Joint meeting; ESA, Norwegian Authorities, The Norwegian Association of Local and Regional Authorities (KS) and KLP

05.05.2023

How pension benefits are calculated under SGS2020 (and before)

- Public pension schemes under SGS2020 *and before.*
  - Defined benefit pension schemes
  - Lifelong retirement pension upon retirement
  - Defined disability pension in the case of disability
  - Defined survivor’s pension in the case of death of employees

- Retirement pension under the new plan is designed to secure the employees approximately the same level of annual retirement pension.

- The level of premiums paid by each employer are approximately the same under the new plan.

- Retirement pension, both in the previous and new pension plan is subject to life expectancy adjustment.
  - The retirement pension is adjusted according to the life expectancy of each generation.
  - If life expectancy continues to rise, employees must work longer to receive the same annual retirement pension as earlier generations upon retirement or accept a lower annual retirement pension.

Pension plan under SGS 2020 (simplified)

- A new *pension plan* for earning up retirement pension for employees born in 1963 or later from 2020.
  - No changes in the accrued rights before 2020
  - Annual earning of pension portfolio from 2020
    - 5,7 % of salary up to 12 * National Insurance basic amount (G) (NOK 111 477)
    - 18,1 % of salary between 7,1 and 12 * G
    - AFP (lifelong)

- Flexible retirement age between age 62 and 75.

- Retirement pension = pension portfolio / life expectancy at retirement.

- Life expectancy at retirement is based on calculations from Statistics Norway and is the same as used in the National insurance Scheme.
  - Increases for younger ages if the life expectancy increase
  - Gender neutral

- No changes in disability pension or survivor’s pension.

One year earned retirement pension (simplified)

Salary under 7,1 * G

Old plan

(Salary * 66 % - pension from National Insurance) * life expectancy adjustment / 40

New plan (SGS 2020)

Salary * 5,7 % / life expectancy at retirement

Note

Employers do not pay a «contribution» of 5.7 % of salary. The percentage is an «expression» of the annual earnings, the basis on wich premiums are calculated.

Calculation of ordinary annual premiums

Both under the previous and new retirement pension plan:

- Individual calculation of the necessary technical correct premiums based on the annual earned up pension taking into account
    - Age
    - Gender
        - Risk of disability,
        - Life expectancy /longevity risk
        - Death / mortality risk
    - Retirement age
    - Guaranteed investment returns

- For the same earned up pension the premiums will be different for
    - Men and women of the same age
    - Old and young persons with the same gender

- No difference in tariffs or margins between old and new pension plans

Distribution of premiums

- Premiums are distributed between employers, in “joint arrangements for premium calculation”.

- The purpose of the “joint arrangements for premium calculation” is to ensure that *premiums paid by each employer is neutral with regards to each employers’ employees age and gender*.
  - The premiums paid by the employers are the same – a percentage of the overall pension base of each employer’s pension scheme
  - Regardless of whether the employer chooses to employ young or old, men or women, employees with low or high retirement age

- This is an important and distinctive *solidarity-principle in public pension* both under the previous pension plan and the new pension plan under SGS2020.

Defined benefit vs defined contribution

- Retirement pension under the new plan introduced with SGS2020 is fundamentally different from defined contribution pension schemes in the private sector in Norway ("Innskuddspensjon").

- The defined contributions made to these pension schemes are not premiums, based on gender, life expectancy etc, only payments defined as a percentage of the employees salary.

- These payments are usually invested in securities funds and the employees bear all investment risk. Annual retirement pensions are solely based on the payments made and accumulated returns. The annual pensions are not lifelong, and the pension provider bears no risk related to life expectancy, death or any other biometric factors.

- Defined contribution pension are usually paid out over 10 - 15 years.

Changes in risk distribution as a result of SGS2020

- The pension providers have the risk of:
  - Guaranteed return on the assets
  - Death/mortality risk
  - Life expectancy/longevity
  - Disability

- These are the same risks under the previous retirement pension plan and the new retirement pension plan introduced with SGS2020.

- There are no changes in risk distribution as a result of SGS2020.

Risk mitigation

- The pension providers can mitigate these risks by way of:
  - The build-up of buffer funds, previously – before 2022 – supplementary provisions and fluctuation reserve.
  - The build-up of risk equalisation funds
  - Margins in premium tariffs
  - The build-up of own funds

- These are the risk reducing factors/possibilities both under the previous retirement pension plan and the new retirement pension plan introduced with SGS2020.

