# Nigeria Upstream - Pension and Other End of Service Benefits Plan

**Purpose**

To provide employees with a source of living during retirement in line with company's compensation philosophy**.**

**General Guidelines**

Company recognizes the value of employee's service and has developed a Pension Plan that seeks to reward long and meritorious service and aims to provide a sustainable and sufficient level of pay after retirement.

The Pension Plan provides those employed prior to July 1, 2014 with the option of joining either the Defined Benefits (DB) or the Defined Contribution (DC) Scheme in compliance with the relevant legislation. It also provides for closure of the DB Scheme to employees hired newly from July 1, 2014, and their enrollment in the DC Scheme also, in compliance with the provisions of the relevant legislation, i.e., the Pension Reform Act 2014.

The DB Scheme includes an up-front lump sum pension payment, as well as ongoing financial support for the employee in form of monthly pension at retirement while payments under the DC Scheme are administered in line with the provisions of the Pension Reform Act 2014.

This document clearly defines the terms and conditions for employee benefit participation under this Plan and align Company's Pension and Other End of Service Benefits with the provisions of the Pension Reform Act 2014 ("The Act").

**Definition of Terms**

**A. Accredited Service**

Accredited service is defined as the length of time, measured in years, during which an employee worked full-time for the Company prior to retirement or death and it includes:

i. All periods of leave with pay

ii. Periods of sickness without pay (if any), not exceeding those approved by the Company;

iii. Periods of absence from payroll for educational and/or similar purposes with the express approval of the Company for which service credit is granted in line with the Leave of Absence Guidelines.

Where an employee joins the Company from another ExxonMobil affiliate or Company, such employee will benefit from the provisions of this Plan from their date of hire into the Company (i.e. the Upstream Nigeria affiliates).

**B. Actuarial Commutation Factor**

This factor is based on life expectancy statistics and represents the average number of years a person is expected to live beyond age 55 – for the purposes of the DB Plan it is assumed to be 15 years.

**C. Retirement Age**

Retirement age in the Company is categorized thus:

- Early Retirement: 45-54 years (with at least 10 years of accredited service)
- Normal Retirement: 55-59 years
- Mandatory Retirement: 60 years

It is mandatory for all employees to retire on their 60th birthday except where in extenuating circumstances, an extension is granted by the Lead Country Manager.

**D. Defined Benefits (DB) Scheme**

This is the Company's End of Service Benefits Scheme that clearly defines a serving employee's entitlement at retirement. Company ensures that the Scheme is fully funded using an actuarial valuation of pension benefits at every year-end.

**E. Defined Contribution (DC) Scheme**

This is the Pension Scheme established in compliance with the Act. Under the Scheme, Company and employee respectively make monthly contributions of 15 percent and 3 percent of an employee's Total Emoluments towards funding his/her pension. Every employee in the DB Scheme shall be free to exercise the option of changing to the DC Scheme and Company shall compute and credit to his/her Retirement Savings Account the accrued pension benefit as at the date of opting out. Note however, that an employee who opts out of the DB scheme to join the DC scheme cannot rejoin the DB scheme. Also, employees who joined the Company from July 1, 2014 cannot be enrolled in the DB Scheme in compliance with the Act.

**F. Annual Base Salary**

This is the employee's annual base pay before any deductions.

**G. Pensionable Salary for DB Scheme**

This is computed as follows:

- Annual Base Salary at separation from the company, plus
- Vacation Allowance, plus
- Year-end Bonus.

For all employees under the DB Scheme, this will be the salary on which their pension calculation is based. For example, if at the time the employee retires the annual base salary is N3,000,000, then his/her pensionable salary will be N3,750,000. That is:

| | |
|---|---|
| Annual Basic Salary | N 3,000,000 |
| Vacation Allowance (15% of ABS) | N 450,000 |
| Year-end Bonus (10% of ABS) | N 300,000 |
| Pensionable Salary | N3,750,000 |

**H. Total Emoluments**

This is the basis of the monthly contribution under the DC Scheme as defined in the Act and it consists of an employee's:

- Base Salary + Rental Allowance + Car Maintenance Allowance. For represented employees (CL 25 and below), car maintenance allowance is defined as 50 percent of annual maintenance allowance.

