is why you should read this chapter very carefully, for it describes briefly what is relevant for you now. Further on in this brochure you will find more detailed information about these topics.

### What questions should you ask when starting employment with Philips?

1. Should I transfer to Philips Pension Fund the pension benefits that I have accrued with a previous employer?
2. Is my partner registered with Philips Pension Fund in connection with the survivor's pension?
3. Is my partner entitled to ANW shortfall insurance in the event of my decease?
4. What can I do now to make it possible for me to retire early?
5. What can I do now to make it possible for me to get a bigger pension?

This chapter deals with these issues.

### 3.1 Transfer of pension benefits

*Should I transfer to Philips Pension Fund the pension benefits that I have accrued with a previous employer?*

You have probably already accrued pension benefits elsewhere if Philips is not your first employer. The pension insurer of your previous employer will inform you about the amount of pension capital you accrued with your previous employer. The statement that you receive on that is called a paid-up policy, as no more premiums are payable for this pension. Usually pension insurers will seek to make sure that your paid-up pension retains its value to a certain extent. How they do that varies from one insurer to another. You receive the paid-up pension capital as soon as you reach the retirement age that applied in your previous pension plan. Philips Pension Fund pays the amount you accrue while working at Philips.

You could opt, however, for transferring the whole paid-up pension capital to Philips Pension Fund. In this way your whole pension will be paid by Philips Pension Fund when you retire. Whether this is advantageous depends on how indexation is applied to your pension capital by your previous insurer and your new insurer, Philips Pension Fund (see also chapter 12). To find out about this, contact your former pension insurer.

### *How to proceed*

In any case we advise you to request a quotation for the transfer of your pension benefits. This commits you to nothing but does give you an insight into your options. If you wish to do this, you can request a quotation within two months after commencing employment by filling in the form 'Request for a quotation for the transfer of pension benefits'. This does not represent a final decision. First we need to request information from your former pension insurer and then make a quotation on that basis. The complete procedure usually takes several months to a year. However, this does not affect your pension accrual during this period.

As soon as we have collected all the information we will inform you about the value of the pension benefits that you have accrued elsewhere or from a previous employment at Philips, and we will also explain what the consequences are if you transfer the pension benefits to Philips Pension Fund. Unfortunately, it is not usually very simple to compare your previous and your new pension entitlements because pension plans can vary enormously. Take, for example, the question of retirement age. What can be stated, however, is that at the time of transfer the total pension from your previous employer is worth exactly the same in money terms as what you receive for this under the Philips flex pension plan. This is stipulated by Dutch law.

If you accept the quotation, all you have to do is sign and Philips Pension Fund does the rest together with your previous insurer. From that moment on we manage all your pension benefits and your annual pension statements will show the total pension that you will receive from Philips Pension Fund when you retire. If you do not agree to the transfer of pension benefits, they will remain under management of your former insurer.

You can get the form 'Request for a quotation for the transfer of pension benefits' from your personnel officer, on the internet ([www.philipspensioenfonds.nl](http://www.philipspensioenfonds.nl)) or from Philips Pension Management.

## **3.2 Survivor's pension**

*Is my partner registered with Philips Pension Fund in connection with a survivor's pension?*

The survivor's pension is a lifelong benefit for your partner in the event of your death. Under the flex plan the pension is a term insurance policy before the age of 65 and a purchased insurance policy after the age of 65. It is also possible that your partner may receive a survivor's pension under the pre-retirement scheme. Chapter 5 deals with the survivor's pension in more detail. If you have just started employment with Philips and you have a partner, you are automatically insured for the survivor's pension under the flex plan on condition that your partner is registered with the Fund. At present, no premium is payable for this insurance.

#### *How to proceed*

If you are married or have entered into a registered partnership, the local authority will automatically inform Philips Pension Fund about this. No action is required from you to be automatically insured for the survivor's pension. If you cohabit but are not married, you must inform Philips Pension Fund about your partner or he/she will not receive a survivor's pension from the Fund in the event of your death. In this case the same conditions apply as to the General Surviving Dependant's Act (ANW). In short, you have to live at the same address and share a responsibility to provide for each other.

If you live abroad you also have to register your partner yourself. A single person is not insured for the survivor's pension. If you get a partner in the future you can still take out the insurance simply by registering your partner.

The form 'Registration/change form partner data flex pension' that you can use to register your partner can be obtained from your personnel officer, on the internet ([www.philipspensioenfonds.nl](http://www.philipspensioenfonds.nl)) or from Philips Pension Management.

Chapter 5 contains more detailed information about the survivor's pension.

### **3.3 ANW shortfall insurance**

#### *Is my partner entitled to ANW shortfall insurance in the event of my decease?*

The ANW shortfall insurance is intended to compensate for non-entitlement to benefit under the General Surviving Dependant's Act (ANW), or to insufficient benefit under this act. The ANW shortfall insurance provides for an income for your partner in the event of your death. Chapter 5 contains more detailed information on the subject of ANW shortfall insurance.

#### *How to proceed*

If you wish to take out ANW shortfall insurance you must apply within two months after commencing employment. After that it is only possible in certain circumstances such as the birth of a child or entering into a partnership. You need to use a special form: 'Application/change form for ANW shortfall insurance'. If you cohabit without being married you must also notify us of your partner's personal details because we are not automatically notified by the local authority. You can obtain this form from your personnel officer, on the internet ([www.philipspensioenfonds.nl](http://www.philipspensioenfonds.nl)) or from Philips Pension Management.

### **3.4 Pre-retirement scheme**

#### *What can I do now to make it possible for me to retire early?*

The standard retirement age under the flex pension plan is 62½ years, but it is possible for you to retire earlier (from the age of 60) or later (before the age of 65) than that. Retiring early, however, has significant financial consequences. For that reason you can take part in the pre-retirement scheme and save for an early retirement with a higher pension.

Under the pre-retirement scheme you set aside a portion of your salary each month which is invested according to a specific method of investment. As a

rule, it can be said that the longer a certain investment can yield a return, the better it is. Therefore, it is sensible not to postpone the decision to save money in the pre-retirement scheme too long and to think about it right after you start employment.

#### *How to proceed*

Every month you can set aside a portion of your salary for the pre-retirement scheme. Additionally, you can make an extra deposit three times a year: in March from your work release days of the previous year, in May from your holiday allowance and in December from your thirteenth month allowance. The pre-retirement scheme is one of the options in the à la carte system in the terms of employment package.

You can apply at any time for monthly participation. Your annual personal pension statement shows how much you must save if you wish to retire at 60 with the same amount of pension as at the age of 62½. The application form can be obtained from your administrator, whose address you will find on your salary statement. You will be informed automatically about the three extra deposit options via the à la carte application form.

More detailed information about the pre-retirement scheme can be found in Chapter 9.

### **3.5 Additional Voluntary Contributions**

*What can I do now to make it possible for me to get a bigger pension?*

Under the Philips flex pension plan you have the option of obtaining extra pension by making 'additional voluntary contributions'. This option is available to everyone, even if you have already accrued a full pension. If you make additional voluntary contributions you receive a policy which shows you what pension benefits you obtain for your extra contributions.

#### *How to proceed*

Additional voluntary contributions are one of the options available in the à la carte system in the terms of employment package. You can make additional contributions three times a year: in March from your work release days of the previous year, in May from your holiday allowance and in December from your thirteenth month allowance. You will be informed automatically about the three deposit options via the à la carte application form.

Chapter 10 contains more detailed information about 'additional voluntary contributions'.

### **3.6 Providing personal details to Philips**

The local authority provides Philips Pension Fund with information about changes in the personal details of participants and pensioners, such as changes of address or details of your partner when you get married.

Philips Pension Fund passes on the address details to Philips Electronics N.V. to enable it to update its data also, so that, for example, they can send 'My Shop' and the Philips Magazine to the correct addresses.

If you object to having your details passed on, please indicate this in writing to: Philips Pensioenfonds, Attn Afdeling 'Gegevensbeheer', P.O. Box 80040, 5600 JP Eindhoven.

You can also send an e-mail to: [pensioen.ppf@philips.com](mailto:pensioen.ppf@philips.com).

In this case you are responsible for notifying the aforementioned Philips organisations of your change of address.

## 4 When you retire

Retirement will bring a number of important changes to your life. Not only will the daily pattern of your life be different, but your income will alter too. This is worth bearing in mind, especially if you consider that your spending may also change when you have more leisure time.

In this brochure we draw attention to your income after retirement. This will enable you to plan better for the future. Furthermore, the Philips flex pension plan offers facilities for doing something extra for your pension. For example, you can opt for a larger pension by making additional voluntary contributions (chapter 10) or for an earlier pension via the pre-retirement scheme (chapter 9). You can best make these choices when you know what your standard pension income will be. This chapter deals with the standard provisions for retirement.

With examples, we explain how you accrue (earn) pension benefits under the Philips flex pension plan and why you receive a bridging payment. Every year you receive your personal pension statement, which contains all your pension details and keeps you informed of your future pension income.

### 4.1 Your income when you retire

It goes without saying that you are paid a salary for the work you perform at Philips. What is perhaps less obvious is that by working now you provide, little by little, for part of your income when you retire: your retirement pension. This pension forms part of your overall remuneration package at Philips. It comes into play as soon as you commence employment, irrespective of your age at that time, because you then start to accumulate the income you get when you retire.

As well as your pension from Philips or another employer, you are entitled to a state pension (AOW) from the age of 65. And on top of that, you can make your own additional pension provisions, both individually with an insurer and with the Pension Fund via the various facilities offered by the Philips flex pension plan. These three major elements of your income after retirement are briefly outlined in this chapter.

#### 4.1.1 The basic state provision: the AOW

Everyone who lives and/or works in the Netherlands is entitled to an AOW state pension from the age of 65. The amount of pension that is paid is linked to the statutory social minimum. Your family situation also affects the amount.

As of 1 July 2004 the AOW benefit is as follows:

AOW (with partner)	€ 7,942 gross per year
AOW (single person)	€ 11,566 gross per year
AOW supplement	€ 7,942 gross per year

If you are married or cohabit and if, like you, your partner is 65 or older, each of you receives an AOW pension benefit of € 7,924. In that case, the total AOW family income is € 15,884. If you have a younger partner, you may be entitled to an AOW supplement. The AOW supplement is the same as the AOW pension benefit, namely € 7,942. However, any income earned by your partner will be deducted from the AOW supplement.

If your partner has an income of his/her own it will be deducted from the AOW supplement. In this case we distinguish earnings (wages etc.) from payments such as (social) benefits. In the case of earnings the amount of € 190 plus 1/3<sup>rd</sup> of the additional amount will be disregarded. If the monthly income amounts to € 1,136 or more, the AOW supplement will not be paid. Payments such as (WAO) benefits will be deducted from the AOW supplement completely.

The supplement is paid until your partner reaches the age of 65. From that time he/she is entitled to his/her own AOW benefit of € 7,942. His/her own income is not deducted from this.

The amounts specified above are based on the situation that you lived and/or worked in the Netherlands between the ages of 15 and 65. In that case you are entitled to the full AOW state pension. If, however, you and/or your partner were not resident or did not work in the Netherlands for a number of years, your AOW benefit will generally be reduced by 2% for each year that you have missed.

#### *AOW shortfall*

From 2015 the AOW supplement will no longer be paid. So if you reach the age of 65 in or after 2015, you will no longer be eligible for an AOW supplement for your younger partner. Your partner will get his/her AOW benefit as soon as he/she reaches the age of 65. Depending on the age difference between you and your partner, you may therefore suffer a temporary shortfall in AOW benefit.

You could possibly have an AOW shortfall before 2015, for example because you or your partner have not accrued a full AOW. This could happen if you or your partner worked or lived abroad in the past or because one of you has a reduction in the AOW supplement due to income of your own. You cannot take out separate insurance with Philips Pension Fund for that shortfall, but you can of course provide yourself with additional pension if you participate in the pre-retirement scheme or make additional voluntary contributions.

