

Questions and Answers on proposed changes to the Northern Foods Pension Scheme ("the Scheme")
12 January 2009

1. Background

What factors do companies take into account when reviewing their pensions schemes?

Many companies are having to review their pension schemes against a challenging background of social and economic changes.

Social

People's life expectancy is now much longer than it was in the 1950s. A man retiring at 65 in the 1950s could expect to live for 10 years in retirement. Members of our Scheme are now expected to live for around 20 years in retirement.

Economic

The investment returns achieved by many schemes have been lower than expected over the last five years. Many pension schemes have experienced negative returns in recent times following the overall investment markets' downward trend.

This has been particularly severe in the last 12 months following the onset of the "credit crunch" which we are all experiencing now. The Company is not immune from these pressures and our pension funding review which we completed this year identified that there was a need to do something if we wanted to retain the scheme.

Company Responses to the Changing Climate

Against this background, companies have found a number of different ways of making up identified or potential funding shortfalls. These include:-

- Increasing company contributions to existing final salary schemes;
- Closing final salary schemes to new members and putting in place a career average pension for new members (where the member's pension is based on their average salary, rather than their salary at the point they leave the scheme). The Company did this in 2005;
- Closing final salary schemes to new and existing members and replacing them with a defined contribution (DC) scheme instead (defined contribution schemes are also known as "money purchase" schemes. Under this type of pension scheme the member and employer make pension contributions and that "pot" of money is then invested. The size of the member's pension at retirement is not based on a fraction of their final salary for each year of pensionable service. Instead, the pension will depend on the investment returns on the member's pension pot and the cost of buying an annuity at the point they retire);
- Increasing employee contributions to existing final salary schemes;
- Retaining existing contributions but reducing pension benefits at retirement; and
- Offering different levels of pension arrangements dependent on a person's seniority in the Company.

Following a thorough review and assessment of alternative options the Company proposes to continue to operate its scheme on a final salary basis for existing members below a certain grade but with an increased level of employee contribution. There are other proposed changes to the scheme which would affect you and these are detailed later. The changes proposed should allow the Company to continue operating the scheme on a final salary basis despite the enormous pressure that the current economic challenge is putting on to the scheme. The Company must of course reserve its right to propose further changes to the scheme should circumstances at a future time require this.

a) Why are pension costs increasing?

There are two key factors. First people are living longer, which means that pensions are paid for a longer period. Secondly investment returns are now much lower and so the 'pot' of money needed to provide pensions grows at a slower rate. Taking these factors together, more money needs to be invested to meet the promised level of benefits.

b) Is the Company's scheme in trouble?

No, the financial status of the pension fund is checked every three years and following the latest review a strategy has been agreed with the aim of enabling all benefits to be paid from the fund.

c) What alternatives did the Company look at?

The Company and their advisers have reviewed all types of pension schemes including defined contribution, career average and final salary schemes.

d) Did the Company consider switching to a defined contribution scheme?

Yes, this option was considered but the Company intends to continue operating the scheme on a final salary basis provided the costs of doing so can be kept affordable.

e) What are other companies doing?

Many companies have decided to switch from final salary to defined contribution schemes. This decision is of course made by each individual company and some companies have chosen to retain their final salary schemes and to share the increasing cost with the members.

f) Do you know of any other companies who have increased their contribution rate? If so by how much?

Whilst for confidentiality reasons they are not allowed to name companies that have done this, our advisors have conducted research to show that a number of other companies have taken this option. This is supported by a variety of pension scheme surveys, which collect information from a range of schemes and employers.

g) I understand some companies are in trouble due to the increased cost of their pension funds.

Any cost that becomes too big for a company to handle can force it into difficulty. The Company is determined that this will not happen and we believe that if we continue to act responsibly with all elements of our cost base we will be able to

survive the economic challenges that lie ahead. We have taken this into account as we reviewed the costs of the scheme and believe that the changes proposed are in the best interest of all parties concerned.

2. Proposed changes to contribution rates

a) Could you please give me some examples of the impact of these proposed changes?

You will have the opportunity to talk directly to the pensions team over the course of the next 60 days. Further information can be obtained via the Northern Foods pension helpline as detailed in your letter.

For members of the 60th scheme

b) I am in the 60th scheme, what options do I have?

Members in the 60ths section of the scheme can either remain in this section and increase their contribution rate from 7.0% to 10% of pensionable earnings or they can switch to the 80ths section of the scheme and retain their contribution at 7.0% of pensionable earnings.