**I. Accrual Rate**

An accrual rate of 2 percent is used to determine the nominal pension value when multiplied by the employee's pensionable salary and years of service. The accrual rate is also referred to as the pension multiplier.

**J. Pension Fund Administrator (PFA)**

A Company licensed by the National Pension Commission (PENCOM) exclusively for the management of Pension Funds. An employee covered under the Defined Contribution Scheme can exercise his/her right as provided by the law to nominate a PFA of his or her choice.

**K. Pension Fund Custodian (PFC)**

A Company licensed by PENCOM to hold Pension Fund and Assets and expected to carry out its duties according to the instructions of the PFA.

**L. Retirement Savings Account (RSA)**

A Retirement Savings Account (RSA) shall be opened in the name of an employee participating in the DC Scheme and managed by a PFA of his/her choice. The total contributions, interest earned and returns on investments shall constitute the employee's pension entitlement at retirement. This is not applicable to employees who remain under the DB Scheme.

## Guidelines

### I. The Defined Benefits (DB) Pension Scheme

**a. Eligibility**
All employees in Company's employment prior to July 1, 2014 are eligible to remain in the Company's DB Scheme. However, an employee under the existing DB Scheme can elect to opt out of this Scheme and join the DC Scheme as further clarified in section II below - the DC Scheme.

**b. Vesting**
An employee becomes vested to receive pension upon taking up employment with the Company and shall be deemed to start accruing pension rights from that day.

**c. Commutation Lump Sum**
An employee under the DB Scheme has the option to commute up to 40% or 50% of the value of the annual pension for a maximum of fifteen (15) years (determined by 70 years less age as at retirement) into cash lump sum when he/she retires. The balance of 60% or 50% will be paid monthly under the existing rules of the DB Scheme.

**d. Separation Before Attaining Retirement Age & Conditions Under the DB Scheme**
When an employee covered under the DB Scheme elects to separate from the Company before attaining age 45 and at least 10years of service, he/she shall be dropped from the Scheme. The employee's pension entitlement shall then be computed using Transfer Value Factor (TVF) provided by the Actuary and transferred to his RSA managed by a PFA of his/her choice in accordance with the provisions of the Act. The employee will however, be paid applicable gratuity as provided for in this Plan.

**e. Early Pension**

An employee who is at least 45 years old and has completed a minimum of 10 years of accredited service may elect to retire or be eligible for retirement under the DB Scheme at company's discretion. In the case of voluntary early retirement, the employee's pension will be discounted, (i.e. reduced) by 2% for every year before age 50.

**f. Pension Supplementation**

This is a process of upgrading the value of pension being paid to employees who retired under the DB scheme. The company's intent in this respect is to ensure that retirees are able to maintain a minimum standard of living irrespective of changes in economic conditions. The Company may elect at its discretion to implement supplementation from time to time, taking into account economic factors and cost affordability.

**g. Actuarial Valuation & Benefit Transfer Values**

Every year, the Company shall cause to be prepared an actuarial valuation of accrued pension benefits as at 31st December, which will provide an Accumulated Benefits Obligation (ABO), Projected Benefit Obligation (PBO) and Transfer Values (TV) for each employee.

