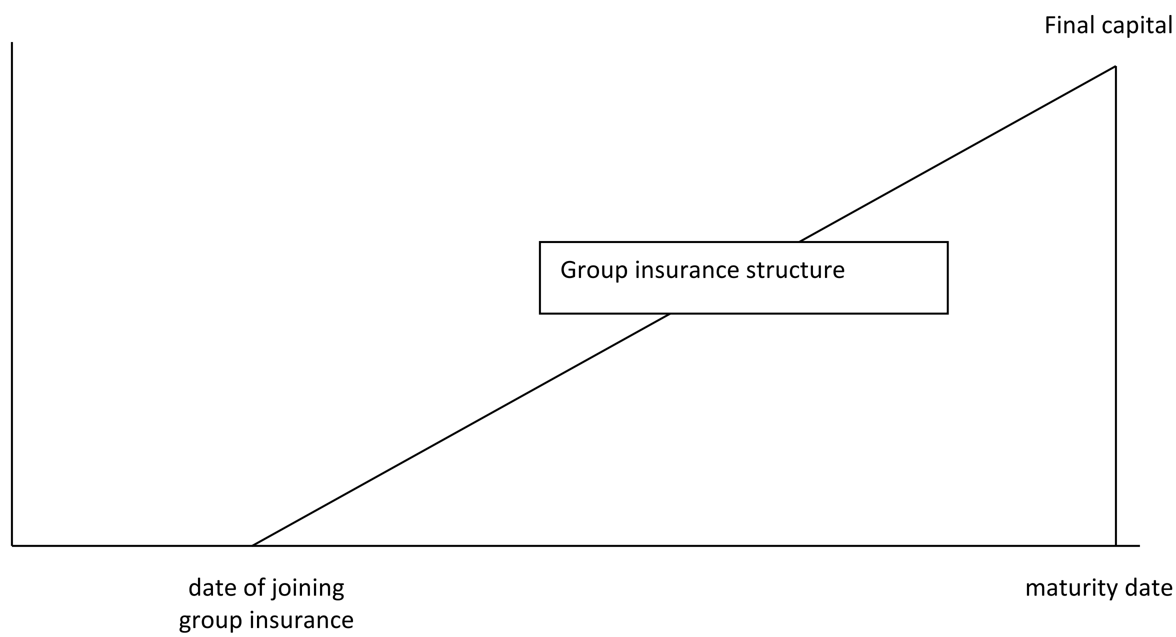
The financing of the minimum reserve acquired under a defined-benefit plan (also referred to as DB plan or defined-benefit scheme)

1. A defined-benefit plan (also referred to as DB plan or defined-benefit scheme) versus a defined-contribution plan

Under a **defined-benefit** plan, or group insurance under a defined-benefit plan, the final capital is stipulated in the regulations. The actual premium (for this final capital) depends on each member's individual situation (e.g., age, gender, date of joining, maturity date).

The financing of the target capital on the maturity date is spread evenly over the term of the contract, which is factored into the calculation of the premium.

A simplified diagram:



However, for group insurance under a **defined-contribution plan** , the employer commits to depositing premiums or a 'fixed contribution' into the group insurance policy in advance on a regular basis (e.g., monthly or annually). The final amount of the supplementary pension on reaching the retirement age will depend not only on the amount in contributions paid and for how long the beneficiary has saved, but also on the overall return on the group insurance.

2. The minimum rights the member acquired under a defined-benefit plan

Employer contributions: the acquired benefits and the acquired reserve

1. **Minimum amount acquired on the maturity date (= acquired benefits):**

As an employer, you must guarantee the benefits on the maturity date for the past years of service (in relation to the calculation date). The **acquired benefit is the maximum amount of the following three calculations**:

1. The **minimum benefit** which determines what portion of the target capital should already have been funded.
2. **Derived value**: the capital which would have been accumulated on the maturity date if the premium payments were to be terminated on the calculation date.
3. The **benefits due under the Supplementary Pensions Act** which determine what portion of the target capital should have been accumulated in relation to the years of service passed.

