

# Northern Foods Pension Scheme Proposed Changes Newsletter 2009



## Securing your future

We wrote to you in January to tell you about some proposed changes to the Northern Foods Pension Scheme (the Scheme) from 1 April this year. This newsletter explains the proposed changes in more detail and aims to give you the information you would need to make an informed decision about your future pension in the Northern Foods Pension Scheme if the proposed changes are implemented.

Northern Foods is committed to providing you with access to a good Company pension scheme. Final Salary pension arrangements, such as the Scheme, are expensive to run and as people are living longer, this is putting even more pressure on the cost of running the Scheme. The aim of the proposed changes is to ease this pressure with the intention that Northern Foods can continue to operate the Scheme. Northern Foods must of course reserve the right to consider further changes to the Scheme in the future should circumstances require this.

## A quick look at the proposed changes

### The proposals include:

- **changes to member contribution rates**
- **the introduction of pay exchange**
- **a change to the increase to deferred pensions**

## Update

**You may be interested to know that since the start of consultation, one of the changes originally proposed has been withdrawn. This was the proposal to apply an adjustment factor to reflect any unanticipated changes in life expectancy to your pension at retirement. The Company may wish to consider this proposal again at a future time but there is currently no intention to do so.**

## Consultation process – how it works

This newsletter is for information purposes only and does not require you to take any action. However, until 7 March 2009, the Company will be consulting with active members on the proposed changes. This means that you have the opportunity to respond to the proposals and let the Company know your views.

If you would like to raise any queries about the proposed changes, you can do so at any time up to 7 March 2009 by contacting the Pensions Helpline on 01482 598219/598236. The Helpline is open from Monday to Friday, from 9.00am to 4.30pm. Alternatively you can submit comments about the proposed changes in writing to your HR manager. The Company will consider all comments received.

In addition, the Company will be holding site presentations from 18 February 2009 to 6 March 2009, where you will have the opportunity to ask questions and make comments directly.

You will receive a letter on 10 March 2009 detailing the outcome of the consultation process and recording the Company's final decision in relation to the proposed changes to the Scheme. At that time, you may have a decision to make regarding your pension and an option form would be provided for this purpose.

## Proposed change to member contributions

There is a proposed change to member contribution rates. The table below shows the current and proposed member contribution rates for members of the 60ths and 80ths sections of the Scheme.

Section	Current contribution rate	Proposed future contribution rate from 1 April 2009
60ths	7% of Pensionable Earnings	10% of Pensionable Earnings
80ths	5% of Pensionable Earnings	7% of Pensionable Earnings

To consider the implications of this, let's look at a reminder of how the Scheme works.

### How the Scheme works

The Scheme is a Final Salary pension scheme. This means that you can estimate your pension at retirement based on your pension fraction (1/60 or 1/80), your Final Pensionable Earnings and your length of membership of the Scheme.

The following examples show how your pension is calculated at Normal Pension Dates and the difference your pension fraction can make to your pension at retirement.

#### Examples

##### Paul in the 60ths section

Paul has been a member of the 60ths section of the Scheme for 20 years at his retirement and his Final Pensionable Earnings are £24,000. At retirement, his pension is calculated as follows:

$$1/60 \times £24,000 \times 20 = £8,000$$

**Paul will receive a pension of £8,000 a year for the rest of his life.**

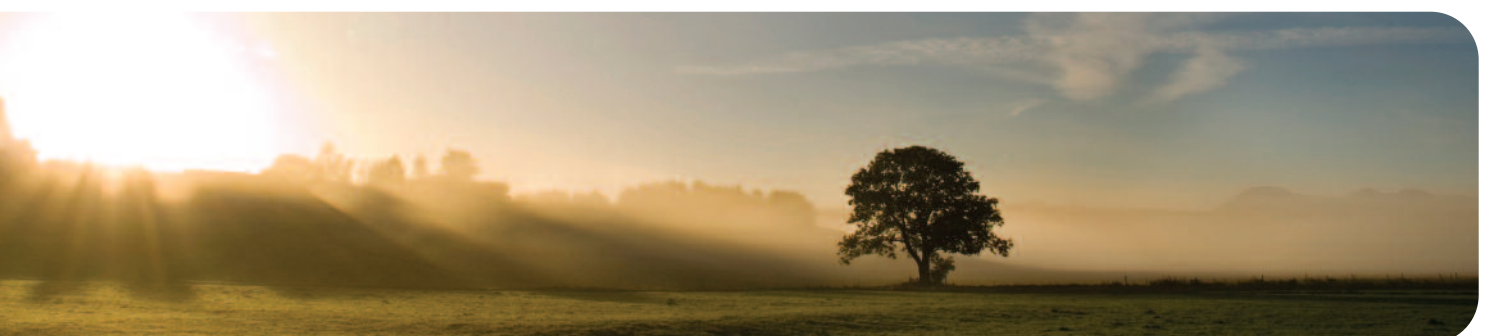
##### Janet in the 80ths section

Janet has been a member of the 80ths section of the Scheme for 20 years at her retirement and her Final Pensionable Earnings are also £24,000. At retirement, her pension is calculated as follows:

$$1/80 \times £24,000 \times 20 = £6,000$$

**Janet will receive a pension of £6,000 a year for the rest of her life.**

As you can see, your pension fraction makes a big difference to the pension you receive at retirement.



## Your options under the proposed changes

### For members of the 60ths section

If you are currently a member of the 60ths section, paying 7% of your Pensionable Earnings, you would need to increase your contributions to 10% of your Pensionable Earnings if you wanted your future pension to continue to build up at 1/60th of your Final Pensionable Earnings for each year of membership.

Alternatively, you could continue to pay 7% of your Pensionable Earnings and join the 80ths section of the Scheme. If you decided to do this, your future pension would build up at a lower rate, 1/80th of your Final Pensionable Earnings for each year you are a member of the Scheme after 1 April 2009.

The proposed changes would have no impact on the pension which you have accrued for service prior to 1 April 2009; this would continue to be calculated by reference to a rate of 1/60th of Final Pensionable Earnings for each year of membership subject to the Scheme rules.

### For members of the 80ths section

If you are currently a member of the 80ths section, paying 5% of your Pensionable Earnings, you would need to increase your contributions to 7% of your Pensionable Earnings if you wanted your future pension to continue to build up at 1/80th of your Final Pensionable Earnings for each year of membership.

Alternatively, you could increase your contributions to 10% of your Pensionable Earnings and join the 60ths section. If you decided to do this, your future pension would build up at a higher rate, 1/60th of your Final Pensionable Earnings for each year of membership after 1 April 2009.

The proposed changes would have no impact on the pension which you have accrued for service prior to 1 April 2009; this would continue to be calculated by reference to a rate of 1/80th of Final Pensionable Earnings for each year of membership subject to the Scheme rules.

### For all members

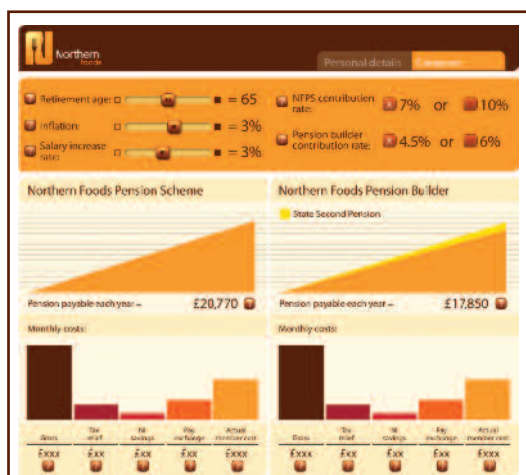
Another option, for all members, would be to leave the Scheme and join Northern Foods Pension Builder, which currently has a contribution rate of either 4.5% or 6%. In Pension Builder, your pension builds up differently and this is explained in more detail on pages 6 and 7.

A final option would be to leave the Scheme, stop contributing altogether and choose not to join Northern Foods Pension Builder. If you were to consider this option, you should seek independent financial advice before making your decision. If you were to choose this option, you should also consider looking for alternative life assurance as you would no longer be covered by one of the Northern Foods pension arrangements.

## Comparator modeller

A comparator modeller is available in the changes section of the Northern Foods Pensions website at [www.nfnpensions.com](http://www.nfnpensions.com).

This modeller compares the cost and benefits of the 60ths and 80ths sections. You can use it to model your individual circumstances.