For the purpose of valuing accrued pension benefits due to an employee either at retirement or when he/she exercises the right to opt out of the DB Scheme, the following rules shall apply for the determination of Benefit transfer values:

**Retirement from the DB Scheme**

Where employee retires from the Company (i.e. at least 45 years old and 10 years of service), he/she shall be paid either 40% or 50% commutation lump sum (depending on the option selected), with the balance 60% or 50% paid monthly under existing DB Scheme rules. This is illustrated below:

| | |
|---|---|
| Total Years of Service | 20 Years |
| Current Age: | 50 years |
| Pensionable salary at separation | N4,000,000.00 |

0.02 * 4,000,000 * 20 = N1,600,000
0.4 * 1,600,000 * 15 = **N9,600,000 (lump sum payable)**
0.6 * 1,600,000 = **N960,000 (annual payment till death**); or
0.5*1,600,000*15 =**N12,000,000 (lump sum payable)**
0.5*1,600,0000 = **N800,0000 (annual payment till death)**

**Opting from DB to DC scheme**

Where an employee (whether eligible for retirement or not) opts out of the DB Scheme for the DC Scheme, his/her accrued pension benefits shall be computed and credited to his RSA. This account shall be managed by a PFA of his/her choice in accordance with the provisions of the Act.

The computation shall be made using Transfer Value Factor (TVF) as determined by the Actuary. In determining transfer value for any other date, the computation is illustrated below:

Total Years of Service: 10 Years
Current Age: 35 years
Pensionable salary at separation - N2,000,000.00

<u>Pension Rights Calculation (at age 35):</u>
.02 * 2,000,000 * 10 = N400,000 (Annual Pension Rights)

TV
= Annual Pension Rights * Effective Transfer Factor (assuming the TVF provided by Actuary is 0.73711)
= 400,000 * 0.73711
= N294,844

- All Transfer value factors would be provided by the Actuary
- The amount computed above is credited to the employee's RSA upon separation or when he/she opts out of the DB scheme.

**h. Employee Communication Under a Defined Benefits Scheme**

- Where the employee is already eligible for retirement benefits as per conditions of the DB scheme, he can request for a computation of his entitlement as at the preceding year-end assuming he retired from the DB scheme.
- Where such an employee is <u>not</u> eligible for retirement benefits, his/her benefit transfer value can be calculated and communicated to him/her.

**i. Death - Under the DB Scheme**

- **Death in Service**: Where an employee under the Company's DB scheme dies in service, the following shall be paid to his/her designated beneficiaries in the percentage allotment indicated in his/her designation of beneficiary form as at date of death:

  i. Pension Transfer value
  ii. Earned Gratuity
  iii. Death benefits under the Company's death benefit plan.

- **Death in Retirement**: Where an employee who retired under the Company's DB scheme dies, his/her pension payments are guaranteed for 5 years. The remaining pension payments within the guarantee period (5 years) will be made to his/her estate under the following scenarios provided that no spouse pension option (see Survivor benefit program) has been elected:

i. Where the member has nominated a spouse as beneficiary, the outstanding pension will be paid to him/her as annuity up to the end of year 5, and then pension payment stops.
ii. Where the member nominated a person other than the spouse, then the Net Present Value of the outstanding pension will be calculated and paid as lump sum to the individual or estate designated as beneficiary

- **Survivor Benefit Program**: An employee may choose one of the Survivor Benefit Program options to extend pension guarantee beyond 5 years or for pension payments to continue to be made to his/her spouse after the employee's death. The 3 options detailed below, are at the discretion of the employee and attract some pension discounts. Choice of any of these options may be exercised at the point of retirement. Once elected however, an option cannot be changed at a later date.

    - **Option 1A - Ten (10) year guarantee**
      A member can elect 10 year period certain. This means the member will be provided an additional 5 year pension guarantee to the already existing 5 years provided in the Plan. The cost of the 10 year period guarantee is estimated at 2.1% and will be absorbed by the member, i.e. the pension paid from commencement will be reduced by 2.1%. This reduction will apply for the whole period certain and then until death, or until end of period certain if death occurs within the period certain.

