NOVARTIS UK PENSION SCHEME

Life

A Guide to Additional Retirement Savings

NOVARTIS

Saving more for your retirement

As a member of the Novartis UK Pension Scheme, you're likely to receive benefits when you retire that compare favourably with those which you'd get from comparable employers.

For a number of reasons, however, you might wish to add to your benefits, and provide yourself with an even more comfortable standard of living in retirement:

- you may be planning to **retire early,** and therefore need to build up a larger Retirement Account whilst you're still working
- perhaps you started providing for your retirement later in life than you could have done, or you've had a career break, and you need to **make up for that lost time**
- maybe you simply want to be **better off** in retirement than you will be with your Novartis Retirement Account as it stands
- you might wish to provide a **pension for your spouse or another dependant**
- or perhaps you want to take advantage of opportunities that exist **outside** the Novartis Scheme for adding to your retirement income.

If any of these circumstances apply in your case, then this brochure is for you. It tells you about all the different ways of saving more for your retirement, both **within the Novartis Scheme**:

- **Additional Voluntary Contributions**
- **Extra contributions from Variable Pay**

and **external to the Scheme:**

- **Personal Pension arrangements**
- **Individual Savings Accounts.**

Financial investment schemes like these can seem quite complex and difficult to understand. Under the Financial Services & Markets Act 2000, neither the Company nor the Scheme's Trustee board are authorised to advise you on what you as an individual should do in your specific circumstances, and you should consider seeking regulated financial advice before you make any decisions. To find an adviser in your area you can visit: **www.unbiased.co.uk.**

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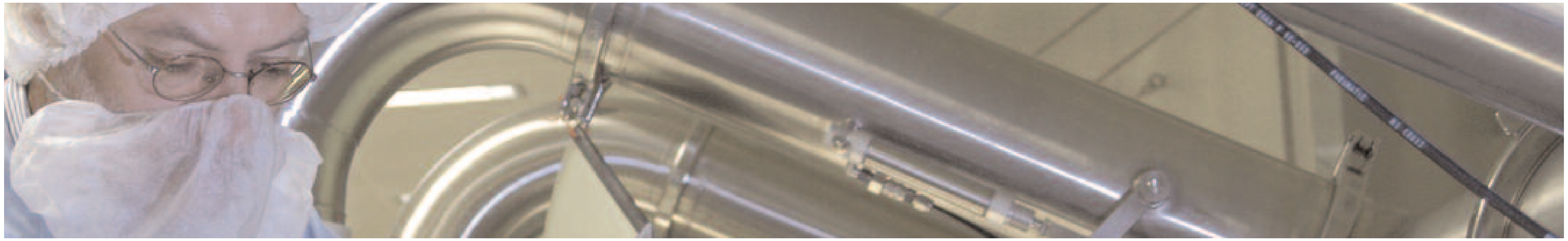

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Definitions

You will find a number of special terms used throughout this Guide. Their meanings are as follows:

Pensionable Salary

is the level of earnings upon which your contributions to and benefits from the Scheme are based, and is your annual rate of contractual salary (your basic salary together with shift allowance and rostered overtime).

Variable Pay

is further earnings that do not count towards your Pensionable Salary, including defined bonus scheme payments and defined commission scheme payments.

Normal Pension Age

is your 65th birthday.

Assets

are the various investments that go to make up your Retirement Account.

Risk

is the degree of possibility that an investment may fall in value. Often, higher rewards can be achieved by accepting a higher degree of risk.

Return

means the change in value of an investment (which can be negative as well as positive) and any income you receive (such as dividends) from that investment.

HMRC limits on benefits and contributions

Like most company pension schemes the Novartis Scheme is registered with HM Revenue & Customs (HMRC). As a result members get tax relief on their pension contributions, but in return HMRC lays down certain limits on the contributions you can pay in any year and the benefits you can build up during your membership. These limits apply irrespective of when you joined your scheme and when your benefits were earned. Any contributions you make or benefits you earn which are in excess of these limits will incur substantial extra tax charges.

