

Life cycle pension plan classic



**Pensionskasse in
questions and answers**

YOUR VBV PENSION PLAN

1. Why is your employer-sponsored VBV pension plan an important social benefit?

The Austrian state pension scheme is based on the so-called “pay-as-you-go system”.

This means that the social security contributions of the active employees are raised and immediately paid out as a pension to the pensioners.

Your social security contributions are not saved up for you! When you retire, the working population will finance your pension.

This pension system is also called the “intergenerational contract”, because the working population is financing the generation of pensioners. It is important for such a system to ensure that there are enough (or significantly more) employed people in

proportion to the number of retired people.

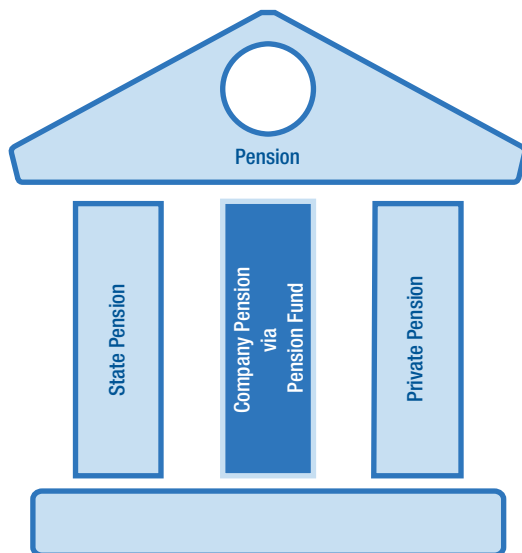
Due to increased life expectancy, more and more people spend longer periods of time in their pension. At the same time, the birthrate has been low for decades. This means that in the future, fewer and fewer younger working people will have to pay for more and more pensioners.

The funding of the state pension scheme is facing a significant challenge.

Therefore, an employer-sponsored pension plan, which supplements the state pension, is a very important social benefit.

2. How can you maintain your standard of living when you are retired?

By focusing on the three proven ways of hedging (the so-called “three pillar model”).



The first pillar: The state pension plan is the most important one. The involvement of all gainfully employed people is obligatory. The state scheme ensures a good basic provision in old age.

The second pillar: The occupational or collective pension plan is financed by the employer and supported by the state (tax incentives).

The third pillar: The private or individual pension plan is adapted to specific individual requirements (such as savings, life insurance, share funds etc.).

3. Do all employers in Austria offer their employees a supplementary pension?

No, they don't. Only around 25% of employees in Austria receive an additional pension promise from their employer. Of all the pensioners currently receiving an ASVG pension (Allgemeines

Sozialversicherungsgesetz, General Social Security Act), only roughly 5% obtain an additional occupational pension financed by their former employer.

4. What are the advantages of the VBV pension plan compared with other private retirement provisions?

- Your employer pays contributions for you in addition to your salary.
- The employer's contributions are saved for you without deduction of wage tax and social security contributions (gross for net).
- The investment of the pension fund contributions is provided by experts in a professional and profitable way. The average five-year yield of all investment and risk communities (Veranlagungs- und Risikogemeinschaften, VRG) of VBV-Pensionskasse is around +5% per year.
- Assets of investment managed by the pension fund are exempted from capital gains taxes.
- Employees may also pay contributions to their VBV pension account and increase their future pension.
- A lifelong old-age pension from VBV-Pensionskasse will be paid in addition to the state pension.
- Surviving dependant's pension (widow's / widower's and orphan's pension) will be paid after the death of the (prospective) beneficiary.

5. Who is VBV-Pensionskasse?

VBV-Pensionskasse is the largest Austrian pension fund, specialising in occupational pension schemes. The company's shareholders are such as Erste Bank and Sparkasse, Wiener Städtische Versicherung,

Bank Austria and many others. More than 3,000 large and medium-sized companies as well as employers from the public sector (provinces, municipalities and universities) are VBV customers.

6. Which is the specific task of VBV-Pensionskasse?

The main function of the pension fund is to ensure profitable and safe administration of paid in pension fund contributions and to pay out a lifelong

supplementary pension to retired employees or surviving dependants.

7. Which laws regulate the occupational pension fund?

The legal basis for the activity of the pension fund is set out in the Pension Fund Act (Pensionskassengesetz, PKG) and in the Company Pension Act (Betriebspensionengesetz, BPG). The Pensionskasse has to be operated in the legal form of a stock

company. The Pensionskasse is subject to supervision by the Financial Market Authority (Finanzmarktaufsicht, FMA), which monitors legal conformity of business activity and asset management in the interests of both employer and employee.

