your fund

your **future**

www.myupfpension.co.uk

Summer 2001

UNILEVER

PENSION FUND

Contents of 'Your Fund'

This edition of 'Your Fund' has been printed on environmentally friendly paper.

Unilever

the pension world is CHANGING

Welcome to the Summer edition of Your Fund. It's crammed with news as so much has happened since the Winter issue. And the news affects all members so please read as much as you possibly can in the little time that we know you have available. While it might seem easier not to bother, you need to know what's happening.

Soon you may have to pay for your membership of the UPF and you may then wonder what you are getting for your money. We report on the benefits of the UPF, while giving you an update on stakeholder pensions and AVCs.

In addition to the major issues we've news on who owns any surplus - a question asked of many pension schemes – and updates on defined benefit schemes versus defined contribution schemes, and on pensions for part-time employees.

Finally we report back on the latest service available from our website - benefit statements on-line.

It's a lot to get through.

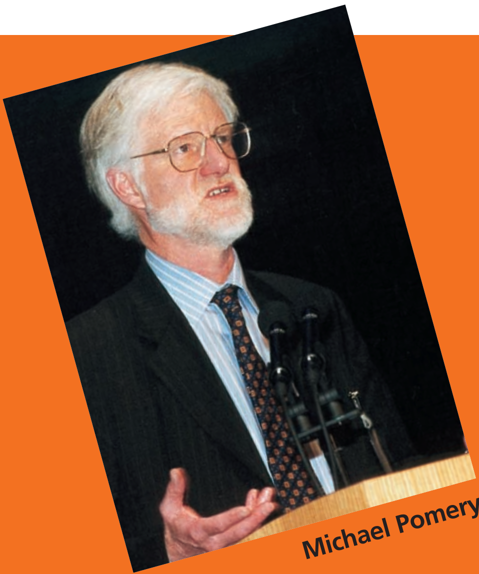
Perhaps now would be a good time to make a start?

If you have any questions or views relating to this issue of Your Fund please contact Hannah Clarke on her email: Hannah.Clarke@Unilever.com

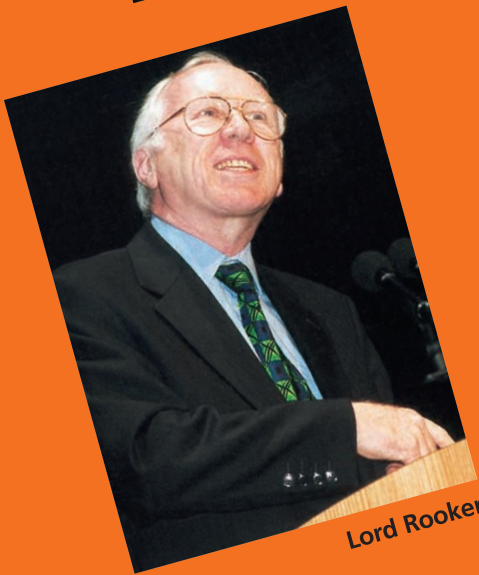
what's going on?

news from the 2001 Delegates Conference

Just when you think you're losing track of news and events, along comes the annual conference to put you back in touch with what's going on.



Michael Pomery



Lord Rooker

UPF Communications Manager **Hannah Clarke** was there and **Your Fund** caught up with her on her return to ask her about the conference.

what is the UPF conference and who goes?

It all happens in Birmingham.

That was the venue for the **2001 Delegates Conference** and it was a most interesting and informative conference.

Over 60 delegates, the trustees and members of the management of UKPD were there to debate subjects relating to the Fund and its future. The two-day event was, as always, action packed.

what was the point of the conference?

It was to communicate the latest, ground-breaking news on pensions and there was a lot to cover.

The theme of the conference was **New Challenges** and Chris Lewin, Head of UK Pensions, spent some time highlighting these. Stakeholder pensions, pensions and part-timers, and the possibility of increasing state retirement ages were among the key subjects he covered.

what else was covered?