- The same tariffs are applied both in the previous pension plan and in the plan introduced with SGS2020.

The operation of the premium fund and buffer fund

- Assets connected to a pension scheme (the Policyholder assets – mainly premium reserves) are managed by a pension provider in group portfolios. The assets are invested.

- Surplus on the investment return is transferred to the policy holders buffer fund and / or premium fund.

- Both funds are “surplus funds”.

- Both the premium fund and buffer fund are assets directly connected to the pension schemes (the policyholder assets) and transferred to a new pension provider upon transfer of the pension scheme.

Buffer fund

- «Financial buffer» that can be used if the investment return is insufficient to cover the annually guaranteed return/interest rate.

- Allocation of surplus on the investment return result to the buffer fund is determined among other factors on the pension providers investment return risk. When the level of the buffer fund is sufficient, annual surplus is allocated to the premium fund.

- A sufficient level of buffer funds is of great importance for an optimal investment strategy. Buffer funds reduce the pension providers investment risk. This will allow the pension provider to take and maintain risk in the management. Greater risk, and especially the ability to maintain risk in falling markets, will result in higher surplus over time.

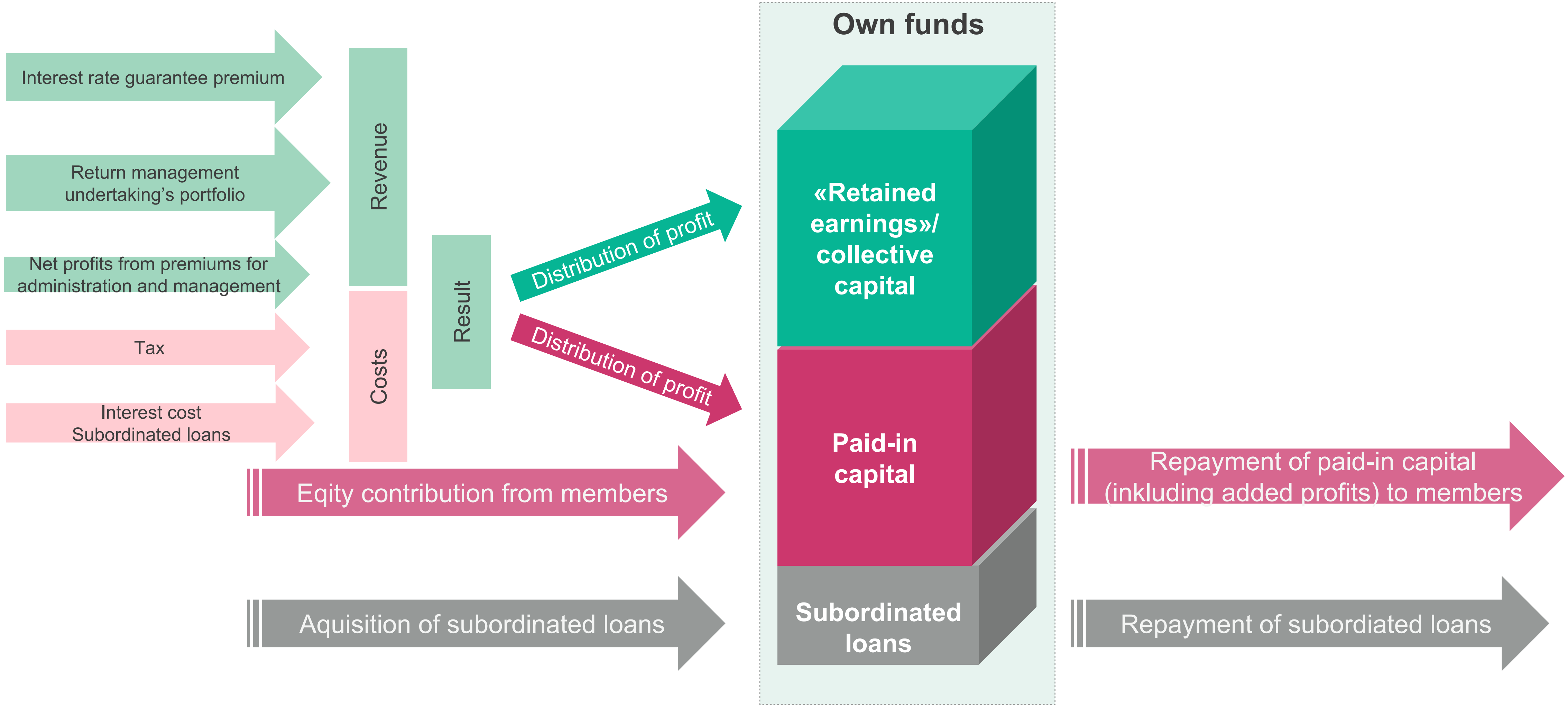