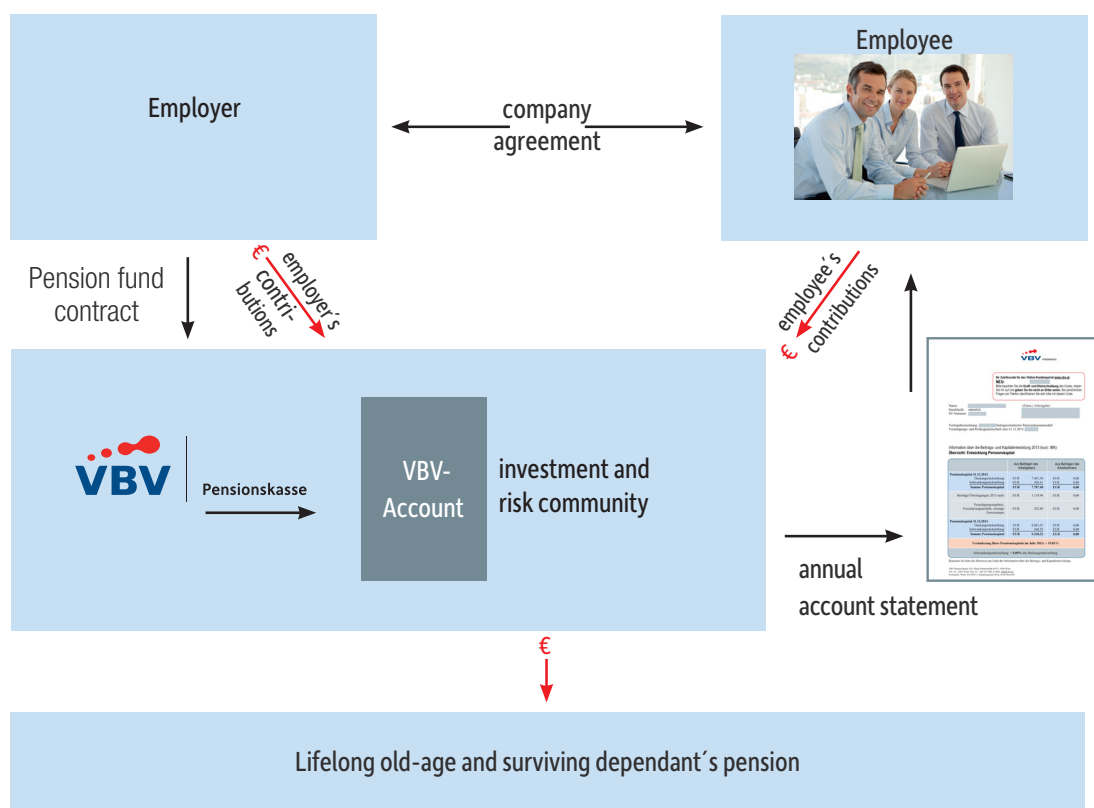
8. How does the VBV pension scheme actually work?

Your employer has implemented a “defined-contribution pension fund model” for you. The basis for the contributions is governed in works agreements concluded by and between the central works council and the employer.

Companies which have a works committee must first come to a company agreement regarding participation in a pension scheme. For companies with no works committees a so-called „standard

contract“ will replace the company agreement. This „standard contract“ will be drafted by the pension fund in accordance with the employer.

The employer declares his intention to provide the employee with pension benefits, the employer will therefore undertake a pension fund contract with VBV-Pensionskasse AG. The rules of the pension fund plan are the basis for the calculation of the contributions and benefits.



9. What does a contract have to contain?

The most important parameters of the VBV pension plan scheme have been agreed upon between your employer and the works council (or have been defined by a standard contract).

The contract contains for example the following parameters:

- the terms required to become a prospect beneficiary
- amount and maturity of the contributions
- amount of the actuarial interest
- the conditions for entitlement to benefits
- if a minimum yield is included

10. How can I review my contract?

The company agreement can be requested from your employer. The most important contract conditions will also be printed on the annual statement

regarding the development of contributions and capital (Information über die Beitrags- und Kapitalentwicklung, IBK).

11. What type of information does the annual statement (IBK) provide?

Once a year, VBV shall submit written information to the beneficiary on the situation as of 31 December of the previous business year regarding movements in capital. You will receive this annual information upon termination of budget balancing approved by the external auditors (by the end of the first half of the year).

The Pensionskasse will also submit information on investments and the performance of the investment and risk community approved by the Austrian Kontrollbank.