The HMRC limits are structured around two main Allowances, called the **Lifetime Allowance** and the **Annual Allowance.**

Lifetime Allowance

The **Lifetime Allowance applies to the total size of your pension fund earned from all sources over your working life.** As well as your Retirement Account in the main Novartis Scheme, this includes benefits deriving from any Additional Voluntary Contributions and from any extra contributions from Variable Pay, and benefits from any previous employers' schemes or other non-Novartis pension arrangements of which you have been a member. Your State pension entitlement does not count towards the Allowance, however. In 2017/18 the level of this Allowance is **£1 million**. From April 2018 it will be increased each year in line with the rise in the Consumer Prices Index.

If your Account at retirement exceeds the Lifetime Allowance, the excess will be taxed at the rate of 25% when it is taken as pension (on top of the income tax you will already be paying on that pension), and at a rate of 55% when taken as a lump sum.

Annual Allowance

The **Annual Allowance applies to the total amount of pension savings you can make in any tax year.** This includes your contributions to the main Novartis Scheme, the amount the Company pays into the Scheme on your behalf, any Additional Voluntary Contributions, any Variable Pay contributions, and contributions to any personal pension arrangements. You can pay as much as you like, but you will only receive tax relief on up to 100% of your annual earnings or the Annual Allowance, whichever is the lower. In 2017/18 the amount of the Allowance for most members is **£40,000**. Higher earning members with taxable income (**including** individual and employer pension contributions) of over £150,000 pa., however, have a "Tapered Annual Allowance". Essentially this means that for every £2 of income over £150,000, the Annual Allowance is reduced by £1 from £40,000 down to a minimum of £10,000.

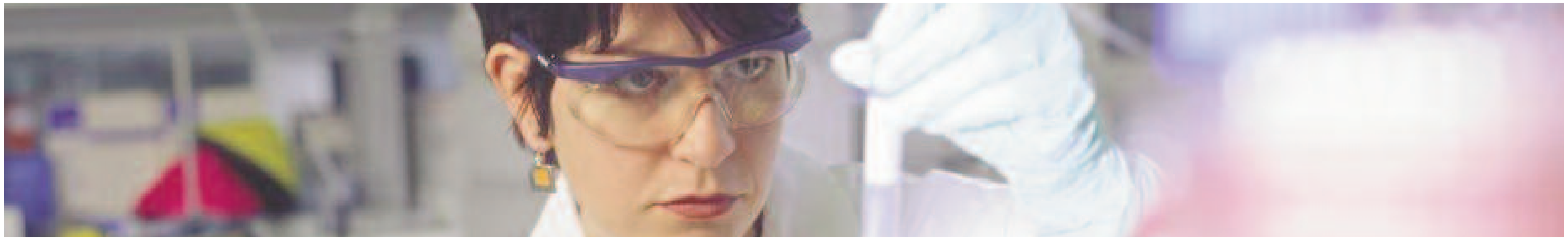
Money Purchase Annual Allowance

If you start to take some of your savings but continue to make contributions to the Scheme, then depending on how you take your savings it may impact on your Annual Allowance and you may become subject to a Money Purchase Annual Allowance. **The Money Purchase Annual Allowance from April 2017 is £4,000,** ie. the maximum amount of tax efficient savings which can be paid to a money purchase or defined contribution arrangement in these circumstances is £4,000.

Tax-free Cash Sum

The **maximum tax-free cash sum** allowed is **25% of the value of your pension fund.** This is restricted to an overall maximum of 25% of the Lifetime Allowance. So in 2017/18 the maximum tax-free cash sum permitted is **£250,000 (25% of £1 million).**

Further information about HMRC limits can be found at **www.gov.uk/ tax-on-your-private-pension/overview**, or by contacting the Scheme's administrators.



Additional Voluntary Contributions (AVCs)

At any time during your membership of the Novartis UK Pension Scheme, you can pay Additional Voluntary Contributions (AVCs) through the Scheme in order to boost your retirement benefits. AVCs are flexible, tax-efficient and very simple:

Flexible Contributions

For most people the easiest way to pay AVCs is via regular deductions from their salary. They can be paid as a regular percentage of your Pensionable Salary (eg. 5%), as a fixed amount per month (eg. £50, subject to a minimum of £10), or as a one-off lump sum. You can increase, reduce or even stop regular payments whenever you wish, as your circumstances dictate.

If you are a Salary Sacrifice Member (please see the Addendum at the back of your Membership Handbook), if you pay **regular monthly** Additional Voluntary Contribution these will be made by the Company on your behalf, following the deduction of an equivalent amount from your salary. As a result, the amount of National Insurance that you pay will be less. Salary Sacrifice will not apply, however, to any **lump sum** Additional Voluntary Contributions.

