Unit-linked pension plan compensation

Current status

Nationale-Nederlanden is currently taking every possible measure to identify the exact unit-linked pension policies that may be eligible for compensation.

In June 2012, we started sending out letters to inform our clients about the impact. These letters are dispatched in phases. This means that employees of the same employer may receive their letters at a different point in time.

- **The recommendation**
- **Compensation**
- **Frequently asked questions**

nationale nederlanden

The recommendation

Why is a compensation arrangement called for?

Unit-linked pension plans have attracted a great deal of attention. The discussions usually focus on the topic of the fees charged by insurance companies and cost transparency. In 2010, the Dutch Association of Insurers responded by publishing a recommendation on the maximum amount of fees and charges. The Association's recommen-dation was drawn up in consultation with the Financial Services Ombudsman as well as with employer and employee representatives. Nationale-Nederlanden endorses and has adopted this recommendation.

Recommendation of the Dutch Association of Insurers

According to the recommendation of the Dutch Association of Insurers, the maximum rate of charges on a unit-linked pension plan should be an average of 9.5% of the pension contribution, and 1.5% of the value of the investments. Both percentages collectively are also referred to as the cost maximization standard (toetsnorm). You are eligible for compensation if the fees charged for your unit-linked pension plan exceeded this standard.

In which cases will Nationale-Nederlanden provide compensation?

The recommendation of the Association applies to pension plans taken out before 1 January 2010.
Nationale-Nederlanden extends this period to 1 July 2012.
You may qualify for compensation if your (former) employer participates in a unit-linked pension plan under the administration of Nationale-Nederlanden.
This applies regardless of whether or not your unit-linked pension plan is still under the administration of Nationale-Nederlanden today. Nationale-Nederlanden will provide compensation even if the pension capital has been transferred to a different administrator, and even if you have already retired.

Compensation

To determine whether you qualify for compensation, we have assessed all aspects of your unit-linked pension plan.

Compensation calculation

You are eligible for compensation if, on average, the fees charged during the life of your unit-linked pension plan exceeded the cost maximization standard.

We will calculate your compensation by following the four steps below:

- **Step 1:**
  Nationale-Nederlanden will calculate the capital value of your pension benefits on retirement based on the maximum fees that may be charged according to the recommendation of the Association.

- **Step 2:**
  Subsequently, we will calculate the capital value of the forecast pension benefits on retirement based on the actual fees charged for your unit-linked pension plan.

- **Step 3:**
  We will then compare the difference between the value computed in step 1 and the value computed in step 2. If the value according to the recommendation of the Association (step 1) is higher than the forecast value of the pension capital of the unit-linked pension plan (step 2), you will receive compensation.

  Future calculations are based on an assumed annual return of 6%. In this respect, Nationale-Nederlanden follows the recommendation of the Association. The calculations concerning the past are based on actual historical returns.

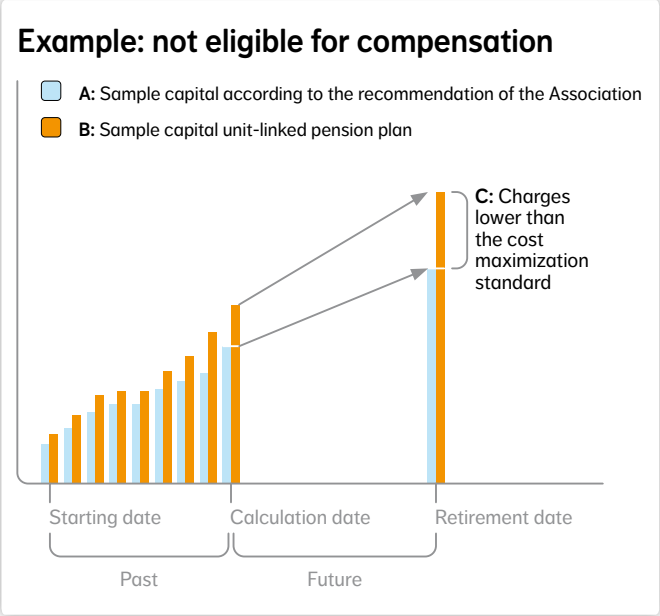
- **Step 4:**
  Compensation will not be paid on retirement day, but on an earlier date. The difference between the value according to the recommendation of the Association and the forecast value of the pension capital of the unit-linked pension plan is, therefore, liquidated. In doing so, Nationale-Nederlanden applies an interest rate of 5%. In this respect, Nationale-Nederlanden follows the recommendation of the Association.

  Please note: If you have already retired, step 4 does not apply. We will compare the actual value of your pension capital of the unit-linked pension plan on the day of your retirement with the value according to the Association, applying the actual return in our calculations. If the value according to the Association is higher than the actual value of your pension capital, the difference equals your compensation.

Example 1: You will not receive compensation

You are not eligible for compensation if the forecast value of your pension capital on the day of your retirement (B) is higher than the value according to the recommendation of the Association (A). The average charges do not exceed the cost maximization standard.

Simplified sample calculation
Let us assume that the value according to the recommendation is € 98,000.- (A). The forecast value of the pension capital of the unit-linked pension plan on the day of retirement is €105,000.- (B). On the day of retirement, the value of the pension capital is higher than the value according to the recommendation. On average, the charges are lower than the cost maximization standard. By consequence, you are not eligible for compensation.



