
# Nestlé (Ireland) Pension Changes

August 2011

# Today

- Why is change essential?
- What are the changes?
- What happens now?

# Introduction

- Nestlé is committed to providing quality pension benefits for our employees in Ireland;
- We will continue to offer a defined benefit option, but on a new career average basis; and
- We want to provide pension benefits that are sustainable for the long-term.
- We believe that these proposals will set us apart from most other companies. Nestlé is committed to providing great pensions

# What do we have now?

- Nestlé (Ireland) Pension Fund
- 780 members
- About €61m of assets
- Final-salary design
- Pension at retirement =

  1 / 60th x service in the Fund x Salary

# Why is change essential

- The future economic outlook remains really tough.
- The cost of providing the Company’s current pension arrangements, which are mainly on a final-salary basis, are significant and rising:

Increased volume of legislation and regulation

People are living longer

Lower investment returns in the future

# Why is change essential

- In a final-salary scheme the Company is responsible for making sure that the Fund has enough money.
- Company takes on the ‘risk’ of providing these types of pension arrangements.
- To ensure our pensions are sustainable for the long term the risks and costs of providing these pensions need to be shared
- As a result of all of these issues the Company has conducted a review of its pension arrangements both here in Ireland and in the UK.

# What is changing?

- Provide two new options, called ‘Lanes’, for building up pension in the future, with a further third Lane to be introduced in 2013
- Protect pensions that have already been built up
- These changes will be implemented from 1 January 2012
- Proposal to transfer all the assets and pensions from the current Fund to a Nestlé pan-European pension arrangement based in Belgium.

# What are the changes?

Pension built up before 1 January 2012

+

Pension that will be built up from 1 January 2012

=

Total pension at retirement

# Pension that will be built up from 1 January 2012

- Two options “Lanes” for future pension build-up, with further Lane becoming available in 2013:

# Pension that will be built up from 1 January 2012

| | Type of arrangement | Member contribution level | Benefit building up |
|---|---|---|---|
| **Lane 3** | Defined benefit Career Average Revalued Earnings (CARE) | 5% of Pensionable Earnings | 1/60 of average Pensionable Earnings for each year of service |
| **Lane 2** | | 4% of Pensionable Earnings | 1/80 of average Pensionable Earnings for each year of service |

**From 2013 …**

| | | | |
|---|---|---|---|
| **Lane 1** | Defined contribution (DC) | From 3% of Pensionable Pay | Contributions are invested to provide benefits at retirement. Company will pay 1.5 x the member contribution level up to a maximum of 12% |

# Pension that will be built up from 1 January 2012

## Changing lanes

- Each year members can choose which Lane they wish to be in to reflect their individual needs

## Existing employees who have not joined the Fund by 1 January 2012

- These employees will only have the option to join Lane 2 (DB) initially and then will have the additional option of Lane 1 (DC) when it becomes available in 2013.

# Pension that will be built up from 1 January 2012

## Pensionable Earnings – definition

- Currently Pensionable Pay is your Pay less a deduction of €10,632

- New definition from 1 January 2012, Pensionable Earnings will be:

  Base pay + work pattern based pay elements (if applicable)

  The existing deduction will no longer apply in the future.

- From 1 January 2012, contributions and benefits will therefore be based on a higher earnings figure.

# Pension that will be built up from 1 January 2012
# Lane 3 and Lane 2

**How to calculate Career Average Revalued Earnings:**

1. The Pensionable Earnings earned in each year is increased (or 'revalued') in line with the Consumer Price Index from the end of that year up to retirement date (maximum to 2.5% a year)
   = revalued Pensionable Earnings for each year
2. The process is repeated for each year of membership. Each year's individual revalued Pensionable Earnings is then added up

   = total revalued Pensionable Earnings
3. The total revalued Pensionable Earnings is then divided by the number of years' Pensionable Service in Lane 3 or Lane 2
   = Career Average Revalued Pensionable Earnings

# Pension that will be built up from 1 January 2012

**Member retires in 5 years time and inflation is 2% each year.**

| | Pensionable Earnings | (1) plus increases | Revalued Pensionable Earnings at retirement |
|---|---|---|---|
| Year 1 | €30,000 | 2% each year for 4 years | €32,473 |
| Year 2 | €30,500 | 2% each year for 3 years | €32,367 |
| Year 3 | €31,000 | 2% each year for 2 years | €32,252 |
| Year 4 | €31,500 | 2% each year for 1 years | €32,130 |
| Year 5 | €32,000 | No increase | €32,000 |
| | | **(2) Total** | **€161,222** |

(3) Career Average Pensionable Earnings = €161,222 divided by 5 **= €32,244**

# Pension that will be built up from 1 January 2012

**How to calculate the Lane 3 pension**

1/60 X Career Average Revalued Pensionable Earnings

X Pensionable Service in Lane 3 from 1 January 2012

**How to calculate the Lane 2 pension**

1/80 X Career Average Revalued Pensionable Earnings

X Pensionable Service in Lane 2 from 1 January 2012

On early retirement the pension will be reduced by 4% for each year that retirement takes place prior to age 65.

