www.myupfpension.co.uk

winter 2004-2005

your fund

your **future**

Unilever

In the know

keeping you informed

The winter issue of your fund covers news and information to help you stay on top of pension developments.

We know that it's not easy keeping up to speed with continually breaking news on pensions. **your fund** highlights the various issues that affect pensions in general and your own Unilever Pension Fund (UPF). It works hard to reveal what's behind the latest news, so that you don't have to.

In this issue the Unilever UK Pensions team reviews recent press coverage and explains the meaning behind some of the legislative changes currently impacting on pensions in general.

We also take a closer look at the financial management of the Fund. You can read an update on the 2004 Report and Accounts, learn about some of the issues that are affecting the ongoing management of the Fund and see how this news may affect the UPF's future investment strategy.

On top of this we cover specific developments regarding the UPF, such as service delivery changes and contact points.

If you have any comments or questions relating to articles in this issue of **your fund**, please get in touch with us.

In this issue...

This edition of **your fund** has been printed on environmentally friendly paper.

If it's breaking it must be

Pensions are vitally important to everyone

Industry experts have always been aware of this. Yet it is only recently that the media has helped to convince us all that this is the case.

For long-serving employees, the value of a good occupational pension scheme - like the Unilever Pension Fund (UPF) - may well be one of the largest assets an individual has.

However, with the number of people reaching retirement age on the increase, pensions are becoming more expensive to provide. People are living longer and expectations for future investment returns have reduced. These two factors have contributed to heightened publicity surrounding the UK 'pensions savings gap'. A recent report by the Pensions Commission, which was set up by the Government to look into the whole question of saving for retirement, confirmed that the UK as a whole must either:

- increase taxation to fund pension provision
- increase savings to fund pension provision
- increase the average retirement age
- agree on a combination of these options, or
- accept that pensioners will become relatively poorer.

As a member of the UPF, you can be assured that you and the Company are already making provision for your retirement through your pension, which is a valuable employee benefit. For those employees who are members for their full career, it will provide a good retirement income. Also, if you have joined Unilever later in life, or simply wish to extend your retirement pension, the UPF offers options for increasing your pension through AVCs (Additional Voluntary Contributions).

So you may wonder why the media is continuing to generate so many bad publicity stories around the subject of pensions? There are two main reasons:

Firstly, as widely reported in the national press, the sustained period of negative investment returns between 2000 and 2003 has significantly affected the growth of pension funds. Secondly, there have been a number of high-profile cases of employers going into liquidation with pension schemes significantly under-funded; these have left members with pensions much lower than they were expecting under the rules of the scheme.

Sponsoring employers of pension schemes have never been so aware of the potential impact pensions can have on their business and their balance sheets, in particular given the introduction of a tougher basis to account for pensions. Unilever has always had a responsible attitude towards pensions and has been quicker than most to adopt the new accounting standards.

Given all this change and uncertainty, if you are asking yourself why you should save for a pension, you're not alone. However, it remains the case that membership of the UPF provides good value to you.

The Government gives substantial tax relief to members of pension schemes and Unilever makes substantial contributions on top of your own and stands fully behind the scheme.

news, pensions

Government changes to occupational pension schemes

With an ageing population, pensions are currently high on the political agenda. The Government has reacted by reviewing and strengthening the framework in which occupational pension schemes will operate in the future.

Here we set out the details of the main changes the Government is making and report on how Unilever is responding to them.

Under the Pensions Act 2004, a new Pension Protection Fund is being introduced to help safeguard pension benefits, up to certain limits, for members of final salary pension schemes. The same Act will also introduce a new scheme-specific funding standard which aims to provide a better framework for the funding of pension schemes.

The trustees of the UPF will be working with the Company on these changes when the final regulations are available.

Employers will be required to increase the minimum member representation on Trustee Boards to 50%.

This is not likely to have any implications for the UPF, as it already has 50% member representation.

Employers will be encouraged to provide more and better information about their pension schemes.