Alternatively, you have the current option to leave the scheme and to join Pension Builder and earn different benefits with an employee contribution rate of either 4.5% or 6.0% of scheme earnings.

Finally members can opt out of pension provision altogether by giving one month's notice to the pensions department if (1) they do not want to pay higher contributions or (2) if they do not wish to continue their membership of the scheme or to join Pension Builder. However, you should consider your position carefully and may wish to take independent financial advice before taking any action and think about making alternative arrangements for life cover.

c) Instead of increasing my contribution, should I change to the 80ths section of the scheme?

If you want to continue to earn pension at the higher rate i.e. the 60ths section of the scheme, you need to increase your contribution rate from 7% to 10% of pensionable earnings. Members who cannot afford, or do not wish to pay 10% may switch to the 80ths section of the scheme.

d) What impact on my pension will swapping to the 80ths section of the scheme have?

For a member who works for 40 years to age 65 (normal pension date) the total pension will be 50% of earnings in the 80ths section. Under the 60ths accrual rate the total pension at retirement is 66.67% (or two thirds) of earnings. Swapping between categories will not affect the benefits you have built up in the past.

e) Can you give me a forecast of the impact on my pension if I swap to the 80th section of the scheme?

Please contact the pension helpline if you decide to switch to the 80ths section.

f) How would the proposed pensions calculation work if I move from the 60th section of the scheme to the 80th section of the scheme?

Pension earned up to the date of the change would be based on 60ths of Final Pensionable Earnings (ie you will receive an annual pension of 1/60 of your Final Pensionable Earnings for each year that you are a member of the scheme) and pension after that date will be based on 80ths of Final Pensionable Earnings for each year of pensionable service. Please contact the pensions department if you need any further information.

For members of the 80th scheme

g) I am in the 80th scheme, what options do I have?

Members in the 80ths section of the scheme can either remain in this section and increase their contribution from 5.0% to 7.0% of pensionable earnings or they can switch to the 60ths section which would result in their contribution increasing from 5.0% to 10% of pensionable earnings.

Alternatively, you have the current option to leave the scheme and to join Pension Builder and earn different benefits with an employee contribution rate of either 4.5% or 6.0% of pensionable earnings.

Finally members can opt out of pension provision altogether by giving one month's notice to the pensions department if (1) they do not want to pay higher contributions or (2) if they do not wish to continue their membership of the scheme or to join Pension Builder. However, you should consider your position carefully and may wish to take independent financial advice before taking any action and think about making alternative arrangements for life cover.

h) Can I swap sections from 80ths to 60ths?

Yes members can swap from 80ths to 60ths (and vice versa) on the 1st of any month. You do not lose the benefits accrued up to the date of the switch.

General

i) What happens to my contributions if I opt out of the scheme?

Members who opt out will normally be entitled to a deferred pension payable from their normal pension date, subject to the scheme rules.

j) Can I leave the scheme and take up a stakeholder pension?

Yes members can opt out of the scheme if they wish but you should take independent financial advice before taking any such action. The Company does not make a contribution towards employee's stakeholder pension.

k) Can I have my contributions back?

No, all members have completed more than 2 years' pensionable service and contributions cannot be refunded in these circumstances.

l) Can I leave the scheme and rejoin later?

No. If you were to leave the scheme you would be treated as a new starter if you wanted to come back into the scheme at a later date. The Company closed the scheme to new starters in 2005.

m) Can I make up the difference at a later date?

Members can pay additional voluntary contributions to increase their benefits on a money purchase basis if they wish. Payments cannot be made into the scheme to buy benefits on an added years' basis. Members may wish to take independent financial advice on this point.

n) If I come out of the scheme, what would happen to my life assurance benefit?

Life cover would stop on the date that you left the scheme.

o) How do the proposed changes affect my spouse?

There is no change proposed to the spouse's pension payable under the scheme which is normally 50% of the member's pension. The pension earned by the member, and therefore the spouse's pension, will be slightly lower if a member switches from the 60ths to the 80ths section of the scheme.

p) How do the proposed changes affect my death in service benefit?

There is no direct effect on death in service benefits. The spouse's pension will be slightly lower, however, for any member who switches from the 60ths to the 80ths section of the scheme.

q) Can I have a loan to help me cope?