2. Minimum amount acquired on the interim calculation date (= acquired reserve):

In order to determine the deficit on the calculation date, the three amounts valid on the maturity date are updated to the calculation date. The **acquired reserve represents the maximum amount of the following three calculations:**

1. The **minimum reserve**: the minimum benefits updated in the Deferred Capital without Premium Return rate, based on a 6% interest rate.
2. The **accrued reserve**.
3. **The reserve under the Supplementary Pensions Act**: the benefits under the Supplementary Pensions Act updated to the Deferred Capital without Premium Return rate, based on a 6% interest rate.

Example

- Defined-benefit formula:
  - (60% wage) * max (n;35)/35;
  - n = number of years of service, subject to a maximum of 35 years
- Details of member A:
  - wage = 50 000 euros
  - At age 65: 40 years of service and years of membership;
- Calculation for member A after 30 year of service

Acquired Benefit - the maximum amount of the following 3 calculations:	Acquired Reserve - the maximum amount of the following 3 calculations:
1. Minimum benefit : What portion of the target capital has already been funded e.g. : 30 000 * 30/40 = 22.500	1. Minimum reserve : The minimum benefits updated in the Deferred Capital without Premium Return rate, based on a 6% interest
2. Derived value (calculated using an actuarial formula) e.g. 23 549	2. Accrued reserve: The accumulated reserve of the contract (calculated using an actuarial formula)
3. Benefits under the Supplementary Pension Act What portion of the target capital should have been accumulated in relation to the years of service passed e.g. 30 000 * 30/35 = 25 714,29	3. Reserve under the Supplementary Pensions Act : The benefits due under the Supplemenary Pensions Act updated to the deferred Capital without Premium Return rate, based on a 6% interest rate.

Employee contributions: minimum return under the Supplementary Pensions Act

If the defined-benefit plan also provides for an employee contribution, this is always a defined contribution.
As is the case with the defined-contribution plans, the **guaranteed minimum return under the Supplementary Pensions Act** determines the minimum rights acquired for the member to this defined contribution. See the box for more information on the guaranteed minimum return under the Supplementary Pensions Act.

A **defined-benefit plan** with employer contributions and employee contributions provides that the **minimum rights acquired are equal to the acquired reserve**. The guaranteed minimum return on the employee contributions is not added to this reserve; this guarantee is only charged if the guaranteed minimum return on the employee contributions is larger than the acquired reserve.

The Supplementary Pensions Act (WAP) imposes on the employer the obligation to guarantee a minimum return on the employer contributions (only for defined-contribution plans) and employee contributions (for both defined-contribution and defined-benefit plans), which are paid as part of a group insurance policy/IPS.

Under defined-benefit plans, only the guaranteed minimum return on employee contributions under the Supplementary Pensions Act is relevant. For detailed information on the minimum guarantee under the Supplementary Pensions Act and the financing of the minimum rights under a defined-contribution plan, see: 'kbc.be/business/minimumgarantuee_teambenefit' or 'kbc.be/business/minimumgarantuee_Groupe Insurance'.

How much is the guaranteed minimum return on the employee contributions under a defined-benefit plan?
Until 1 January 2016, this guaranteed minimum return under the Supplementary Pensions Act was **3.75% of the (gross) employee contributions**.
The low interest rates of recent years have prompted insurers to reduce their guaranteed interest rates, as a result of which these are currently lower than the guaranteed minimum return and the 3.75% guarantee is no longer insurable.

From 1 January 2016: Variable guaranteed minimum return under the Supplementary Pensions Act
In the future, the guaranteed minimum return under the Supplementary Pensions Act will no longer constitute a fixed percentage, but will instead be established based on a variable formula equal to the average return of the 10-year OLOs (Belgian government bonds) for the past 24 months.

Irrespective of the outcome of the formula, the percentage of the guaranteed return must not fall below the **absolute minimum of 1.75% or exceed the absolute maximum of 3.75%.**

The new guaranteed minimum return comes into effect on 1 January 2016, at which point it will be 1.75% (also for 2017). It will be used for the contributions due from the effective date; in other words, **it applies to the contributions due from 1 January 2016.**. The minimum contributions due prior to this date will continue to accrue interest based on the 'old' minimum return of 3.75%.

