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Deferred Compensation

Saving for additional pension benefits
Conversions from 2020



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Deferred Compensation: Saving for additional pension benefits

Bayer creates an attractive working environment in which everyone can utilize their full potential, drive forward innovations and achieve performance excellence. That includes various programs that actively help employees improve their personal pension situation.

Why save for retirement?

Safeguarding your standard of living after retirement or if your earning capacity is reduced by disability, and providing for your surviving dependents in the event of your death are based on three pillars:

➔ The state pension insurance system

➔ Your company pension plan

➔ Your personal retirement savings

The state pension insurance system takes not account of income above the contribution ceiling, so your relative pension decreases as your income grows. Personally financed retirement coverage is an increasingly important way of making up for the resulting shortfall.

What is Deferred Compensation?

Deferred Compensation is a way of saving for your retirement: you forgo part of your salary in favor of a higher pension. Your gross salary is reduced by the amount you choose to set aside to finance additional company pension entitlements.

Advantages of the Deferred Compensation model:



Higher pension: Deferred Compensation amounts are allocated out of your gross income. In many similar pension saving models, contributions can only be financed out of after-tax income.



Greater flexibility: You can decide annually whether to take part – depending on your personal situation.



More options: As an alternative to a lifelong retirement pension, you can opt for a lump-sum payment, which can be paid out in up to three annual

installments. You have until your 59th birthday to decide which option you wish to take. You can also have the option of waiving survivors' benefits. In this case, your pension is increased. For example, if you retire at 67, your pension would be about 12 percent higher. That is of particular interest if you are not married, but can also make sense if your spouse has good personal pension provision.



Lower taxes: Your Deferred Compensation is only taxed after you retire. As a result of the change in your income, the tax rate may therefore be lower.

Deferred Compensation can therefore play an important part in improving your financial security after retirement.

How does Deferred Compensation work?

Who is the Deferred Compensation model for?

Managers from contract level 1.1 can take part in the Deferred Compensation model.

Which income components are eligible?

You can set aside part of your regular base salary and short-term incentive (STI) award for additional pension entitlements.

If you defer part of your base salary (min. €1.500,00 max. 30 percent p.a.), you receive a written Deferred Compensation Agreement to supplement your employment contract.

If you set aside some of your STI (a percentage up to 100 percent) you have to submit a declaration (=promise of pension coverage).

In both cases you receive a written promise of pension coverage.

How is compensation turned into pension benefits?

Your Deferred Compensation is converted into pension entitlements by multiplying the amount deferred by a percentage depending on your age when the Deferred Compensation is set aside. This percentage also takes account of the guaranteed return. Your pension entitlement shows your guaranteed annual pension entitlement at the age of 67¹.

In addition, the amount may earn extra returns in the period up to disbursement, analogously to the extra returns for the applicable tariff of the Rheinische Pensionskasse².

The contractual conditions of the respective year contain tables showing the factors used to calculate the pension entitlements. The general rule is that the younger you are, the higher the percentage applied to the Deferred Compensation.

When can I claim my pension?

- If you retire at age 67 you will receive a lifelong **pension**¹.
- If you take **early retirement** before you are 67, a discount will be applied.
- If your earning capacity is **reduced by disability**, you will receive a lifelong pension.
- If you **die**, your surviving dependents will receive survivors' benefits.

This quick guide provides an overview of the Deferred Compensation model and does not form the basis of any legal entitlement. The individual pension commitment granted in connection with the contractual conditions applicable for the respective calendar year is authoritative.

¹ For agreements signed before 2013, the applicable age is 65, not 67.

² The Rheinische Pensionskasse pension fund is a mutual insurance fund. The extra return depends on the economic situation and the performance of investments on the capital market. It is calculated retroactively for each year. You will be informed of the extra return in your annual statement of pension entitlements.

How are the benefits calculated?

Calculation of pension entitlements:

Annual retirement pension

The Deferred Compensation is multiplied by an age-specific annuity factor (percentage). The result is the guaranteed annual pension entitlement. This entitlement is increased annually until the pension is claimed by the same percentage as the extra returns earned by the Rheinische Pensionskasse, assuming that such extra returns are earned.

The pension is also adjusted on the same basis after retirement. In fact, an increase of 1 percent p.a. is guaranteed.

EXAMPLE

Deferred Compensation (one-time)	€6,000.00	}	Age*	Age-specific annuity factor**
Age*	35		34	4.19%
			35	4.16%
			36	4.10%

€6,000.00 x 4.16% = €249.60 (≙ guaranteed annual retirement pension at age 67)

Example calculation of retirement pension: Based on a Deferred Compensation amount of one-time €6,000.00 our example gives the following entitlements:

Annual retirement pension including possible extra returns*** at age 67 / disability pension, with survivors' benefits				
Age*	(guaranteed)	incl. 1.00% extra return***	incl. 1.50% extra return***	incl. 2.25% extra return***
35	€249.60	€343.18	€401.93	€508.71

* The age used a basis for this calculation is the difference between the calendar year in which you set aside the Deferred Compensation and your year of birth.