## Proposal regarding pay exchange

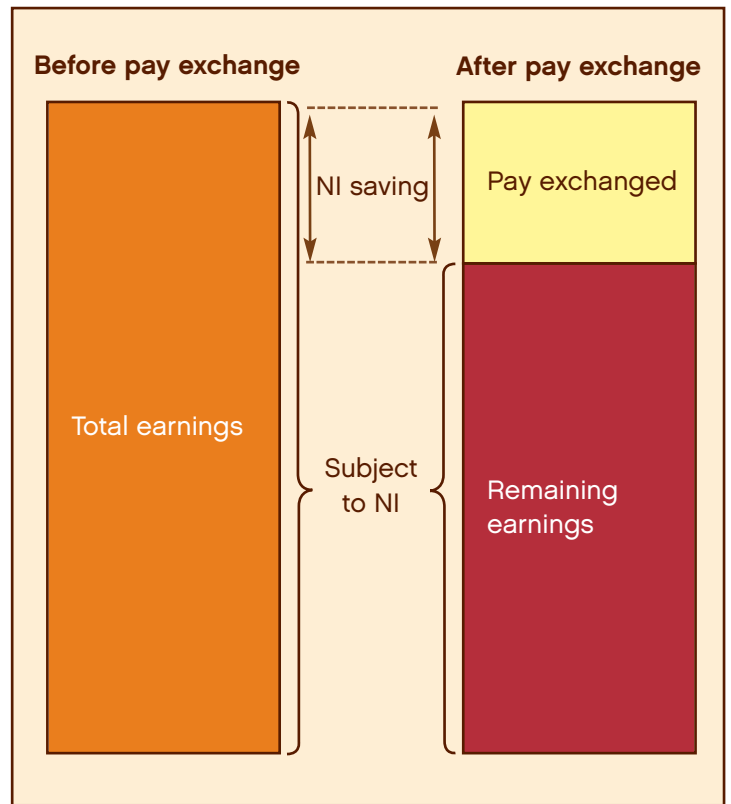
From 1 April 2009 it is proposed that contributions to your pension would be made by the Company on your behalf under a 'pay exchange' arrangement. This means that pension contributions would not be deducted from your pay.

Under the pay exchange proposal your pay would be reduced by an amount equivalent to the pension contributions which you would no longer have to make. The Company would make the contributions to your pension scheme for you.

The reduction to your pay would mean that you would then pay lower National Insurance (NI) contributions, because these would be based on a lower level of pay. This is shown in the diagram to the right.

As you would pay less NI, you should see an increase in your take home pay.

The example below shows how pay exchange would work for a member of the Scheme earning £20,000 a year and exchanging part of their pay for a 10% pension contribution.



	Without pay exchange	With pay exchange	Increase in take home pay as a result of pay exchange
<b>Earnings for year</b>	£20,000.00	£18,000.00	–
<b>10% pension contribution</b>	£2,000.00	Nil because the Company pays the contribution instead.	–
<b>Income tax*</b>	£2,305.00	£2,305.00	–
<b>NI*</b>	£1,329.84	£1,141.84	–
<b>Take home pay</b>	<b>£14,365.16</b>	<b>£14,553.16</b>	<b>£188.00</b>

\*2009/10 rates used

As you can see, this member would save £188 a year. The Company would also make National Insurance savings which would help it to continue to support the pension arrangements.

The Scheme is contracted out of the State Second Pension (S2P). This means that members do not build up any S2P and instead they are guaranteed a minimum level of benefit from the Scheme. Members of the Scheme make a further NI saving as a result of being contracted out.



## What about my other pay related benefits?

Your other pay related benefits would not be affected by pay exchange. Payroll would keep a record of your original pay, before taking part in pay exchange, and benefits such as overtime pay, holiday pay, pay rises, life assurance and the rate at which your pension builds up, would be based on your original pay.

Your original pay would also be quoted in response to any external enquiries about your pay, such as for a mortgage application.

## Change to your terms and conditions of employment

It is important that you are aware that participation in pay exchange would be a change to your terms and conditions of employment. Unless you were to choose to opt out of pay exchange, you would be deemed to have accepted this change.

## Opting out

You would have the choice to opt out of pay exchange. If you did so, you could still be a member of the Scheme, but you will pay National Insurance on your contributions.

Pay exchange may not be beneficial for some members, particularly those on lower pay, as it may affect other State benefits that they receive. If you think you may be affected, please see the opting out Question and Answers on the website at [www.nfpensions.com/schemechanges/faq](http://www.nfpensions.com/schemechanges/faq).

## Other proposed changes

### Change to increases to deferred pensions

If you leave the Scheme before you retire, your pension would increase each year during the period between leaving and retirement to account for inflation. If you leave the Scheme after 1 May 2009, it is proposed that any pension which you have built up from that date would increase by inflation (as measured by the Retail Prices Index) up to a maximum of 2.5% a year. This proposed change is in line with recent legislation and any pension built up before 1 May 2009 would continue to increase by inflation up to a maximum of 5% a year.



