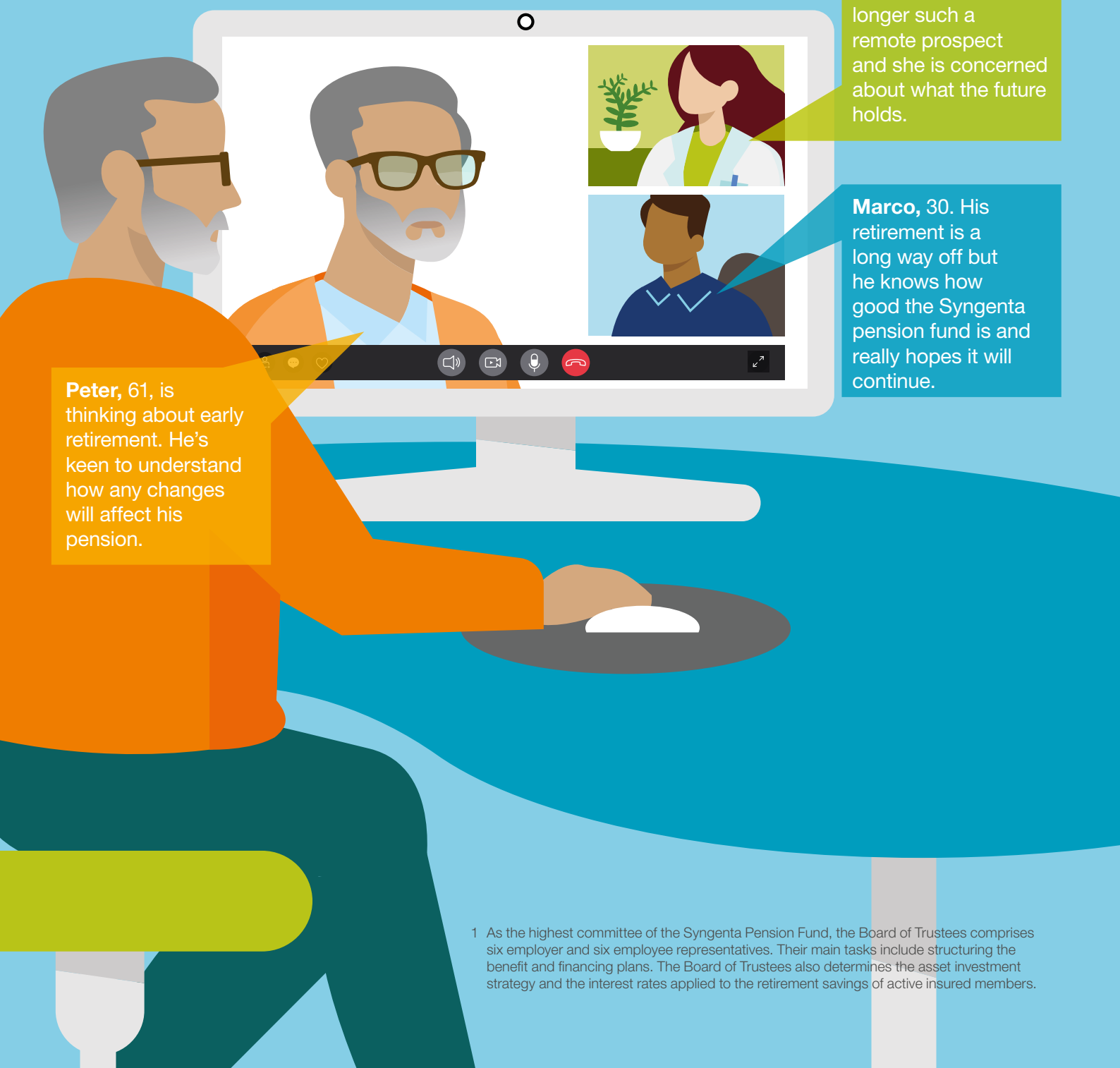
Syngenta Pension Fund
Switzerland

The world is changing and so is your pension

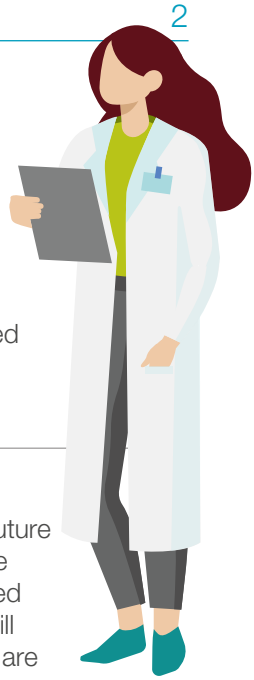
syngenta

From January 2022 we will be making some changes to the Syngenta Pension Fund. We want you to understand exactly why, and what these changes could mean for you, now and when you retire.

The purpose of your Syngenta retirement pension is to help maintain your accustomed standard of living when you retire. To do this, the pension fund needs to be managed in ways that will maintain its long-term financial stability. That's why the Board of Trustees[1] constantly monitors its financial situation in the light of changing economic conditions and, from time to time, needs to make adjustments.



1 As the highest committee of the Syngenta Pension Fund, the Board of Trustees comprises six employer and six employee representatives. Their main tasks include structuring the benefit and financing plans. The Board of Trustees also determines the asset investment strategy and the interest rates applied to the retirement savings of active insured members.



Caroline: "So, how is the pension fund doing?"

It's doing well for now. One indicator of its financial health is what's called the funding ratio, the ratio of retirement savings to liabilities. As of December 31, 2020, that ratio stands at about 119% that means it is in a position to cover the payments it needs to make. Also, we are still providing our members with particularly good benefits, which exceed the legally required levels.

Peter: "In that case, why do you need to make changes?"

As a pension fund, we are obliged to think long-term. Ongoing developments in the wider world present a challenge to all pension funds and, like many others, we are addressing them now.

In making these changes, we have two main concerns. To ensure that we remain able to finance current and future benefits. And to make sure that active insured members (who are still working) and retirees are both treated fairly.

Marco: "What are the external challenges facing pension funds?"

There are two main factors. First, people are living longer.

Marco: "That's a good thing isn't it?"