Wendy Mayall, Unilever's Chief Investment Officer, presented an Investment Report (a focus on Investments will be featured in the next issue of **Your Fund** when the Report and Accounts have been published) and Michael Pomery, the Scheme Actuary, summarised the background to the Equitable Life situation and how it might progress in the months ahead.

how do you make sure the conference works?

One of the challenges of the Delegates Conference is to keep it fresh and relevant. For 2001, the organisers decided to tackle this challenge head on by involving delegates in a surprise session where they were tested on their knowledge of the pension fund. They then took part in a brainstorming session to determine what they would like to see at future conferences. The output from this session will help to shape the format of next year's event.

was there a keynote speaker?

Yes. We arrange to have a notable speaker at each event. This year we were fortunate enough to have Lord Rooker (at the time, MP for Perry Barr and Minister of State for Social Security). He gave the conference a detailed insight into the Government's thinking behind their proposed changes to the State Pension Scheme.

do the delegates get to ask questions?

The conference offers the ideal opportunity for delegates to raise questions directly with the trustees and members of the management team of UKPD and, as always, the final discussion session featured some lively debate.

so what was it like for a delegate?

Well in the words of Andy Hilliard, a new delegate from URL Colworth: '**My first impressions were favourable. The conference was surprisingly good fun but also very informative. And I have to say that I am looking forward to coming back next year!**'.

CONFERENCE FACTFILE

what is a delegate?

A delegate is an employee member elected by other employee members from their company to represent members in a particular region.

why do we have to have delegates?

The delegate system provides a pool of pensions-aware people from whom (under the rules of the Fund) the member-appointed Trustees are elected (by their fellow delegates).

The delegates also have a key role to play in the exchange of information between the members they represent and the Trustees and UKPD.

the benefits of the UPF at a glance

- Life assurance – lump sum of 3 x your annual pensionable pay on death in service plus pension for your spouse or dependants
- Professional administration at no cost to you
- Pension for life on retirement plus pension for your spouse or dependants after your death
- Tax-free lump sum options
- Early retirement from age 50
- Serious ill health – protection during your career.
- The chance to pay Additional Voluntary Contributions (AVCs) to top up your pension if you wish

why the UPF is good value

your membership could be about to change

Your Fund reports on what might happen - and highlights the benefits of the UPF

At the moment membership of the Unilever Pension Fund is free, as it has been for some time.

As you may remember, when the last actuarial valuation revealed a surplus, the company and trustees used part of the surplus to give you continued free membership of the Fund. The rest of the surplus was used to fund some benefit improvements, as well as an increase for the pensioners and deferred members, and a further break from contributions for the company. None of the surplus was carried forward to the next valuation.

The results of this next valuation will be available in September 2002 and no one can be sure what they will be. It is possible that they will show that the Fund is no longer in surplus. Much will depend on how investment and economic conditions develop in the meantime. If there is a need for contributions to restart, this could be effective from as early as 1 October 2002. The level of employee contribution set out in the Rules of the Fund is 5% of your pensionable pay less a small deduction for National Insurance. At this point, you may find yourself thinking: 'Why should I be a member of the UPF? What has it ever done for me? Wouldn't I get a better deal by taking out a personal pension?'

However, although we cannot offer you personal financial advice, which must depend upon your own circumstances, we believe you will probably wish to stay in the Fund. It is an excellent scheme with a valuable range of benefits that we think you would struggle to find elsewhere. The UPF also has the full backing of Unilever – guaranteeing that the benefits will be there for you. This support was made abundantly clear at Unilever's AGM in London at the beginning of May when

Niall FitzGerald, Chairman of Unilever PLC, made the following statement:

'I have an immense pride in the Unilever Pension Scheme ... we need to remind ourselves that we are dealing with a very fine defined benefit scheme, unlike many of the schemes which perhaps you will find your children getting involved with these days which are defined contribution and which will probably be very expensive for them to fund in the years ahead. Everybody who is privileged to be a member of the Unilever Pension Fund is a member of a defined benefit scheme ... which the Company stands behind and guarantees those benefits in all circumstances.'