Tax Advantages

AVCs can be a particularly attractive method of saving for retirement since they enjoy some very important tax advantages. Firstly, you get full tax relief on your AVCs at the highest rate at which you pay tax. So every £1 contributed will only cost a basic-rate tax-payer 80p at current rates with 20% tax relief, and if you are a higher or an additional rate tax-payer you will receive either 40% or 45% tax relief. Secondly, when they are invested the proceeds will, under current rules, accumulate free of both income and capital gains taxes. Once you retire, of course, the benefits deriving from your AVCs will be taxed in the normal way, just as your earnings are now.

You can pay as much as you like in AVCs, and receive tax relief on up to 100% of your annual earnings or the Annual Allowance (see page 3), whichever is the lower.

How AVCs work

Your AVCs are put into an individual fund in your own name within the Novartis UK Pension Scheme, called your Retirement Account. Your Account is then invested via professional investment managers chosen by the Trustee board, and the size of your Account will increase (or decrease) according to how well the investments perform. You can choose between a range of different investment options (see opposite).

Payment of Benefits

When you retire - whether at Normal Pension Age or earlier - the total value your AVC fund has reached, including the returns received on its investment, will be used to provide additional benefits to those you will already receive from the main Scheme.

Please refer to your Membership Handbook for details of the retirement benefit options currently available.

The earliest your benefits can be taken, unless you are suffering from ill health, is currently age 55.

Leaving Novartis

If you leave Novartis, your AVC benefits will be treated in the same way as your benefits from the main Scheme, as described in your Membership Handbook.

Investment options

Firstly, you can choose between two investment routes, called **FREESTYLE** and **LIFESTYLE**:

FREESTYLE

This may be the right route for you if you feel comfortable and knowledgeable enough to make your own investment decisions, to suit your own personal circumstances and to plan for your own retirement needs. **FREESTYLE** also gives you the freedom and flexibility to alter and vary your investment choices as you go along, as your circumstances change. If you select the **FREESTYLE** route you can choose between the following four individual investment funds descibed in the table opposite.

You can either select just one of the funds at a time, or you can spread your contributions between them in any combination you wish. You can subsequently switch funds/combinations annually throughout your membership; if you wish to do this you should obtain the Change of Investments Form from the Scheme's member website.

FUND NAME	INVESTMENT OBJECTIVE	CURRENT UNDERLYING FUND	SUITABILITY	ANNUAL CHARGE (% of fund value)
HIGH GROWTH, HIGH RISK FUND	To provide an attractive return over the long term by investing in a combination of UK (approximately 30%) and overseas (around 70%) equities. The Trustee board may decide to alter this mix over time.	L&G Global Equity Market Weights (30:70) Index Fund - 75% GBP Currency Hedged	Generally suitable for members who are many years from retirement and want to build up the value of their Account over the long term.	0.1625%
MODERATE GROWTH, MODERATE RISK FUND	To provide growth over the long term with less volatility than investing in equities, by investing in a diversified portfolio likely to include equities, bonds, property and commodities.	L&G Diversified Fund	Generally suitable for members who wish to take a slightly more cautious approach and who, whilst still seeking growth, require a degree of protection against the volatility of the equity markets.	0.3%
LOW GROWTH, LOW RISK FUND	To provide limited growth but with greater security by investing in lower-risk assets such as government index-linked bonds and corporate bonds. Expected to provide protection against fluctuations in annuity prices and against inflation, **but does not provide short-term capital security.**	L&G Inflation Sensitive Pre-Retirement Fund	Generally suitable for members who are approaching retirement, and who wish to protect the fund value they have built up against a downturn in the equity markets, increasing inflation and also against movements in annuity rates.	0.122%
CASH FUND	To provide capital protection for investors, but with a low level of growth. Will invest in a diversified range of short-term money market instruments via government and financial institutions. Capital protection is not guaranteed.	L&G Sterling Liquidity Fund	Generally suitable for members who are very near to retirement, and who aim to fully protect a portion of the fund value they have built up particularly if they plan to take a tax-free cash lump sum on retirement.	0.125%