Calculation base for guaranteed minimum return for employee contributions
The guaranteed minimum return is calculated from the due date:
- on the employee's gross contributions (including charges);
- if applicable, after deduction of the portion of the premium for the death cover and/or work disability cover.

3. Minimum acquired rights summarised in a defined-benefit plan

How to calculate minimum rights

Employer contribution

Acquired benefits **= maximum of the following 3 terms:**	**Acquired reserve** **= maximum of the following 3 terms:**
1. **Minimum benefit**: the portion of the target capital already funded.	**1. Minimum reserve:** minimum benefit updated to the Deferred Capital without Premium Return, based on a 6% interest rate
2. **Derived value:** capital on maturity date if there are no further premiums paid from the calculation date	**2. The accrued reserve**
3. **Benefits under the Supplementary Pensions Act:** the portion of the target capital which should have been accumulated in relation to the years of service passed.	**3. The reserve under the Supplementary Pensions Act:** benefits under the Supplementary Pensions Act updated to the Deferred Capital without Premium Return, based on a 6% interest rate.

If employees also pay a contribution

this must be checked **against** the **ratio** between the **guaranteed minimum return on employee contributions under the Supplementary Pensions Act and the reserve acquired under the defined-benefit plan**

If	**Then**
If the guaranteed minimum return on employee contributions under the Supplementary Pensions Act is equal to or smaller than the reserve acquired under the defined-benefit plan,	the minimum acquired right is equal to the acquired reserve.
If the guaranteed minimum return on employee contributions under the Supplementary Pensions Act exceeds the reserve acquired under the defined-benefit plan,	the minimum acquired right is equal to the guaranteed minimum return on employee contributions under the Supplementary Pensions Act

whereby the **guaranteed minimum return on the Supplementary Pensions Act is equal to**

Until 1 January 2016	**From 1 January 2016**
3.75% of the gross premium payable	Variable guaranteed minimum return under the Supplementary Pensions Act From 1 January 2016: 1.75% on the gross premium due.

4. How do we measure to what extent the minimum acquired rights are funded?

Overall financing level: annual calculation check

Every year we calculate the ratio of the current reserves in the group insurance policy in relation to the minimum acquired rights.

The overall financing level indicates (in percentages) to what extent the pension capital previously accumulated under the group insurance policy is sufficient for guaranteeing the acquired reserve.

Specifically, the overall financing level is the sum of the financing level of all members. We take into account the contents of the financing fund. For more information, see Section 9, 'Financing fund: additional information'.

$$\textbf{Overall financing level: } \frac{\textbf{Accumulated reserves}}{\textbf{Sum of acquired reserve per member}} + \textbf{financing fund balance}$$

This can be clarified by using an example:

- pension plan with two members

	Jan	Els
Accumulated reserve	24 500 euros	3 000 euros
Acquired reserve	24 500 euros	3 200 euros
Deficit?	none	200 euros
Financing level per member	100% (fully financed)	93.75%

- financing fund: 500 euros
- Overall financing level = [0 + (-200)] +500 = 300 → fully financed

Monitoring your contract's overall financing level

Starting in 2016, we will calculate the overall financing level for your group insurance policy annually and will provide the information to you along with details on the financing level per individual member. For more information, see section 10. 'Information on overall financing level'.

5. When do you need to settle a deficit in relation to the the minimum rights?

The law provides that the reserve acquired under a defined-benefit plan must be financed at all times. If there is a deficit, this needs to be settled immediately.

Financing involves making a deposit into the financing fund. We treat these deposits into the financing fund as regular premiums, i.e., application of administrative expenses, commission and insurance tax. In the event of non-payment of the deficit, we will remind you of your obligation.

For more information on the financing fund, see Section 9. 'Financing fund: additional information'.

