

Stichting Mars Pensioenfonds (Mars Pension Fund)

CRISIS PLAN 2020

17 December 2020

1 INTRODUCTION

The obligation to implement a financial crisis plan into the ABTN is stated in article 145 of the Pensions Act and article 29b of the Decree Financial Framework Pension Funds. In order to set up the framework for the crisis plan, the Pension Board has deliberated on the main principles underlying it in a one-day workshop in January 2012. The crisisplan has been updated in 2020.

Following the legal requirements, the crises reflected in the plan are restricted to financial crises only. The Pension Board finds it important to note that other risks, such as member dissatisfaction, governance risk and operational risk, also have their attention. The financial set up of the scheme is determined to a large extent by the ties with the Company.

In addition, the Pension Funds Code (principle 9) prescribes that pension funds formulate an emergency procedure for urgent situations (Organisational Crisis Plan). According to the Code, the emergency procedure should concern decision-making, both in terms of organization and powers.

The emergency procedure is also part of this crisis plan.

2 WHAT IS A CRISIS

For the Pension Board a crisis – in general – has a number of typical dimensions:

- Impact on the Pension Fund is high.
- Developments are (nearly) uncontrollable.
- Developments happen in a short time period

A crisis can have a financial and / or an organisational impact.

3 FINANCIAL CRISIS PLAN

3.1 Purpose

The purpose and content of the financial crisis plan are described in Article 145 of the Pensions Act and article 29b of the Decree Financial Framework Pension Funds. The Pension Board uses three different definitions of a financial crisis, which can be considered consecutive stages of a crisis.

The first is the OSMR level of the scheme. Once the funding ratio drops below that level, the Pension Board is effectively adopting measures that are part of the standard framework of measures (such as an increase of the contribution), but this implies that the plan (temporarily) is unable to meet its targets.

The second level is the MTR level. Below this level, the scheme needs further additional contributions. As this implies that the scheme becomes more dependent on the Company, this is considered a crisis of the second level.

The third level is the critical funding ratio. This is the level below which the scheme will not be able to recover without benefit reductions within the legal terms for recovery plans, assuming no additional contributions can be applied above the structural contribution of 20% or above the smoothed cost covering contribution if higher.

In every stage of the crisis, the impact on the scheme is much stronger if at the same time the Company wants to end the Administrative & Financial Agreement (AFA). In the current agreement, it can do so on a one-year term.

3.2 Critical Funding Ratio

At the end of March 2020, the critical funding ratio at which the scheme would still be able to recover without benefit reductions (assuming no additional contributions above the structural contribution of 20% or above the smoothed cost covering contribution if higher) would be 94%¹. The Pension Board notes that this level depends on the level of the interest rate term structure and the expected return on assets. Although the indexation policy allows for partial indexation of pension rights as of a funding ratio of Lowest Indexation Level (LIL)%, in the calculation of the critical funding ratio the indexation of pension rights is set nil.

3.3 Measures

3.3.1 Contribution

Administrative and Financial Agreement (AFA) articles 3 and 6, Final Pay Pension Plan rules article 22A and ARP/ASP Plan rules article 26.

In the current framework, the contribution increases automatically once the funding ratio decreases. This is a very effective measure, assuming it can be deployed. Whether or not this is possible depends to a large extent on the financial situation of the Company. That is why the Board takes a formal view on this risk once a year.

¹ Based on the assumptions at the end of March 2020 and a recovery period of 10 years

3.3.2 Indexation

AFA article 3, Final Pay Pension Plan rules article 21, ARP/ASP Plan rules article 25. Conditional indexation is applicable to active Members of the Final Pay Pension Plan (the supplementary pension due to the change in the pension plan as of 1 January 2015 and 1 January 2018), Former Members and Pensioners. The indexation is related to the funding ratio by an indexation framework, and therefore this measure is automatically deployed once the funding ratio drops below the Target Indexation Limit. No indexation is granted below a funding ratio of LIL.

3.3.3 Investment policy

As the level of the contributions is directly related to the investment policy, the Company is always consulted as to changes in the investment policy. Once in a recovery plan, the Pensions Act does not allow an increase of the risk profile. At very low funding ratios, and more so if additional contributions seem unlikely, the Pension Board can consider to de-risk the portfolio.

3.3.4 Benefit reductions

AFA article 2.3.9, Final Pay Pension Plan rules article 22B, ARP/ASP Plan rules article 35A, Articles of association 17. Benefit reductions can be a very effective measure but are not deployed as long as the Company is able to deliver on the Administrative and Financial agreement.

3.3.5 Plan design

Final Pay Pension Plan rules article 30, ARP/ASP Plan rules article 35, AFA article 12. If the smoothed cost covering contribution increases to a level higher than 25% of the sum of the pensionable salaries, the Company may reconsider the pension contract.

3.4 *How realistic is it that these measures can be implemented?*

The current framework of measures includes most of the measures as mentioned under Section 3.3. The most important instrument to use in a financial crisis situation is increasing contribution. Once funding ratios drop below the critical level, the scheme has to cut benefits when additional contributions cannot be paid by the Company. The Company is aware of the possible financial consequences of the AFA and the likelihood that the Company is not able to deliver on the AFA is considered to be small.