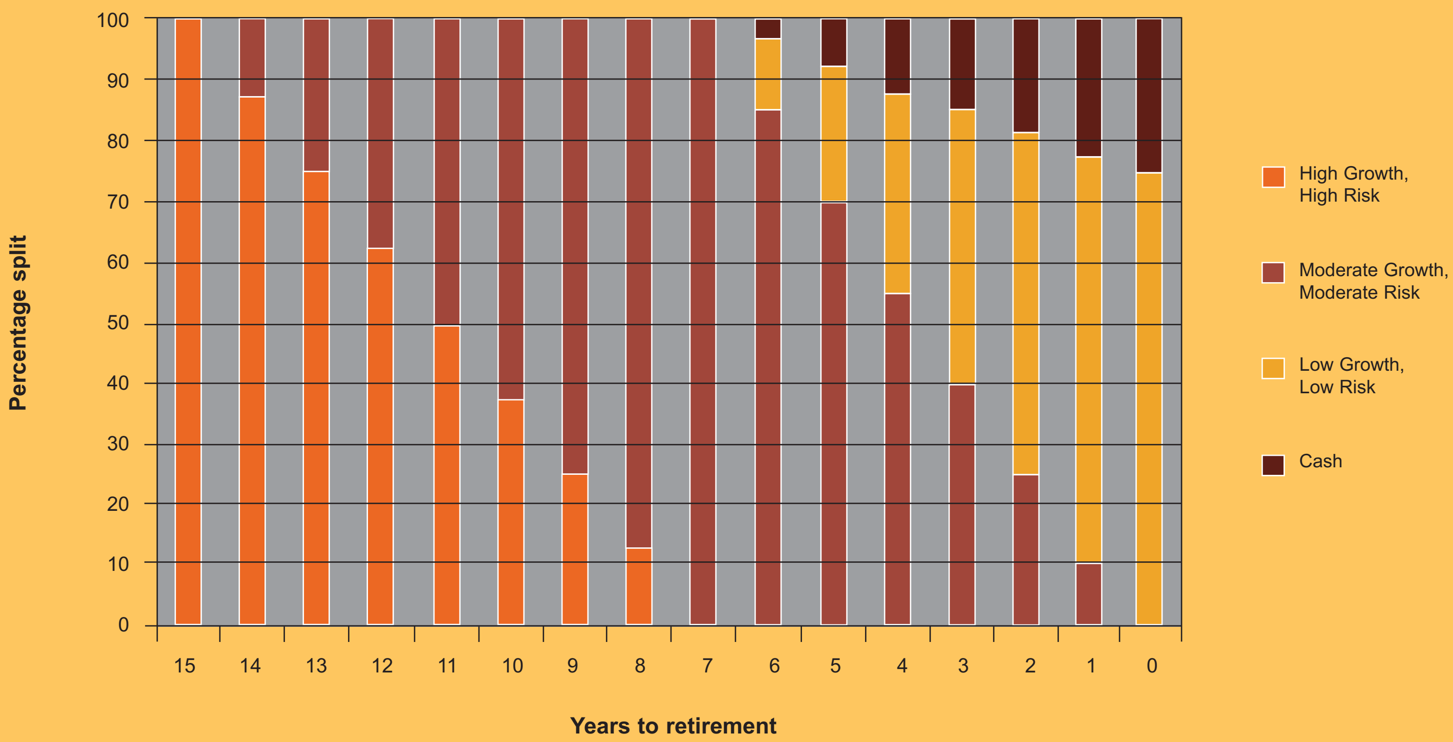
LIFESTYLE

This is the "default" option and it may be the appropriate route for you if you are not comfortable in making your own investment decisions. However, it is not suitable for all members and it is important that you understand how the **LIFESTYLE** route works.

Under **LIFESTYLE,** your contributions are invested by the Scheme automatically according to a preset plan, as illustrated by the graphic opposite. During the earlier years of your working life, your Retirement Account is automatically invested 100% in the High Growth, High Risk Fund, enabling you to take advantage of growth-seeking (though more volatile) investments whilst you are younger and still a long way from retirement. When you are between 15 and 7 years away from your target retirement age, your Account will be switched gradually into the Moderate Growth, Moderate Risk Fund. Finally, in the last 7 years leading up to your retirement your Account will be moved into a combination of the Low Growth, Low Risk and Cash funds. In this way, **LIFESTYLE** aims to give you increasing protection of the value already built up in your Account against any downturn or "crash" which might occur in the financial markets close to your retirement, which could seriously affect the final value of your Account.