    - **Option 1B - Fifteen (15) year guarantee**
      A member can elect 15 year period certain. This means the member will be provided an additional 10 year pension guarantee to the already existing 5 years provided in the Plan. The cost of the 15 year period guarantee is estimated at 4.7% and will be absorbed by the member, i.e. the pension paid from commencement will be reduced by 4.7%. This reduction will apply for the whole period certain and then until death, or until end of period certain if death occurs within period certain.

    - **Option 2 - Spouse Pension Option**
      A member can choose the Spouse pension option at the rate of 50% of the member pension with Actuarial discounts, currently calculated as follows:

        - Discount of 6% when coupled with a 5 years period certain

        - Discount of 9% when coupled with a 10 years period certain

        - Discount of 12% when coupled with a 15 years period certain

      The spouse pension will be payable from the moment of death of member, or from end of period certain if death occurs within period certain. Pension payments will continue to be made to the spouse until the spouse's death.

## II. The Defined Contribution (DC) Pension Scheme

### a. Eligibility

Existing employees under the DB Scheme can exercise the option of opting for the DC Scheme. Where an employee exercises this option, the following rules/guidelines shall apply:

- Employee would immediately be required to open an RSA and nominate a PFA of his/her choice to manage his/her pension benefits.
- Following this, employee shall notify the Manager, HR Services in writing of his intention to opt out of the Company DB Scheme and join the DC Scheme. This notification is required at least 30 days before the desired date of opting out - which should be the first day of a future month.
- He/she cannot subsequently return to the Company's DB Scheme.
- His/her accrued pension benefits would be credited to his/her RSA effective the date of election to change to the DC Scheme.
- An employee under the DC Scheme shall be subject to the provisions of the Act concerning payment of retirement benefit

Company and employee would thereafter commence monthly contributions towards his/her pension in line with the rules of the DC Scheme.
Employees hired newly from July 1, 2014 are also required to open RSAs with PFAs of their choice and subsequently notify the Manager, HR Services of the PFA chosen and the details of the RSA shortly upon resuming duty. The DB Scheme is closed to such employees in compliance with the provisions of the Pension Reform Act 2014.

### b. Contributions

Company shall contribute on a monthly basis 15% of Total Monthly Emoluments (Base Salary + Rental Allowance + Car Maintenance Allowance) on behalf of a participating employee and this would be credited to his/her RSA opened with a PFA of the employee's choice. Employee shall similarly contribute on monthly basis 3% of their Total Emoluments and this shall be credited to the employee's RSA.

In addition to the contribution made by the employee as described above, an employee can make additional voluntary contributions of his/her total emoluments to his/her RSA.

**c. Withdrawals from the Retirement Savings Accounts**

- The Company will not be involved in the administration of Pension benefits of an employee who retires under the DC scheme. This is strictly between the employee and his PFA as provided for in the Pension Reform Act.
- The payment of a lump-sum and/or procurement of an annuity shall be subject to the provisions of the Pension Reform Act and be administered by the PFA chosen by the employee.

**d. Employee Communication Under the DC Scheme**

An employee under the DC Scheme is entitled to receive from his/her PFA in a manner provided in the Pension Reform Act, a statement of all transactions relating to his pension fund such as total contributions to-date, investments, as well as returns on investments.

**g. Death - Under the DC Scheme**

- **Death in Service**: Where an employee under the DC Scheme dies in service, the following shall be paid to his/her dependents in the percentage allotment indicated in his/her designation of beneficiary form as at date of death:
- Earned Gratuity
- Death benefits under the Company's death benefit plan
- The employee's pension benefits which are in his/her RSA shall be administered by his/her PFA in accordance with the provisions of the Act
- **Death in Retirement**: The retiree's pension benefits which are in his/her RSA shall be administered by his/her PFA in accordance with the provisions of the Act

**III. Gratuity & Other End of Service Payments**

Gratuity is an additional lump-sum payment made in recognition of service to separating or retiring employees at the time they leave the company.

