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Your fund

Legislation special

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How the Government is responding

In the Summer 2005 issue of 'Your fund' we looked at some of the pressures on UK pensions: complexity and confusion, negative press coverage, general lack of confidence and people not saving enough for their retirement. The good news is that the Government is responding to these pressures by making a number of changes to pensions in the UK. These changes are designed to give most people greater opportunities to save tax-efficiently for retirement, as well as more flexibility about when and how they save.

The changes, which come into effect from 6 April 2006 (also known as 'A-day'), may influence how you save for retirement. So it's important that you understand these changes, some of which are mandatory and some of which are at the discretion of individual companies.

What are the main changes to UK pensions?

- Greater opportunities for most people to save tax-efficiently for their retirement
- The opportunity for most people to build up higher pension benefits
- The removal of a number of the existing restrictions and limits on pensions, and consolidation under one set of tax rules going forward
- The option for pension schemes to allow most members to take more of their pension benefits as tax-free cash at retirement
- An increase in the earliest age at which people will be able to draw their pension (rising from 50 to 55 from 2010)

Unilever, together with the Trustees of the Unilever UK Pension Fund (UUKPF), have been considering the legislation as details emerge. Unilever has made a number of decisions, and these are set out in the next section. However, note that some aspects of the legislation are still being finalised. We will continue to keep you up-to-date with latest developments.

Other Government measures

The Government has also recently introduced a number of measures to help improve the security of member benefits. We outlined some of these in the previous issue of 'Your fund'. The two most important ones are:

- the setting up of the Pension Protection Fund (PPF), and
- the introduction of a new Pensions Regulator.

We have included a brief reminder of these on page 7, together with an update on other current pension issues.

Please refer to the back page for guidance on who to contact if you have a query and for details of some of the main sources of pension information available on the internet.

What do I need to do?

- Think about your own pension provision and how the changes might affect your personal saving for retirement.
- Make sure you have a clear picture of all of your pension benefits, including benefits you have built up in previous pension arrangements; if you need to, contact your providers for up-to-date information. If you've lost touch with them, the Pension Tracing Service can help (see the back page for details).
- Consider speaking to an Independent Financial Adviser (IFA) if you need help deciding about the best way to save for retirement. (See the back page for details of how to find an IFA.)

How does it affect me?

This table explains the changes that Unilever will be making to the UUKPF as a result of the new pensions legislation and why these changes are possible.

The opportunity to pay into more than one pension plan at the same time

What's the current situation?
You can only pay into a personal or stakeholder pension while you are contributing to the UUKPF if you earn less than £30,000 a year.

If you earn more than this amount, you cannot pay into a stakeholder or personal pension while you are a member of the UUKPF.

What's changing?
You will have more opportunities to save for retirement, as well as more flexibility about when and how you save.

Why?
From 6 April 2006, you will be able to contribute to any number of pension plans at the same time as contributing to the UUKPF, whatever you earn. You will receive full tax relief on contributions up to an Annual Allowance (see page 6 for details).

The opportunity for more tax-free cash at retirement

What's the current situation?
The absolute maximum tax-free lump sum that you can take at retirement is generally worked out as 1.5 times your salary, up to certain limits. Also, if you started paying AVCs after 31 March 1987, these cannot be taken as cash at retirement.

What's changing?
You should normally be able to take more of your pension as tax-free cash when you retire.

Why?
From April 2006, the UUKPF will be able to use a new calculation to work out the maximum amount of tax-free cash that you can take at retirement. You will be able to take up to 25% of the value of your pension as tax-free cash, including any AVCs that you may have paid (up to a Lifetime Allowance – see page 6 for details). This should give most members the opportunity to take a higher tax-free lump sum.

The opportunity to save more for your retirement

What's the current situation?
The maximum that you can contribute towards your pension is normally limited to 15% of your taxable earnings in any tax year.

What's changing?
You will normally be able to pay more than the current 15% limit towards your pension in order to build up higher benefits.

Why?
You will be able to pay up to 100% of your annual earnings (subject to the Annual Allowance) towards your pension tax-efficiently, either through the UUKPF or other pension schemes. This must include an allowance for the increase in the value of your UUKPF pension. Please note, however, that the maximum contributions to purchase Added Years AVCs will remain at 15%.

The opportunity to build up higher benefits for your retirement

What's the current situation?
The maximum pension that you can build up is normally limited to two-thirds of your taxable earnings at retirement (including any previous pension benefits you may have).