6. Minimum acquired rights and defined-benefit plans: an overview

<table>
<tr><th></th><th>Minimum rights</th><th>When should these be calculated?</th><th>When should a deficit be cleared?</th></tr>
<tr><td>Employer contributions</td><td>
<table>
<tr><th>Acquired benefits
= maximum for the next 3 terms:</th><th>Acquired reserve
= maximum of the following 3 terms:</th></tr>
<tr><td>1. Minimum benefits: the portion of the target capital already funded</td><td>1. Minimum reserve: minimum benefits updated to Deferred Capital without Premium Return, based on a 6% interest rate</td></tr>
<tr><td>2. Derived value: capital on maturity date if there are no further premiums paid from the calculation date</td><td>2. The accrued reserve</td></tr>
<tr><td>3. Benefits under the Supplementary Pensions Act: the portion of the target capital which should have been accumulated in relation to the years of service passed.</td><td>3. The reserve under the Supplementary Pensions Act: benefits under the Supplementary Pensions Act updated to the Deferred Capital without Premium Return, based on a 6% interest rate.</td></tr>
</table>
</td><td rowspan="2"><u>Final</u> (individual) calculation upon retirement

<u>Information on overall financing level</u> : interim calculation at pension plan level</td><td rowspan="2">At one of the following times for individual calculation:
- On transfer of the reserve
- On retirement

<u>Information on overall financing level:</u>
In financing fund for annual interim calculation check at the pension plan level</td></tr>
<tr><td>If employees also pay a contribution</td><td>this must be checked against the ratio between the guaranteed minimum return on employee contributions under the Supplementary Pensions Act and the reserve acquired under the defined-benefit plan
<table>
<tr><th>If</th><th>Then</th></tr>
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</table>
whereby the guaranteed minimum return on the Supplementary Pensions Act is equal to:</td></tr>
</table>

Until 1 January 2016	From 1 January 2016
3.75% of the gross premium due	Variable guaranteed minimum return under the Supplementary Pensions Act From 1 January 2016: 1.75% on the gross premium due.

7. When/how can deficits arise?

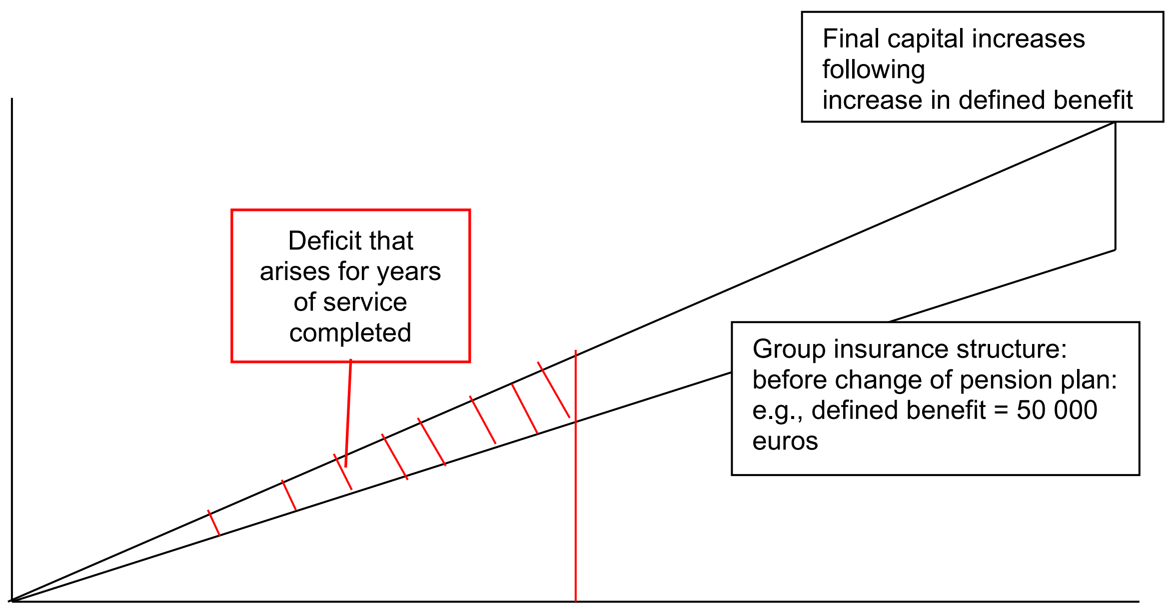
When the annual calculation check is performed, there is a deficit if the minimum reserve or the reserve under the Supplementary Pensions Act is larger than the accrued reserve, i.e., if the acquired reserve is larger than the accrued reserve.

