

Explanation of indexation decision as per 1-1-2023 based on AmvB

An increase of all accrued pensions is good news for all participants of Pension Fund APF. Everyone will enjoy a pension increase. Young and old, current/former employees, and pensioners. Pension Fund APF will apply an equal percentage increase for all participants. An increase suits our ambition to offer a pension of stable value. In the last few years, we have, unfortunately, not been able to live up to this ambition. Due to the broader possibilities offered by the government in anticipation of the new pension system, as well as the development of the financial position of APF, APF is able to raise pensions extra this year.

For every decision we consider the consequences for all participants. In particular we have evaluated the effects for the different generations for this pension increase. For the assessment of these generation effects, we have pictured the consequences of the pension increase for the different age cohorts. To do this we consider the difference between the possible higher increase (8,73%) and a regular increase based upon the current policy (5,96%). The additional increase is possible due to the enlarged scope offered by temporary legislation (through a decree called Algemene Maatregel van Bestuur (AMvB)) in the run-up to the new Pension System in comparison to existing legislation (Financieel Toetsingskader (FTK)).

The difference is, therefore, an additional increase of 2,77% that can be granted to all participants by applying the temporary legislation, and for which the generation effects need to be made transparent (according to this same temporary legislation).

Generation effects as a result of the additional increase

For an estimate of the generation effects of the additional increase we look at the impact on the expected pension result. This "Pension Result" indicates to what extent your pension can retain its value in the future. The expected Pension Result is calculated by a template according to the current FTK legislation. The effects of the new Pension System (and the moment of transition to it) have not yet been taken into account. At a later stage, upon the transition to the new Pension System, the effects of any additional increase granted based on the AMvB will, among other factors, be taken into account (the so-called "complete decision making").

The analysis of the expected Pension Result shows a small negative impact for participants younger than 36 years of age, and a positive impact for participants older than 36 years. This is explained below.

The two most important consequences of the additional increase are:

1. *Due to the extra increase, accrued pensions will increase for everyone.*

Because pensions are increased for everyone, this is beneficial for the expected Pension Result for everyone. The pensioners benefit from this immediately, as they will receive a higher pension payment. (Deferred) participants that have not yet retired will have to wait for this until they take their retirement. They will, however, observe a higher accrued pension on their Uniform Pension Overview (UPO).

2. *The additional increase leads to a lower coverage ratio ("dekkingsgraad") because a higher amount must be reserved to cover the higher (future) pension payments. Moreover, the payments to pensioners are raised immediately causing a (somewhat) faster decrease of the fund capital.*

This results in the negative effect on the expected Pension Result for younger participants. Due to the lower coverage ratio, the chance of a future pension increase is lower, and the chance of cuts in future years in a bad weather scenario is higher. Older participants are impacted to a lesser degree, because their life expectancy is shorter. In that case the direct effect of a higher pension payment outweighs the negative impact of a possible decrease in the (distant) future. Therefore we see the largest positive effect for the oldest pensioners. In addition, the additional increase now will result in a situation where less fund capital is available to be distributed when the migration to the new Pension System occurs. This applies to all participants.

If the pension increase would exceed 8,73%, the consequences described under 1. and 2. would become more pronounced. The ultimate expected Pension Result also depends on the economic developments until the moment when the transition towards the new Pension System occurs, and the terms we will agree on for this transition. It is also relevant by how much pensions can still be increased beforehand. These future increases will also apply to the pension accruals of participants after 1-1-2023.

To illustrate the generation effects, the Pension Result when granting the higher increase (8,73%) has been determined. This was compared to the Pension Result in case of applying the regular increase (5,96%) (Figure 1).