The organisation responsible for implementing the AOW is the Social Insurance Bank (SVB). You can contact it if you have any questions about the AOW state pension. For information, call the SVB (head office: 0031 - 20 - 656 56 56) or visit its website ([www.svb.org](http://www.svb.org)).

#### **4.1.2 Your pension income under the Philips flex pension plan**

As soon as you commence employment, whether you be 22 or 40, you start to accrue (earn) retirement pension benefits. There is no minimum age at which you start to accrue pension benefits. During each year of service with Philips you accrue pension benefits, which you receive in addition to the AOW state pension. The amount that you accrue each year is related to your salary. So the higher your salary and the longer you work for Philips, the greater your pension is.

Your pension plan has a reference retirement age of 62½. This means that, in principle, your pension is paid from the age of 62½. You are free, however, to opt for a different retirement age, provided that it is between the ages of 60 and 65. This choice does, of course, affect the amount of your retirement pension.

As the standard retirement age in the Philips flex pension plan is before the age of 65, provision is also made for a bridging payment that you receive between the age of 62½ and 65 to make up for the fact that you do not get the AOW state pension until you are 65.

#### **4.1.3 Individual provisions**

Quite apart from the options that are available within the Philips flex pension plan, you can make additional (pension) provisions via an insurer on a completely individual and voluntary basis - in the form of annuity or single-premium policies. In this way you can ensure that your financial situation after retirement matches your own wishes and needs even more closely. As a result, your overall income after retirement will then come from three sources: your AOW state pension, your Philips pension (including any extra provision from the optional facilities in the Philips flex pension plan) and your pension from individual insurance products.

## **4.2 Accrual of your retirement pension**

### **4.2.1 How do I accrue pension benefits?**

The Philips flex pension is an accrued benefit plan. That means that you accrue (earn) pension benefits each year, based on your income in that year, and that at the end of your career with Philips you have a retirement pension based on the average earnings during your career. The plan is also known, therefore, as an average-salary or career-average plan. For the accrual of a standard retirement pension you do not at present have to pay a pension premium (contribution).

### **4.2.2 Indexation of accrued pension**

Because of inflation, the pension that you accrue today could lose a lot of its value by the time it is paid to you. That is why the pension benefits that you have already accrued are partially index-linked each year on the basis of the collective salary scale adjustment at Philips, on the condition that the Fund has sufficient finances (see also chapter 12).

### **4.2.3 Accrual of your pension in steps**

The accrual of your pension takes place in four steps, which are explained below.

#### **Step 1**

##### *Determining your gross pensionable salary*

The first step is determining the income that counts towards your pension. In the Philips flex pension plan this is really very simple, because almost all the elements of your income are pensionable. First of all, therefore, your overall annual salary (12 x your gross monthly salary). Your holiday allowance and your thirteenth-month payment, which together make up 16.33% of your annual salary, also count. Finally, all variable elements of income, such as shift work allowances, overtime allowances and bonuses, also count. Only expense allowances (e.g. travel and relocation allowances) do not count towards the pensionable income.

#### **Step 2**

##### *Determining your net pensionable salary and calculating the accrual of your pension benefits*

Only the portion of your pensionable income above € 14,100 counts for the accrual of pension benefits. We refer to this portion of your income as your net pensionable salary. You do not have to accrue pension benefits on the amount up to € 14,100 (this is known as the 'franchise'), since the state provides a basic pension under the General Old Age Pensions Act (AOW). By deducting € 14,100 from your total pensionable income (gross pensionable salary) we obtain your net pensionable salary. You accrue (earn) pension benefits of 2% of your pensionable salary per year.

#### **Step 3**

##### *Indexation of the pension benefits*

The pension benefits that you have accrued are partially adjusted each year to the collective salary scale adjustment, on the condition that the Fund has sufficient finances (see also chapter 12).

#### **Step 4**

##### *Adding up all the indexed pension benefits*

Finally, all accrued pension benefits, including indexations, are added together. The total is the amount of pension that is payable.

### Example: pension accrual

Let us assume that you work full-time for Philips and your monthly salary is € 2,000 gross. You were also eligible for a bonus of 3% of your annual income, i.e. € 720.

Your pension in the year in question will then be calculated as follows:

#### Step 1: determining your gross pensionable salary

12 x € 2,000	=	€	24,000	
Thirteenth-month payment (8.33 % of € 24,000 )	=	€	2,000	
Holiday allowance (8 % of € 24,000 )	=	€	1,920	
Bonus payment (3 % of € 24,000 )	=	€	<u>720</u>	+
Gross pensionable salary	=	€	28,640	

#### Step 2: determining your net pensionable salary

€ 28,640 – € 14,100	=	€	14,540
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On this basic amount you accrue pension benefits of 2% per year:

2 % x € 14,540	=	€	290.80
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#### Step 3: indexation of the pension benefits

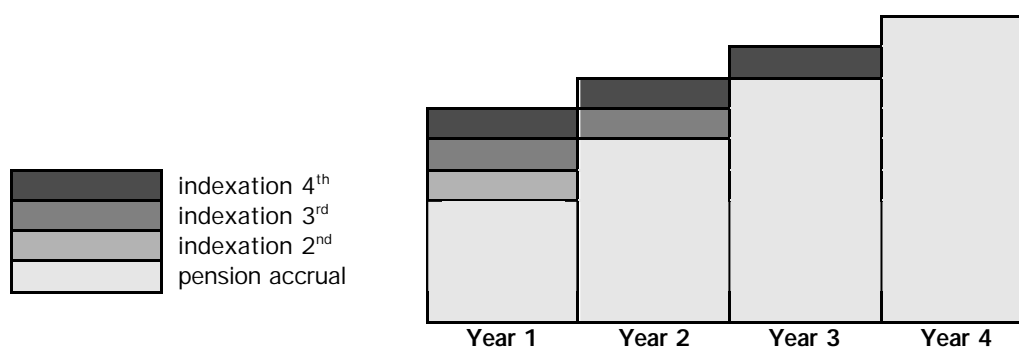
The following year the collective salary scale adjustment at Philips is 2%. The Board of Trustees of Philips Pension Fund decides that the pension accrued in the preceding year, as calculated above, also goes up by 2%, in order to retain its value:

€ 290.80 + € 5.82 (= 2 % x € 290.80 )	=	€	296.62
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#### Step 4: adding up all the indexed pension benefits

The first three steps, as calculated above, are repeated every year. The gross pensionable salary and the pensionable salary will be different from year to year. The accrued pension also varies from year to year, therefore. All indexed benefits together determine the final level of the retirement pension.

This method of calculation is shown schematically in the following diagram.



#### **4.2.4 When will my pension be paid?**

The standard retirement age is 62½. You receive the first pension payment at the beginning of the month following the month in which you reach this age.

#### **4.2.5 Retire earlier or later**

You may, however, opt to retire at a different age - either earlier or later. You can do so provided that the retirement age is between 60 and 65. You can make this choice from the age of 58. The choice must be made at least 1 year before retirement and at the latest when you reach the age of 62½. This means that if you want to retire at the age of 64, you have to make this known no later than at the age of 62½.

If you choose to retire later than at 62½, your annual pension will be higher as a direct result of the postponement. Pension accrual (2%) ends at 62½ years. If you choose to retire earlier, that will adversely affect your pension. If you retire earlier, your pension has to be paid for a longer period and you also miss a few years of benefit accrual. To offset these adverse financial consequences, you can take part in the pre-retirement scheme. Under this scheme you set aside a portion of your salary in order to make earlier retirement financially attractive. The amounts concerned can then be invested in various ways, according to your choice. Chapter 9 deals with the pre-retirement scheme and the various forms of investment.

### **4.3 The bridging payment**

#### **4.3.1 What is the bridging payment for?**

From the age of 65 you get the AOW state pension. We make allowance for this in the Philips flex pension plan by arranging it so that you only accrue pension benefits on your income above € 14,100. However, you can retire before the age of 65. In that case you do not yet receive the AOW state pension, even though the accrual of your pension benefits made allowance for you receiving this. So if you retire before the age of 65, you do not get the AOW state pension for a number of years. To compensate you for this, you receive a bridging payment. This payment is made between the ages of 62½ and 65. It is a standard part of the Philips flex pension plan for which, at present, you do not have to pay a premium.

#### **4.3.2 How is the bridging payment accrued?**

This provision is accrued between the ages of 50 and 62½. Between the ages of 50 and 60 the accrual percentage is 9.5% per year and between the ages of 60 and 62½ the accrual percentage is 2% per year. In total, therefore, you can accrue a maximum of a 100% bridging payment. This division has to do with the flexible nature of the flex pension plan. If you wish to retire earlier than at the age of 62½, you do not accrue the full bridging payment. By reducing the accrual percentage in the last 2½ years, the amount of bridging payment that is lost as a result of earlier retirement is limited. If, for example, you retire at the age of 60, you have accrued 95% of the total bridging payment.

### **4.3.3 How much bridging payment do I receive?**

If you have participated in the Philips flex pension plan between the ages of 50 and 62½, you will have accrued a full bridging payment of 100%. As of 1 January 2005 the full bridging payment is € 16,215. This sum will be paid to you from the age of 62½ until you reach the age of 65.

If, for example, you have only accrued 95%, your bridging payment will be 95% x € 16,215 = € 15,404 per year from the age of 62½ to 65. If you want to receive this payment between the ages of 60 and 65, for example because you wish to retire at 60, then the duration of the payment is 5 years instead of 2½ years. As a result, you get roughly half of the payment per year (5 years x 47.5% instead of 2½ years x 95%). The total amount of bridging payment that you receive for a number of years up to, at the latest, your 65<sup>th</sup> birthday remains virtually the same, therefore.

### **4.3.4 Compensatory allowance**

Up to 1 April 1999 the Philips flex pension plan had a compensatory allowance towards social security contributions. This provision was designed to offset the difference in social security contributions before and after the age of 65. This provision ceased to exist as from 1 April 1999 as part of the pension changes agreed in the CAO 1998 - 2000. If you were 50 or older on 1 April 1999, then you had already accrued part of this allowance. You are of course entitled to the amount already accrued, which is also adjusted each year in line with the adjustment percentage (see chapter 12).

Like the bridging payment, this amount will be paid from your retirement date until you reach the age of 65. The current amount to which you are entitled can be found each year on your personal pension statement.

## **4.4 Special situations**

### **4.4.1 How does it affect my pension if I work shifts?**

#### *The retirement pension*

If you do shift work, your shift work allowance counts in full towards your pension provision. As a result of receiving shift work allowances, your total annual income is greater, so that the pension you receive later will also be larger.

**Example: pension accrual and working in shifts**

Let us assume you work a three-shift system. Your full-time monthly salary is € 1,700. You work 93.75% compared with a full-time employee. The shift work allowance is 27.5% of your full-time salary. The shift work allowance counts towards the calculation of your pension:

**Step 1: determining your gross pensionable salary**

12 x your monthly salary of € 1,700 x 93.75 %	=	€	19,125	
Shift work allowance (27.5 % of 100% ann. salary)	=	€	5,610	
13 <sup>th</sup> month (8.33 % of € 24,735 )	=	€	2,060	
Holiday allowance (8 % of € 24,735 )	=	€	<u>1,979</u>	+
Gross pensionable salary	=	€	28,774	

**Step 2: determining your net pensionable salary**

€ 28,774 – € 14,100 (franchise)	=	€	14,674
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On this basic amount you accrue pension benefits of 2% per year:

2 % x € 14,674	=	€	293.48
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**Step 3: (indexation of pension benefits) and step 4 (adding up all the indexed pension benefits)**

This is the same for those who work in shifts as those who work full-time.

For comparison: if this employee were not to work in shifts his pension accrual would be as follows.

