Workshop Pensions

2 November 2015
Dave Middelburg

Agenda

Understanding Dutch pensions of PostNL

How this translates into accounting

Main schemes at PostNL

Dutch main pension plan

- *Defined benefit* average pay pension scheme
- Applicable for almost all employees with a collective or personal labour agreement
- Retirement age is 67
- Accrual rate of old age pension is *1.875%*
- Pension accrual over pensionable salary -/- state pension level of approx. EUR 13,500
- Maximum pensionable salary is EUR 100,000
- Conditional indexation (adjustments to inflation) based on funds available in pension fund

Dutch transitional arrangements

- Various conditional defined benefit arrangements based on years of service and continued employment
- Main arrangement relates to so-called conditional soft pension benefit, which only vests in case of continued employment until retirement or 31 December 2020 the latest

The pension plan and transitional arrangements are negotiated between employer and employees (via unions). In our case the pension fund is involved given the agreed financing elements.

Insurance and financing of main schemes
Dutch main pension plan

Insurance

- External execution legally required (insurance, financing, administration)
- External execution via company-only pension fund (Stichting Pensioenfonds PostNL)
- All Dutch pension funds are independent legal entities, not owned or controlled by any other legal entity
- All Dutch pension funds are being supervised by the Dutch Central Bank (DNB) and the Dutch Authority for Financial Markets (AFM)

Financing – regular pension accrual

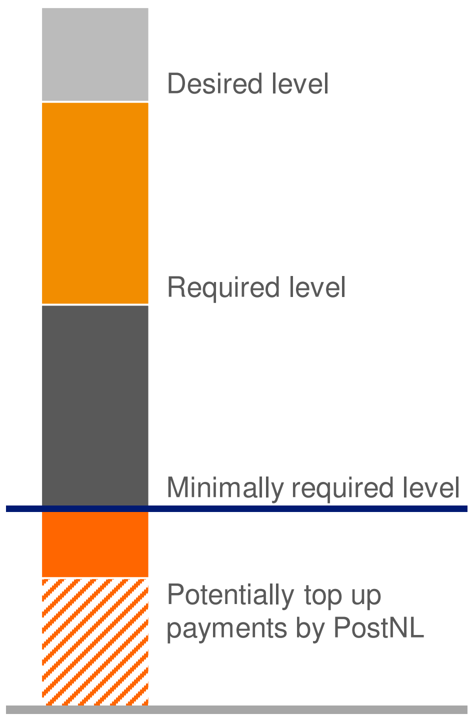
- Total premium level is based on actuarial calculations, however with a minimum of 21.5% and a maximum of 27.5% of the pensionable base
- An increase of 10% (5%) is applied in case the funding ratio is below 120% (130%)
- In case actuarial costs are above the maximum level (f.e. due to low interest rates), the accrual rate is reduced to align with the maximum premium level
- In case actuarial costs are below the minimum level (f.e. due to high interest rates), the excess funding comes at the benefit of the participants
- As from December 2015, the employee contribution for *all* active employees is 6% of their pensionable base

Insurance and financing of main schemes
Dutch main pension plan

Financing – contributions related to a funding deficit

- The relevant ratios for assessing the pension fund's financial position are:
  - The month-end coverage ratio (based on applicable rules/regulations)
    Q3 2015: 104.2%
  - The 12-months average coverage ratio (for decision making)
    Q3 2015: 107.7%
- Current regulations aim for a *12-months average*
  - Minimally required coverage ratio of around 104%*
  - Required coverage ratio of around 116%*
  - Desired coverage ratio of around 124%* (reflecting funding for full indexation)
- Potential contributions by PostNL only apply for situations where the *12-months average coverage ratio* falls below the minimally required level of around 104%
- In case of such a funding deficit PostNL contributes *at most* 1.25% of the pension fund's obligations (at Q3 2015 levels approx. EUR 90 million) per annum, for *at most* 5 consecutive years, for at most to recover to around 104%
- To determine the contributions to be made by PostNL, the pension fund's own resilience during the remaining time frame (at start 5 years) is taken into account
- On the agreed rules and in case of a full 5 year time frame, the level of the coverage ratio must be lower than around 98%* before top up payments apply
- This level of around 98%* increases when the time frame becomes shorter

Coverage ratio



* Variable to composition investment mix and market interest rates

Insurance and financing of main schemes
Dutch main pension plan

Financing – one-off unconditional contribution

- As a one-off payment for the YE 2013 negotiated pension agreement (with a minimum and maximum premium level, and a limitation of the potential top-up payments), PostNL agreed to unconditionally contribute EUR 150 million to the pension fund

- As a one-off payment for the YE 2014 negotiated merge of the former smaller pension fund with the main pension fund (to compensate for the difference in coverage ratio's), PostNL agreed to unconditionally contribute EUR 7 million to the pension fund

- Payment terms of the unconditional amounts are:
  - payable in 5 yearly terms from moment PostNL resumes paying dividend
  - payments start ultimately 10 years after becoming unconditional

- Interest is added to the unpaid part of the unconditional amounts

- Total unconditional outstanding payment at Q3 2015 amounted to EUR 161 million

Insurance and financing of main schemes
Dutch transitional arrangements – soft pension

Insurance

- External execution legally required for vested rights / at date of vesting (in our case arranged for with the pension fund)
- During conditional period, internal provisioning via company balance sheet

Financing

- Lump sum payments to the pension fund based on actuarial costs at date of vesting
- Soft pension benefit only vests in case of continued employment until retirement or 31 December 2020 the latest
- Costs are fully born by the employer