It is also worth remembering that the total annual cost of the benefits you earn each year you are a member of the scheme roughly amounts to 15-20% of your pensionable pay. The exact figure varies from one person to another. So even if you have to restart paying contributions eventually, (at somewhat less than 5% of your pensionable pay) Fund membership is still well worthwhile as the company finances the balance of the cost. Any contributions you have to pay would get full tax relief at your top marginal rate.

If and when contributions are restarted, think long and hard about the benefits the Fund offers and the backing to the Fund that Unilever gives – you should find that the benefits far outweigh those available from other types of pension arrangement and are worth paying for.

news just in ...

The last six months or so have seen coverage of many pensions issues in the press. Your Fund asked Head of UK Pensions Chris Lewin to highlight three of those that are most relevant to the UPF.

in times of plenty

...who owns the surplus?

Over the last few years there have been a number of cases featured in the media, challenging the ownership of pension scheme surpluses, the most recent being that concerning the National Grid and the Electricity Supply Pension Scheme. The question, "Who Owns the Surplus?" is frequently asked when a pension scheme finds itself in the fortunate position of having a surplus, as has occured in our case at the last few actuarial valuations.

The National Grid case concerned the question of whether the companies participating in the Electricity Supply Pension Scheme were entitled to use the actuarial surpluses in the scheme to fund enhanced pensions for employees made redundant after privatisation. The House of Lords decided in April that they were indeed entitled to do so. They did not, however, resolve the question of who owns a pension scheme surplus - the employer or the members.

One of the recommendations of a recent investigation into various pension matters, the Myners Report, is that the Law Commission should undertake a review to clarify the law on surpluses. The Government has accepted this recommendation.

In the case of the UPF, the Fund Rules provide that any surplus in the Fund is used to reduce the company's future contributions to the Fund. Only if the company and the UPF trustees both agree can surplus monies be used for other purposes. It has always been Unilever's position that it is entitled to use any surplus to reduce or suspend its future contributions. Unilever has given an open-ended commitment to make good any deficiency in the fund and it may well have to do so in the future. So when there is a surplus, it is only right that it should be able to suspend or reduce its contributions since it is bearing all the risk. It is the other side of the same coin. However, if Unilever and the trustees both agree, part of the surplus may be used for pension improvements, as happened after the 1996 and 1999 valuations.

pensions for part-timers

During February 2001, the House of Lords issued a complex statement detailing its decision in the case of a number of part-time workers and their rights to claim backdated pension. In the case, a number of part-time workers (unrelated to Unilever) submitted a claim for the backdating of their pension scheme membership.

These claims eventually reached the House of Lords, who then referred the cases to the European Court of Justice to seek clarification on the time limits applicable to claims regarding the backdating of membership of pension schemes. English law was thought to impose a six month time limit (after leaving service) for the submission of claims and it was also thought that the backdating of membership could not extend beyond two years. Clarification of the issue was required as this area of law, which is connected to Equal Pay legislation, is covered both by European Law and Directives and National Law.

The House of Lords decided that successful claimants could be awarded part-time pensionable service back to 8 April 1976 or the start of their employment whichever is the later, but that any claim still had to be made within six months of leaving the employment to which it related. At present the Unilever Group of companies are considering the claims that they have received so far from part-timers. The House of Lords decision does not automatically entitle part-time employees to retrospective membership of the Unilever Pension Fund. Employees will still need to establish that they were excluded from membership on grounds that relate to sex discrimination.

Furthermore, the House of Lords added that if an employee wants to take advantage of the right to membership of the pension scheme, then the employee contributions that would have been due, from the date they are claiming pensionable service, have to be paid.

Unilever has a number of claims that have been submitted already. It is likely to be at least a year before these are dealt with, as the tribunals have a large number of cases to consider.

defined benefit schemes v defined contribution schemes

which is best?

Like the majority of large UK pension schemes, the UPF is a defined benefit scheme – which means that you receive a pension at retirement based on your service with Unilever and your final pensionable pay at retirement.

In recent years, however, some large companies have moved away from this type of arrangement and set up a defined contribution scheme for new members of the scheme.

The UPFs AVC scheme is an example of a defined contribution scheme – your contributions are known but the amount of benefit you will get at retirement is unknown – it depends on the level of contributions, the investment returns on your fund, your age at retirement, the level of the stock market at retirement and the cost at the time of buying a pension.