Of course, but it means that the pension funds have to pay their pensions for longer. Since the level of pension anyone receives is guaranteed for life, increased longevity puts an added financial strain on the pension fund.

However, that on its own would not be such a problem without the second factor – low interest rates. The current, historically low interest rates look set to continue for the foreseeable future. Because pension funds are very reliant on the interest and capital markets, it has become increasingly difficult for them to generate the required returns.

So, on the one hand, we need our retirement savings to cover a much longer period. On the other, lower interest rates are reducing our investment income.

Peter: "Just how serious is the situation?"

In light of these challenges, the Board of Trustees concluded that the fund's current set-up is unsustainable in the long term. They have decided to make changes now, in order to be better prepared for the future.

One thing that needs to change is the technical interest rate. That is the estimate of the guaranteed interest rate someone's retirement savings is likely to generate for the rest of their life. Currently it is set at 2%. That is unrealistically high and, because it determines the conversion rate used to set the level of pension benefits, it makes those benefits unaffordable at their present level.

Caroline: "That sounds serious. Could you explain a little more?"

Your pension on retirement has to be paid for from the retirement savings you have built up in the fund (through your own and your employer's contributions and the interest generated). To calculate the size of your pension, we multiply your savings at retirement by the conversion rate. Take a look at the example to see how we do that.

Example

Retirement savings	x Conversion rate	= Retirement pension
CHF 600,000	4.5%	CHF 27,000 per year lifelong pension

Once the pension has started to be paid, the fund is legally obliged to pay it for the duration of your retirement. If the conversion rate is too high, the retirement savings may be insufficient and the fund has to cover it in some other way at the expense of the active insured members.