** This example is based on the factors for Tarif 4 of the Rheinische Pensionskasse. The tariff applicable for you is the tariff specified in your salary conversion agreement and pension promise.

*** Remember that Bayer cannot guarantee extra returns. These returns depend on economic performance and the success of investments in the capital market, and may vary from year to year. All scenarios for extra returns in this brochure are given as examples only and none represents a basis for any legal entitlement. However, the pension adjustment of 1% p.a. is guaranteed.

How are the benefits calculated?

Flexibility – It's your choice:

Lump-sum payment

You have to decide by your 59th birthday at the latest whether to take a lump-sum payment instead of a life-long pension. The lump-sum can be paid as a single amount or in three installments. After you reach 59 this option is no longer available. This means that capitalization is no longer available for amounts set aside out of your salary after the age of 59.

Important: Once you have decided for a lump-sum payment, your decision is final.

Instead of a single payment, you can have the capital paid out in a maximum of three equal installments (in January of each year). The final installment must be paid at the latest in January of the year in which you reach the age of 67. This decision must be taken when you apply for your company pension benefits.

EXAMPLE

Guaranteed annual retirement pension €249.60

Age when pension is claimed		Capitalization factor**
Years	Months	
66	9	32.16
	10	32.08
	11	31.99
67	0	31.91

$€249.60 \times 31.91 = €7,964.74$ (Δ guaranteed capital at age 67)

Example calculation of lump-sum payment with extra returns: Based on our example, of a Deferred Compensation amount of E6,000 at age 35, taking the extra returns into account, gives the following amounts at age 67:

Age*	Deferred Compensation	Guaranteed capital** at age 67		Possible lump-sum payment** at age 67		
		Pension entitlement with survivors' benefits (guaranteed)	Lump-sum payment (gross)	incl. 1.00% extra return***	incl. 1.50% extra return***	incl. 2.25% extra return***
35	€6,000.00	€249.60	€7,964.74	€10,950.87	€12,825.59	€16,232.94

* The age used a basis for this calculation is the difference between the calendar year in which you set aside the Deferred Compensation and your year of birth.

** This example is based on the factors for Tariff 4 of the Rheinische Pensionskasse. The tariff applicable for you is the tariff specified in your salary conversion agreement and pension promise.

*** Remember that Bayer cannot guarantee extra returns. These returns depend on economic performance and the success of investments in the capital market, and may vary from year to year. All scenarios for extra returns in this brochure are given as examples only and none represents a basis for any legal entitlement. However, the pension adjustment of 1% p.a. is guaranteed.

How are the benefits calculated?

Flexibility – It's your choice:

Waiver of survivors' benefits

If you die, your spouse or registered partner receives a lifelong pension. In addition, your children receive an orphan's pension. For more information on surviving dependents' benefits, see [page 8](#).

You can opt to waive survivors' benefits in favor of a higher personal pension. However, if you opt to receive a lump-sum payment, you may not opt out of the surviving dependents' pension.

You must make a decision on this at the latest when you apply for company pension benefits before you retire. That gives you flexibility: it means you can take into account your personal circumstances when you retire.

EXAMPLE

Guaranteed annual retirement pension	€249.60
Age when pension is claimed	67

Age when pension is claimed	Increase in pension due to waiver of survivors' benefits*
65	11.14 %
66	11.49 %
67	11.85 %

$$€249.60 \times 1.1185 = €279.18 \quad (\triangleq \text{guaranteed annual retirement pension without survivors' benefits})$$

Example calculation of pension entitlements without survivors' benefits, with extra returns:

Based on our example, of a Deferred Compensation amount of €6,000 at age 35, taking the extra returns into account, gives the following amounts at age 67:

Annual retirement pension (Comparison of guaranteed pension without survivors' benefits, with extra returns)*				
	(guaranteed)	incl. 1.00% extra return**	incl. 1.50% extra return**	incl. 2.25% extra return**
from age 67	€249.60	€343.18	€401.93	€508.71
Pension without survivors' benefits*	€279.18	€383.84	€449.56	€568.99

* This example is based on the factors for Tariff 4 of the Rheinische Pensionskasse. The tariff applicable for you is the tariff specified in your salary conversion agreement and pension promise.

** Remember that Bayer cannot guarantee extra returns. These returns depend on economic performance and the success of investments in the capital market, and may vary from year to year. All scenarios for extra returns in this brochure are given as examples only and none represents a basis for any legal entitlement. However, the pension adjustment of 1% p.a. is guaranteed.