12. How secure is the VBV pension plan?

The capital, which is paid in for you, is administered in a separate legal entity where it is not accessible for creditors of the pension fund or the VBV stock company. The capital forms a special asset and neither

the employer nor VBV have access to the assets. It may only be used for your service laid down by law.

13. Which services does VBV provide?

VBV provides the following services if the contractual and legal preconditions are given:

- old age pension (lifelong, in addition to the state pension)
- widow(er) pension (basically lifelong, in addition to the state pension)
- special forms of occupational disability and occupational invalidity pension (as long as the conditions are fulfilled)
- orphan's pension (as long as the conditions are fulfilled)

14. What happens if you do not remain employed until your retirement?

Basically the pension capital, which has been saved for you, will be immediately vested. The pension fund contributions paid for you are preserved and "belong" to you, only the beneficiary has access within its legal options and is subject to the resulting pension payments. The employer can prolong the preserved benefit claim for a maximum of three years respectively for employment contracts, concluded before 1 January 2013 for a maximum of five years. Where a non-forfeiture period is applied,

the employee has the right to claim benefits after expiry of this period. The regulations for the non-forfeiture period only apply to the employer-financed contributions. The capital of employee's contributions is always immediately vested! Should the employee leave the company prior to the end of this period, his claims must be forfeited for the benefit of other employed beneficiaries within the same pension fund contract.

15. What can you do with your capital in case of termination of employment?

You have the following options:

- you may request the conversion of the capital into a non-contributory qualifying entitlement;
- you may request the transfer of the capital to the pension fund, collective occupational insurance scheme, pension scheme within the meaning of § 5 (4) PKG or collective annuity insurance scheme of a new employer, or to an annuity insurance scheme with no entitlement to surrender;
- you may request the transfer of the capital to a foreign retirement pension scheme, if you are changing your place of employment to a place abroad on a long-term basis;
- you may request the continuation of the scheme with the payment of your own contributions;
- you may request a lump sum. The accrued capital must not exceed the legal limit* according to § 1(2) and (2a) PKG, where upon the capital resulting from employer's and that of employee's contributions are put together.

*The legal limit according to § 1(2) and (2a) PKG is upgraded regularly confirmed by law and according to specifically defined policy. You can find all value limits on our website www.vbv.at/pensionskasse.

16. How much additional pension will I get?

Your employer has implemented a “defined-contribution pension fund model” for you. This means: The employer's contributions will be constantly accumulated and transferred to the pension fund until retirement age or until the end of the employment relationship.

The amount of the supplementary pension payments may only be calculated at time of retirement based on the following:

- the development of the capital accumulated by your employer at the time the benefit accrues (1)
- made employee's contributions
- age at time of retirement (2)
- the investment result

In accordance with actuarial principles, the amount of retirement pension will be calculated from the pensionable value of the available credit balance and will be paid out as a lifelong old-age pension (survivor's dependants' pensions are considered).

⁽¹⁾ It depends on the career plan and the income curve.

The employer's contributions are often predetermined as a percentage of the employee's earnings, this means: The higher your earnings, the higher the pension fund contributions.

⁽²⁾ A late retirement has two positive effects on your VBV occupational pension:

More contributions are added into the pension fund and will be credited to the account, and the capital available will be divided into a shorter pension phase by actuarial calculation. A five year delay of your retirement may result in up to 50% higher pension.

17. How is the initial pension of the accumulated capital calculated?

When you retire, your individually accumulated pension capital is turned into a monthly pension. Since you receive a lifelong pension, the statistical life expectancy and a possible surviving dependants' pension must be considered for retirement, so that the duration of the payment can be calculated. Furthermore, an (additional) return on your

capital will be assumed as the fund's capital will decrease only gradually after retirement. Especially in the initial retirement phase, the majority of your pension capital will be continually invested. The calculation of your initial pension is based upon the valid interest rate, which was contractually agreed upon in the works agreement.

VBV-Pensionskasse provides a calculator for individual projections via the online client's box **Meine VBV** at www.vbv.at.

18. How does pension adjustment work?

Your future pension is adjusted annually upon the pension fund balance sheet date (31 Dec), in accordance with the actually achieved investment return and is primarily determined by pre-defined parameters (actuarial results, the allocation to the equalisation reserve or the liquidation of the

equalisation reserve, etc.). The pension adjustment is due to the achieved investment results in a significant way. For this reason, the pension adjustment may mean an increase or decrease of the pensions; sometimes there is no obligation to adjust.