ICI and Halifax have recently introduced defined contribution schemes rather than defined benefit schemes for new employees. BT is the latest employer to make this change.

You may be wondering whether Unilever will be next!

The answer is no. Unilever has a long established defined benefit scheme for nearly all of its UK employees, which meets the needs of those employees and their families. It also allows an investment policy to be followed which is likely to minimise the costs to the company per unit of pension in the long run, despite the fact that the cost to companies of running defined benefit schemes is the main reason cited by companies when changing to defined contribution schemes. The explanation lies in the fact that Unilever can take a long-term perspective.

The company will continue to monitor developments within the other large companies in the UK but does not currently envisage a move away from the present structure of a defined benefit scheme.

AVCs – What are they again?

Pensions are complex and detailed. It's hardly surprising that some of the information is just too difficult to take on board. We are constantly asked questions about AVCs and the most common one is … *What are they?*

Here in **Your Fund** we will try to explain. Additional Voluntary Contributions (AVCs) can be a very handy way to save to boost your income at retirement. Or to perhaps pay for some of the costs of retirement such as health insurance or long-term care. They are also a tax-efficient way to save as:

- contributions are deducted from your salary BEFORE tax is calculated
- investment income grows free of tax
- the resulting pension is taxed under the PAYE system

While this quite neatly makes a case for AVCs, you must also be aware of the following points:

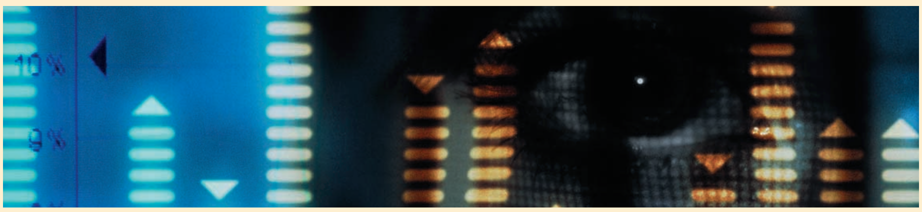
- AVCs are for long term saving – you can only get the benefits of your fund at retirement
- the AVC benefits have to be taken when you take your UPF benefits
- there is a limit on the level of contributions that you can pay – you cannot pay more than 15% of your earnings as pension contributions in any tax year

While AVCs are one option for saving in a tax-efficient manner, there are others available too. They include Individual Savings Arrangements (ISAs) and stakeholder plans (see the Winter 2000/2001 issue of Your Fund for further information on stakeholder plans and see below for a further update). Only you can decide which arrangement would be best for you, perhaps with the help and advice of an independent financial adviser.

For further information on AVCs, contact your personnel officer. Details are also available on our own UPF website at: **www.myupfpension.co.uk**

stakeholder pensions

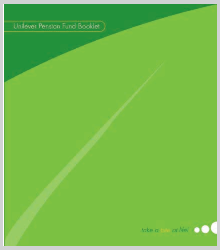
You may remember that, in the Winter 2000 issue of Your Fund, we mentioned that stakeholder pensions would be available from April 2001 onwards. These are low cost methods of saving for retirement, usually through insurance companies.



Unilever is unlikely to introduce a stakeholder pension scheme because all Unilever employees will have access to the Unilever Pension Fund within the relevant statutory timescales. However, we realise that many of you may wish to consider taking out a stakeholder pension privately for your spouse or children. Also, if you earn less than £30,000 a year, you may wish to take out a stakeholder pension for yourself, perhaps as an alternative to AVCs.

We are preparing a factsheet to help you to understand the possibilities and the tax relief which may be available to you and this will shortly be available via your personnel department.

You should realise, however, that Unilever, the Trustees of the Pension Fund, and UKPD are unable to provide you with personal financial advice or any recommendation on whether or not you should take out a stakeholder pension.



We're here to make things easier and so it makes sense that when we produce a guide – it's a good one.

nobody does it better…

it's your pension guide

So we are pleased to introduce to all members of the UPF – the new member's booklet.