Gross pensionable salary:

12 x € 1,700 + € 1,700 (13 <sup>th</sup> month) + € 1,632 (holiday allowance)	=	€	23,731
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Net pensionable salary:	€ 23,732 – € 14,100	=	€	9,632
Pension accrual:	€ 9,632 x 2 %	=	€	192.64

*The bridging payment*

Participants in the Philips flex pension plan accrue retirement pension as well as bridging payment, which will be paid between the ages of 62½ and 65 in the same way as for full-time (daytime) employees.

### *Other pension benefits*

Other pensions such as the disability pension or survivor's pension are based on the gross pensionable income and the net pensionable income respectively. These are higher due to shift work allowances. Therefore the disability pension and the survivor's pension are higher too. The following example shows a calculation of this.

#### **Example: other pensions and working shifts**

The disability pension is 5 % of your gross pensionable income up to a maximum of the 'maximum WAO salary limit' (AO limit) (as of 1 April 2004: € 43,790,-). If you receive an income above this limit, you are allowed to keep 75% of the amount in excess of this limit. The shift worker's income in this example does not exceed the maximum WAO salary limit. The total disability pension:

$$5 \% \times \text{gross pensionable income} = 5 \% \times \text{€ } 28,774 = \text{€ } 1,439$$

The survivor's pension is based on the net pensionable income. The insured amount is 50 % of this amount:

$$50\% \times \text{net pensionable income} = 50\% \times \text{€ } 14,674 = \text{€ } 7,337$$

#### **4.4.2 How does it affect my pension if I work part-time?**

##### *The retirement pension*

If you work part-time, you receive a proportionately lower salary than an employee who works full-time. Your income on a full-time basis forms the starting point for the calculation of your pension. The portion of this above the franchise is the portion that counts for the accrual of your pension benefits, i.e. your net pensionable salary. This pensionable salary has to be multiplied by your part-time percentage. For example the amount will be multiplied by 50% for someone who works 50%.

**Example: pension accrual and working part-time**

Let us assume you work three days a week (part-time percentage is 60%) and your gross monthly part-time income is € 1,400. There are no additional elements of income. Your pension will be calculated as follows.

**Step 1: determining your gross pensionable salary**

12 x full-time salary of € 2,300	=	€	28,000	
13 <sup>th</sup> month (8,33% of € 28,000)	=	€	2,333	
Holiday allowance (8% of € 28,000)	=	€	<u>2,240</u>	+
Gross pensionable salary	=	€	32,573	

**Step 2: determining your net pensionable salary**

€ 32,573 – € 14,100 (franchise)	=	€	18,473	
The employee works part-time. This means that the net pensionable salary must be multiplied by the part-time percentage:				
€ 18,473 x 60%	=	€	11,084	
On this basic amount you accrue pension benefits of 2% per year:				
2 % x € 11,084	=	€	221.68	

**Step 3: (indexation of pension benefits) and step 4 (adding up all the indexed pension benefits)**

This is the same for those who work part-time as those who work full-time.

*The bridging payment*

If you work part-time the accrual of bridging payment will be proportionally lower.

*Other pension benefits*

Other pensions such as the disability pension or survivor's pension are based on the gross pensionable income and the net pensionable income respectively. Therefore these pensions will be lower too.

**Example: pension accrual and working part-time**

Let us look at the standard survivor's pension. Let us assume the participant has a partner and is therefore insured for the full survivor's pension, which is 50% of the net pensionable income. The amount is different for full-time and part-time workers:

Full-time:	50 % x full-time net pensionable salary =		
	50 % x € 18,473	=	€ 9,237
Part-time:	50 % x part-time net pensionable salary =		
	50 % x € 11,084	=	€ 5,542

#### **4.4.3 Can I first take partial retirement?**

The flex pension plan offers you the possibility of taking partial retirement in the period prior to complete retirement. This is ideal if you want to take things a little easier, but don't want to stop work altogether. For the proportion of the working time that you continue to work you continue to accrue pension benefits in the usual way up to the age of 62½. 'Semi-retirement' always has to take place by arrangement with the employer. At the written request of your personnel officer, Philips Pension Fund can make a calculation of the amount of pension you will receive if you take partial retirement.

### **4.5 The final-pay guarantee**

For everyone who is or becomes an active member of the Philips flex pension plan

on 1 January 2005 the final-pay guarantee will be applicable. The final-pay guarantee is an extra pension payable in some cases on the basis of a certain guarantee formula. It is not a guarantee of the pension that you would have received if the final-pay plan had been or had remained applicable to you.

In particular, those who make big advances in their career may be entitled, under the final-pay guarantee, to some extra pension on top of what accrues to them in the flex pension plan.

When you retire (or if your employment ends before that) your pension is reviewed. Your accrued pension is compared to the outcome of the guarantee formula. The highest sum will be paid to you.

**The guarantee formula is as follows:**

$$\begin{aligned} & (\text{Guarantee pensionable salary (12 x monthly salary + 16.33 \%)} \\ & \quad \text{-/- deductible amount (€ 19,416)}) \\ & \quad \quad \quad \times \\ & \quad \quad \quad \text{pensionable years} \\ & \quad \quad \quad \times \\ & \quad \quad \quad 1.75 \% \end{aligned}$$

**Example: final-pay guarantee**

Let us assume that you started employment with Philips as of 1 June 2000. Upon starting employment you immediately began to accrue pension benefits. Your employment with Philips ends on 1 December 2018 and during your period of employment you worked full-time. Your pension details are as follows.

Date of joining the fund : 1 June 2000  
 Date of termination of employment : 1 December 2018  
 Gross monthly salary on date of termination : € 5,000

Your accrued pension in the Philips flex pension on the date of termination is € 15,300.

*Guarantee formula*

Under the guarantee formula your pension amounts

to:	€	69,798	
Guarantee pens.salary: 12 x € 5,000 + 16.33 %	€	<u>19,416</u>	-/-
=	€	50,382	
Guarantee franchise :		18.5	x
		<u>1.75%</u>	x
Number of pensionable years (1-6-2000 to 1-12-2018)	€	16,311	
Accrual percentage			
Result of guarantee pension			

The result of the guarantee formula (€ 16,311) is higher than the accrual in the flex pension (€ 15,300 ). Therefore you receive a paid-up policy (overview of the accrued pension benefits with Philips Pension Fund) with an amount of retirement pension of € 16,311 gross per year when your employment ends.

The final-pay guarantee was also applicable in 1997. If you are entitled to extra pension benefits under this final-pay guarantee they will be paid to you on 31 December 2004.

## 5 In the event of your death

A pension plan usually offers more than just a pension when you retire. And the Philips flex pension plan is no exception. It also has provisions for your partner and/or children in the event of your decease: the survivor's pension, the ANW shortfall insurance and the orphan's pension.

This chapter deals with all the provisions for surviving dependants. However, such provision is not made automatically in all cases. You yourself may have to take action if you require cover.

### 5.1 Survivor's pension

The insurance for the survivor's pension offers lifelong benefits for your partner in the event of your death during your employment with Philips. The flex pension plan distinguishes three kinds of survivor's pension: before 65, after 65, and from any capital from the pre-retirement scheme (if you were to die before you retire).

#### 5.1.1 The survivor's pension before the age of 65

*Who is entitled to survivor's pension?*

All participants in the flex pension plan are automatically insured for the survivor's pension provided that the partner is registered with Philips Pension Fund. If you are married or have a registered partnership, the local authority automatically notifies the Fund thereof. In that case you do not have to take any action to be automatically insured for the survivor's pension. However, if you cohabit and are unmarried you must register your partner with Philips Pension Fund. If you do not, your partner will not receive any benefits from the Fund after you die. The State attaches the same conditions to cohabitation as it does to the Surviving Dependant's Act (ANW). You must also register your partner if you live abroad. And if you start a relationship in the future, do not forget to inform us. It is a requirement that Philips Pension Fund knows who your partner is!

*How much pension is paid to my partner?*

The annual survivor's pension is 50% of your income above the franchise (€ 14.100 as of 1 January 2005). The average of the variable components of your income (such as overtime or shift work allowance, bonus) over the past three years also count. The survivor's pension is paid to your partner in the form of monthly benefits until he/she passes away.

**Example: survivor's pension**

Let us assume your gross monthly salary is € 1,750 without extra allowances. Your total annual income will then be  $12 \times € 1,750 + \text{holiday pay (8\%)} + 13^{\text{th}} \text{ month (8.33\%)} = € 24,429$ . In the event of your decease, your partner will be entitled to the following pension:

50 % of your annual income above € 14,100  
=  $50 \% \times € 10,329$  ( $€ 24,429 - € 14,100$ )  
= an annual survivor's pension of € 5,164.50

*How much premium do I pay for the survivor's pension?*

As of 1 January 2005 you have to pay a premium of 0% for the survivor's pension. This was agreed upon in the CAO and could possibly change later on. All participants in the flex pension plan are automatically insured provided that the partner is registered with the Fund.

*What happens to my survivor's pension if my relationship ends?*

The survivor's pension is a term insurance policy. This means that your partner will be entitled to a pension in the event of your death for so long as you are insured. It also means that your partner does not accrue a pension provision. If your partner is registered you are automatically insured for a survivor's pension. As soon as your relationship ends, your ex-partner is no longer eligible for the pension, since he/she no longer meets the conditions. We automatically discontinue the insurance as soon as we are notified of the termination of your relationship. In section 8.3 'Divorce' you will find out more about the effect of divorce on your pension. If you enter into a new relationship, you can take out insurance again for your new partner.

*What happens to my survivor's pension if my partner dies?*

The insurance is also discontinued if your partner dies. No further premiums are payable from that time. And as it is a term insurance policy, no survivor's pension provision has accrued to which, for example, a future partner would be entitled. If you have a new partner in the future, you must again decide whether or not to take out this insurance.

*What happens to my survivor's pension if I leave Philips?*

If your contract of employment with Philips is terminated, the surviving dependant's insurance is automatically discontinued and your partner is no longer entitled to a pension from the Fund in the event of your death. There are two exceptions, however: If you continue to accrue pension benefits after the termination of employment, for instance under a VROM severance scheme, you have the option of continuing this insurance. In a WAO (incapacity) situation the standard insurance is automatically continued without a premium having to be paid.

If you leave the Company without continuing to accrue pension benefits, we offer you another way of insuring a survivor's pension for your partner. You can convert part of your accrued retirement pension into a survivor's pension. You can find out more about this in chapter 6.

*What happens to my survivor's pension when I retire?*

When you retire, you can simply continue the insurance for the survivor's pension until you are 65. After that this term insurance policy ends. You have not accrued anything. That does not mean, however, that you can no longer make provision for your partner after that. Even after the age of 65 you can take out surviving dependant's insurance for your partner. This is dealt with in the following section.

**5.1.2 The survivor's pension from the age of 65**

When you reach the age of 65 you have the option of trading in a portion of your retirement pension for a survivor's pension. As a result, your retirement pension will be smaller. How much smaller it will be, depends on the level of the survivor's pension that you want. There is a choice of three levels, which are shown in the table below. You can decide what level is the most appropriate for you, depending on the personal situation of you and your partner.

<b>Survivor's pension</b> as % of the reduced retirement pension	<b>Reduction of retirement pension</b>
75%	22.3%
50%	16.0%
25%	8.7%

*No distinction is made between male and female pensioners.*

A few months before your 65<sup>th</sup> birthday you will receive from us a letter in which you are offered this trade-in option. You do not have to make your decision until that moment. Once you have opted to trade in part of your retirement pension, you cannot reverse the decision subsequently.

**Example: trading in retirement pension for survivor's pension**

Let us assume that you have a retirement pension of € 10,000 gross per year and you will soon be 65 years of age. You want your partner to be assured of a survivor's pension in the event of your death after the age of 65. In view of your personal circumstances you opt for a survivor's pension of 50% of the retirement pension. Your pension and that of your partner will be as follows:

Your lifelong retirement pension of € 10,000 is reduced by 16% from the age of 65 and is then € 8,400 gross per year.