Within the **LIFESTYLE** route, it is possible for you to select your own target retirement age. This does not need to be the Scheme's Normal Pension Age (your 65th birthday); it can be any birthday from your 55th (subject to legislation). Switching into the lower risk funds will then begin automatically when you reach 15 years before this target date. You can revise your target retirement age at any time up to the 15 year point when switching commences. If you wish to do this you should obtain the Lifestyle Retirement Age form from the member website.

A separate leaflet entitled **Your Investment Routemap** describes all the investment options in detail, helps you identify your attitudes to investment and taking risk, and guides you through a straightforward, step-by-step decision-making process which helps you to make the investment choices that best meet your personal circumstances and retirement needs. You can obtain this leaflet from the Scheme's member website: **https://novartis.xpmemberservices.com.**


Percentage split
100
90
80
70
60
50
40
30
20
10
0
15 14 13 12 11 10 9 8 7 6 5 4 3 2 1 0
Years to retirement
High Growth, High Risk
Moderate Growth, Moderate Risk
Low Growth, Low Risk
Cash

Extra contributions from Variable Pay

Another way in which you can boost your retirement benefits is by paying extra contributions out of your Variable Pay, at the rate of anything between 1% and 10% of those earnings.

Whatever such contributions you make will be matched by the Company - that is, the Company will pay in further contributions equal to yours of between 1% and 10% of your Variable Pay. All Variable Pay contributions are invested on a Defined Contribution basis (as with AVCs), in order to produce additional benefits on your retirement. You will be given the opportunity to pay Variable Pay contributions at the time you are notified of the amount of the payment that qualifies. This might be:

- a defined bonus scheme payment
- a defined commission scheme payment.

As with normal contributions, these extra contributions will be paid out of gross earnings and will therefore qualify for tax relief at your marginal (highest) rate. If you are a Salary Sacrifice Member (please see the Addendum at the back of your Membership Handbook), your Variable Pay Contributions will be made by the Company on your behalf, following the deduction of an equivalent amount from your Variable Pay. As a result, the amount of National Insurance that you pay on these earnings will be less.

The following examples show how any contributions you make from your Variable Pay will immediately increase in value, quite dramatically. This is because the Company will match those contributions, and also because of the tax relief you will receive.

Example 1 - Basic Rate taxpayer with bonus of £2,000	
Variable Pay contribution @ 10%	£200
Actual cost after tax relief (£200 x 80%)	**£160**
Company matching contribution	£200
Total invested (£200 + £200)	**£400**
Immediate increase in value (£400 - £160)	**£240**
Immediate growth % (£160 to £400)	**250%**

Example 2 - Higher Rate taxpayer with bonus of £2,000	
Variable Pay contribution @ 10%	£200
Actual cost after tax relief (£200 x 60%)	**£120**
Company matching contribution	£200
Total invested (£200 + £200)	**£400**
Immediate increase in value (£400 - £120)	**£280**
Immediate growth % (£120 to £400)	**333%**

Any future investment growth will of course add further to the increase in the value of your contributions.

Investment options for Variable Pay contributions

The investment options for Variable Pay contributions are the same as those for AVCs (see pages 5-7). Again, you can choose between the **FREESTYLE** and **LIFESTYLE** routes.

If you select **FREESTYLE,** you can choose just one of four investment funds, or you can spread your contributions between them in any combination you wish. You can subsequently change funds/combinations at any time; if you wish to do this you should obtain the Change of Investments Form from the Scheme's member website.

If you select **LIFESTYLE,** the gradual switching of your fund will take place as shown in the graphic on page 7.

As with AVCs, it is possible for you to select your own target retirement age, rather than the Scheme's Normal Pension Age (see page 6).

Saving for retirement outside the Novartis Fund

There are various other ways to save money which you could use towards your retirement income, external to the Novartis UK Pension Scheme, and these may be suitable for some members.

Before making any decisions, however, it is recommended that you seek regulated financial advice.

Personal Pension arrangements

You can contribute to as many different pension schemes as you like at any time in order to maximise your benefits, irrespective of your income (but subject to the Annual Allowance on contributions referred to on page 3). So, as well as being a member of the Novartis Scheme, you can have personal pension arrangements of your own at the same time if you wish. When you retire, your benefits from all sources will be aggregated, and the total will then be tested against the Lifetime Allowance also described on page 3.