What happens if ...?

Early retirement:

How is my pension affected?

If you **retire early**, you can choose at the time of your retirement when to claim your pension. The earliest possible date is age 60 or 62 depending on the applicable tariff, and the latest is age 65/67, again depending on the applicable tariff.

The pension you receive is permanently reduced by a discount factor (see table in the contractual conditions of the respective calendar year) for every month of retirement prior to the applicable retirement age.

This applies analogously for the date of payment if you choose the lump-sum option.

EXAMPLE

Early retirement at the age of 64 and 6 months

Age when pension is claimed		Discount factor*
Years	Months	
64	6	9.05 %
	7	8.79 %
	8	8.52 %

$$€249.60 \times (1 - 9.05\%) = €227.01$$

Disability:

What benefits will I receive?

In order to claim a disability pension out of Deferred Compensation, you have to provide evidence of your reduced earning capacity to work. This normally means submitting the certificate you receive from the German pension authorities. Further, your employment contract must have ended and you must be below the minimum age for payment of a pension for early retirement (60 or 62 depending on the tariff).

The disability pension depends on the entitlements you have accrued through Deferred Compensation. A discount is not applied. As for retirement pensions, the disability pension can be increased by waiving survivors' benefits. In this case an age-related percentage is applied (e.g. under Tariff 4, waiving survivors' benefits increases the disability pension by 23.81 percent at age 48). The disability pension is paid for the duration of the disability.

* This example is based on the factors for Tariff 4 of the Rheinische Pensionskasse. The tariff applicable for you is the tariff specified in your salary conversion agreement and pension promise.

Death:

What will my surviving dependents' receive?

Providing you have **not waived** survivors' benefits, your spouse or registered partner will receive a life-long pension of 60 percent of what you would have received. Children with one remaining parent receive 12 percent of the amount you would have received and children who have lost both parents get 50 percent. Orphan's pensions are payable until the child reaches the age of 18 or until 25 at the latest if they are continuously in full-time education or vocational training.

Important: The combined survivors' benefits may not be higher than your own pension would have been.

If the amount calculated is higher, the benefits will be reduced on a pro rata basis.

Your partner and children receive the payments even if they are in employment. However, like the state pension, the benefits are not hereditary.

FAQs

When can I claim my pension benefits?

General rule: Your employment contract with Bayer must have ended and you must submit an application for pension benefits.

Will the pension be adjusted over time?

The annual increase in your future pension payments will be based on the extra returns earned by the relevant tariff of the Rheinische Pensionskasse. The increase will be at least 1 percent p.a. from the start of pension payments.

Can I withdraw amounts early?

It is not possible to draw on the amounts accrued before your retire. You have no right to early disbursement, or to assign the benefits or use them as security for a loan.

What happens to my pension entitlements if my employment contract ends?

The entitlements you have accrued remain even if your employment contract ends. Your future pension is based on the sum of all pension entitlements accrued up to the date on which your employment ends, plus future extra returns. Even if you leave the company before you can claim a pension, you have

until your 59th birthday to choose between a lump-sum payment and a lifelong pension. And you can still opt out of survivors' benefits. You have to apply to receive a pension or lump-sum payment.

Are my pension entitlements safe?

If Bayer becomes insolvent, the pension benefits are guaranteed up to the statutory limits by the German pension contribution insurance fund (PSVaG). In addition, if your employer has a trust agreement with Bayer Pension Trust e. V. under a contractual trust arrangement, they are also covered by this.

Will Deferred Compensation affect other payments by my employer?

Future changes in your base salary and income-related company benefits such as anniversary payments are based on your gross salary, so the portion of your salary used for Deferred Compensation is always included in such calculations. Your basic pension (paid by the pension fund) is only affected if your pensionable income drops below the contribution ceiling as a result of your Deferred Compensation. If your salary remains above the contribution ceiling after deduction of Deferred Compensation amounts, it does not have any impact on your basic pension.

Contributions to your supplementary company pension are based on your salary before deduction of Deferred Compensation amounts.

Will I have to pay contributions to health and nursing care insurance when I claim pension benefits?

Please note that members of statutory health and nursing care insurance funds have to pay contributions on company pension benefits. However, the amount on which contributions are payable is capped at the applicable contribution ceiling. No contributions are payable on amounts above this level. If, as a result of participation in the Deferred Compensation model, your salary payments drop below the annual threshold permitting you to take out private health insurance, you will be required to take out health insurance with a statutory health insurer.

Can I leave benefits to my heirs?

When you receive your Deferred Compensation Agreement, you and – depending on the option selected – in the event of your death, your surviving dependents' receive an unlimited legal claim on Bayer for the payment of supplementary company pension benefits. However, like the state pension benefits, the benefits are not hereditary.