Example 2: You will receive compensation

You are eligible for compensation if the forecast value of your pension capital (B) is lower than the value according to the recommendation of the Association (A). On average, the charges are higher than the cost maximization standard.
The difference between the forecast value of your pension capital and the value according to the recommendation of the Association is converted into cash (C).

Simplified sample calculation
Let us assume that the value according to the recommendation is € 123,000.- (A). The forecast value of the pension capital of the unit-linked pension plan on the day of retirement is € 122,000.- (B). The value according to the recommendation is higher than the value of the pension capital on the day of retirement. On average, the charges are higher than the cost maximization standard. The difference is converted into cash, and you are entitled to € 250.- in compensation (C).

Leverage and capital erosion

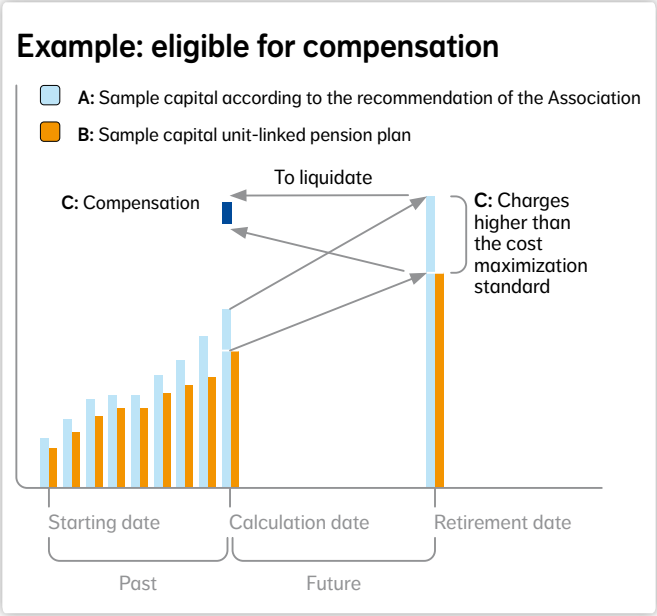
In addition to any compensation entitlement based on the recommendation of the Association, we will assess whether any exposure to leverage and erosion has occurred in the past.

Exposure to leverage may have occurred if the premiums paid into the life insurance policy depended on the value of the investments. A fall in prices would then cause life insurance premiums to go up, and exchange rate rises would cause the amount of premium to drop. This is referred to as the leverage effect.

A unit-linked pension plan will 'erode' if, over a certain period of time, the amount of costs and risk premiums is higher than the total amount of premiums paid. This is referred to as the capital erosion effect.

In the event that your unit-linked pension plan has been exposed to leverage and capital erosion, you will receive additional compensation. The amount is included in the aggregate compensation. The letter addressed to you personally will not specify any separate amounts.

If insurance premiums continue to be paid into the supplemental life insurance policy from your defined contribution plan, you may still be exposed to this effect. This is due to the fact that the amount of the life insurance policy (and, by consequence, the amount of the risk premium) depends on the value of the investments. You will not receive compensation for any future exposure to leverage and capital erosion effects.



Nonrecurring upward adjustment

The third component of any possible compensation may consist of a nonrecurring upward adjustment of the value of your unit-linked pension plan.

In compliance with current legislation and regulations, we have decided to adjust the cost structure of a number of pension contracts, with effect from 1 July 2012. This will not result in any increase in charges, neither for employers nor for employees. The cost level of the unit-linked pension

plan will remain the same or decrease. In the event that your unit-linked pension plan has been exposed to this effect at any point in time, we will correct the past by means of a once-only upward adjustment of the value of your unit-linked pension plan.

In the event that you qualify for a nonrecurring upward adjustment, this adjustment will be included in the aggregate compensation. The letter addressed to you personally will not specify any separate amounts.

Payment of compensation

Your united-linked pension plan is no longer under the administration of Nationale-Nederlanden or you are retired.

It is possible that you have transferred the value of your policy to another pension administrator, or that you have retired by now. In the event that you qualify for compensation, we will pay the amount directly to you after deduction of income tax and social insurance contributions. At the end of the calendar year, you will receive an annual benefits statement. You can use this statement to complete your income tax return.

Your unit-linked pension plan is still under the administration of Nationale-Nederlanden.

If your unit-linked pension plan is still under our administration, we will add the amount of compensation to your pension fund. By the time you receive the impact letter, this will already have been processed. The amount of compensation is included in next year's annual pension investment statement (Model 3 BPR). Even if at some point in the past your unit-linked pension plan has been converted into a capital-guaranteed pension plan, we will add the amount of compensation to your pension fund.

Frequently asked questions

Q: I am not eligible for compensation, why is that?

A: The charges for a large share of the unit-linked pension plans do not exceed the cost maximization standard. Therefore, these unit-linked pension plans do not qualify for compensation. This means that throughout the life of the policy, the deducted charges on average did not exceed the cost maximization standard.

Q: How will my compensation be calculated based on the recommendation?

A: Nationale-Nederlanden will assess the amount of the charges during the entire life of the policy, up to the retirement date. You are eligible for compensation if the average charges for your unit-linked pension plan exceeded the cost maximization standard. In the event that you qualify for compensation, we will count back the amount on the retirement date to today. This is referred to as liquidation.

Q: When will I receive notice about the compensation?

A: In June 2012, we started sending out the impact letters. These letters are dispatched in phases. This means that employees of the same employer may receive their letters at a different point in time. The illustration on the first page represents the dispatch schedule.