19. Does the VBV provide the possibility for a transfer into "a guaranteed pension"?

Yes, the VBV offers a guarantee option. After having fulfilled age 55 each employee has the right to draw an option for a transfer of the accrued capital into a pension fund scheme with guaranteed benefit payments. With this option a pension is guaranteed from the very beginning of the employee's

retirement. This means that the pension may never fall below the value of the first monthly pension. Every five years the guaranteed pension will increase according to legal regulations.

20. Services and information from VBV-Pensionskasse

Every year in the second quarter you will receive a statement regarding the development of contributions and capital (IBK) from VBV. This letter will show you the total of contributions paid during the last year, the level of capital as at the year-end and your projected pension.

The IBK also contains an authorization code, enabling you to enter the online client's box **Meine VBV** at www.vbv.at.

There you will find the following information:

- a monthly investment report of your investment and risk community (Veranlagungs- und Risikogemeinschaft, VRG)
- general information on the investment focus (mission statement)
- your individual investment history
- a projection calculator, comprising your personal contract parameters and your amount of capital
- a mailbox, to which information on your pension benefits is sent

- an archive, in which the statements regarding the development of contributions and capital is sorted by year and stored as a PDF
- only for pensioners: an archive, in which documents are collected that you may need during retirement

Online projection calculator (Meine VBV)

VBV-Pensionskasse provides a calculator for individual projections via the online client's box **Meine VBV**. By an individual setting of the parameters it is possible to gain in a personal point of view more realistic and significant data.

21. Can you make additional contributions to the pension fund?

Yes, you can increase your pension through employee's contributions. You may contribute up to EUR 1,000 per year and benefit from a government-sponsored premium. The resulting pension is up to 100% tax free.

You can stop your employee's contributions or continue to pay employee's contributions any time. If your employer pays contributions more than EUR 1,000 per year, you can also contribute by

paying sums which may not exceed the amount of the employer. This excess amount will be handled on the basis of "tax model § 18 EStG" and can be deducted as special expenses by the employee.

Further information on this you will find in our flyer „employee's contributions“ on our website www.vbv.at/pensionskasse.

22. The taxation of your employer's contributions

In the accumulation phase: The employer contributions are exempt of wage tax and social security contributions. The insurance tax amounts to 2.5%.

In the retirement phase: The employer-financed part of the pension will be taxed together with the social-security pension (ASVG-Pension). The VBV occupational pension is exempt of social security payments.

23. The taxation of your employee's contributions

You can request a premium payment by the state in accordance with § 108a of the Austrian Income Tax Act. The maximum contribution for which a premium may be requested is EUR 1,000 per year. The

resulting pension is 100% tax free. If you pay more contributions than EUR 1,000 per year, this excess amount will be handled on the basis of „tax model § 18 EStG“. The resulting pension is 75% tax free.



„LIFE CYCLE PENSION PLAN“

24. What is the life cycle pension plan classic?

Your employer has implemented a life cycle pension plan for you.

Your initial portfolio is determined in the company agreement.

This pension plan includes three different investment portfolios to choose from:

It is possible to transfer the invested capital between the three life cycle portfolios up to three times until retirement.

dynamic

balanced

conservative

The specific name of your investment and risk community, the general information on the investment focus (Mission Statement), the strategic and current Asset Allocation (the weighting of the asset classes) as well as the performance data taken in the past you will find in your investment report in your online client's box **Meine VBV**.

25. When and how will the change be carried out?

In case you decide to change your investment and risk community, please contact the VBV-Pensionskasse in time, if possible not later than Aug. 31st. The VBV-Pensionskasse will send you the change-information acc. to §19b PKG, that includes the official change-application. The official change-application has to be returned

signed until Oct. 31st at the latest for the change to become active (legal deadline!). The change is carried out per 01.01. of the next year.

26. How to pick investment portfolios?

The decision for a certain investment portfolio (dynamic, balanced or conservative) respectively a change depends on several factors, which you will have to decide for yourself, for example:

- your personal attitude towards risk
- investment duration up to retirement (individual „life phase“)
- the assessment of developments on the capital market etc.

A general recommendation cannot be given. The life cycle pension plan offers you the opportunity to choose the right life cycle investment aligned with your respective age (the current phase of your life) and the associated investment horizon.

The general principle is: The idea behind the life cycle scheme is that the closer the date of retirement approaches, the more secure and low-risk the pension fund capital should be invested. Consequently, the conservative portfolio is primarily conceived for pensioners or for employees close to their date of retirement.