Unilever recognises the importance of providing pensions information to its members. The trustees and the Company organise a regular flow of news and updates which is more than is required under the pensions industry's disclosure regulations. **your fund** is a good example.

There is the potential of greater flexibility over when pension benefits may be drawn, for example, before an individual actually retires.

Unilever is considering what implications this new flexibility may have.

Under the Finance Act 2004, a new simplified tax regime for pension schemes is being introduced in April 2006.

The Company is working with the trustees to assess the impact of this new tax regime and will inform UPF members about relevant changes.

It is an exceptionally busy time for us in the Unilever UK Pensions team, with many developments affecting retirement schemes. We will let you know when we have more details about how any changes may affect your benefits and the Fund itself.

Managing the financial

Keeping the Fund healthy

Managing the finances of the Fund is something like a balancing act.

It's all about the assets we hold, relative to the benefits the Fund has to pay – the so-called 'liabilities'.

The Fund's assets are managed against its liabilities through the implementation of an investment strategy and by determining a policy for contributions to the Fund which follows from the regular actuarial valuations. In the 1980s and 1990s, investment markets performed very well and provided a favourable environment for managing the finances of the Fund. But with the advent of the new millennium, things have become more difficult.

The first three years of the decade have seen negative returns from equity markets. Whilst there has been some recovery, the situation remains that this, together with a world economy in which inflation is low and controlled, is pointing towards much lower investment returns going forward than were enjoyed during the last two decades.

The change in the investment environment is posing fundamental questions for trustees, such as "how can the Fund manage and maximise the plan's assets?" Alternative investments could be the answer, as they help to diversify the asset base, placing less overall reliance on a single source of return – traditional markets and particularly equities – thus spreading and reducing risk. Examples of these more 'diverse' investments are explained in more detail on page five.

Actuarial valuation of the Fund

As previously mentioned in **your fund**, the next three-yearly actuarial valuation of the Fund takes place in 2005, with the actuarial report expected in the autumn. This follows on from the interim review in September 2003.

Through the valuation, the Actuary will help with the management process by looking at the financial position of the Fund and advising on contribution levels, while taking into account the investment strategy that the Fund pursues and the economy in general.

The cost of operating the UPF had previously been assessed at 18.4% of pensionable pay. To meet this cost, employee contributions are currently set at 5% of pensionable pay (above the Lower Earnings Limit), and the Company meets the balance. Since the 2003 interim review revealed a shortfall, the Company has also been making additional contributions at the rate of £62 million per annum.

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In today's economy, you often find companies making increasing contributions to their pension schemes; many are reported in the press. Like many other large companies, Unilever acknowledges that the cost of operating its pension fund in the future is increasing. By acting now it is seeking to ensure that the UPF will be a strong fund in the years to come.

Life expectancy predictions

While checking out the prospects for future investment returns for the Fund and how this will affect the growth of the Fund's assets, the Actuary will also look closely at how the liabilities of the Fund will grow. A key element of this is current predictions for life expectancy into the future.

People are living longer. In 2002, life expectancy at birth for females born in the UK was 81 years, compared with 76 years for males. This contrasts with 49 and 45 years respectively in 1901 (National Statistics Office).

Good news generally, but what effect will it have on pensions?

Increasing life expectancy means that pension funds will have to pay pensions for longer. They will cost more to run and will require a higher level of contributions.

Actuaries have always made allowances for this

position of the Fund

in their calculations. However, these have to be based on predictions and it seems that past predictions have underestimated the extent of improvements in life expectancy.

What does this mean?

These two issues - investment returns and life expectancy - are pushing up the cost of pension plans in general. Their implications for the UPF will be considered as part of the actuarial review.

The Actuary will assess the financial position of the Fund as it is today and look at how the situation is likely to develop, taking account of our experience and how we plan to manage the Fund. The Actuary will then advise on the implications this may have on future contributions. The findings of this actuarial review will be available in the autumn.

