# 31 Employee benefits

## Employee benefits

Sampo has defined benefit plans in P&C insurance business in Sweden and Norway.

In addition to statutory retirement pension insurance, the Group has certain voluntary defined benefit plans. The voluntary defined benefit plans are intra-Group and included in the insurance liabilities of Mandatum Life. The amount is negligible and they have no material impact on the Group profit or loss or equity.

## Employee benefit obligations of P&C Insurance 31 Dec.

| EURm | 2016 | 2015 |
|---|---|---|
| Present value of estimated pension obligation, including social costs | 294 | 303 |
| Fair value of plan assets | 214 | 213 |
| **Net pension obligation recognised in the balance sheet** | **79** | **90** |

Since January 1, 2008, the main Swedish pension plan has been closed to new employees born in 1972 or later and the corresponding Norwegian pension plan has been closed to new employees since January 1, 2006 regardless of age. In May 2015, If decided that all employees born in 1958 or later that were covered by the Norwegian defined-benefit pension plan would be switched to a defined-contribution plan as of January 2016. As of the same date, it was also decided that existing retirees would no longer be covered by the plan, and that future retirees would cease being covered by the plan when they are no longer employed by If. Accordingly, the Norwegian pension plan now consists solely of active people employed prior to 2006 and born no later than 1957.

The pension benefits referred to are old-age pension and survivors' pension in Sweden. For Norway, old-age pension and survivors' pension are included, as well as disability pension up to July, 1, 2016. Following an amendment to the plan, all employees will instead be covered by a defined-contribution plan for disability pension. A common feature of the defined-benefit plans is that the employees and survivors encompassed by the plans are entitled to a guaranteed pension that depends on the employees' service period and pensionable salary at the time of retirement. The dominating benefit is the old-age pension, which refers in part to temporary pension before the anticipated retirement age and in part to a life-long pension after the anticipated retirement age.

The retirement age for receiving premature pension is normally 62 years in Sweden and normally 65 years in Norway. In Sweden, premature old-age pension following a complete service period is payable at a rate of approximately 65% of the pensionable salary and applies to all employees born in 1955 or earlier and who were covered by the insurance sector's collective bargaining agreement of 2006. In Norway, premature old-age pension following a complete service period is payable at a rate of approximately 70% of the pensionable salary and applies to all employees born in 1957 or earlier and who were employed by If in 2013.

The anticipated retirement age in connection with life-long pension is 65 years for Sweden and 67 years for Norway. In Sweden, life-long old-age pension following a complete service period is payable at a rate of approximately 10% of the pensionable salary between 0 and 7.5 income base amounts, 65% of salary between 7.5 and 20 income base amounts and 32.5% between 20 and 30 income base amounts. In Norway, life-long old-age pension following a complete service period is payable at a rate of approximately 70% of the pensionable salary up to 12 National Insurance base amounts, together with the estimated statutory old-age pension. Paid-up policies and pension payments from the Swedish plans are normally indexed upwards in an amount corresponding to the change in the consumer price index. However, there is no agreement guaranteeing the value and future supplements in addition to the contractual pension benefit could either rise of fall. Pension payments from the Norwegian plans are were earlier indexed upwards in an amount corresponding to 80 -100% of the change in the consumer price index. Instead, as of January 2016, a paid-up policy is issued on retirement, whereby If is no longer responsible for and has no obligation in respect of future indexation of the insured plans.

The pensions are primarily funded through insurance whereby the insurers establish the premiums and disburse the benefits. If's obligation is primarily fulfilled through payment of the premiums. Should the assets that are attributable to the pension benefits not be sufficient to enable the insurers to cover the guaranteed pension benefits, If could be forced to pay supplementary insurance premiums or secure the pension obligations in some other way. In addition to insured pension plans, there are also unfunded pension benefits in Norway for which If is responsible for ongoing payment.

To cover the insured pension benefits, the related capital is managed as part of the insurers' management portfolios. In such management, the characteristics of the investment assets are analyzed in relation to the characteristics of the obligations, in a process known as Asset Liability Management. New and existing asset categories are evaluated continuously in order to diversify the asset portfolios with a view to optimizing the anticipated risk-adjusted return. Any surplus that arises from management of the assets normally accrues to If and/or the insured and there is no form of transfer of the asset value to other members of the insurance collective.

The insurers and If are jointly responsible for monitoring the pension plans, including investment decisions and contributions. The pension plans are essentially exposed to similar material risks regarding the final amount of the benefits, the investment risk associated with the plan assets and the fact that the choice of discount interest rate affects their valuation in the financial statements.

When applying IAS 19, the pension obligations are calculated, as is the pension cost attributable to the fiscal period, using actuarial methods. Pension rights are considered to have been vested straight line during the service period. The calculation of pension obligations is based on future anticipated pension payments and includes assumptions regarding mortality, employee turnover and salary growth. The nominally calculated obligation is discounted to the present value using interest rates based on the extrapolated yield-curves in Sweden and in Norway for AAA and AA corporate bonds, including mortgage-backed bonds, as at 30 November, approximately updated to reflect market conditions mid-December. The discount rate chosen takes into account the duration of the company's pension obligations. After a deduction for the plan assets, a net asset or net liability is recognized in the balance sheet.

The following tables contain a number of material assumptions, specifications of pension costs, assets and liabilities and a sensitivity analysis showing the potential effect on the obligations of reasonable changes in those assumptions as at the end of the fiscal year. As apparent from the tables, the said amendments to the insured plan in Norway have been taken into account when preparing the annual accounts for 2015 and had a material impact on both recognized costs and assets and obligations.