Marco: "Adjusting the conversion rate is a key part of the new changes, I suppose."

Yes, getting the conversion rate right is crucial. That's why it's subject to periodic reviews and adjustment and ultimate decisions about it have to be taken by the fund's Board of Trustees. The board was unanimous in agreeing the latest changes.

The conversion rate depends on various factors including life expectancy (how long the pension fund will have to keep paying out the pension) and the technical interest rate (the expected interest rate on the retirees' pensions savings). With continuing low interest rates, the anticipated future returns are decreasing. So, the conversion rate has to be adjusted.

Caroline: "Reducing conversion rates means reducing the amount of pension we can expect, doesn't it?"

It's true that future retirees will receive lower pensions. However, we are introducing the following changes to mitigate the effect of the reduction in the conversion rate:

- As of January 1, 2022, insured members born in or before 1987 will receive a one-off payment into their retirement account. The size of this, determined on an age-based sliding scale, will be between 0.4% and 11.5% of their existing retirement savings. Voluntary contributions and deposits paid in from vested benefits accounts after January 29, 2021 will not be taken into consideration in calculating the one-off payment.
- The employer's contribution to each insured member's retirement account will be increased by 1 percentage point. This will come from transferring part of the money the Employer currently pays into the Special Conversion Rate Fund. In addition, employees can increase their own contributions on a voluntary basis.
- For insured members nearing retirement age, a slightly higher conversion rate will still apply in 2022 (transition year).

Peter: "And what about the challenge of increasing life expectancy?"

For someone aged 60 today, we assume that when they reach retirement age at 65, they will receive a pension based on a conversion rate of 5.3%. The same applies to a 30-year-old, despite the fact that this conversion rate is unlikely to be accurate in 35 years' time. From 2023, we will use generation tables in order to adjust the conversion rates in line with increased life expectancy.

By taking year of birth and life expectancy into consideration, we should be able to set conversion rates that are more realistic, although there are, of course, still plenty of unknowns when you are predicting the future that far ahead.

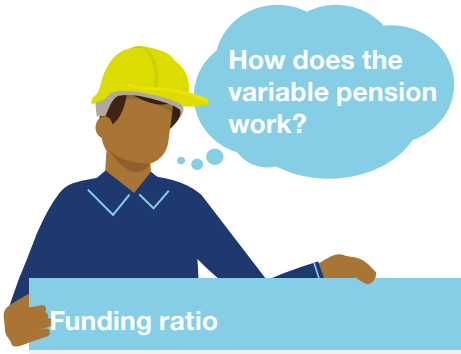
Marco: "You mentioned the need to treat insured members and retirees more fairly. Could you explain how you intend to do that?"

From the returns on the pension fund's investments, we must finance the interests on the retirement savings of the retirees and the interest credits on the retirement savings of the active members – individuals who are still working. First, the retirement savings of the retirees are credited with the fixed technical interest rate. The greater such interest rate included in the current pension payments (technical interest rate), the lower the interest credits that can be granted to the active members.

By reducing the technical interest rate from 2% to 1%, we hope that in future we will use less investment returns to finance the fixed technical interest rate. In return, active members will receive higher interest credits on their retirement savings. If active insured members are able to earn a higher rate of interest their savings, and therefore their final pension will be larger.

The aim of the pension fund is to treat active members and the retirees as equally as possible. However, in the event of an underfunding (funding ratio under 100%), the active members may have to make extra contributions together with the employer. Retirees, on the other hand, do not have to make such contributions.

Marco: "So, is it possible to make the system fairer and more sustainable?"



Our priority, for everyone's benefit, is to reduce the risks facing the Syngenta Pension Fund.

Therefore, alongside the guaranteed basic pension based on the new, lower conversion rates, we will be making part of the pension annuity variable. This will make it possible for us to top up payments in the years when the pension fund's funding status allows. The variable pension will be determined annually.