The survivor's pension that your partner receives during his/her lifetime following your decease is € 4,200 gross per year. This is 50% of the reduced retirement pension of € 8,400.

*What happens to this surviving dependant's provision if my partner dies?*

This provision is for an income for your partner in the event of your decease. If your partner dies first, then the pension is no longer payable. The retirement pension that has been reduced in order to make this provision remains unchanged after the decease of your partner. It is not the case, therefore, that your pension is increased to its former level again. Nor can you 'set aside' this surviving dependant's provision for a future partner.

### **5.1.3 A survivor's pension under the pre-retirement scheme**

If you take part in the pre-retirement scheme, you accrue pension capital. This capital is used to enable you to retire earlier than the reference retirement age of 62½. The pension capital is then used to purchase a (temporary) retirement pension to meet the cost of early retirement.

If you should die before then, the pension capital that you have accrued goes to your partner. It is then converted into a survivor's pension for your partner that is paid in the form of monthly benefits. The level of this pension is determined at the time of decease and depends on such factors as your partner's age at the time of your decease. It is possible that it will be subject to a maximum amount in connection with tax requirements. Your partner receives this pension until his/her decease.

If you have already retired and you did not opt for trading in retirement pension for survivor's pension, your pension capital is converted into retirement pension benefits. In that case there is no longer an entitlement to a survivor's pension from the pension capital.

## **5.2 ANW shortfall insurance**

There is another form of insurance that you can take out for your partner: the ANW shortfall insurance. This insurance is intended to make good a shortfall in, or the absence of, benefits under the Surviving Dependants Act (ANW).

### **5.2.1 What is the Surviving Dependants Act (ANW)?**

The ANW (Surviving Dependants Act) makes basic state provision for persons whose partner has died. Both men and women - whether married or cohabiting - are eligible for an ANW benefit.

*When is my partner entitled to an ANW benefit?*

There are a number of conditions that 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 has been at least 45% unfit for work for at least 3 months.

If your partner has his/her own income, then (part of) that income is deducted from the benefit. It may even be the case that no benefit is paid because the income is so high. But this does not end the entitlement to an ANW benefit. The entitlement remains, and the level of the benefit is recalculated whenever there is a change in your partner's income.

#### *How much ANW benefit is paid?*

From 1 July 2004, the ANW benefit is € 985 gross per month. If your partner has children who are younger than 18 – irrespective of how many - an additional € 223 gross per month is paid. There is also a holiday allowance worth € 55. And € 16 is paid on top of this if your partner has children younger than 18.

If your partner has income of his/her own, his/her income is deducted from the benefit. There is, however, a personal allowance, so that a portion of the income is exempted. If your children have an income, this is not deducted from the benefit. A distinction is made between income from work and income in connection with work:

#### *Income from work*

Earnings from employment, self-employment or a business, as well as early retirement pay and other payments made by the (former) employer to top up statutory payments. There is a personal allowance: the first € 632 is exempted plus one-third of the income over and above that. If your partner has his/ her own income from work of € 632 or less per month, he/ she is entitled to a full ANW benefit. If the monthly income is higher, an appropriate amount is deducted. If the income is above € 2,110, no benefit is payable at all.

#### *Income in connection with work*

This covers all benefits paid under statutory social security provisions, such as unemployment benefit (WW) or incapacity insurance (WAO). This income is deducted in full from the ANW benefit.

#### *When does the entitlement to an ANW benefit end?*

The entitlement to a surviving dependants benefit ends when your partner reaches the age of 65. The entitlement also ends if your partner remarries or cohabits after your death. If cohabitation ends again within 6 months, payment of the ANW benefit is continued.

If your partner does not meet, or no longer meets, the conditions referred to in section 2.2, entitlement to an ANW benefit ceases. That is the case if, for example, your partner was born in or after 1950 and the youngest child becomes 18 years of age.

#### *When does an ANW shortfall arise?*

An ANW shortfall arises if, when you die, your partner gets only a limited ANW benefit or no benefit at all. Your partner will not be entitled to an ANW benefit if he/ she no longer meets the conditions. It is also possible that the level of the benefit will be limited or reduced because your partner has his/ her own income. Furthermore, after a certain period a shortfall may arise because the youngest child has reached the age of 18, because your partner is no longer at least 45% unfit for work, because your partner remarries or cohabits, or because your partner receives an income or an increased income.

### **5.2.2 What is the purpose of the Philips Pension Fund's ANW shortfall insurance?**

The ANW shortfall insurance is intended to make up the shortfall or absence of the ANW benefit for your partner in the event of your death. You can only take out this insurance if your partner was born in or after 1950. If your partner was born before 1950, you are not eligible for the Philips Pension Fund's ANW shortfall insurance. A partner is a person to whom you are married, with whom you cohabit or with whom you have entered into a registered partnership.

If you are unmarried and cohabiting, you have to meet the following conditions:

- you live together at the same address;
- you both contribute to the cost of the household or otherwise provide for each other.

You must also register your partner in writing with the Fund, using the application/change form for partner data.

#### *What benefit levels are possible?*

The ANW shortfall insurance has various levels of benefit. You can insure yourself, for instance, for the maximum benefit level. This is € 1,129 per month (as of 1 April 2003). Or you can opt for a lower benefit level of one-third (€ 376) or two-thirds (€ 753) of the maximum benefit.

If, for example, your partner is entitled to an ANW benefit, but has his/ her own income and so will receive a reduced benefit, then it would make sense to take out a partial ANW shortfall insurance. It should be noted that the ANW shortfall benefit and also the survivor's pension under the Philips pension plans are not deducted from the ANW benefit.

N.B. If your partner is more than 20 years younger than you, the benefit is reduced by 2.5% for every full year that your partner is more than 20 years younger.

#### *When are the benefits payable and for how long?*

If you are insured at the time of your death, the Philips Pension Fund pays the ANW shortfall benefit each month to your partner from that time. Benefits continue to be paid until your partner reaches the age of 65. If your partner dies before then, payment of the ANW shortfall benefit ceases. If, after your death, your partner acquires a new partner, this benefit, unlike the ANW benefit, continues to be paid.

The Board of Trustees will pass a resolution each year on the conditional indexation of the accrued pension benefits of active members. The indexation percentage depends on the financial situation of the Pension Fund. See also in chapter 12.

*When can I take out an ANW shortfall insurance?*

Firstly, you can only take out this insurance if your partner was born on or after 1 January 1950. Secondly, one of the following situations must apply to you:

- You commence employment with the Company and at that time you are married, cohabiting or have a registered partnership;
- You get married, begin to cohabit or enter into a registered partnership;
- You become a parent.

If you wish to take out ANW shortfall insurance at any of these times, you should notify us within two months.

*When does my ANW shortfall insurance end?*

The insurance ends with immediate effect when the marriage, cohabitation or registered partnership ends. If you are no longer cohabiting, then it is important that you should notify the Fund of this. Your ANW shortfall insurance also ceases if your contract of employment with Philips is terminated. Only if you continue to accrue pension benefits after employment as part of a severance scheme or unfit for work can you continue the ANW shortfall insurance. Finally, we terminate the ANW shortfall insurance automatically if your partner dies or reaches the age of 65.

*How can I apply for an ANW shortfall insurance?*

You should complete the application/change form for ANW shortfall insurance and return it to Philips Pension Fund. You can obtain this form from Philips Pension Fund, your personnel officer or on our website:

[www.philipspensioenfonds.nl](http://www.philipspensioenfonds.nl). The form must be returned to us at the latest within two months after the commencement of employment, a change in your civil status or the birth of your child. If you wish to take out the insurance because of an addition to the family, you are requested also to send a copy of the official birth certificate.

You will receive from us a confirmation of what you have opted for and a statement of the monthly premium payable by you. This premium is automatically deducted from your salary.

*Can I subsequently alter the level of the insurance?*

You can lower the level of the insurance at all times. The level of the insurance can be increased only at the same moments as you can take out the insurance. If you were already insured before 1 July 2001 different rules apply to you. In that case you can alter the level of insurance at all times provided the insurance has not been broken off during that time. Ask the Fund about this. Changes have to be communicated in writing on the application/change form, so that the premium payments can be altered. A change takes effect from the time that we receive the form.

### *How much premium do I pay for my ANW shortfall insurance?*

The premium for the maximum ANW shortfall insurance depends on your age. If you enter an older age category, the premium is altered. The following table shows the monthly premiums payable from 1 April 2004. The premium is a gross amount. The net amount that you pay is less, depending on your tax rate.

Age	up to 34	35-39	40-44	45-49	50-54	55-59	60-64	> 65
Premium	€ 19.04	€ 27.37	€ 35.70	€ 45.22	€ 57.12	€ 59.50	€ 33.32	Individual premium

All amounts in this table relate to the full ANW shortfall insurance. If you opt for partial insurance of one-third or two-thirds of the full amount, then the benefits and premiums are proportionately less.

### *When does the insurance take effect and when do I start to pay premiums?*

Your insurance takes effect as soon as Philips Pension Fund receives your application form. The premium is payable from the first month following the application. The premium - on which no tax or social security contributions are payable - is deducted from your salary or pension. You continue to have to pay the premium up to and including the month in which the insurance ends.

### *Can I cancel the insurance?*

You can cancel your ANW shortfall insurance at any time. You then pay the premium up to and including the month in which Philips Pensions Competence Center receives your request to cancel the insurance. When you retire, the insurance is automatically continued. From the age of 65 the premium for the ANW shortfall insurance is determined on an individual basis. A large difference in age between you and your partner may mean a considerable increase in your premium. Shortly before you reach the age of 65 you will be notified in writing of your individual premium.

## **5.3 The orphan's pension**

If you have children younger than 21, there is standard provision for an orphan's pension. You do not have to take any action yourself. This orphan's pension is a standard component of the Philips flex pension and you do not have to pay a separate premium for this.

### **5.3.1 Who is entitled to an orphan's pension?**

If, as a participant in the Philips flex pension, you pass away, your children below the age of 21 are entitled to an orphan's pension. In some cases, children who are in your care at the time of your decease are also eligible for an orphan's pension. The Board of Trustees of Philips Pension Fund decides on this.

### **5.3.2 How much orphan's pension is paid?**

The level of the orphan's pension is derived from your income. It is 10% of your total annual income per child. The average of your variable elements of income over the past three years also counts. Expense allowances (such as travel and relocation allowances) do not count.

In the case of complete orphans (children who have lost both parents) this amount is doubled to 20% of your total income.

### **5.3.3 To whom is the orphan's pension paid?**

The monthly payment to children younger than 18 is made to the orphan's legal representative. Payment of the pension to children who have reached the age of majority may, at their own written request, be made direct to their own bank account.

## **5.4 What else you need to know**

### **5.4.1 What happens to your retirement pension in the event of your decease?**

Some people think that when they pass away the retirement pension goes to their partner and children. This is a complete misunderstanding, however. The retirement pension is a pension provision for you, for when you stop work and retire. If you pass away, either before or after retirement, there is no longer any entitlement to a retirement pension. Your partner is only eligible for a pension if provision has been made for a surviving dependant.

### **5.4.2 How is the Pension Fund notified of your decease?**

If you are resident in the Netherlands and you pass away, we are automatically notified of your decease by your local authority. So your surviving relatives do not have to notify us. Once we have received this notification, we set in motion the process of awarding any pension benefits to your surviving dependants. We make sure that your partner and children are informed about the future pension benefit(s).

If you are resident outside the Netherlands, your surviving relatives do have to notify us of your decease by means of an official death certificate, since we do not receive this information automatically. On that basis we determine the amount of benefit to be received by your partner and/or children.

## **6 If your employment with Philips ends**

When your contract of employment with Philips is terminated, several things concerning your pension will change. You stop accruing pension benefits unless your employment ends due to incapacity or the VROM severance scheme. You will probably become a member of another pension fund when you enter the service of another employer. Some affairs will be arranged by the Fund and others you will have to take care of yourself.