DEFINITIONS

Actuarial interest rate (Rechnungszins):

The actuarial interest rate is the value determined or contractually agreed in the pension fund's business plan that the pension fund must achieve with investments during the retirement phase assuming a balanced actuarial result, in order to facilitate the payment of a constant pension.

Actuarial reserve (Deckungsrückstellung):

Total of contributions paid less costs and insurance tax, plus investment profits or losses, provided such were not added to the equalisation reserve. The underwriting development expressed in years, in which a person is included in the pension fund, also impacts on the size of the actuarial reserve (see also "equalisation reserve").

Actuarial Results (Versicherungstechnisches Ergebnis):

Actuarial probabilities (e.g. inability to work or life expectancy) are included when calculating a pension benefit. Deviations from these actuarial probabilities in reality lead to gains and losses of the actuarial results.

Actuarial surplus (Rechnungsmäßiger Überschuss):

The actuarial surplus is the value targeted by the pension fund in the business plan via investments, in order that a rising pension can be paid. It is important, because if this figure is exceeded by the actual investment profit generated, the value attributed to the actuarial reserve does not increase. The excess investment profit (over and above the actuarial surplus) is allocated to the equalisation reserve up to the statutory maximum.

Calculating a pension benefit (Pensionshöhe):

At time of retirement the amount of the lifelong complimentary pension will be calculated from the pensionable value of the available credit balance in accordance with actuarial principles.

Defined contribution funded scheme (beitragsorientiertes Pensionskassenmodell):

Pensions are funded through contributions from employers that are saved and invested on individual accounts for each prospective beneficiary.

Employee's contributions (Eigenbeiträge):

Employees may also make their own contributions in addition to the employer's contributions. The employee can write off personal contributions as special expenses in accordance with § 18 of the Income Tax Act (EStG) or request a premium payment by the state in accordance with § 108a of the Austrian Income Tax Act (EStG). The maximum contribution for which a premium may be requested is EUR 1,000 per year. The resulting pension is up to 100 % tax-free. With the entry into force of the Tax Reform Act 2016 you can deduct personal contributions as special expenses even up to 2020, but only if own contributions were made before 1st January 2016.

Equalisation reserve (Schwankungsrückstellung):

The equalisation reserve, specified as a percentage of the assets available for prospective beneficiaries and those eligible for benefits, is basically designed for smoothing income fluctuations caused by the capital market. During years of higher yield, the investment profit exceeding the prescribed actuarial surplus can be used to build up this reserve to compensate for lower performances in years with lower yields through allocations from the equalisation reserve to the actuarial reserve. The equalisation reserve may not be negative. The exact procedure for allocating funds to the equalisation reserve is governed in § 24 and § 24a of the Pension Fund Act (PKG).

Financial Market Authority (Finanzmarktaufsicht, FMA):

Supervisory and assessing entity of pension funds in Austria.

Investment and risk community (Veranlagungs- und Risikogemeinschaft, VRG):

An investment and risk community (VRG) is a special investment pool within the pension fund. Generally, it has to be set up for at least 1,000 people (balancing risks). Pension fund contributions are collected and invested in the (contractually defined) VRG. The prospective beneficiaries and those eligible for benefits at a VRG form a pool in terms of actuarial risks.

Since 1 January 2013, up to five investment pools (VGs) can be formed within a VRG, each implementing different investment strategies. So there are VRGs that form one investment pool and VRGs, which comprise several different investment pools. The pension fund (as a joint-stock corporation) is strictly kept apart from the VRGs it manages, both in terms of balance sheets and assets. Within an investment pool, the pension capital is invested according to the same investment principles. The risks are balanced within the VRG, which can comprise several investment pools, thus ensuring a better balancing of risks.

Investment result (Veranlagungserfolg):

Price gains and losses, interest and dividends are particular parts of these results.

Pay-as-you-go system (Umlageverfahren):

The Austrian state pension scheme is based on the so-called “pay-as-you-go system“. This means that the social security contributions of the active employees will be distributed and immediately paid out as a pension to the pensioners.

Person entitled to benefits (Leistungsberechtigte/r, LB):

Individuals who are entitled to benefits from VBV-Pensionskasse.

Prospective beneficiary (Anwartschaftsberechtigte/r, AWB):

Individuals whose capital dedicated for future pension benefits is administered by the Pensionskasse and who do not yet receive benefits from the Pensionskasse.

Important notice:

This information is a simplified short overview of a defined-contribution pension fund model. Individual terms are stated in a company agreement. All information is given without guarantee despite thorough processing. Liability is excluded.

Last update: January 2018