3.5 *Expected financial impact*

The potential financial impact of implementing the measures is shown assuming a Policy Funding Ratio equal to 84% (10%-point lower than the critical funding ratio):

- If the Company is able to deliver on the Administrative and Financial Agreement, the total expected additional contributions in the total legal maximum recovery period of 10 years are equal to approximately 177% of the sum of the pensionable salaries. The majority of the expected additional contributions is due in the first five years of the recovery period: over 100% of the sum of the pensionable salaries.
- If the Company is not able to deliver on the Administrative and Financial agreement, the pension benefits are expected to be reduced with approximately 1.4% per year during the legal maximum recovery period of 10 years.

Note that the above financial impact is calculated based on the situation as of 31 March 2020. These results are dependent on the level of the interest rate term structure and the expected return on assets.

3.6 *Balanced interests*

The Pension Board uses at least four criteria to judge on the balanced advocacy of measures to be implemented. The criteria are effectiveness, proportionality, solidarity and continuity.

3.7 *Communication*

The Pension Board will include the communication about the crisis plan, as well as the outline for communication in crisis situations, in its communication plan. In crisis situations of the second and third degree, it will reach out to each of the members individually. The Company will be officially informed at every stage that is of direct relevance to them.

3.8 *Decision-making*

The Pension Board will aim to make sure that procedures are such that no unnecessary delay is being caused by decision making processes. This also means that the Pension Board will indicate to other parties involved with measures to be taken in crisis situations what is expected from them and on what terms.

The Pension Board aims to keep flexible procedures and high standards of expertise to be able to act timely and adequately in crisis situations.

3.9 *Evaluation*

The Pension Board will evaluate this plan on an annual basis, along with the annual evaluation of the full ABTN. This plan is included in the ABTN and is part of the recovery policy of the fund. Monitoring of the crisis plan will also be integrated in the quarterly risk reports.

Other remarks

To conclude, the Pension Board acknowledges that there is a strong relationship between the AFA with the Company on the one hand and the (investment) policy of the scheme on the other. In the event of ending the AFA, the scheme will have to evaluate all components of its current policy, starting with the investment policy. Furthermore, the Pension Board decided in its meeting on October 4, 2013 that the Pension Fund will liquidate in principle within two years after the termination of the AFA with the Company. So, in the event of ending the AFA, the Pension Fund will also need to start a provider selection.

4 ORGANISATIONAL CRISIS PLAN

4.1 Organisational Crisis

An organisational crisis can take place as a result of exceptional external circumstances (for example: natural disaster, terrorism, pandemic, hack of IT system(s)) that have a direct impact on the organisation of the pension fund.

In case of an organisational crisis the Executive Board will have a meeting as soon as possible. If it's not possible to have a regular meeting, the meeting will take place by MS Teams (or similar software) or by telephone.

If case of a crisis a Crisis Management Team (CMT) will be established. Members of the CMT include preferable three Board members (including the KFH Risk), a representative of the asset team and a representative of the Benefits Team (Pension Office).

4.2 Crisis Management Team

The CMT will have a meeting on a frequent basis. The number of meetings depends on the impact and the duration of the crisis.

The CMT has a monitoring function on the key processes of the pension fund, the key service providers (pension administrator, assets managers, custodian and key advisors), the financial situation of the pension fund, and whether the daily way of working is still possible.

Is an alternative procedure possible? In other words, a plan B is possible if the regular procedure is not possible as a result of a calamity.

The critical processes are:

- Pension Administration
 - Payment of pensions
 - Financial administration (payment of invoices, pension premium collection, participant&employer administration/mutation)
 - Place investment orders (DC premiums)
 - Contact possibilities for plan participants
 - Providing reports to the Supervisory Authorities
 - Availability of the Website / Communication
- Investments
 - Investing within the agreed mandate
 - Providing report to the Supervisory Authorities
- Custody
 - Administration of investment related changes
 - Etc.
- Pension Board and Pension Office
 - Board support
 - Providing support for Pension Board meetings and meetings for competence teams
 - Providing access to Pension Fund and meeting documents
 - Document signing
 - Payment of invoices

Further a risk-analysis will be made to map the risks in the above-mentioned areas and action will be undertaken where necessary.

4.3 Procedure

The Pension Board has the opinion that urgent matters should in principle be handled by the Executive Board or the CMT. They will take decisions in joint consultation, or by telephone, MS Teams or e-mail, to resolve the urgent situation. Immediately after the situation has been settled, the Executive Board or the CMT will inform the Pension Board about the situation that has arisen and the way in which it has been handled. This is preferably done by e-mail, after which the Pension Board members can ask for further information by e-mail or telephone. The handling of an urgent situation is also discussed in the next Pension Board meeting, so that the decision-making can be documented, and the ways of working can be evaluated and adjusted if necessary. Decisions taken based on this procedure are of a provisional nature until they have been formally ratified by the Pension Board.

4.4 Proxies and Key Functions

The Pension Board has approved continuity proxies in case a Pension Board member is absent for a prolonged period of time. These proxies and the temporary replacement of key functions have been laid down in a proxy document. In case of longer absence, the replacement will be reviewed by the Board within three months.

4.5 Document signing

When the Pension Board or Pension Office is not able to work physically together, the signing procedure and the payment approval procedure will be changed as follows:

- Formal documents will be signed by using Adobe Sign (or similar software).
- Invoices will be approved by e-mail. The original e-mail including the invoice and the approval will be send to the administrator for payment