Premium fund

- Surplus on the investment return result allocated to the premium fund may be used to pay premiums upcoming years.

- Surplus on the investment return result which allows for allocations to the premium fund is therefor of great importance to the employer, because it reduces the employers overall pension costs.

- All pension providers of public pension schemes will try to deliver high surplus on the investment return. May by more natural for mutual societies and Pension funds, where the customer and owner are the same.

Financing and capital structure of KLP



Capital structure of KLP

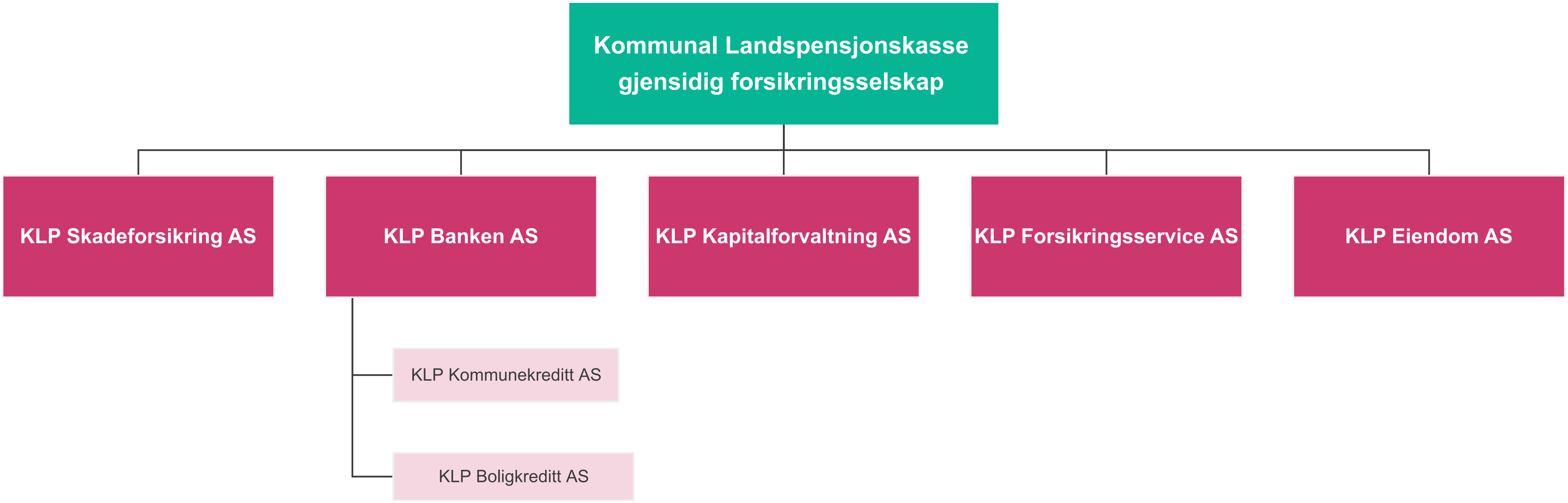
Paid in capital

- Paid in by KLPs members. May be repaid when members transfer their pension schemes, including added profits. Dependent of the approval of the board and the Norwegian Financial Authority.

Ownerless capital/Collective capital

- Historically based on the conversion of collective funds, later maintained and built up trough the operations of KLP.
- Cannot be paid out when transferring pension schemes.
- Collective capital, established, maintained and built up to protect every member and any potential member.
- The existence of a mutual society's collective capital, and its purpose is recognised in both national and international legislation.

KLP Group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KLP Skadeforsikring AS
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