Deficits can occur in the following situations:

1. Changes in the pension plan

If the pension plan is amended in any away, **the obligation of dynamic management applies**. This means that for the years of service completed (in relation to the calculation date), the 'old' target capital must remain applicable.

A simplified diagram:

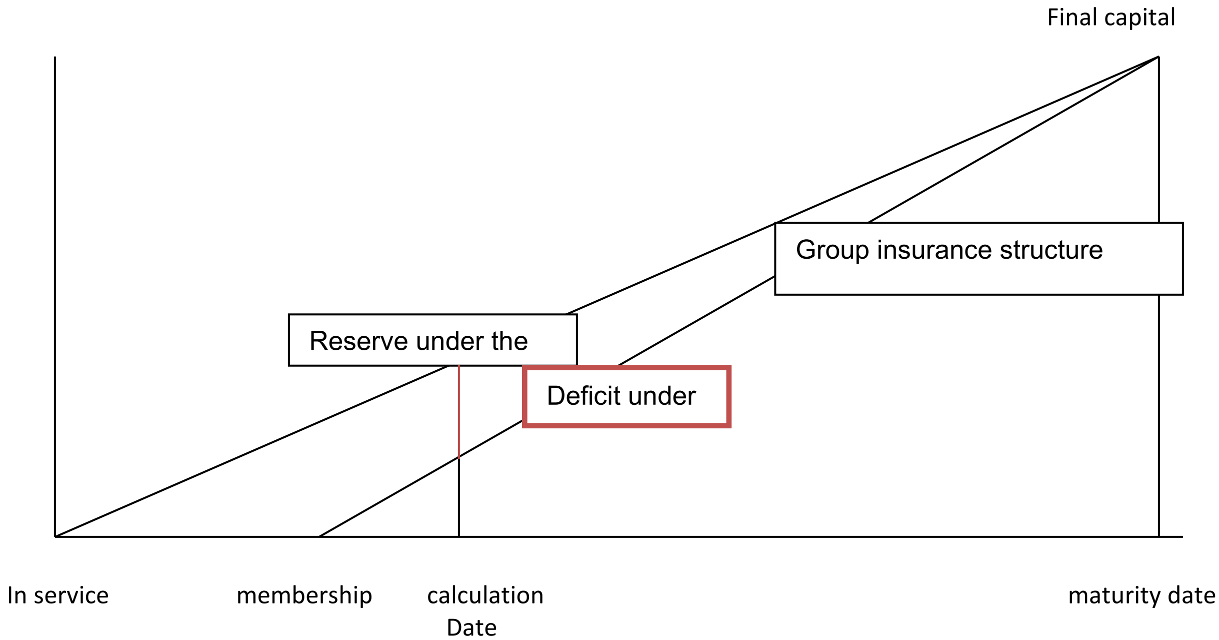


Note : under a defined-benefit plan where the formula is based on wage, 'dynamic management' means that the 'old' defined-benefit formula must be maintained for the years of service completed, but that, in making the calculation, any future wage increases or indexations for members (i.e., active members) must be taken into account.

2. If the date the member joined the company is prior to the date of joining the pension plan

If the policyholder began their career prior to the group insurance policy itself and prior to joining the group insurance policy, an immediate deficit arises.
Because, for the benefits under the Supplementary Pensions Act, the benefits on the maturity date are guaranteed for the years of service completed. The deficit arises because there was no financing during the period in the employee's career between the date they joined the company and the date they joined the pension plan.

A simplified diagram:



Example(*)

Defined-benefit plan with employer contributions

Defined-benefit formula = the annual interest rate is equal to 2 320.28 euros x n/35 x conversion coefficient
Full career under pension plan (N): 35
Years in service: 35.5 years / Years of membership in group insurance policy: 18 years

Calculation check as at 1 January 2016
Target capital: 38 730.36 euros.
Years of service completed: 26.1667 years / Years of membership completed: 8.75 years
Accrued reserve: 13 908.41 euros