### **6.1 What happens automatically if your employment ends?**

#### **6.1.1 Termination of participation in flex pension plan**

When your contract of employment is terminated, your membership of Philips Pension Fund automatically ends too. In other words, you stop accruing pension benefits.

#### **6.1.2 Termination of insurance for survivor's pension and/or ANW shortfall insurance**

If you opted to insure yourself for a survivor's pension or against the ANW shortfall, these insurance policies will automatically be discontinued. From then on you are no longer insured. These insurance policies do not involve the accrual of pension benefits. That means that when you leave the company you lose the entitlement to benefits under the two insurance policies.

#### **6.1.3 Termination of monthly participation in pre-retirement scheme**

Obviously the monthly contribution to the pre-retirement scheme will be terminated if you participated in this scheme. The current value of your accrued pension benefits will be converted into extra retirement pension. This amount is stated on the paid-up policy you receive when you leave Philips.

#### **6.1.4 Paid-up pension benefits**

During your employment with Philips you were a member of the Philips Pension Fund and you accrued pension benefits which will remain yours. Several months after 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 was terminated and when these will be paid to you. '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 bylaws applicable at the time when you leave the company. The rules and conditions that apply to you are set out in these bylaws.

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.

### **6.1.5 Indexation of accrued pension benefits**

The Board of Trustees will pass a resolution each year on the conditional indexation of the accrued pension benefits of active members. The indexation percentage depends on the financial situation of the Pension Fund. The accrued pension benefits on the paid-up policy are based on this resolution. See also Chapter 12.

## **6.2 What action are you expected to take if your employment ends?**

### **6.2.1 Transfer of pension benefits 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. Your new and your former employer are obliged to inform you about your right to transfer your pension benefits. You must apply to the pension executor of your new employer within two months after starting your new job if you wish to transfer your pension benefits. The new pension insurer then contacts our Fund to exchange the necessary data. On that basis, a quotation is prepared for you, which you can either accept or reject. You should bear in mind that the transfer procedure takes at least six months to a year.

The quotation shows the pension that you accrued with Philips Pension Fund as converted into a new pension based on the pension plan of your new employer. If the retirement age at your new employer is 65, whereas at Philips it was 62½, then the age of 65 also applies to the transferred pension benefits. The amount of the pension that you would have received from Philips from the age of 62½ obviously changes if you do not retire until you are 65. After all, the pension has to be paid over a 2½ years shorter period.

The transfer is always financially neutral. This means that the value after transfer is exactly the same. If you decide to transfer your pension benefits, you cannot no longer claim any pension benefits from Philips Pension Fund. One of the merits of transfer, however, is that you will get all your pension benefits from one insurer at the moment you retire.

It is certainly advisable to transfer your pension benefits if your new pension plan is a final-pay plan and the expected salary increases are higher than the indexation at Philips Pension Fund. 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 quotation. This difference in the number of years of pensionable service is because, for example, the retirement age in your pension plan is different or because your earnings are higher or lower 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.

If the new pension plan is a defined contribution scheme, pension benefits will not be adjusted annually because in such a plan the premiums that are paid are invested. In that case it is harder to decide whether transfer is advantageous. Basically you have to compare the annually adjusted pension benefits with the expected return on investment within the defined contribution scheme.

### 6.2.2 Trading-in of retirement pension for survivor's pension

If your partner is registered with Philips Pension Fund and you are therefore automatically insured for a survivor's pension, this insurance will end automatically after you leave Philips. Your partner is then no longer entitled to benefits from this insurance in the event of your death. For example, if you do not start working elsewhere, your partner will not receive anything from Philips Pension Fund. This is why we enable you to make provision for your partner by trading in a portion of your retirement pension for a survivor's pension. In this way your retirement pension will be reduced by a certain percentage. This percentage depends on your age at the time when your employment ends. The survivor's pension always amounts to 75% of the retirement pension after conversion. The table below gives you an indication for different ages with a retirement pension of € 1,000. You can always seek information from Philips Pension Fund about the reduction percentage applicable to you.

Age at end of employment	Reduction percentage	Level of reduced retirement pension	Level of survivor's pension
30 years	29.3%	€ 707	€ 530.25
40 years	27.8%	€ 722	€ 541.50
50 years	25.6%	€ 744	€ 558.00

When your employment ends you receive a letter with the paid-up policy that informs you about the possibility to trade in a portion of your retirement pension. You must apply for this within two months. If you choose to do so, you will receive a new paid-up policy. If you were to die before you made the decision, we assume that you would have wanted to leave your partner with sufficient provision. He or she will then receive pension benefits after your decease.

### 6.2.3 Information from the Fund after your employment has ended

If you opt to leave your pension benefits with Philips Pension Fund, you will automatically be informed of the annual adjustment of your paid-up pension every five years. Additionally the adjustment percentage will always be published on our website ([www.philipspensioenfond.nl](http://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.

## **7 If you become unfit for work**

### **7.1 General**

*If you became ill before 1 January 2004*

Philips continues to pay your salary in full for the first year of illness. You also continue to accrue pension benefits during that first year. If you are still unfit for work after the first year, the provisions of the Incapacity Insurance Act (WAO) cover you. You then receive a benefit, which Philips supplements for 2 years to a maximum of 90% of your former salary. 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.

*If you became ill on 1 January 2004 or after*

If you became ill on 1 January 2004 or after, Philips continues to pay your salary in full for the first year of illness. In the second year Philips continues to pay 70% of your salary. If you are still unfit for work after the second year, the provisions of the Incapacity Insurance Act (WAO) cover you. You then receive a benefit, which Philips supplements for 2 years to a maximum of 90% of your former salary. At the end of this four-year period, Philips stops paying your salary. Your contract of employment is usually terminated at the end of this period.

If your contract is terminated due to incapacity, you are entitled to two additional provisions from Philips Pension Fund. Firstly you continue to accrue pension benefits without having to pay any contribution (premium). Additionally you are entitled to an disability pension.

### **7.2 Continuation of pension accrual without payment of premium**

If your contract of employment with Philips is terminated due to incapacity, you continue to accrue pension benefits without having to pay any contribution (premium). This applies to the retirement pension, the survivor's pension and the bridging payment. Your pension benefits continue to accrue on the basis of the conditions set out in the bylaws of the Philips flex pension plan, as applicable on the last day before the termination of employment. If changes in the bylaws after the termination of your employment are applicable to you, it will be specifically stated in the later version of the bylaws. The accrual of pension benefits will be based on your gross pensionable salary at the time when you became 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.

## 7.3 The disability pension

If you become (partially) incapacitated during your employment with Philips this could lead to termination of your employment. In that case you are eligible for supplementary disability pension from Philips Pension Fund. Insurance for this pension is standard. It is in addition to WAO benefits and WAO shortfall insurance.

You have to be incapacitated for at least 80% (according to WAO standards) to become entitled to a full disability pension. The table below shows the percentage awards when you are partially incapacitated.

Incapacity	Percentage award
> 80 % (category 7 )	100.00 %
65-80 % (category 6 )	72.50 %
55-65 % (category 5 )	60.00 %
45-55 % (category 4 )	50.00 %
35-45 % (category 3 )	40.00 %
25-35 % (category 2 )	30.00 %
15-25 % (category 1 )	20.00 %

If you are partially incapacitated the percentage award will determine how much disability pension you receive. For example, if you are between 45% and 55% incapacitated, you will receive 50% of a full WAO benefit as well as 50% of the maximum disability pension. Therefore if your incapacity percentage changes, you should notify the Fund as soon as possible.

### 7.3.1 How much disability pension will you receive?

The level of the full disability pension is determined on the basis of the gross pensionable salary in the month previous to the first day of illness plus the average of the variable elements of income over the last three years previous to the first day of illness. This income will be based on the collective salary scale adjustment at Philips until termination of employment. Your disability pension is 5% of the total income. If your income exceeds a certain limit, the so-called maximum WAO salary limit, you also receive 70% of the additional amount to maximize the WAO benefit to a certain salary level. As of 1 April 2004 the maximum WAO salary limit is € 43,790.

### 7.3.2 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. This adjustment is conditional and depends on the financial situation of the Fund (see also Chapter 12).

### 7.3.3 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.

## 7.4 The basic state provision: WAO

### *If you became ill before 1 January 2004*

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 Incapacity Insurance Act (WAO) take effect. You then receive a benefit, which Philips supplements for 2 years to a maximum of 90% of your former salary. Your contract of employment is usually terminated at the end of this period.

### *If you became ill on 1 January 2004 or after*

If you became ill on 1 January 2004 or after, Philips continues to pay your salary in full for the first year of illness. In the second year Philips continues to pay 70% of your salary. If you are still unfit for work after the second year, the provisions of the Incapacity Insurance Act (WAO) cover you. You then receive a benefit, which Philips supplements for 2 years to a maximum of 90% of your former salary. At the end of this four-year period, Philips stops paying your salary. Your contract of employment is usually terminated at the end of this period.

Whether you are incapacitated and, if so, to what percentage, is determined by 'UWV Nederland BV'. To determine the degree of incapacity, 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 € 167.70 per day (as of 1-7-2004). 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
33 or younger	No entitlement to benefit
33 to 37 years	½ year
38 to 42 years	1 year
43 to 47 years	1 ½ years
48 to 52 years	2 years
53 to 57 years	3 years
58 years or older	6 years
59 years 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 1<sup>st</sup> of July 2004 the minimum wage is € 1,264.80 gross per month. 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 € 43,770 (1 July 2004). 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. 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 incapacity (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 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.

## 8 Special situations

A number of situations that have consequences for your pension have not been discussed above. These situations, which will be dealt with in this chapter, are as follows:

- 8.1 Parental leave and other unpaid leave
- 8.2 Working as an expatriate
- 8.3 Divorce
- 8.4 Early retirement transitional arrangements
- 8.5 Moving house within or outside the Netherlands

### 8.1 Parental leave and other unpaid leave

The Labour and Care Act (December 2001) introduced several forms of unpaid leave. Philips has made special arrangements regarding the pension consequences of parental leave and other forms of unpaid leave such as adoption leave and short-term care leave.

#### 8.1.1 Retirement pension during 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. You can offset the loss of pension benefits by using the option of making additional voluntary pension contributions (see Chapter 10).

#### 8.1.2 Decease or incapacity during leave

In the event of your death or becoming unfit for work during your parental leave, your other pension benefits (surviving dependant's, orphan's and disability pension) are calculated on the basis of the gross pensionable salary that you had before parental leave began. During your leave you can continue your ANW shortfall insurance.

### 8.2 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. Your retirement pension is calculated in the same way as for Philips employees who work in the Netherlands.

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. Due to fiscal rules, such employees are generally not eligible for additional options such as the pre-retirement scheme and additional voluntary contributions. After they return to the Netherlands special rules will apply to them in this regard.

## **8.3 Divorce**

If your marriage is dissolved, this has a number of consequences for your pension. In this section we will elaborate on these consequences.

### **8.3.1 Effect on survivor's pension**

The insurance for a survivor's pension ends automatically as of the first day of the month that follows the month when the divorce occurred (or the termination of cohabitation or registered partnership). This means that after your decease your ex-partner will no longer be entitled to a survivor's pension. You can find out more about this in section 8.3.2. Your ex-partner is entitled to a survivor's pension if you have opted to trade in a portion of your retirement pension for a survivor's pension after you leave Philips or when you retire. We call this a special survivor's pension.

### **8.3.2 Effect on retirement pension**

The Settlement of Pension Entitlements of Divorcees Act (WVPS) came into force on the 1<sup>st</sup> of May 1995 and applies to divorces and terminations of registered partnership that occurred after 1 May 1995. This Act stipulates that in case of divorce or termination of registered partnership your ex-partner is entitled to 50% of the pension that you accrued during the marriage or registered partnership. As a consequence, the retirement pension, the pre-retirement scheme capital and the bridging payment are divided equally between you and your ex-partner. Such a settlement is known as the 'standard division'.