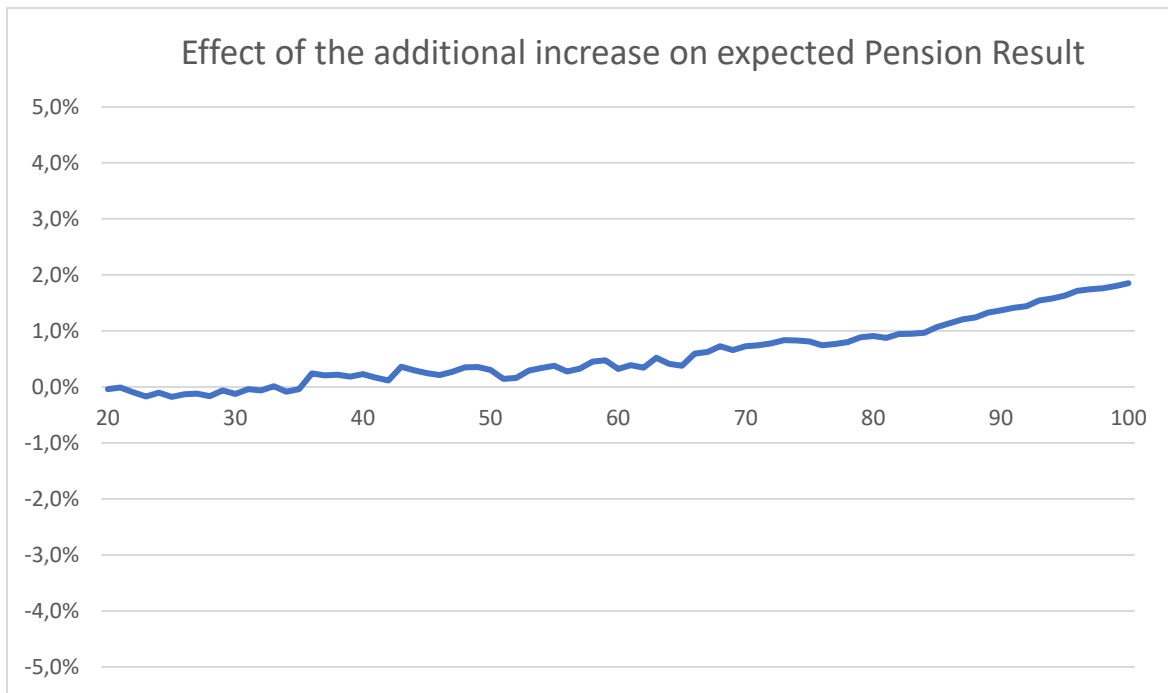


Figure 1: the effect of a 8,73% increase instead of 5,96% on the expected Pension Result according to the current FTK regulation.

The graph shows that there is small negative effect for younger participants. For participants aged 22 till 36 the expected Pension Result decreases by between 0 and 0,2%. These participants still have a lot of time to make up for this before they retire. It also shows that there is a positive effect of 1% on average for pensioners: for the recently retired pensioners there is a small effect, and for the oldest pensioners of over 90 years the positive effect rises to 2%. The effect of the additional increase on the expected Pension Result for younger participants lies between 0.4 and -0,2%.

Conclusion

It is our ambition to increase the accrued pension entitlements and rights annually for consumer price inflation. If our financial position and the regulation allow, we will increase pensions. If we do not increase pensions in line with consumer price inflation, we deviate from our ambition. By applying the temporary AMvB, which offers the opportunity to grant additional pension increases, we partially fulfil this ambition.

The careful balancing of the interests of all participants (employed, deferred our entitled to pension payments) is centre stage when making this decision. To this end we have among others made use of assessments providing insight into the effects of an additional increase on pension indexations long term. This includes making it transparent how this pans out for the different generations and subgroups of participants. Among others the large drop in buying power of the retired participants was taken into consideration. Inflation has been high this year and their pensions have not been raised for years. At the same time, we remain alert for the uncertain economic prospects. The fund board finds it important that APF remains financially strong enough also after the pension increase to minimize the risk of a pension cut in the coming years in the run-up to the new Pension System. We thereby act prudently to limit the risk of negative effects for the pension fund as much as possible. For

this reason, we have decided not to make use of the full scope of what the AMvB legislation allowed.

If we would honour our ambition to a lesser degree, so by increasing less than what we consider responsible, the outcome of the assessment would be exactly the opposite. In that event we see a positive effect for the younger participants, and a rising negative effect for pensioners.

The board of Pension Fund APF judged that the additional increase is well-balanced. For this consideration, the board has taken the assessment of the effect of the extra increase on the expected Pension Result for the different age groups into account and did not see a decisive argument to not grant the additional increase. Upon transition to the new Pension System, the effects of this additional increase granted based on the AMvB will, among others, be taken into consideration.