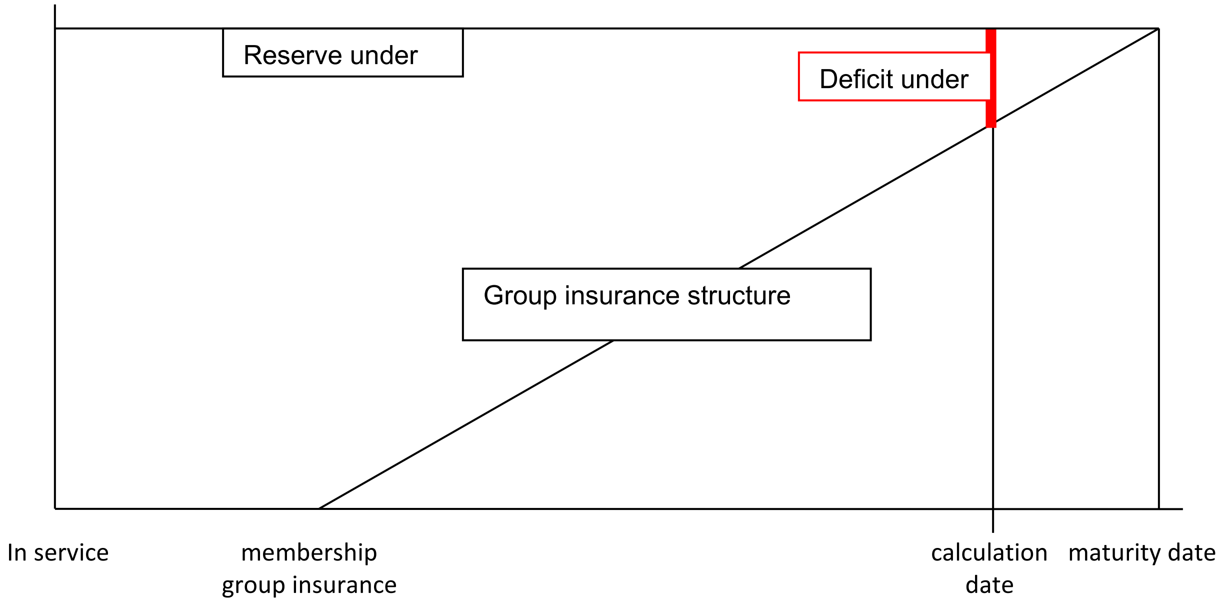
Acquired benefits	Acquired reserve
• Minimum benefits: 18 827.26 euros (38 730.36 /18 x 8.75) • Derived value: 21 281.34 euros • **Benefits under the Supplementary Pensions Act: 28 955.59 euros** (38 730.36 / 35 x 26.1667) →	**15 473.40 euros** (28 955.59 euros updated to calculation date 1 January 2016)
Accrued reserve is smaller than acquired reserve → deficit: 1 564.99 euros	

(*)This represents the financing level for a single member under the group insurance policy. The overall financing level always represents the sum of the financing level for all members.

3. For defined-benefit formulas without/with limited career gap

If the defined-benefit formula is based on a fixed target capital without any corrections based on the number of years of service, the full target capital has been acquired from the date of joining.

A **simplified diagram** of a defined-benefit plan **without a career gap**:



Example

Defined-benefit plan with employer contributions

Defined-benefit formula = the annual interest rate is equal to 2 320.28 euros x conversion coefficient
Full career under pension plan (N): none → 1
Years in service = Years of membership in group insurance policy: 26.1677 years

<u>Calculation check 1 January 2016</u>

Target capital: 40 185.15 euros.
Years of service completed = Years of membership completed: 13.5833 years
Accrued reserve: 13 974.70 euros

Acquired benefits	Acquired reserve
• Minimum benefits: 20 860.52 euros (40 185.15 / 26.1677 x 13.5833) • Derived value: 22 968.27 euros • **Benefits under the Supplementary Pensions Act: 40 185.15 euros** (40 185.15 / 1 x 1)	**18 317.07 euros** (= 40 185.15 euros updated to calculation date 1 January 2016)
Accrued reserve is smaller than acquired reserve → deficit: 4 342 37 euros	

(*)This represents the financing level for a single member under the group insurance policy. The overall financing level always represents the sum of the financing level for all members.

The same situation may occur **for a defined-benefit formula**, with a limited career gap.