## Northern Foods Pension Builder – how it works

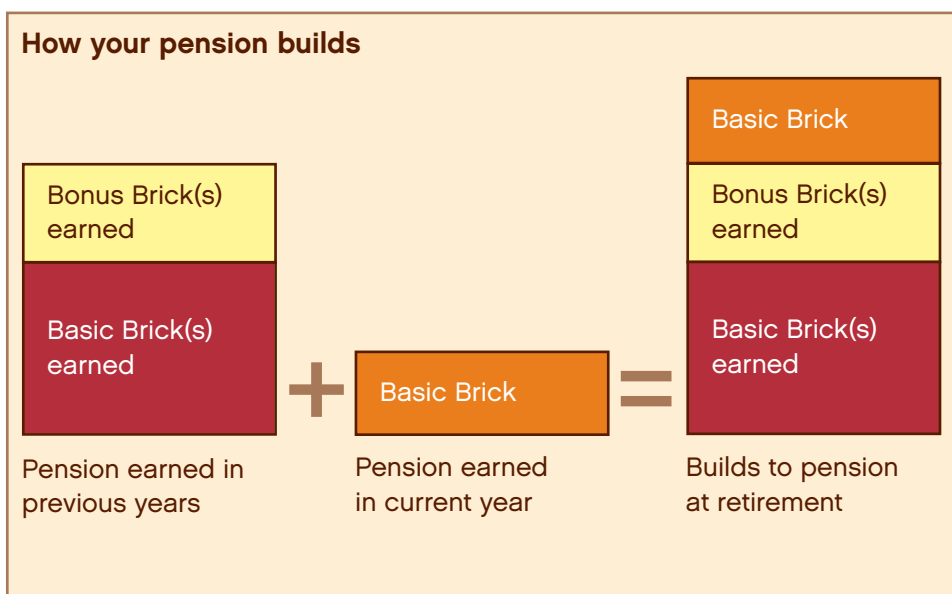
If you were to decide not to stay in the Scheme, you would have the option to join Northern Foods Pension Builder, so let's take a look at how Pension Builder works.

In Pension Builder your pension builds up in a different way than it does in the Scheme. Your pension is not based on your Final Pensionable Earnings. Instead, each year, you are credited with a 'brick' of pension, calculated as a percentage of that year's Scheme Earnings. The percentage that will apply depends on which of the two levels of contribution you decide to pay (please see the section opposite for details). We will call these bricks of pension 'Basic Bricks'.

In addition to Basic Bricks, you are credited with Bonus Bricks, whilst an Active Member of Pension Builder. Bonus Bricks provide a measure of inflation protection for your pension during the time that it is building up.

A Bonus Brick is credited each 1 April. You must be an Active Member of Pension Builder for a minimum of 12 months before your first Bonus Brick is credited. The Bonus Brick is calculated by multiplying the total value of your Basic Bricks and Bonus Bricks earned up to the previous 1 April by the percentage increase in the Retail Prices Index (RPI) for the year up to the date the Bonus Brick is credited, subject to a maximum of 5%.

The diagram below shows how your pension builds year on year.



Your pension at age 65 (Normal Pension Date) will be the total of the Basic Bricks and Bonus Bricks credited to you during your membership of Pension Builder. If you want to see what your pension might be as a member of Pension Builder, you will find a pension calculator on the pensions website at [www.nfpenions.com](http://www.nfpenions.com).

## Pension Builder member contribution rates

In Pension Builder you have a choice of contribution rates. The table below shows how much pension you build up in Level 1 and Level 2 of Pension Builder and how much you would need to contribute as a member.

Pension Builder Level	Pension build up rate	Member contribution rate
<b>Level 1</b>	1% of Scheme Earnings received in the Scheme Year (1/100th of your Scheme Earnings received in the Scheme Year).	4.5% of Annual Earnings
<b>Level 2</b>	1.25% of Scheme Earnings received in the Scheme Year (1/80th of your Scheme Earnings received in the Scheme Year).	6% of Annual Earnings

Contributions to Pension Builder are also made under a 'pay exchange' arrangement as described on pages 4 and 5. If you want to see what the cost of membership would be, you will find a contribution calculator on the pensions website at: [www.nfpensions.com](http://www.nfpensions.com).