**Eligibility**
All separating or retiring Nigerian employees who have put in a minimum of ten (10) years of accredited service are entitled to a gratuity payment.

The calculation is based on an accrual rate of 4 percent of employee’s pensionable salary multiplied by number of completed years of service.

For example, if an employee leaves with 30 years of accredited service on a pensionable salary of N3,000,000, the gratuity will be calculated thus: 4% x 3,000,000 x 30 = N3,600,000

So long as the employee has put in at least 10 years of accredited service, the gratuity formula is unchanged irrespective of the age at which the employee is separating /retiring or the type of Pension Scheme he/she is enrolled in.

**Severance Benefit in Lieu of Gratuity**

**Eligibility**
Where an employee separates after five (5) years of service, but less than 10 years of service, calculation of the severance benefit will be based on a rate of 4 percent of employee's Annual Base Salary multiplied by number of completed years of service.

For example, the severance benefit of employee with an Annual Base Salary of N2,500,000 and 5 years of service will be calculated thus:

0.04 x N1,200,000 x 5 = N500,000

**Settling in Allowance**

**Eligibility**
Where an employee retires from the company (i.e. at least 45 years old and 10 years of service), irrespective of the nature of Pension Scheme he is enrolled in, he/she shall be entitled to a settling in allowance, to facilitate his settling down to life after retirement.

Calculation of the Settling in allowance will be 175% of the employees last Monthly Base Salary (MBS).

For example, the settling in allowance payable to an employee with a Monthly Base Salary of N300, 000.00 who is retiring will be calculated thus:

175% x 300,000.00 = N525, 000.00

**Ex-Gratia Payment**

**Eligibility**
Where an employee retires from the company (i.e. at least 45 years old and 10 years of service), irrespective of the nature of pension scheme he is enrolled in, he/she shall be entitled to an Ex-Gratia payment from the Company in appreciation of his services.

Calculation of the Ex-Gratia payment will be 100% of the employee's last Monthly Base Salary (MBS) i.e. 1 MBS.

For example, the Ex-gratia payment to an employee with a Monthly Base Salary of N300, 000.00 who is retiring will be calculated thus:

100% x 300,000.00 = N300, 000.00

**IV. Pension Benefits Management**

- For the DB Scheme, Company has the option of outsourcing the management of all pension funds and assets to a licensed PFA or managing the funds as a Closed PFA.
- Employees in the DC Scheme have to open RSA's with PFA's of their choice and notify the Company for the purpose of transferring their monthly contributions, and accrued pension obligation (where applicable).
- The PFA's and PFC's would carry out their functions in accordance with the Act and in line with agreements entered between them and respective Employees/Employer.

**V. Pension Benefits Valuation**

- In compliance with provisions of the Act, Company shall undertake an actuarial valuation each year of Accrued Pension Obligation as at year end.
- The Manager, Human Resources Services and the Treasurer shall each year agree on assumptions to be applied in the valuation, and ratify changes to any prior assumptions.
- The Actuarial report should contain the Accumulated Benefit Obligation (ABO), the Projected Benefit Obligation (PBO) and Benefit Transfer Factors for the purpose of transferring accrued pension rights for employees that opt out of the DB Scheme or separate before attaining retirement conditions.
- Based on the final Actuarial report and the associated Transfer Value Factors provided by the Actuary, the Manager, HR Services shall apply the Benefit Transfer Value Factors in computing accrued pension rights for employees that opt of the DB Scheme or separate before meeting retirement conditions.

**VI. Procedure for Retiring/Separating from the Company**

**a. Early Retirement between Age 45 - 54**

For early retirement, employee notifies the In-Country HR Manager 1 month before the planned date of retirement or makes a payment of 1 monthly base salary in lieu of notice.

**b. Retirement at Age 55 - 59**

Employee also notifies the Country HR Manager 1 month before the intended retirement date or makes a payment of 1 monthly base salary in lieu of this retirement notice.