Example

Defined-benefit plan with employer contributions

Defined-benefit formula = the annual interest rate is equal to 1 487.36 euros x conversion coefficient
Full career under pension plan (N): 15
Years in service: 33.25 years / years of membership in group insurance policy: 32.6667 years

Calculation check as at 1 January 2016

Target capital: 18 007.83 euros.
Years of service completed: 30.25 years / Years of membership completed: 29.6667 years
Accrued reserve: 13 974.70 euros

Acquired benefits	Acquired reserve
• Minimum benefits: 16 354 euros (18 007.83 / 32.6667 x 29.6667) • Derived value: 16 890.25 euros • **Benefits under the Supplementary Pensions Act: 18 007.83 euros** (18 007.83 / 15 x 15) →	**14 575.91 euros** (= 18 007.83 euros updated to calculation date 1 January 2016)
Accrued reserve is smaller than acquired reserve → deficit: 507.35 euros	

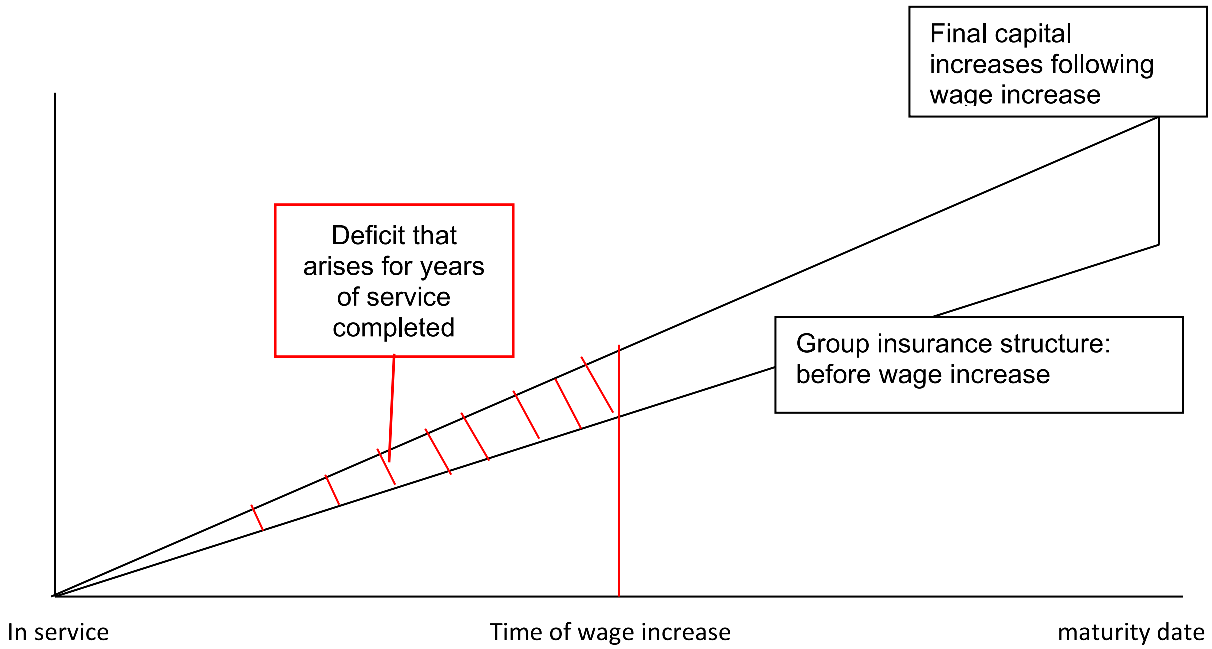
(*)This represents the financing level for a single member under the group insurance policy. The overall financing level always represents the sum of the financing level for all members.

4. Defined benefit based on wage: (substantial) wage increases result in (large) deficits

For a defined-benefit formula based on wage and years of service, an increase in wage results in an increase in the target capital. As a result, the reserves under the Supplementary Pensions Act will also increase, along with the updated acquired benefits at an interest rate of 6%, resulting in a deficit..

Substantial wage increases in the last few years before the maturity date, in particular, cause premiums to increase significantly because this means the remaining financing period is very short.