### If you were to consider joining Pension Builder you should also consider...

- Pension Builder is contracted in to the State Second Pension (S2P). This means that if you join, you would pay National Insurance contributions at the higher contracted in rate (an extra 1.6% of your earnings over the lower earnings limit). In return, you would receive any S2P you build up in addition to the Basic State Pension from State pension age. To see what the cost of contributions would be, visit the contribution calculator on the Pension Builder section of the pensions website at [www.nfpensions.com](http://www.nfpensions.com).
- You would lose the link with your Final Pensionable Earnings on the benefits you have built up in the Northern Foods Pension Scheme. If you were to leave the Scheme, your benefits built up would be deferred until you retire, increasing by the RPI (up to a maximum of 5%) each year.

## A summary of your options under the proposed changes

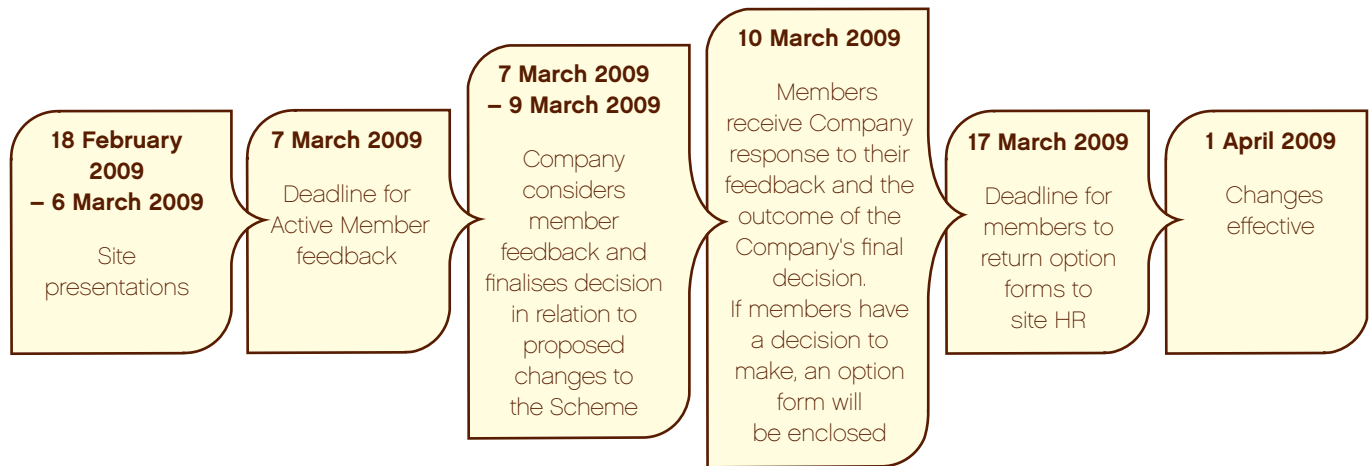
60ths section member options	80ths section member options
1. Increase your contribution to 10% of Pensionable Earnings and stay in the 60ths section of the Scheme.	1. Increase your contribution to 7% of Pensionable Earnings and stay in the 80ths section of the Scheme.
2. Keep your contribution at 7% of Pensionable Earnings and join the 80ths section of the Scheme.	2. Increase your contribution to 10% of Pensionable Earnings and join the 60ths section of the Scheme.
3. Stop contributing and leave the Scheme and join Northern Foods Pension Builder which has a contribution rate of either 4.5% or 6%.	
4. Stop contributing and leave the Scheme without joining Northern Foods Pension Builder. If you wish to consider this option, you should seek independent financial advice before making your decision and you should consider taking out alternative life assurance.	

## Further information

For further information about the proposals, you can visit the pensions website at [www.nfpensions.com](http://www.nfpensions.com). The changes section has more information about the proposed changes. You will find contribution and pension calculators for both the Scheme and Northern Foods Pension Builder. You will also find a comparator modeller on the changes section of the website, which will show you the difference in cost of the various options which would be available to you.

## What happens next?

Key dates are outlined in the timeline below:



## Contact details

To ask questions about the proposed changes, you can phone the Pensions Helpline on 01482 598219/598236. The Helpline will be open from Monday to Friday (9.00am – 4.30pm). Alternatively, any comments on the proposed changes can be made in writing to your HR manager.

## Important note

The benefits payable under the Northern Foods Pension Scheme and the Northern Foods Pension Builder are as set out in the trust deed and rules governing those pension arrangements (as amended from time to time in accordance with the amendment clause governing those pension arrangements and changes in the law or Inland Revenue practice). This document is intended to provide information about the changes which the Company is proposing to make to the Northern Foods Pension Scheme and the options which would be available to you. It does not create any contractual commitment by the Company and does not override the terms of the rules governing the Northern Foods Pension Scheme and the Northern Foods Pension Builder as amended from time to time.