**c. General procedures - Retiring from the DB Scheme**

Upon receipt of an employee's written notification to retire from the DB scheme, the In-Country HR Manager forwards notification to the Manager, HR Services for necessary action.

i. The Manager, HR Services would carry out the following:

- Work with appropriate Benefits Administration group and advise the employee of benefits accruing to him/her. In particular, the employee would receive information about the commuted lump-sum, gratuity and monthly pension amount and all other end of service benefits.
- o Notify the PFA through Treasurer's that an employee intends to retire from the DB Scheme, with details of: commuted lump-sum amount paid from Company account and to be called back from the PFA.
  - amount to be paid monthly thereafter into the employee's designated account as pension.
- Liaise with the Payroll & Accounting group on the calculation of the Gratuity and other in-house end of service benefits accruing to the employee.

ii. Upon receipt of the notification of a retiring employee, the PFA would acknowledge receipt of instruction to pay back to the Company the commuted lump-sum and set up the retiring employee for monthly pension payments as advised. PFA thereafter acts on the instruction.

iii. Payroll & Accounting group releases payments for Gratuity, Pension commutation and other separation benefits less any amount owed the company. Treasurer's upon being notified by the Manager, HR Services shall thereafter advise the PFA to pay back the pension commutation part to the Company.

iv. Payroll & Accounting group would disburse all payments through electronic fund transfers to the retiring employee.

v. The employee should acknowledge by signing an Indemnity Certificate. Copies of the Indemnity Certificate are to be filed in the employee's personal file, HR Services control file, and Payroll & Accounting control file.

**d. General procedures - Opting out/Separation from the DB Scheme**

i. Upon receipt of an employee's written notification to opt out of the DB Scheme, or separate from the company before meeting retirement conditions, the Manager, HR Services would carry out the following:

- Compute and advise the employee of his/her computed pension transfer value.
- Notify the PFA that an employee intends to opt out of the DB scheme, with details of amounts to be transferred to the employee's RSA with a PFA of his/her choice (a copy of this notification is also sent to Treasurer's).
- Where employee is separating finally from the company, Benefits Administration Team and the Payroll & Accounting group will calculate the Pension, Gratuity and other in-house end of service benefits accruing to the employee
- Where employee would remain in employment, Manager, HR Services advises the Payroll & Accounting group to begin remitting his monthly contributions (15% of total emoluments) from the company and 3% from his/her pay into the employee's RSA with the PFA of employee's choice.

ii. Upon receipt of the notification that employee is opting out of the DB Scheme, the PFA would arrange to credit the RSA of the employee with the transfer value of pension rights.

iii. Where the employee is separating from the Company, the Payroll & Accounting group releases payment via Electronic Fund Transfer (EFT) to the employee for Gratuity & other separation benefits (apart from Pension) less any amount owed the company.

iv. The employee should acknowledge by signing an Indemnity Certificate. Copies of the acknowledged Indemnity Certificate are to be filed in the employee's personal file; HR Services control file; and Payroll & Accounting control file.

**e. General procedures - Retiring from the DC Scheme**

i. Upon receipt of a written notification from an employee under the DC Scheme to retire or separate from the company, the Manager, HR Services would carry out the following:

- Notify the employee's PFA that an employee intends to retire/separate from the company.
- Liaise with the Payroll & Accounting group on the calculation of the Gratuity and other in-house end of service benefits accruing to the employee.

ii. The PFA (of the employee's choice) will administer pension payments to employees retiring under the DC Scheme in line with relevant provisions of the Act.

iii. Payroll & Accounting group processes payment for Gratuity and other separation benefits (apart from Pension) less any amount owed the company, and disburses to the retiring/separating employee via EFT.

iv. The employee should acknowledge by signing an Indemnity Certificate. Copies of both the Indemnity Certificate are to be filed in the employee’s personal file, HR Services control file, and Payroll & Accounting control file.