This new variable pension will help to balance the interests of active members and retirees.

Funding ratio	Amount top up pension	Total pension paid
Funding ratio < 106%	0	**Basic pension (guaranteed amount)**
Funding ratio ≥ 106% but target volatility[2] reserves not reached	**Target pension** *minus* **basic pension**	**Target pension**
Target volatility reserves reached	2 x (**target pension** *minus* **basic pension**)	**Target pension 'plus'**

Example based on CHF 600,000 retirement savings at age 65 in 2023:

Basic pension — CHF 26,040

Annual fixed lifelong basic pension CHF 600,000 x **4.34%**

Target pension — + CHF 1,800 — CHF 27,840

Annual target pension CHF 600,000 x **4.64%**

Target pension 'plus' — + CHF 1,800 + CHF 1,800 — CHF 29,640

Annual target pension 'plus' = CHF 26,040 + 2 x (CHF 27,840 - CHF 26,040)

Conversion rates at age 65 from 2023* onwards for insured members born between 1958 and 1971**

Year of birth	Basic pension	Target pension	Year of birth	Basic pension	Target pension
1958	**4.34%**	**4.64%**	1965	4.24%	4.53%
1959	4.32%	4.62%	1966	4.22%	4.52%
1960	4.31%	4.61%	1967	4.21%	4.51%
1961	4.29%	4.59%	1968	4.19%	4.49%
1962	4.28%	4.58%	1969	4.18%	4.48%
1963	4.26%	4.56%	1970	4.17%	4.47%
1964	4.25%	4.55%	1971	4.16%	4.45%

NB: for early retirements before age 65, the conversion rates will be reduced by about 0.12 percentage points per year.

* The year 2022 is a transition year with a conversion rate at age 65 of 4.82% for the basic pension and 4.97% for the target pension.

** The conversion rates will decrease slightly for each subsequent year of birth using the generation tables.

Caroline: "Who will be affected by the new changes?"

Anyone who is already retired will carry on receiving their pension as normal. The changes will only apply to anyone who becomes a pensioner from January 1, 2022.

2 The target level of volatility reserve is reached with a funding ratio of 119% (as of 2020).

Peter: "I am nearing retirement age. In fact, I'm entitled to take early retirement before the changes come into effect."

Employees aged 60 or over who could retire before 2022 will receive personalized information about their pension benefits that will enable them to make an informed decision about whether to take early retirement or to wait until the new set-up applies. In future it will still be possible to receive retirement benefits either entirely or in part as capital or, in the event of early retirement, as a bridging pension.

Caroline: "As a younger employee thinking about retiring in around 15 years, will I be worse off as a result of the changes?"

In making the changes, we have been guided by the principle of "better contributions, better interest rates". This comes back to the rebalancing already described.

Reducing the conversion rates for future pensions will allow the pension fund to allocate higher interest rates to members who still have more working years ahead of them. This, the one-off payment and the additional 1 percentage point employer contributions, should enable them to build up greater retirement savings.

Marco "Is there anything we can do ourselves to improve the pension we are likely to receive?"