Alternative investment strategies

UK pension funds have traditionally invested their assets in equities and government bonds which are traded on stock exchanges around the world. This had been a very successful way of managing pension fund assets. But things change. As mentioned on page four, equity markets have fallen heavily. Following this market slow-down, many UK pension funds are looking at other ways to manage their investments. For example, to reduce their dependence on equities (shares), pension funds are considering diversifying and holding a wider range of investments - so-called ‘alternative investments’.

Alternative investment opportunities include:

- **private equity**
  this is still equity investment, but instead of buying shares traded on stock exchanges, investment is made in small, private companies with the expectation, through having a range of investments, of benefiting from successful growth in this area

- **property**
  this involves buying investments to let, ranging from industrial sites, through retail and office accommodation and leisure facilities

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- **hedge funds**
  this covers funds pursuing a variety of investment opportunities and using a range of investment instruments and techniques

- **commodities**
  such as coffee, gold and other primary products.

The use of alternative investment opportunities is growing in the UK. Many UK pension funds have been moving towards private equity and property investments, and a number of funds – including BT and Sainsbury’s – have announced that they will be investing in hedge funds, which are much more commonly found in pension fund investment in continental Europe and the US.

The UPF has invested in property and private equity since the 1980s. Our current allocation stands at 10% in property and 5% in private equity. For the future, the UPF is actively considering moving into hedge funds and, together with its professional advisers, will continue to review other opportunities in accordance with best practice.

The fourth Report and Accounts of the Unilever Pension Fund are now available. John Wilcock, Financial Controller of the Fund, picks out some of the highlights.

Financial development of the Fund

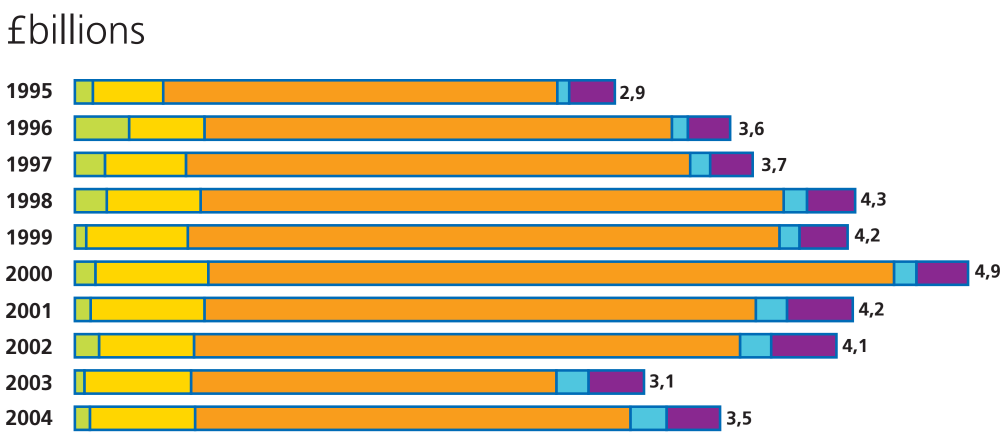
After three years of decline in line with global equity markets, the Fund's assets grew from £3.1 billion to £3.5 billion in the year ended 31 March 2004. This was achieved despite the fact that the Fund's expenditure exceeded income by more than £100 million.

Expenditure £279m **Income £154m**

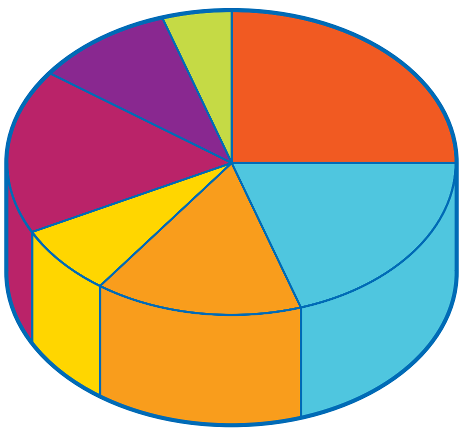
Benefits Paid (Pensions & lump sums)	£215m
Transfers to other funds	£30m
Expenses	£15m
Investment Income	£95m
Contributions	£56m
Transfers from other funds	£3m

Contributions received include full rate Company and member contributions from 1 January 2004 together with the special Company contributions of £62m per annum payable from the same date.