If either you or your ex-partner wishes to have the 'settled' portion of the retirement pension to be paid direct to the ex-partner, an application for settlement of the retirement pension has to be submitted to us within two years after the divorce or termination of registered partnership. To do so, you have to use the form 'Mededeling van scheiding in verband met verdeling van Ouderdomspensioen bij Echtscheiding' ('Notification of divorce in connection with division of retirement pension'). This form can be obtained from post offices and from the Pension Fund. If you do not send in the form within two years after your divorce, your retirement pension will be paid to you in full as of the retirement date. In that case your ex-partner can only claim from you, and the Pension Fund has no involvement in this.

Only one of you has to sign the form. There are costs associated with the execution of the law on the settlement of pension entitlements for divorcees. The cost of the standard distribution is € 136. You and your ex-partner share these costs.

The Settlement of Pension Entitlements of Divorcees Act came into force on the 1<sup>st</sup> 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.

#### *Non-standard division*

It is possible to depart from the standard 50/50 division and agree to make, for example, a 60/40 division. You can also opt for division of (part of) retirement pension that you accrued before the marriage or registered partnership. However, this has to be laid down in a prenuptial or other written agreement.

In principle, any kind of division of your retirement pension is possible. We recommend, however, that you first consult the Fund.

If you and your ex-partner opt for a non-standard division of the pension, you and your partner must both sign the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen'. The costs of a non-standard division are € 272.

Opting for a standard/non-standard division of your pension means that your ex-partner does not receive anything until you actually retire, even if that is earlier or later than the standard age. If your ex-partner deceases before you, you will receive your pension in full. If you die before your ex-partner no pension will be paid to him/her any more.

#### *Conversion*

Conversion is a different kind of settlement. In this case your pension is divided according to the 'standard division'. That means that your ex-partner's portion of the retirement pension and special survivor's pension 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 regulation pensionable age (62½). In the event of your ex-partner's death you do not receive get back your ex-partner's share of the pension, as you do with a standard division. In the event of your death the pension will continue to be paid to your ex-partner.

Conversion also has to be formalised in a prenuptial or other written agreement. And you must both co-sign the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen'. The costs of conversion are also € 272.

#### *Special conversion*

Special conversion is not provided for by the 'Wet Verevening Pensioenrechten bij Scheiding'. Special conversion is specially designed by the Fund to complement the flex pension plan.

Within the flex plan the survivor's pension is a term insurance policy, which is why after divorce or termination of registered partnership no special survivor's

pension will be reserved for your ex-partner. In the event of your death your ex-partner will therefore not be entitled to a special survivor's pension. To compensate for this, you and your ex-partner can opt for special conversion.

To apply for special conversion you must fill in the form 'Mededeling van scheiding in verband met verdeling van ouderdomspensioen' and both co-sign a declaration.

In this case your pension is divided according to the 'standard division'. Your ex-partner's pension is subsequently reduced in return for a special survivor's pension. In the event of your death your ex-partner will no longer receive pension benefits but will instead receive a survivor's pension from the Fund. In the event of your ex-partner's decease you will get back the latter's reduced retirement pension but you will lose the portion of the pension that was converted into a special survivor's pension.

The table below shows your rights in three different situations: divorce, your death and your ex-partner's death.

	Member	Ex-partner
<b>(standard) division</b>		
divorce	RP member	RP ex-partner
decease of member	-	-
decease of ex-partner	RP member + RP ex-partner	-
<b>After conversion:</b>		
divorce	RP member	RP ex-partner
decease of member	-	RP ex-partner
decease of ex-partner	RP member	-
<b>After special conversion:</b>		
divorce	RP member	decreased RP ex-partner + entitlement to SP
decease of member	-	SP
decease of ex-partner	RP member + reduced RP ex-partner	-

RP = retirement pension  
 SP = survivor's pension  
 – = no entitlement

## 8.4 Pre-retirement scheme transitional arrangements

The pre-retirement scheme transitional arrangements of 1 April 1997 enable CAO-A employees who were born between 1939 and 1947 to retire before the standard retirement age of 62½ without having to save any money under this scheme. When you can retire depends on your age and whether you work in a daytime roster or in shifts.

The conditions for eligibility are that: you are an active Philips employee in CAO-A, you were born between 1 April 1939 and 1 April 1947, you are not completely disabled, and you used to have a retirement age of 65 and switched to the Philips flex pension plan in 1997. If you are working shifts you should have been born between 1 April 1941 and 1 April 1949. Additionally, shift

workers need permission from the management to participate in these transitional arrangements.

A brochure on this subject, published by the Social-Economic Department, is available from your personnel officer.

## **8.5 Moving house within 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. As a rule, you no longer accrue pension benefits with Philips Pension Fund after you leave Philips or work for a foreign Philips unit on a local contract. Usually the Fund continues to manage the pension benefits already accrued, for it is often very hard or even impossible to transfer them abroad. In due course Philips Pension Fund will then pay these accrued pension benefits.

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.

## 9 The pre-retirement scheme

As part of your pension plan you have the option of retiring at an earlier age. Your standard retirement age is 62½ years, but you can decide to retire from the age of 60 onwards. There are, however, important financial consequences if you decide to do this. The earlier you retire, the greater the reduction in the level of your pension. Your pension will, after all, have to be paid over a longer period of time. In order to make this possible, you have the opportunity to set aside savings as part of the pre-retirement scheme.

### 9.1 Main outlines

#### 9.1.1 What is the pre-retirement scheme?

The pre-retirement scheme is a scheme that enables you to accrue additional pension benefits voluntarily. The purpose of this scheme is to allow you to retire earlier than the standard retirement age of 62½ years. You can, of course, retire early without having joined the pre-retirement scheme. But as this would mean a significantly lower pension, for most people this is not an option.

You can choose when to start receiving your pension, but this must be somewhere between the age of 60 and 65 years. You must make your chosen date known at least one year in advance. For example, if you want to retire at the age of 62, you must make this known before you reach the age of 61. Furthermore, we must have been informed of your chosen date by the time you reach the age of 62½. If, for example, you want to retire at the age of 64, you must make sure that we are aware of this when you reach the age of 62½.

Under the flex pension it is also possible to opt for "semi-retirement", i.e. partial retirement, at first. If you would like further information about this, contact your personnel department or our Fund.

#### 9.1.2 What happens to your pension if you want to retire early?

As we have already mentioned, there are financial consequences if you decide to draw your pension early. In any case, you will receive a retirement pension from the Philips Pension Fund and a bridging payment. The retirement pension is paid for as long as you live, whilst the bridging payment is paid temporarily until you reach the age of 65. Both forms of pension will be lower if you retire early.

*Your pension will be reduced as a result of two effects:*

The 'reduced build-up' effect: from the time you retire onwards you will not build up any further pension. As a result, you will miss 2% per annum of the pension benefits that would otherwise have accrued.

The 'multi-year' effect: if you would like to receive your pension earlier than at the age of 62½ years, you will in fact receive pension payments from us over a longer period. This is why you will receive a lower pension sum each year.

You build up your bridging payment between the ages of 50 and 62½ years. Between the ages of 50 and 60 years you build up an annual 9.5% and between 60 and 62½ years you build up 2% per annum. If you retire earlier than at the

age of 62½ years, your bridging payment will thus also be lower because you have built up less and you will receive payments over a longer period. Example 1 shows what effect this has on the bridging payment.

#### **Example: early retirement and bridging payment**

If you stop working at the age of 60, you will miss 5% of your pension accrual (2½x 2%). In addition, the total period of payment will become 5 years instead of 2½ years. This results in the 95% of the bridging payment that has been built up being cut by half. You will then receive a bridging payment of 47½% (= 95% / 2) over a period of five years.

To give an indication: On 1 January 2005 a fully built-up (100%) bridging payment was worth € 16,215 per annum and this is a fixed sum for everyone (who works full-time), regardless of salary.

#### **9.1.3 How much can you contribute?**

The effects that have been described in the previous section can have a significant effect on the level of your pension. But how much do you have to pay into the pre-retirement scheme in order to compensate for this reducing effect? Each year you will receive from our Fund a personal pension statement. This contains all the important information about your pension. We will also indicate on this approximately how much you would have to contribute in order to be able to retire at the age of 60 with a given pension level. This is always only an indication, because we do not know how your pension capital will develop in the future. Our calculation is based upon a moderate yield for the years ahead. In reality this can vary, either in a positive or a negative way.

You can of course also decide to retire later than the age of 60, for example at 61. Your savings percentage will then be lower. You make your ultimate decision about the time at which you want to retire shortly before your actual retirement.

You cannot just contribute any random percentage. Each month you can contribute 3%, 5% or 7% of your monthly gross pensionable salary. You are free to change the percentage you contribute at any given time. In addition, you have the option of making an extra payment a number of times per year (in March, May and/or December). The total of these extra payments must not exceed 3% of your annual gross pensionable salary.

At the time when your pension commences, your pension capital will be used to purchase pension benefits. This is governed by certain rules, depending on the retirement age that you choose. The Pension Fund can provide information about this. You will then buy pension benefits on the basis of what are known as the 'actuarial factors' that apply for the Pension Fund at the point in time when your pension commences. The most important factors are the actuarial interest rate that we use and the current life expectancy.

#### **9.1.4 What happens if you decide later that you want to work longer?**

If, when the time comes, you want to continue working for longer, you can of course do so. As a result, your annual pension will rise. The pension capital that you have built up in order to retire early will no longer be used for that purpose.

From the time you reach the age of 62½ onwards, the capital will be converted into an extra life-long payment over and above the normal pension you have built up. Incidentally, from the age of 62½ onwards you will not accrue any further pension benefits.

It is important to note that your total pension must never exceed 100% of your gross pensionable salary when you were still working. If your pension should reach this level, we shall be legally obliged to start paying your pension. This does not mean that you have to retire; you will, however, receive a salary as well as a pension from then onwards.

#### **9.1.5 What happens if your employment ends or in the event of your death?**

##### *If you leave Philips*

If you stop working for Philips, you will no longer be eligible to participate in the pre-retirement scheme. If you go to work for a different organisation where you will also accrue pension benefits, you can transfer the value of the pension capital you have built up to the pension insurer of your new organisation. You have a legal right to transfer your pension to a subsequent employer. This is known as 'transfer of the value of pension benefits'. You must request a transfer of pension benefits within two months of commencing service with your new employer.

If you do not exercise your right to transfer the value of your pension and decide to leave your pension with the Philips Pension Fund, when you cease to work at Philips your pension capital will be converted into extra retirement pension on the basis of the actuarial factors that apply at the time. When you cease to work for Philips it is also possible to convert a proportion of the retirement pension into a survivor's pension for your partner. You will be given further information about this when your employment is terminated.

##### *If you should die*

In the unfortunate event that you should die, the pension capital will be converted into a survivor's pension for your partner and/or children. Your partner will be paid this survivor's pension monthly until his/her death. The payment to your children is temporary. There are tax rules that apply to the maximum level of the survivor's pension in the event of death. If you do not have a partner and/or children, your capital will be used for the benefit of other participants in the pre-retirement scheme. Your heirs are not entitled to that sum.

## 9.2 Investments

The money that you set aside in the pre-retirement scheme will be invested for you in accordance with an investment method of your choice. You can opt for an active investment profile or a passive investment profile. If you opt for a passive profile you do not have to look after your investments, but if you choose an active profile you do have to be involved. Either way, whether you choose the active or the passive option, you always remain responsible for (the consequences of) your personal choice. We cannot give you any guarantees.

This section deals with the investment options within the pre-retirement scheme.

### 9.2.1 What are the opportunities and the risks?

Participants in the pre-retirement scheme are free to decide how their contributions are invested. The aim of investing is to obtain an attractive return within acceptable risk parameters. You yourself decide what is acceptable. The pre-retirement scheme offers three different investment types, each with its own risk-return profile.