What's changing?
You will potentially be able to build up higher benefits.

Why?
The current Inland Revenue limits will disappear and, instead, you will have the freedom to build up benefits from all sources to any level. However, remember that the value of benefits above the Lifetime Allowance will normally be subject to additional tax. Certain limits may be maintained by the UUKPF for the purposes of standard scheme benefits.

Change to early retirement

What's the current situation?
You can normally take your pension from age 50, provided you have left the UUKPF and the Trustees consent to this. If you do take your pension early (currently before age 60), it is reduced for early payment. You may be able to take your pension earlier if you are retiring due to serious ill health.

What's changing?
From April 2010, the earliest you will be able to take your pension by law will be age 55, unless you have to retire because of serious ill health.

What does it mean for me?
If you were planning to retire before age 55 but after 2010, you will need to reconsider your options and plan accordingly.

What's not changing

Staying the same: options at retirement

What's the current situation?
You can only draw your pension when you retire or, if you have already left Unilever, from age 50 providing that the Trustees consent to this.

Flexible retirement
Under the new legislation, companies can allow members to draw their pension and carry on working for the company.

Unilever is reviewing the implications in this area but, as yet, has no plans to introduce change.

What's the current situation?
The UUKPF is a final salary or 'defined benefit' arrangement. When you retire, your benefits are paid as a pension in monthly instalments.

'Income draw down'
Another option available under the new legislation is known as 'income draw down'. It allows the member to invest their account (which is, in effect, a pot of money) with an investment manager. The member then takes a part of that pot of money each year as an income, leaving the rest of the money invested for future years.

The UUKPF is a defined benefit scheme and draw down is, therefore, not relevant. In addition, the UUKPF Trustees have decided not to allow draw down to be applied to its AVC facilities. However, it may be possible to access draw down facilities for your AVC funds by taking an open market option.

Staying the same: death benefits

What's the current situation?
If you die before retirement, your spouse/dependants will receive a lump sum of three times your salary, plus a pension payable for life.

Death benefits
Under the new legislation, there may be the opportunity to re-shape the benefits provided to dependants if a member dies so that they are more tax efficient; for example, by paying more of the benefit as cash and less as pension.

Unilever has considered this option and, for the time being at least, will not be changing the existing benefits payable on death.

The changes at the heart of the new legislation

The improvements to UK pensions and the opportunities they present are possible mainly because the Inland Revenue is simplifying the existing complex tax structure of UK pensions. Instead of various limits affecting different elements of pension saving, two new allowances are being introduced.

The Annual Allowance

This is an allowance on the amount of contributions and/or benefits that you can build up tax-efficiently *each year*. It replaces the current 15% maximum limit on pension contributions that you can make each year.

Lifetime Allowance

This is an allowance on the total value of pension benefits that you can build up tax-efficiently *during your lifetime*.

Keeping track of your benefits

It is important that you keep track of the pension benefits that you are building up over your working life, including those built up with previous employers or other pension arrangements (especially if you think you may be affected by the Lifetime Allowance).

If you have told Unilever about any of these benefits, details will be held on your UUKPF pension record. However, you are ultimately responsible for keeping track of these benefits and, if relevant, checking how they compare with the Lifetime Allowance.

For your own purposes and for pension planning, it is always a good idea to keep up-to-date records of any pension arrangements in which you have built up benefits. If you have lost touch with a previous pension plan and need help finding it, turn to the back page for details of the Pension Tracing Service.

In detail

Most members' benefits and contributions will fall well within the two new allowances. Here is some more information for those members who like to know the detail…

Annual Allowance

- Each year (apart from the year you take your benefits), the amount by which your defined benefits have increased plus any defined contributions that you have made (for example, any AVCs you have paid) will be tested against the Annual Allowance.
- Initially, the Annual Allowance will be 100% of your earnings or, if lower, £215,000, increasing in steps to £255,000 by 2010/11. Any contributions paid or benefits built up above this amount will be taxed at 40%.
- Total pension contributions can be paid tax-efficiently to any number of pension plans, and the Annual Allowance will take these into account, as well as your contributions to the UUKPF.