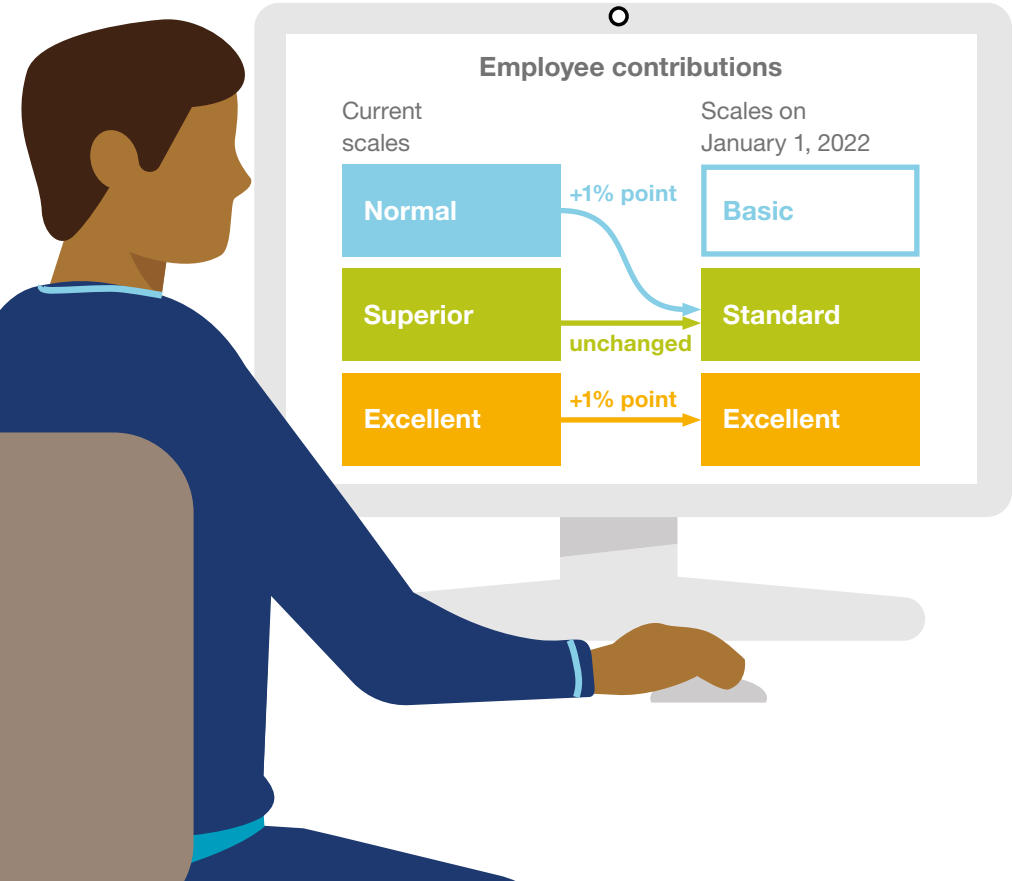
We have redesigned the contribution scales so that employees can make higher additional contributions in order to build up a larger pension pot.

In the future, there will still be three contribution scales. The current 'Normal' scale will become 'Basic'; 'Superior' will become 'Standard', while 'Excellent' will continue as 'Excellent'.

From January 1, 2022, employees currently making 'Normal' contributions will transfer to the 'Standard' scale and will be able to increase their contributions by 1 percentage point.

Those currently making 'Superior' contributions will transfer to the 'Standard' scale and continue the same level of contributions. They will, however, have the option to switch to the 'Excellent' scale. Contributions for anyone on the "Excellent" scale will increase by 1 percentage point from January 1, 2022.

Those who do not wish to pay higher contributions can choose a lower contribution scale as of January 1, 2022.



A pension for a changing world

With the changes being implemented now and in the future, the Board of Trustees aims to ensure that members of the Syngenta Pension Fund continue to benefit from a pension plan that is sustainable, flexible and can adapt to keep pace with external conditions. The adjusted pension plan still provides our members with particularly good benefits, which exceed the legally required levels.

The changes at a glance

- Decreasing the technical interest rate from 2% to 1%.
- Splitting pension payments for future retirees into a guaranteed basic pension and a variable pension in the years when the pension fund's funding ratio allows.
- Reducing the conversion rates from 2023 onwards taking life expectancy into account. As a result the rates will continue to lower slightly over time.
- Making a one-off payment to fund members born in or before 1987, on a sliding scale determined by age. These one-off payments are financed by the Syngenta Pension Fund.
- Increasing the employer pension contribution by one percentage point.
- Giving employees the option of changing their scale of contributions and increasing them by one percentage point.

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