# Sharing the cost and risk – Lane 3 & Lane 2

- At least every three years a financial healthcheck of the Fund (known as a valuation) is carried out by the Actuary.
- Valuations determine the total cost of providing pension benefits that build up in the future.
- After the 2014 valuation this total cost will be divided so that the Company pays 60% of the contributions and members pay 40%.
- As an example, if the total cost was 20% of Pensionable Earnings:

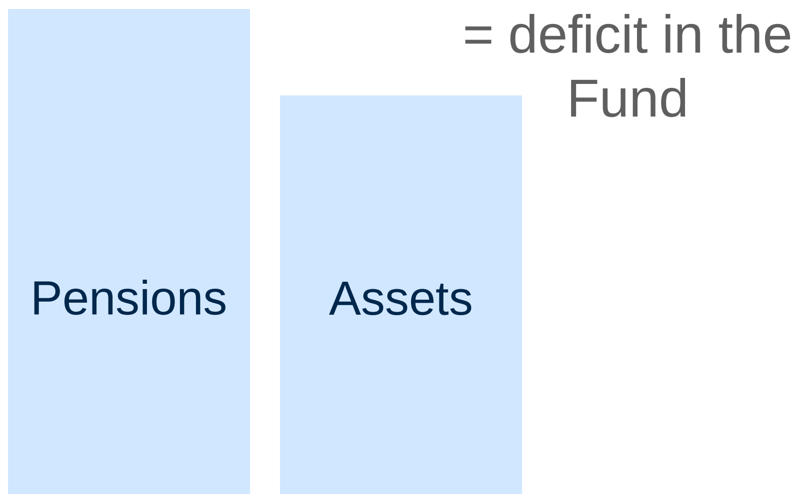
Company pay 12%

Members pay 8%

- As the December 2014 valuation will take some time to complete, contribution rates in Lanes 3 and 2 are not likely to be reviewed again until early 2016.

# Sharing the cost and risk – Lane 3 & Lane 2

- Valuations also determine whether there is enough money to pay for all the past benefits that have built up.
- The Actuary compares the assets in the Fund with the value of all the past pension benefits




- Nestlé is responsible for paying contributions required to pay for any deficit that exists in relation to benefits earned in the past.

# What are the changes?

Pension built up before 1 January 2012

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Pension that will be built up from 1 January 2012

=

Total pension at retirement

# Pension built up before 1 January 2012

- Pension earned to 1 January 2012 is protected
- It will be based on Final Pensionable Pay (current definition) and Pensionable Service at that date.
- Increased each year until retirement to keep up with CPI inflation (maximum of 5% each year).
- In times of high inflation, the Company has the discretion to increase these benefits above the 5% level.
- This means that benefits already built up will not be linked to salary at date of retirement.

# Pension built up before 1 January 2012

- Your Final Pensionable Pay at 31 December 2011 will be based on your (rate of) Pay at 31 December 2011 less the current Deduction of €10,632

- Your Final Pensionable Pay will not be less than half of your Pay (we adjust the Deduction accordingly)

# Pension built up before 1 January 2012

- Pensionable Service to 31 December 2011 will include the following:

  – Any previous service credits
  – Bridging Pensions
  – Transferred-in added years

- The existing early retirement terms will continue and will apply to both the pension built up before and from 1 January 2012.

# Earning more pension

## Additional Voluntary Contributions (AVCs)

- There is no change to the existing money purchase AVC arrangement with Irish Life.

- If you are a former member of the Rowntree Mackintosh (Ireland) Pension Fund and opted to build up additional service credits from 1 September 1991, you will no longer be able to add to these service credits from 1 January 2012.

# What are the changes?

Pension built up before 1 January 2012

+

Pension that will be built up from 1 January 2012

=

Total pension at retirement

# Nestlé European Pension Fund

- As part of changes, the Company will put a proposal to the Trustee to transfer the assets of the current Fund to an existing Nestlé pan-European pension arrangement based in Belgium – the Nestlé European Pension Fund

- This would allow Nestlé to consolidate / operate pension arrangements for several European countries within one pension arrangement

- More flexibility, more cost-effective, so helping ensure the long-term sustainability of our pension arrangements

- A new Irish section would be created inside the Nestlé European Pension Fund.

# Nestlé European Pension Fund

- When the transfer of assets takes place, the Company is proposing to make a significant additional payment to the new arrangement to ensure that the new Irish section is fully funded on a Belgian funding basis.

- This would provide greater financial security for all members and might allow the International Board of the new arrangement to start permitting early retirements from the Irish section.

- The new Irish section would remain subject to Irish tax legislation

- Current administrative arrangements would not change.