You can, for instance, decide to place your money in deposit accounts (which are similar to savings accounts). This is very safe in principle, but you probably also know that the return tends to be correspondingly modest. A more attractive return can generally be realised with an investment in bonds, but the risks will then be slightly greater and the return may occasionally be disappointing. You can also invest in shares. In the longer term shares typically yield a higher return than bonds, but shares are also riskier.

If you already participate in the pre-retirement scheme or intend taking part soon, your pension capital will be invested as standard according to the Dymix method. This is a passive investment strategy that takes all the work out of your hands. If your pension capital exceeds € 500, you can also opt to invest actively. In this case, you are completely free to choose how you want your capital to be invested. Either way, whether you choose the active or the passive option, you always remain responsible for (the consequences of) your personal choice. We cannot give you any guarantees.

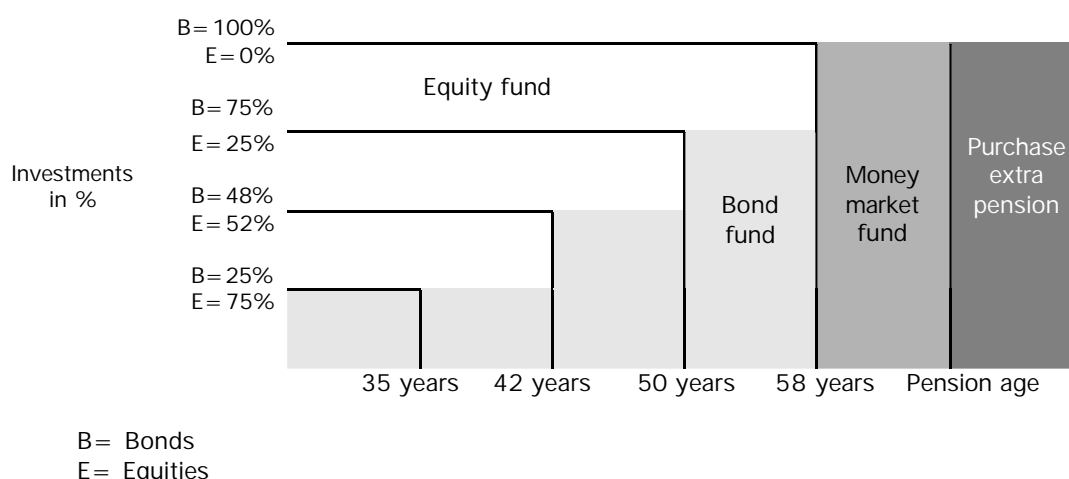
### 9.2.2 Investing passively: Dymix

The basic starting point for the Dymix system is that we take less risk as you get closer to your retirement age. What this actually means is that the younger you are, the more we invest in the share fund. The closer you get to your retirement age, the more the focus of your investment shifts away from the share fund and towards the bond fund. In this way we are able to reduce your risks. If you are young, it is advisable to invest more in shares. Dymix pursues this strategy on the basis of previous experience. As your retirement age draws nearer, the emphasis of your investments is steadily shifted from the equity fund (shares) to the bond fund. Your risks are limited in this way. The 'Dymix' graph sketches how this works. From the age of 58 your entire pension capital is invested in the money market fund. The money market fund can best be compared with a deposit on which you earn interest. The money market fund

is a stable destination for your pension capital. It means that your capital cannot suffer a serious fall in value just before you retire.

Dymix offers no water-tight guarantees but usually ensures a solid weighing-up of return and risk, taking your age into account. All this is based on the experiences of the investment experts of Philips Pension Fund. Dymix is a suitable investment profile if you wish to leave the composition of your investment portfolio to experts. You yourself however always remain responsible for (the consequences of) your choice.

## Dymix

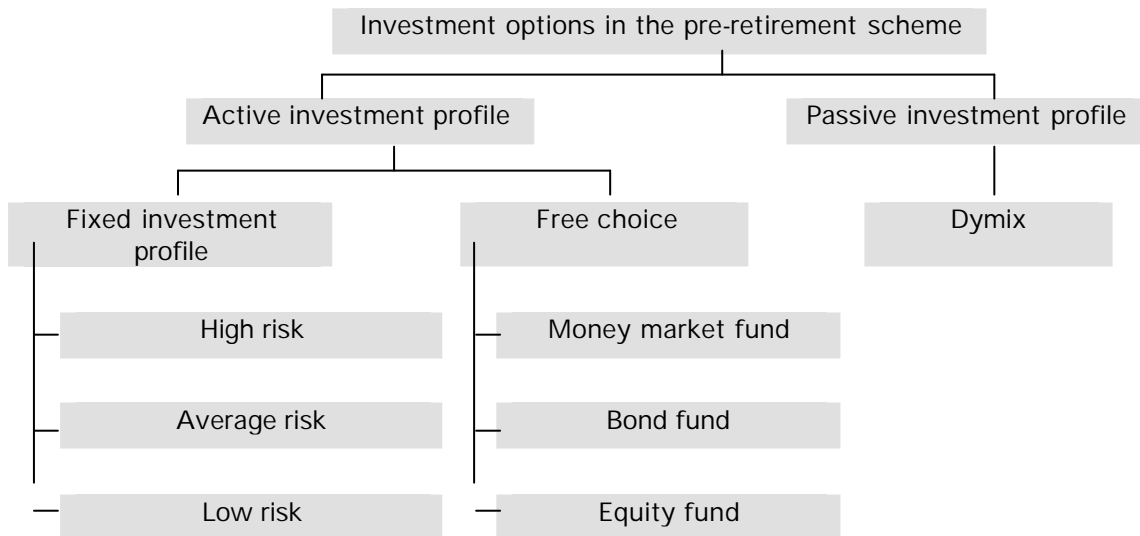


### 9.2.3 Investing actively

In this case you can compile your own investment mix and weigh up the returns and risks. This way of investing has to fit you, however. Active investment requires that you should have some experience of investment and are interested in it. Your age is crucial in this case. The further away you are from retirement, the more risks you can afford to take.

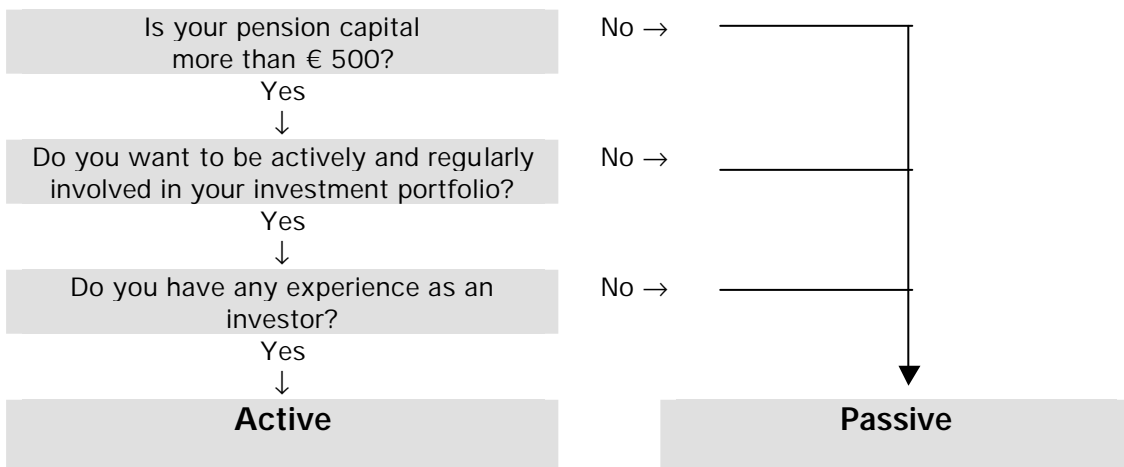
There are two options for investing actively: you can either choose one of the three fixed investment profiles, which vary in terms of risk and return, or you can opt for complete freedom in compiling your investment portfolio from three funds: a money market fund, a bond fund and an equity fund. In this way you create a personal risk-return profile.

We suggest you request the brochure 'Investing in the pre-retirement scheme' from Philips Pension Management or your personnel officer. Or go to our website [www.philipspensioenfond.nl](http://www.philipspensioenfond.nl), where you can find an explanation of the investment profiles and the conditions involved.



### 9.2.4 What investment profile suits you best?

With the aid of the flowchart below, you can do a simple test to find out what investment profile suits you best: the passive or the active approach. The chart is only a guideline. Ultimately, your pension remains your own responsibility. A more detailed version of the flowchart can be found on our website.



#### 1. Result passive:

Dymix appears to be the most suitable investment profile for you.

#### 2. Result active:

This profile might work for you. Within the active investment profile you have several options.

## 9.2.5 Further information about investing in the pre-retirement scheme

### *What are the costs?*

Investing always involves costs. The consequences are relatively limited in the case of non-active investment behaviour. If you regularly switch from one investment fund or profile to another, this will have a negative impact on the value of your investment portfolio and thus on your return. You can find out more about this cost aspect in the brochure on investment options.

### *Switching from one investment profile to another*

If you do not indicate a choice, you automatically get the passive investment profile (Dymix). You have only one opportunity per calendar year, namely on 30 September, to switch to one of the active profiles. This is subject to the condition that your pension capital is at least € 500. If your initial contribution to the pre-retirement scheme amounts to € 500 or more, then you can switch to an active investment profile within a term of three months. In this case, therefore, you need not wait until the following 30 September.

A switch from an active investment profile back to the Dymix system is also only possible once per year (on 30 September). Within the active investment profile you can change once every quarter. If you wish to change, you must notify us in writing, using the standard application form. You should note that it is not possible to invest one part actively and one part passively.

### *Information brochure 'Investing under the pre-retirement scheme'*

You can obtain a comprehensive information brochure about this from Philips Pension Management or your personnel officer. We advise you to read this brochure carefully if you are interested in an active investment profile.

## 9.2.6 Joining the pre-retirement scheme

### *Are there any tax consequences if you join this scheme?*

The total of the pension benefits you accrue within the Philips Pension Fund will remain within the fiscal limits, even if you join the pre-retirement scheme. It is, however, important to point out that in a single year you must not use more than 10% of your annual gross pensionable salary for this scheme.

### *Can you use your salary savings for the pre-retirement scheme?*

You can use your salary savings for the pre-retirement scheme, even if this cannot be done directly. If you join the pre-retirement scheme, the percentage you choose to contribute will be deducted from your salary. The amount deducted will be stated on your salary slip. You can then arrange for your salary savings to be unblocked up to a maximum of the sum that is stated on your salary slip. This must be done within six months after the month of deduction. The salary savings will then be transferred to your personal account. You can request an unblocking form from your salary accounts office. Bear in mind that it will take at least one month for the unblocking to be arranged.

*Does the pre-retirement scheme affect the level of social security benefits?*

If you join the pre-retirement scheme a set amount will be deducted from your salary. The tax authorities consider this amount to be a pension premium. You will not pay any tax and social security contributions on that part of your salary. This tax advantage makes it even more attractive for you to join the pre-retirement scheme. You will, however, pay tax on the pension that you receive.

However, there is a disadvantage. Pension premiums are not included in the income-related sum that is used to determine the level of social security payments. If you should need to rely on these payments in the near future, for example as a result of invalidity (WAO) {Invalidity Insurance Act} or unemployment (WW) {Unemployment Insurance Act} due to participation in the VROM scheme (severance scheme for older employees), these payments will be determined on the basis of your salary during a given period, known as the reference period. For the WW this period is 26 weeks prior to the date of termination of employment. If you have participated in the pre-retirement scheme in the period prior to invalidity or unemployment, the payment will be based on a figure that is lower than your usual salary.

*How to proceed if you wish to join*

Participation in the pre-retirement scheme forms a part of Philips à la carte. This means that you can use a number of sources to participate in the pre-retirement scheme.