The carrying amounts have been stated including special payroll tax in Sweden (24.26%) and a corresponding fee in Norway (19.1%).

## Specification of employee benefit obligations by country

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Sweden | Norway | Total | Sweden | Norway | Total |
| **Recognised in income statement and other comprehensive income** | | | | | | |
| Current service cost | 5 | 4 | 9 | 6 | 9 | 15 |
| Past service cost | 0 | -7 | -6 | 0 | -156 | -156 |
| Interest expense on net pension liability | 1 | 1 | 2 | 1 | 3 | 4 |
| **Total in income statement** | **7** | **-2** | **5** | **7** | **-144** | **-137** |
| Remeasurement of the net pension liability | 8 | -2 | 6 | -9 | -4 | -14 |
| **Total in comprehensive income statement** | **15** | **-4** | **11** | **-2** | **-148** | **-150** |
| | | | | | | |
| **Recognised in balance sheet** | | | | | | |
| Present value of estimated pension liability, including social costs | 206 | 87 | 294 | 196 | 107 | 303 |
| Fair value of plan assets | 166 | 49 | 214 | 156 | 57 | 213 |
| **Net liability recognised in balance sheet** | **41** | **39** | **79** | **40** | **49** | **90** |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Distribution by asset class** | Sweden | Norway | Sweden | Norway |
| Debt instruments, level 1 | 39% | 54% | 39% | 50% |
| Debt instruments, level 2 | 0% | 13% | 1% | 13% |
| Equity instruments, level 1 | 28% | 6% | 26% | 5% |
| Equity instruments, level 3 | 10% | 3% | 10% | 3% |
| Property, level 3 | 11% | 12% | 10% | 12% |
| Other, level 1 | 2% | 9% | 4% | 14% |
| Other, level 2 | 6% | 3% | 6% | 3% |
| Other, level 3 | 4% | 0% | 4% | 0% |

The following actuarial assumptions have been used for the calculation of defined benefit pension plans in Norway and Sweden:

| | Sweden | Sweden | Norway | Norway |
|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Discount rate | 2.75% | 3.00% | 2.75% | 2.50% |
| Future salary increases | 2.75% | 2.75% | 3.00% | 3.00% |
| Price inflation | 1.75% | 1.75% | 2.00% | 2.00% |
| Mortality table | FFFS 2007:31 | FFFS 2007:31 | K2013 | K2013 |

| | +1 year | +1 year | | |
|---|---|---|---|---|
| Average duration of pension liabilities | 22 years | 21 years | 13 years | 14 years |
| Expected contributions to the defined benefit plans during 2017 and 2016 | 91 | 10 | 25 | 4 |

| Sensitivity analysis of effect of reasonably possible changes | 2016 Sweden | 2016 Norway | 2016 Total | 2015 Sweden | 2015 Norway | 2015 Total |
|---|---|---|---|---|---|---|
| Discount rate, +0,50% | -25 | -6 | **-31** | -23 | -7 | **-30** |
| Discount rate, -0,50% | 28 | 6 | **35** | 27 | 8 | **35** |
| Future salary increases, +0,25% | 8 | 1 | **9** | 8 | 1 | **9** |
| Future salary increases, -0,25% | -8 | -1 | **-8** | -7 | -1 | **-9** |
| Expected longevity, +1 year | 8 | 2 | **10** | 7 | 2 | **10** |

| EURm | 2016 Funded plans | 2016 Unfunded plans | 2016 Total | 2015 Funded plans | 2015 Unfunded plans | 2015 Total |
|---|---|---|---|---|---|---|
| **Analysis of the employee benefit obligation** | | | | | | |
| Present value of estimated pension liability, including social costs | 260 | 33 | **294** | 267 | 36 | **303** |
| Fair value of plan assets | 214 | - | **214** | 213 | - | **213** |
| **Net pension liability recognised in the balance sheet** | **46** | **33** | **79** | **54** | **36** | **90** |

## Analysis of the change in net liability recognised in the balance sheet

| EURm | 2016 | 2015 |
|---|---|---|
| **Pension liabilities:** | | |
| At the beginning of the year | 303 | 664 |
| Earned during the financial year | 9 | 15 |
| Costs pertaining to prior-year service | -6 | -156 |
| Interest cost | 8 | 15 |
| Actuarial gains (-)/losses (+) on financial assumptions | 8 | 4 |
| Actuarial gains (-)/losses (+), experience adjustments | 2 | -14 |
| Exchange differences on foreign plans | -2 | -7 |
| Benefits paid | -22 | -25 |
| Settlements | -7 | -194 |
| **Defined benefit plans at 31 Dec.** | **294** | **303** |
| | | |
| **Reconciliation of plan assets:** | | |
| At the beginning of the year | 213 | 399 |
| Interest income | 6 | 11 |
| Difference between actual return and calculated interest income | 5 | 4 |
| Contributions paid | 16 | 26 |
| Exchange differences on foreign plans | -3 | -10 |
| Benefits paid | -14 | -16 |
| Settlements | -7 | -200 |
| **Plan assets at 31 Dec.** | **214** | **213** |

## Other short-term employee benefits

There are other short-term staff incentive programmes in the Group, the terms of which vary according to country, business area or company. Benefits are recognised in the profit or loss for the year they arise from. An estimated amount of these short-term incentives, social security costs included, for 2016 is EURm 48.