A simplified diagram of the effect of the wage increase if the defined-benefit formula depends on the wage:



Example

Defined-benefit plan with employer contributions

Defined-benefit formula = : [(70 % x L 1) - WP] x n/40 x 12.5
Full career under pension plan (N): 40
Years in service = Years of membership in group insurance policy: 28.8333 years

<u>Calculation check as at 1 November 2013</u>

Target capital: 320 706.50 euros.
Years of service completed = Years of membership completed: 15.1666 years
Accrued reserve: 66 925.46 euros

Acquired benefits	Acquired reserve
• Minimum benefits: 168 694.76 euros (320 706.50 / 28.8333 x 15.1666)	
• Derived value: 128 012.37 euros	
• **Benefits under the Supplementary Pensions Act: 168 694.76 euros** (320 706.50 / 28.8333 x 15.1666)	**68 154.20 euros** (= 168 694.76 euros updated to calculation date 1 November 2013)
Accrued reserve is smaller than acquired reserve → deficit: 1 228.74 euros	

<u>Calculation check as at 1 November 2014</u>

Target capital : 320 706.5 → **400 545.37 euros (defined benefit increases following wage increase)**
Years of service completed = Years of membership completed: 16.1666 years
Accrued reserve: 79 707.53 euros

Acquired benefits	Acquired reserve
• Minimum benefits: 224 581.79 euros (400 545.37 / 28.8333 x 16.1666) • Derived value: 150 869.07 euros • **Benefits under the Supplementary Pensions Act: 224 581.79 euros** (400 545.37 / 28.8333 x 16.1666)	68 154.20 euros (1 November 2013) → **96 594.86 euros** (= 224 581.79 euros updated to calculation date 01/11/2014)
Accrued reserve is smaller than acquired reserve → deficit: 16 887.34 euros	

(*)This represents the financing level for a single member under the group insurance policy. The overall financing level always represents the sum of the financing level for all members.

8. Overview of reasons for deficit

cause	impact
Amendment of pension plan => increase in the defined benefit	A substantial increase in the target capital also has an impact on past years and immediately leads to financing of this amount for the years of service completed
Defined benefit based on wage => substantial wage increase => increase in defined benefit	
Member joined the company prior to joining pension plan	A large portion has already been accrued and not financed
Defined-benefit formula with limited or no career gap	Immediate large acquired rights

9. Financing fund: additional information

What is it?

The financing fund is described in the Royal Decree of 14 November 2003 on Life Insurance:
- The fund contains the reserves which are unrelated to individual contracts;
- The funds from the financing fund are used to clear individual and group deficits;

Funds may be transferred to a financing fund in the following situations:

- Under the rules of the Supplementary Pensions Act, the reserve is accumulated from employer contributions, deposited into a financing fund if a member leaves the company within one year of joining the pension plan and the reserves are not directly acquired;
- payment of a death benefit if there is no beneficiary in accordance with the beneficiary clause.

Funds are withdrawn from the financing fund in the following cases:

- At the time of the payment of the guarantee on retirement, withdrawal from or cancellation of the group insurance policy, the guaranteed minimum return is settled and any deficits are automatically funded from the financing fund if the balance in this fund is sufficient;
- In the event of non-payment of the premiums, any overdue premiums can be funded from the financing fund.

Settlement of the fund if the pension scheme is cancelled (e.g., because the employer ceases to operate).

- The fund can never be transferred back to the employer’s capital either in full or in part;
- When the group insurance policy is cancelled, the financing fund is divided among the last remaining members or, alternatively, it is allocated to another social cause.

Return?

- The current interest rate is 0.50%;
- If the interest rate changes, the new interest rate applies to the full reserve in the financing fund, as well as to any new deposits. Why? Unlike for group insurance policies, there is no maturity date for deposits into the financing fund.

10. Information on Overall Financing Level

Starting in 2016, we will inform you annually on the overall financing level for your group insurance policy. This way, you will know where you stand and will not be faced with any unpleasant surprises.

We will provide you with the following items:

1. A letter specifying the overall financing level (in percentages) for your group insurance

2. A list of all your members with a deficit, if there is an actual deficit
    - members who are closest to the maturity date of the group insurance policy and for whom any deficit will be finally settled individually in the immediate future is included at the top of the list.

3. An invoice for the deficit to be settled
4. Details of the movements in the financing fund.