If you want to pay monthly contributions, you can pay 3%, 5% or 7% of your monthly gross pensionable salary. You can obtain a registration form for this purpose from the salary accounts officer. The address and telephone number of your salary accounts officer are given on your salary slip.

You also have the option of making an extra payment a number of times a year (in March, May and/or December). You will receive a registration form for this with your salary statement. You must then send this registration form to your salary accounts officer, who will then ensure that the required sum is deducted from your salary, taking into account the maximum amount that you are allowed to contribute. The total of these additional payments must not exceed 3% of your annual gross pensionable salary. The sources that you can use for this are defined in the Philips à la carte general brochure.

*How will you be informed about your pension capital?*

Once a year you will receive an overview showing the value of your investment. We will also inform you about the value of your pension capital. Together with this overview we will send you a quarterly report which will outline the investment policy and the returns obtained in the three funds. Additionally, current information about share prices can be found on our website.

## 10 Additional Voluntary Contributions

There are many ways of supplementing or increasing your pension. Every financial institution has a package of products that enable you to save now in order to have a better pension later.

For this purpose Philips Pension Fund permits 'additional voluntary contributions', which means that you can choose to use part of your gross salary to buy extra pension. This is particularly attractive if you have a pension shortfall because it can help you diminish it. How much pension you get in return depends on your age and the moment of participation.

The maximum additional voluntary contribution per year is 8.33% of your annual salary. This amounts to your regular gross monthly salary. However, it is very likely that you only want to use part of that amount each time you make an extra contribution. So you can, of course, opt for a different amount. There is, however, a minimum amount.

*Is the additional pension also index-linked?*

If the Fund's assets are sufficient, 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 (see also Chapter 12)

*What do I have to do if I wish to participate?*

Firstly you should apply for the booklet 'Additional Voluntary Contributions', which is available from Philips Pension Fund, or go to our website: [www.philipspensioenfond.nl](http://www.philipspensioenfond.nl). This booklet deals in detail with the conditions and the extent to which you can make additional voluntary contributions.

Several times a year you receive the à la carte application form from your salary accounts officer. You can indicate on this form what percentage of your annual salary you would like to contribute, with an annual maximum of one gross monthly salary. You should send this form to your salary accounts officer. Your salary accounts officer will see to it that the desired amount is deducted from your salary, taking account of the stated maximum amount. Within a few months after the deduction from your salary, we will send you a paid-up policy stating the amounts of additional pension that you will receive upon retirement.

You will find more information about participation and which sources you can use in the brochure 'Philips à la carte. The options system for conditions of employment', which you can obtain from your personnel officer.

# 11 From gross to net: taxes 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 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 at present your gross pension becomes a net pension.

## 11.1 Deduction of wage tax

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.

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. Everyone gets his/her own, non-transferable tax credit.

### *Calculation:*

- gross pension x tax bracket =  
calculated wage tax / social security contributions
- calculated wage tax / social security contributions - tax credit =  
wage tax / social security contributions 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. You will find the exact amounts of the tax brackets further on in this chapter.

### 11.1.1 The level of the tax credit

The tax credit is different for those aged 65 or older and those who are younger. For those aged 65 or older, the level of their income determines the applicable tax credit. 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 the tax credit as of 1 July 2004*

	65-	65+
Income € 30,304 or less	€ 1,825	€ 1,266
Income € 30,304 or more	€ 1,825	€ 857

### *Application of the tax credit*

If another organisation takes account of the tax credit, we take no 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 no other organisation applies this tax credit, we will take account of the tax credit when we determine the income tax. 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.

### **11.1.2 Boxes and tax brackets**

The tax system has 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. The other boxes are not relevant to your salary or pension. The table below shows the tax brackets that apply. 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 as of 1 July 2004, box 1*

<b>Income</b>	<b>65-</b>	<b>65+</b>
Up to € 16,266	33.70 %	15.80 %
From € 16,266 to € 29,544	40.65 %	22.75 %
From € 29,544 to € 50,653	42 %	42 %
From € 50,653	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: from gross to net pension benefits

You retire at 60 and receive a retirement pension of € 27,000 gross per year. You are also entitled to a bridging payment of € 7,700 gross per year until you are 65. From the age of 65 you also get a state pension of € 7,900. 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?

	Up to 65 years		From 65 years	
Retirement pension	€	27,500	€	27,500
Bridging payment	€	7,700	€	0
AOW	€	0	€	7,900
<b>Total Gross</b>	€	<b>35,200</b>	€	<b>35,400</b>
Basic calculation of tax		33.70 %		15.80 %
		x € 16,265		x € 16,265
		+ 40.65 %		+ 22.75 %
		x € 13,278		x € 13,278
		+ 42 %		+ 42 %
		x € 5,656 =		x € 5,857 =
	€	13,255	€	8,051
Tax credit	€	1,825 -	€	857 -
Tax payable	€	11,430 -	€	7,194 -
<b>Total net</b>	€	<b>23,770</b>	€	<b>28,206</b>

## 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.

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 € 32,600, 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 € 20,750 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 8% on your pension income up to € 29,606. After the age of 65 you pay 8% on your state pension and 6% on your pension income (up to a total income of € 29,606). 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 is € 305 per year per adult. The given amounts and percentages apply to 2004.

### **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. Philips makes a decision concerning continuation of this scheme every year. In December, persons with private health insurance will be informed about that by letter.

## **12 Indexation policy of Philips Pension Fund**

### **12.1 What does indexation mean?**

If your pension is indexed, or index-linked, it means that it is increased to protect it against inflation. According to the new indexation policy (of 1 January 2004) it is determined each year when and to what extent pensions will be indexed.

### **12.2 Explicitly conditional indexation**

Indexation of your pension is explicitly conditional. The condition for indexation will then be that the Pension Fund has sufficient finances. The Board of Trustees will determine indexation annually for one year. That means that in the future it may be that in a particular year your pension is not indexed at all, or is only partly indexed. That represents a degree of uncertainty, therefore. You never have the guarantee that indexation will take place, as there is no right to indexation and also for the longer term it is not certain whether, and if so to what extent, indexation will take place. Obviously the Board of Trustees will, as before, try to pursue an indexation policy that is as advantageous as possible by aiming for the highest returns on investments at an acceptable level of risk. Agreements were therefore made with Philips about higher premiums if the Fund's financial reserves become insufficient. Additionally, the company will not reduce premiums for the foreseeable future. These measures are designed to make it more likely that indexation will take place.

### **12.3 Extent to which indexation occurs**

The indexation of the accrued pension benefits of active members is based on collective salary scale adjustments, whereas the indexation of pensions that are already being paid and of paid-up policies is based on cost of living in the form of the adjusted consumer price index of the Central Bureau for Statistics. This difference will be maintained under the new indexation policy, but the extent to which indexation will occur will be the same for all members. In case of insufficient finances, no or almost no indexation will take place. In a situation in which the Fund has ample financial resources it is possible that a higher indexation will be applied.

### **12.4 Transitional measure**

For the period between 2004 and 2007 transitional measures have been agreed. The 'old' indexation policy which was not yet explicitly conditional will continue up to and including 2007.

It has also been agreed that until 2012 no discount will be granted to Philips on the pension premium that is payable. In this way the Fund will be given the opportunity to build up the necessary reserves.

## 13 Pension 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.

### 13.1 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 and your net pensionable salary.

You are then shown how much pension you will have accrued by the end of the current year and how much pension you will receive when you retire.

Your pension statement also shows details of your savings. Not only can you see how much you have already saved, but also how much you would have to save in order to retire at the age of 60 and have the same pension level as you would have had at 62½.

Finally it shows what you will get in case of termination of employment due to incapacity and it gives you information about the insured sums to which your surviving dependants are entitled in the event of your decease.

### 13.2 Contact

In case you have any questions, please contact the administrator of Philips Pension Fund: Philips Pension Management.

#### *E-mail*

You can send your questions by e-mail to: [pensioen.ppf@philips.com](mailto:pensioen.ppf@philips.com).

### *Telephone*

You can call the information line of Philips Pension Management during office hours (between 09.00 and 12.00 hrs and between 13.30 and 17.00 hrs): 0800 – 023 15 01. From abroad you should call: + 31 (0)40 273 11 10.

### *Post*

Send your questions by post to:  
Philips Pension Management  
P.O. box 6191  
5600 HD Eindhoven

### *Visiting address*

It is also possible to make an appointment for a personal consultation. The visiting address is:  
Philips Pension Management  
Beukenlaan 143  
5616 VD Eindhoven

### *Fax*

You can send a fax to: 040 - 273 85 85.

### *Internet*

Go to [www.philipspensioenfonds.nl](http://www.philipspensioenfonds.nl) where you will find a list of frequently asked questions and answers.

## **13.3 How to file a complaint**

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

The address of the complaints committee of the Board of Trustees is:  
Klachtencommissie  
p/a Philips Pensioenfonds  
P.O. box 80031  
5600 JZ 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 committee of Philips Pension Fund, takes a close look at our bylaws 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:  
P.O. box 93560  
2509 AN Den Haag  
The Netherlands  
+ 31 (0) 70 333 89 99

## 14 Glossary

### **Accrual percentage**

Percentage used for calculating the annually accrued pension benefits. In the flex pension plan this is 2%.

### **Adjusted Consumer Price Index (CPI)**

The Consumer Price Index (CPI) shows movements in the prices of goods and services purchased for consumption by households. The adjusted CPI is equal to the ordinary CPI excluding the effect of changes in the rates of consumption-related taxes (e.g. VAT and duty on alcohol and tobacco) and subsidies.

### **Attainable retirement pension**

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

### **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 flex pension plan this is between the ages of 62½ and 65.

### **Collective salary scale adjustments**

Collective wage increases agreed in the CAO negotiations between the employer and the trade unions.

### **Pre-retirement scheme**

A scheme or plan within the Philips flex pension under which you invest a portion of your income in order to be able to retire earlier with a desired level of pension. Under this scheme you yourself can choose how your money should be invested.

### **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.

### **General Surviving Dependents Act (ANW)**

State benefit for inhabitants of the Netherlands in the event of their partner's decease.

### **Gross pensionable salary**

Income on which the pension is based: 12 times the gross monthly salary + holiday allowance + 13 month + shift work allowance + structural variable elements of income according to the employment package.

**Indexation/indexing**

An increase in pensions that are already being paid (following retirement) and/or accrued pension benefits (before retirement) by a certain percentage.

**Indexed average-pay plan**

A pension plan in which the level of the retirement pension is based on your average income during the period in which you were a member of the Philips Pension Fund. Additionally, accrued pension benefits are index-linked yearly.

**Net pensionable salary**

The pensionable salary is the gross pensionable salary minus the franchise (and then multiplied by the part-time percentage).

**Orphan's pension**

Temporary pension benefits for your children in the event of your death.

**Paid-up pension benefits**

Pension benefits which have been secured for an individual member and for which, therefore, premiums are no longer payable. These benefits are indexed and will be paid to you from your retirement date.

**Partner**

A partner is understood to mean the person to whom you are married, with whom you have entered into an officially registered partnership or with whom you cohabit. The definition of cohabitation is derived from the Surviving Dependents Act, where it is stated that the two persons must 'provide for each other' and 'conduct a joint household'. Furthermore, your partner has to be registered with the Pension Fund.

**Part-time percentage**

The percentage that you work in relation to full working time.

**Retirement pension**

A pension that you receive when you have reached the pensionable age (retirement age).

**State Pension (AOW)**

Algemene Ouderdomswet – General Old Age Pensions Act. This is the basic state pension that you receive from the age of 65. You are entitled to a full AOW pension if you have lived and/or worked in the Netherlands from the age of 15 to 65. If you have not lived and/or worked in the Netherlands for a number of years during that period, the full AOW is reduced in principle by 2% for each missing 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 provided that he/she is registered with the Fund.

**WAO**

Wet op de Arbeidsongeschiktheidsverzekering - Disability Insurance Act.