These arrangements are offered by insurance companies and banks and operate in a similar way to AVCs, but you should note that:

- if you are a higher rate taxpayer, full tax relief is claimed through your annual tax return - only basic rate tax relief is given automatically
- at present the Company meets some or all of the administration costs associated with your AVCs. If you decide to contribute to a personal pension arrangement, then the associated administrative costs will need to be met by you.

Individual Savings Accounts

An Individual Savings Account (ISA) is another way of investing for your future that you may wish to consider. Many organisations offer the facility to invest in an ISA, including building societies, banks, insurance companies and investment managers. Your contributions can be invested in shares or deposit accounts.

There is a limit on the total contributions that you can pay into an ISA in any tax year: for the 2017/18 tax year this is £20,000.

Your contributions to an ISA will be paid out of your post-tax income - unlike with AVCs and personal pensions there is no tax relief on the money you pay into an ISA. Any investment growth, however, is not subject to either income or capital gains tax. You can withdraw some or all of your money from your ISA at any time, and the income you receive from your ISA is tax-free.

Choosing the best option for you

There is no right or wrong investment decision - even the experts have differences of opinion. When deciding the best option for you, though, you need to keep in mind the following considerations:

- Your likely long term needs balanced against your present financial circumstances - can you afford to put a fixed amount of money away regularly, or do you need flexibility at the moment?
- Do you want to leave the money you save firmly invested for your retirement - or do you want to be able to access it quickly if you need to?
- How much retirement income will you already be getting from other sources, including the Final Salary and/or the Defined Contribution sections of the main Novartis Scheme, any previous employers' schemes or personal pension arrangements, and/or the State Pension Scheme?
- When do you want to retire - at the Scheme's Normal Pension Age (your 65th birthday) or earlier (normally you can select any birthday from your 55th)?
- How much risk are you prepared to take, and what level of return on your money are you looking for?
- How close are you to retirement? If retirement is still some years off, you may be prepared to take more risk in order to build up as much money in your fund as possible. To achieve this, you may wish to consider choosing one of the options which predominantly invests in equities. Over the long term, equities have produced significantly higher returns than other investments; on the other hand, the value of equities can go down as well as up and there is a risk you could lose money. As a result equities are considered more suitable as a longer term investment. If you are near retirement, though, you may wish to choose less risky options such as bonds and cash. These do not generally provide such good returns but they tend to be safer investments.

If you are considering paying AVCs or making extra contributions from Variable Pay, a separate leaflet entitled **Your Investment Routemap** describes the investment options in detail, helps you identify your attitudes to investment and taking risk, and guides you through a straightforward, step-by-step decision-making process which helps you to make the investment choices that best meet your personal circumstances and retirement needs. You can obtain this leaflet from the Scheme's member website: **https://novartis.xpmemberservices.com.**

The value of investment funds can go down as well as up; returns cannot be guaranteed, and it is important to remember that past performance is not necessarily a guide to future performance. Which investment fund(s) are the right ones for you depends upon your individual circumstances, and under the Financial Services & Markets Act 2000, neither the Company nor the Scheme's Trustee board are authorised to give you specific advice on which options you should select. Consequently, before making your investment decisions you may wish to seek regulated financial advice. You can find an adviser in your area by visiting: **www.unbiased.co.uk.**

What to do now

If you wish to begin paying AVCs:

1. Visit the online modeller on the Scheme's member website: **https://novartis.xpmemberservices.com.** This enables you to try out various "what if" scenarios and can provide illustrations of the extra benefits that different levels of AVC contributions might produce.

2. Once you've decided how much you want to contribute, please access the Novartis Reward Hub and go on to the benefits page, where you will be able to input the amount you wish to contribute or download the form to make a one-off lump sum AVC.

If you wish to pay extra contributions from Variable Pay:

You will be given the opportunity to pay Variable Pay contributions at the time you are notified of the amount of the payment that qualifies. If you wish to take advantage of this opportunity, please access the Novartis Reward Hub and go on to the benefits page, where you will be able to input the amount you wish to contribute.

If you wish to begin contributing to a Personal Pension arrangement or an ISA:

Go to a regulated financial adviser or directly to a provider of such products, such as an insurance company, bank or building society.

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