The Lifetime Allowance

- From A-day, the value of your total pension savings will be checked against a new Lifetime Allowance. This is initially £1.5 million, increasing in steps to £1.8 million by 2010/11. Benefits built up above this amount will be subject to an additional tax.
- The value of your UUKPF pension will be calculated by multiplying it by a factor of 20 when checking its value against the Lifetime Allowance.

  Example:
  If the value of your annual pension is £8,000, its value for checking against the Lifetime Allowance would be: £8,000 x 20 = £160,000 – well under the initial allowance of £1.5 million.

- The Lifetime Allowance will take into account the benefits you have built up in all pension schemes, not just in the UUKPF.

The Lifetime Allowance will only affect a small number of UUKPF members. If you think that you may be affected, you should speak to your financial adviser as there are ways to protect your benefits to help reduce the additional tax.

Latest developments in UK pensions

Pension Protection Fund

As a member of the UUKPF, a well-run scheme with a strong employer, it is unlikely that you will be affected by the Pension Protection Fund (PPF). However, you may be interested to know what its aims are and how it works. The Government set up the PPF in April 2005 in response to the collapse of some high profile companies with final salary pension arrangements.

The PPF is designed to compensate members of final salary and similar type pension schemes who lose some or all of their pensions if their employer becomes insolvent with insufficient funds to pay pension benefits. Compensation will depend on membership status and age:

- Retired scheme members who are over 65 will continue to receive 100% of their current pension, although future increases are likely to be restricted.
- Members still in employment, or who have retired but are under age 65, will receive 90% of the pension they have already earned, up to a maximum of £25,000 a year.

The PPF will be funded partly by the assets that are left in a collapsed company's pension fund, and by a general levy on all UK final salary and similar type pension schemes.

Please note that whilst the PPF applies to the UUKPF, it does not apply to other pensions which are sometimes paid directly by Unilever on redundancy and/or if the Company requests an employee to retire early.

Pensions Regulator

A new Pensions Regulator was introduced in April 2005. Its top priority is to improve confidence in work-based pensions by protecting the benefits of scheme members. It also aims to reduce the risk of situations arising that will lead to claims for compensation from the Pension Protection Fund. It hopes to achieve this by focusing its resources on identifying and reducing risks to members' benefits, and working with schemes to get them on the right track.

The Regulator also promotes high standards and good practice in the pensions industry. To help achieve this, the Regulator issues Codes of Practice, giving practical information about the standards and practice expected, and how schemes can meet them.

The Trustees of the UUKPF are examining these Codes of Practice as they become available and will consider making changes as appropriate. We will keep you informed about developments affecting the UUKPF.

Ensuring good practice

It's important to look at how the UUKPF is run and governed on a regular basis, particularly during times of change to ensure that it continues to operate in line with best practice. The Trustees are currently carrying out such a review in the light of new legislative requirements. Particular aspects of the UUKPF that the Trustees are examining are:

- the governance arrangements for the UUKPF, including where responsibility lies for making decisions
- the role of certain of the Fund's external advisers
- the Fund's procedure for dealing with member grievances
- how the Trustees will respond to new requirements for trustees of pension schemes to have greater knowledge of their scheme and pensions in general; and,
- the UUKPF's trustee arrangements.

In many areas, the existing arrangements are working extremely well. Therefore, while the legislative changes may give rise to some new opportunities, they do not necessarily mean that changes will be made to the UUKPF. We will continue to keep you informed about developments affecting the UK pensions sector generally and the UUKPF specifically.

Finding out more

UUKPF website: **www.uukpf.co.uk**

Useful websites
Find out more about pensions and the latest changes by visiting the following websites:

The Pension Service:	**www.thepensionservice.gov.uk**
The Pensions Regulator:	**www.thepensionsregulator.gov.uk**
HM Revenue & Customs: (formerly Inland Revenue)	**www.hmrc.gov.uk**
Independent Financial Advisers:	**www.unbiased.co.uk**

Pension Tracing Service

If you have lost track of pension benefits built up with a previous pension plan, the Department for Work and Pensions' tracing service can help you find them. You can contact the service by:

Telephone:	**0845 600 2537**
Website:	**www.thepensionservice.gov.uk**
Address:	**Pension Tracing Service, Whitley Road Newcastle upon Tyne NE98 1BA**

Remember…

If you have a general question about the UUKPF, Unilever UK Peoplelink will be able to help. You can call the Service Desk on: **01932 261000**. If they cannot answer your question, they will be able to put you in touch with someone who can.

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