Agenda

Understanding Dutch pensions of PostNL

How this translates into accounting

IAS 19 Employee Benefits

Classification as

Defined Benefit
costs ≠ cash
BS provision for difference between costs and cash

or

Defined Contribution
costs = cash
no provision

Defined Benefit – Projected Unit Credit Method

- Valuation of obligations and costs based on projected benefits
- Main assumptions
  - Discount rate
    - *based on high quality corporate bonds*
  - Rate of expected benefit increases
    - *based on expected (adjusted) price inflation*
  - Life expectancy (longevity)

Defined Benefit – Balance Sheet

Defined Benefit Obligation
- Adj. for liability ceiling

\+ Plan Assets

(Un)Funded status

\+ Adjustment for asset ceiling
\+ Adjustment for minimum funding requirement

Balance sheet provision

IAS 19 pension costs
Basis elements

Profit & Loss

Service Cost: increase of the defined benefit obligation over the year, due to participants entitled to one more year of benefits

Curtailments / settlements

Within operating expenses

Interest Expense/Income on Funded Status: increase in defined benefit obligation and plan assets over the accounting period due to interest (time value of money; based on IAS 19 discount rate)

Within financial expenses

Other Comprehensive Income

Recognition of actuarial gains or losses due to:
- Difference between expected and realised outcome
- Assumptions annually updated

IAS 19 pension costs
Special adjustments

Other Comprehensive Income

Recognition of adjustments for:

- Asset ceiling: positive funded status which PostNL can not record as an asset
- Minimum funding requirement: (part of) unconditional outstanding payment to be recorded as liability, to prevent impact from asset ceiling after payment
- Liability ceiling: unfunded status for which PostNL is not liable

Interest rate sensitivity to equity

- Discount rate below ~3.7%: limited impact on equity position due to application of asset and liability ceiling
- Limited impact partly explained by discount rate changes in relation to unfunded transitional plans
- Discount rate above ~3.7%: positive impact of ~€100 million on equity per 10 bps increase

Example – Disclosure in Annual Report 2014

Detailed overview of changes in consolidated defined benefit plans

(in € millions)

	2014	2013
Change in benefit obligation		
Benefit obligation at beginning of year	(6,769)	(6,747)
Service costs	(119)	(125)
Interest costs	(236)	(251)
Past service costs	36	140
Settlement	25	
Actuarial (losses)/gains	(1,090)	(9)
Benefits paid	221	223
Benefit obligation at end of year	(7,932)	(6,769)
Change in plan assets		
Fair value of plan assets at beginning of year	6,422	6,222
Assumed return on plan assets	223	232
Employee contributions	15	9
Employer contributions	156	303
Other costs	(4)	(8)
Settlement	(25)	
Actuarial (losses)/gains	837	(113)
Benefits paid	(221)	(223)
Fair value of plan assets at end of year	7,403	6,422
Change in funded status		
Funded status at the beginning of year	(347)	(525)
Operating expenses	(72)	16
Interest (expenses)/income	(13)	(19)
Employer contributions	156	303
Actuarial (losses)/gains	(253)	(122)
Funded status at end of year	(529)	(347)
Impact of pension asset ceiling		(36)
Impact of minimum funding requirement		(150)
Other post-employment benefit plans	(9)	(9)
Netted pension liabilities	(538)	(542)
Components of employer pension expenses		
Service costs (net of employee contributions)	(104)	(116)
Interest (expenses)/income	(20)	(19)
Past service costs	36	140
Other costs	(4)	(8)
Post-employment benefit income/(expenses)	(92)	(3)
Other post-employment benefit plan expenses	(3)	(3)
Total post-employment benefit income/(expenses)	(95)	(6)
Weighted average assumptions as at 31 December		
Discount rate	2.3%	3.5%
Rate of benefit increases	1.1%	1.4%
Life expectancy 65 year old men/women (in years)	20.5/22.8	21.0/22.8

Example – Disclosure in Q3 2015 presentation

€ million	Q3 2015
Return on plan assets lower than assumed	(185)
Defined benefit obligation	(273)
Of which:	
Lower discount rate	*(273)*
Change in rate of benefit increase	*0*
Asset ceiling	239
Minimum funding requirement	161
Total pension	**(58)**
Net effect on equity within OCI	**(43)**

Profit for the period	18	12	48	110
Attributable to:				
Non-controlling interests				
Equity holders of the parent	18	12	48	110
Earnings per (diluted) ordinary share (in €cents) [1]	4.1	2.7	10.9	25.0
Earnings from continuing operations per (diluted) ordinary share (in €cents) [1]	4.3	2.7	21.1	24.5
Earnings from discontinued operations per (diluted) ordinary share (in €cents) [1]	(0.2)	0.0	(10.2)	0.5

1 Based on an average of 441,266,138 outstanding ordinary shares (2014: 440,478,632).

Consolidated statement of comprehensive income

in € millions	Q3 2015	Represented Q3 2014	YTD 2015	Represented YTD 2014
Profit for the period	18	12	48	110
Other comprehensive income that will not be reclassified to the income statement				
Impact pensions, net of tax	(43)	(20)	(12)	(19)
Share other comprehensive income jv's/associates			1	
Other comprehensive income that may be reclassified to the income statement				
Currency translation adjustment, net of tax	1	1	3	2
Gains/(losses) on cashflow hedges, net of tax	(4)	2	1	(3)
Change in value of available-for-sale financial assets	(56)	(125)	113	(144)
Total other comprehensive income for the period	(102)	(142)	106	(164)
Total comprehensive income for the period	(84)	(130)	154	(54)
Attributable to:				
Non-controlling interests				
Equity holders of the parent	(84)	(130)	154	(54)
Total comprehensive income attributable to the equity holders of the parent arising from:				
Continuing operations	(84)	(131)	197	(58)
Discontinued operations	0	1	(43)	4

Thank you!