No. Members who cannot afford the higher contribution rates should consider switching to the 80ths section of the scheme or joining Pension Builder.

r) What would the Company advise me to do?

The Company is not allowed to give financial advice. Members may wish to seek independent financial advice before deciding what to do.

3. Company contributions

a) How much has the Company usually contributed in the past?

The Company has been happy to pay 9 to 10% of members' pensionable salaries. In recent years the Company has also made substantial additional contributions to help ensure that members' benefits are paid in full.

b) How much would the Company have to pay in the future?

The Company would have to pay over 14% of pensionable earnings unless action is taken. This level of company contribution is not sustainable and would inhibit our plans to grow the business in the future.

c) Why doesn't the Company simply increase its contribution rate?

The cost of providing pension benefits has increased substantially in recent years and continues to rise. The Company cannot afford to pay this increasing amount and still retain the final salary benefit and action had to be taken to bring costs back to the previous level of around 10%. At this level we will be able to continue to invest in the business to enable us to protect the long term security of the Company.

d) What do other companies contribute?

Contribution rates vary depending on the benefit structure but a Company contribution rate of around 10% is not uncommon for schemes such as ours. However many companies contribution rates have increased like ours, and as a result many have decided to switch from final salary to defined contribution schemes.

e) Why is the Company proposing to increase members' pension contributions when the scheme booklet says that the Company meets the balance of cost of providing the benefits?

The cost of providing pension benefits has increased significantly over the last few years. The pension scheme is a combined saving between the Company and the members to provide a good pension at retirement and security for members families before retirement. The Company has previously paid around 10% and, therefore, for the scheme to be sustainable as a final salary scheme, it is proposed that members will have to pay higher contributions.

4. Mortality Sharing Adjuster

The cost of providing pensions to members depends on the length of time for which they receive that pension i.e. the length of time that they will live for after retirement.

In order to set aside enough money to provide benefits, assumptions are made about the length of time that people will live for after retirement. From time to time these assumptions are revised e.g. due to changes in lifestyle or medical advances.

If a pensioner lives longer than expected the cost of providing that pension is higher than previously forecast. It is this potential increase in cost that the Company wishes to share with the members.

An example of how this could work for a member is shown below:

- The current assumption made is that a member who retires in ten years time at Normal Pension Date is expected to live until they are 85 years old.
- Let's suppose that over the next ten years there are medical advances, which now mean that a member retiring at Normal Pension Date is expected to live until they are 88.
- This means that the pension is now expected to be paid for three years longer than previously forecast and this increases the cost to the Scheme. In order for the Scheme to incur no additional cost the pension would need to be reduced to allow for the fact that it is expected to be paid for longer so that the same value of benefits is paid out.

- Three years' extra life expectancy increases the costs of providing pensions by around 8%. The Company is willing to meet half of this additional cost. The other half will be met by the member through a reduction of their pension, which in this example would be 4%.

Note that benefits earned before 1 April 2009 are unaffected by this change.

Therefore, in this example if the member had a pension of £3,000 pa earned before 1 April 2009 and a pension of £2000 pa earned from 1 April 2009 this would be affected as follows:.

	Before	After
Pension earned before 1 April 2009	£3,000	£3,000
Pension earned from 1 April 2009	£2,000	£1,920 (96% of £2,000)
Total pension	£5,000	£4,920

So the pension is reduced by £80 pa because it is expected to be paid for three years longer in this example.

Please note that a reduction to pension would only be applied if life expectancy increases by more than is currently expected. If this is not the case or if life expectancy actually reduces there would be no change to your pension.

5. Pay Exchange

Another proposal is the introduction of Pay Exchange. This will benefit both you and the Company and therefore its ability to support the Scheme. Pay exchange would give you the opportunity to make National Insurance savings by exchanging part of your salary instead of making pension contributions. Whilst Pay Exchange benefits the majority of members, for a small group of members Pay Exchange may have an adverse impact on other State benefits that people may receive. Further information will be provided to any members who may be affected by this.

You will receive more detail as you go through consultation and attend the site briefings over the course of the next 60 days as well as having access to the Northern Foods Pension Help Line.

Important note

The benefits to which you are entitled under the scheme are as set out in the trust deed and rules governing that arrangement (as amended from time to time in accordance with the amendment clause governing the scheme 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 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 scheme rules or the rules governing the Northern Foods Pension Builder as amended from time to time.