- Property
- Private Equity
- Ordinary Shares
- Fixed Interest
- Cash, Deposits and Others



UK Equities	25%
North American Equities	20%
European Equities	15%
Other Equities	7.5%
Bonds	17.5%
Property	10%
Private Equity	5%



The Fund's assets are invested in line with the investment strategy which is set by the trustees, taking account of the liability to pay benefits into the future.

The diagram opposite illustrates the current strategy.

During the year ended 31 March 2004 the Fund's investment managers achieved a collective return of 21.6%, reflecting the recovery in global equity markets following an extended period of negative returns. Over the last ten years, investment returns averaging 6.6% a year have been marginally ahead of the comparable market indices and well ahead of inflation, as measured by the RPI which averaged 2.6%.

The Fund's Report and Accounts for the year ending 31 March 2004 are now available.

Please email: pensions.uk@unilever.com quoting your record number if you would like a copy.

New year, new opportunity to grow your pension

The trustees of the UPF have introduced a new Added Years Additional Voluntary Contribution (AVC) arrangement to the existing AVC products on offer. Added Years AVCs (as explained in previous issues of **your fund**), are now available to those of you who want to give your pension a bit of a boost.

If you would like more details on Added Years AVCs, or would like a quotation of how many Added Years you may be entitled to purchase, please contact: pensions.uk@unilever.com for an information pack.

New focus;
joined-up service

The Unilever UK Pensions team is re-focusing its activity.

You may be aware that the pension administration services for Unilever pensioners and deferred UPF members were transferred to the Hewitt Group in London on 1 December 2003.

This transfer has proved successful and the majority of administration services for employee members of the UPF will also be moved to the same group. This will take place during April 2005. A core administration team will remain in Unilever UK at Walton Court (Walton on Thames, Surrey) to deal with more complicated cases.

The move will help the Unilever UK Pensions team to focus on what is really important to you – making the most of your fund. As well as managing the administration service provided by Hewitt, the team in Walton Court will continue to develop added-value services to meet the emerging needs of UPF members and the business. And they will support overall development, control and governance of the Fund.

One number for a joined-up service

From February 2005 the Peoplelink Service Desk will begin to answer all pension enquiry calls. You should call the Service Desk if you have any queries related to pensions, such as:

- Benefits of the UPF
- Joining the UPF
- AVCs
- Part-timer backdated membership
- Salary deductions

If you have a query that the team is unable to help with, they will direct you to the appropriate specialist who will be able to give you all the advice you need.

Unilever Peoplelink Service Desk – 01932 261000

Part-timers:
backdated membership reminder

Were you a part-timer during 8 April 1976 to 6 April 1988? If so, you could be entitled to backdated membership

In 1995 the European Court of Justice (ECJ) ruled that it was potentially unlawful to have excluded part-time workers from membership of pension schemes, as was common practice before the 1990s.

The full implications of the judgement for UK pension schemes were not made clear until quite recently.

Like many other employers, Unilever had excluded part-time workers from membership of the Fund up until April 1988. In 2003, following the outcome of test cases which clarified some of the uncertainty in the original ECJ judgement, Unilever agreed a method of reinstating into the Fund those relevant part-time workers affected by this ruling.

If you were a part-time worker for Unilever during the period 8 April 1976 to 6 April 1988, and were not in the pension scheme during that time, it is possible (but not necessarily the case) that you may be entitled to pensionable service for this period. If you think this applies to you, please contact the Unilever Peoplelink Service Desk on: 01932 261000

Note: this may not apply to individuals who did not join the Fund at their first opportunity or who were not able to join the Fund for another reason, eg. age restrictions.

changing names

Across Unilever, business names are being re-aligned to reflect the new stronger 'One Unilever' brand identity. It is expected that the Unilever Pension Fund's name will also change slightly in accordance with this. You will start seeing the new name on UPF materials during 2005.

any questions? just ask...

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