A definitive guide, it tells you the ins and outs of the scheme including what you pay and the benefits available to you. It's also the first place you should turn to if you want to know what happens if you decide to retire early or how your family are protected if you die.

When you joined the UPF (or the previous scheme, the USF), you may have been given an Information Pack with a guidebook and some other useful literature. Scheme guidebooks are updated from time to time and this edition is the first official guide to the UPF. As all our members are now members of the UPF we are sending copies of the new booklet to all of you.

And it's not just a new booklet. We've come up with a new design and image for the booklet, as well as a handy wallet for keeping important correspondence, your benefit forecast and any issues of **Your Fund** you might want to keep for quick reference. To help you to get answers quickly you will also find a ready-reckoner of the UPF benefits. We hope to have the booklet available on the UPF website in the very near future too.

AVC update

As those of you who pay AVCs will know, the last six months or so have been exceptionally busy. As we were putting the finishing touches to the Winter issue of **Your Fund**, Equitable Life broke the news that they had failed to find a buyer for their business and were therefore closing the With Profits Fund to new business. The UPF trustees moved swiftly and just before Christmas an additional AVC provider, Eagle Star, was in place to be offered to AVC contributors and would-be contributors.

UKPD then held a series of roadshows across the country with representatives from Equitable Life, Eagle Star and occasionally Bacon and Woodrow (our Actuaries) to remind us all why AVCs could be useful, as well as to introduce Eagle Star and explain the background and ongoing situation with Equitable Life.

The situation as regards Equitable's business is now broadly as follows. Equitable's Unit Linked business, which includes the Managed Funds available through the UPF, was sold to the Halifax Group on 1 March (although the Equitable name has been retained). The funds are now managed by Clerical Medical Investment Group, who are owned by the Halifax Group. The building society fund operates as an external fund link via the Equitable and has not been affected by the situation with the Equitable With Profits Fund. The With Profits Fund remains closed, and although it is now managed by Clerical Medical, it is under the ownership of the With Profits policy holders. If you are an existing contributor to the Equitable, all three of these options are open to you. However, new contributors can not, currently, pay to the Equitable's With Profits fund.

On 16 July 2001, as this issue of **Your Fund** was about to go to print, Equitable announced further changes to the amount of bonus it would pay on With Profits pension policies. These policies will be reduced by an amount equal to 16% of the policy value as at 31 December 2000. Additionally, there will be no growth on policies for the period 1 January 2001 to 30 June 2001. From 1 July the target growth accruing to an Equitable With Profits pension policies during the rest of the year 2001 will be at the rate of 6% per annum.

Equitable state that these changes were necessary to ensure that all members of the With Profits fund are treated fairly. They have further stated that the financial position of the fund needs active management and that the Board will reconsider bonuses regularly to take account of changes in the value of the With Profits Fund.

Following the reduction in the value of the With Profits pension policies described above, the Market Value Adjustment has reduced to 7.5% of the now reduced policy values, because policy values are now closer to the value of the underlying investments.

Please note that the situation may well have changed by the time you receive Your Fund. **Updates on the situation are posted in the news flash section of our website, www.myupfpension.co.uk, and are also available from your personnel contacts.**

On the right we set out the options available to you as an Equitable Life AVC fund-holder. Please note that the options shown are given simply for information. Which option is the right one for you really depends on your own individual circumstances and you should not take action solely on the basis of the information given here but you are strongly advised to consult an independent financial adviser. You can find an independent financial adviser in your area by phoning 0800 085 3250 or by accessing the following websites:

www.unbiased.co.uk
www.find-an-ifa.co.uk

If you contribute or have contributed to Equitable's managed (unit-linked) funds or building society fund then there has been no direct impact – the managed funds and building society fund were unaffected by the difficulties encountered by the With-Profits fund. The acquisition of these funds by the Halifax should also not make a significant difference. Your principal options remain as follows:

For ongoing contributions:

- Make no change at all
- Stop paying to Equitable Life and start paying to Eagle Star
- If your contribution is sufficiently large, split your contribution between Equitable Life and Eagle Star

For your existing fund:

- Make no change at all
- Transfer it, or at least some of it, to Eagle Star

If you contribute or have contributed to Equitable's With-Profits fund – the options are a little more complex:

For ongoing contributions:

- Make no change at all
- Stop paying to the With Profits fund and start paying to Equitable's Building Society or Managed Funds
- Stop paying to the With Profits fund and start paying to Eagle Star's With Profits Fund or Managed Funds
- If your contribution is sufficiently large, split your contribution between the funds

For your existing fund:

- Make no change at all
- Transfer it, or at least some of it, to Equitable's Building Society or Managed Funds, or to Eagle Star's With Profits or Managed Funds – under this option a deduction (the Market Value Adjustment) may be applied to your fund, currently at the level of 7.5%, before the fund is transferred, and you will lose any guaranteed annuity rate to which you may be entitled on the sum transferred.

keep us posted

with all the essential info we need to know

As you can see from page 3 (UPF Benefits at a Glance) your pension also includes benefits for your family on your death.

When you join the Fund, you are asked to complete a Nomination Form that gives details of where you would like the benefits to be paid.

The problem is that you may not think any more about the matter with the possible consequence that the 'wrong' people may get the benefits on your death.

So when facing life changes like the birth of a child or the end of a relationship, don't forget to consider whether or not you need to alter the instructions you have given to the trustees concerning pension rights after your death. This will help us to ensure that those closest to you will ultimately be treated correctly.

All you need to do is complete a nomination form. They are available from your personnel contact, UKPD or from our website (click onto Governing Documents and then click on Your Forms).

tell us what you think
your views make a difference

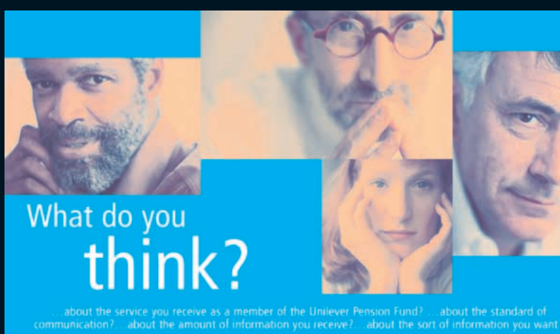
Over the last two months UKPD with the help of Anthony Hodges Consulting (AHC) has been conducting a telephone survey of employee members, deferred members and pensioners.

The aim of the survey is primarily to assess how satisfied you, our customers, are with the service provided by UKPD. You may recall a similar survey was undertaken in 1999. As with that survey not all of you will have been interviewed. Instead, random representative samples of members were asked to participate and we are confident that this will accurately reflect the views of the majority of members.

Both UKPD and AHC would like to thank all of you who participated in the survey - and for those of you who missed out there will be another opportunity, at some time in the future, for you to take part when we rerun the survey again.

The results of the survey are currently being compiled by AHC and will be published in the next issue of Your Fund. They will also be available on our website www.myupfpension.co.uk by autumn 2001.

This survey is vital to UKPD to ensure that we can continually monitor and improve the service we provide to our members and to help us develop our strategy for the future.



benefit statements - online

Everything you need is now so easily available – as all those UPF members with personal computers will know. If you want something why wait when you can get it online. It's so easy and so fast.

Some of you are getting used to accessing a wealth of information via the Internet. So, if you have already received your benefit statement via your personnel department, you can also view it while online. To access your statement, you need to register on the site for a personal identification number and password. These details will be sent to you confidentially within five working days of us receiving your request. You will then be able to log on, see your benefit statement on screen and print off the relevant details.

This is only the first stage of our further development of the UPF website. We are looking to make the site more interactive and useful by adding more information and allowing you more opportunity to model your benefits. For example, you will soon be able to work out the impact of paying a higher level of AVCs based on your real data and existing fund.

The site will soon have most of the information you'll ever need to know at the touch of a button or two. And for those members who don't have a personal computer at home, you could always ask a friend or relative to help you to access the information you need or simply request it in the usual way.

Exciting things are happening on the website so watch this space to find out more and keep an eye on **www.myupfpension.co.uk**

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