# Pension Fund Levy

- The Irish Government has introduced a new temporary levy on pension schemes to fund Jobs Initiative for 4 years from 2011 to 2014
- The levy is 0.6% of market value of assets of pension scheme at 30 June each year costing approximately €1.4m over the 4 years.
- Applies to the Fund and its associated AVC plans
- Fund Trustee has to collect / pay levy due on assets of Fund (excluding DC AVCs with external providers)
- AVC providers (Irish Life) will automatically deduct levy from members' AVC accounts
- As part of proposed transfer to Belgium, Company is proposing to provide additional monies to cover cost of 2011 levy (excluding levy due on DC AVCs)
- Undecided as to whether it will do the same in future years.

# Summary

- Protect the past
- Two new options for the future, with a third in 2013
- Flexibility to suit members’ needs
- Defined benefit options still available
- The benefits are really valuable
- Transfer the Fund to the Nestlé European Pension Fund
- Nestlé is committed to great pensions
- Pensions are complex – we are here to help

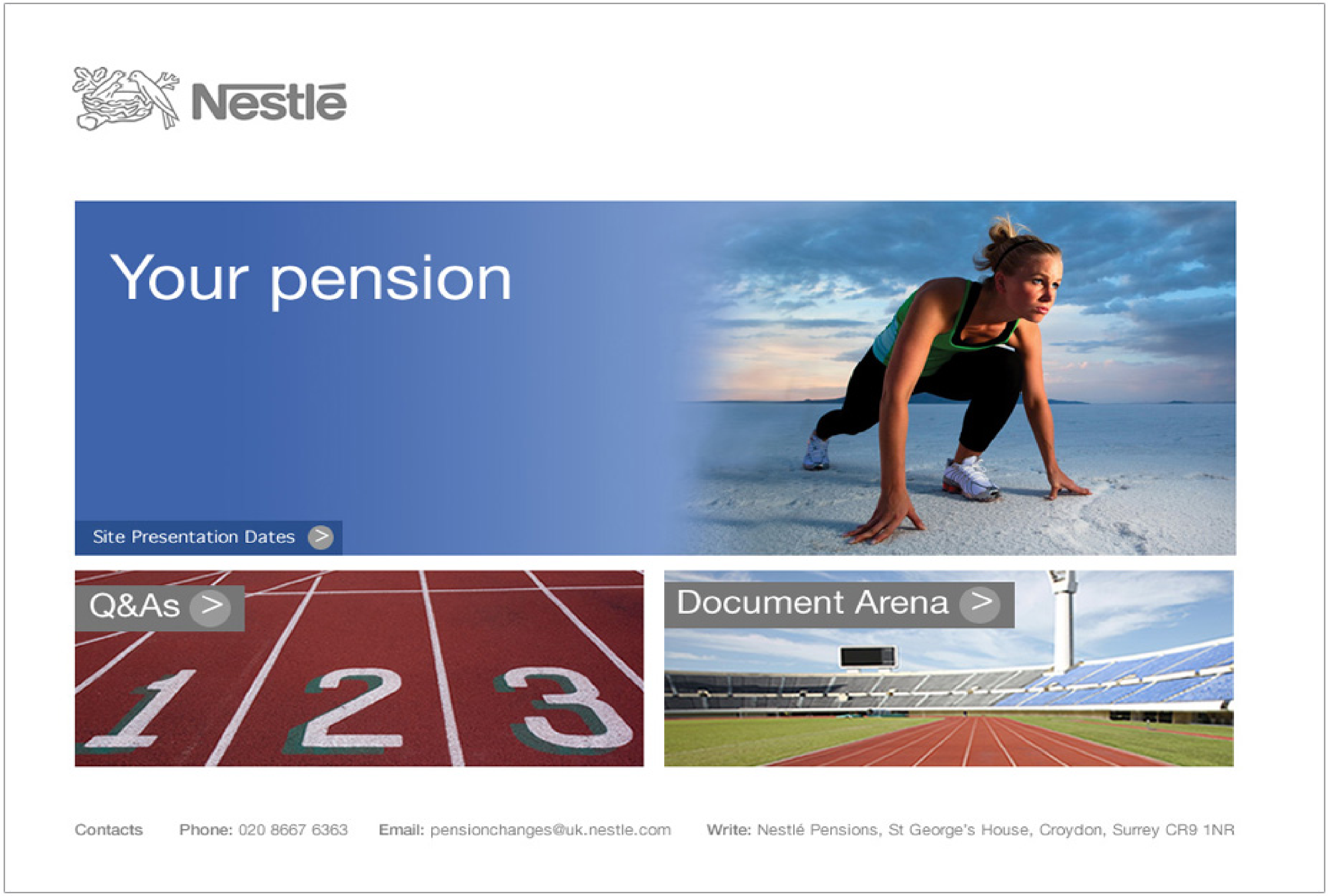
# Additional Information

- A website is available where members can find the following:

  - copies of documents sent to members about the proposals;
  - frequently asked questions – regularly updated;
  - dates that presentations will be held;

- The website will be updated regularly with member questions and with all further communications to members.

# What happens now?




Website: www.nimpensions.co.uk

# What happens now?

- In September members will receive further personalised information to help make a decision about which Lane to select for the future.
- Forms to be returned by 7 October 2011
- The last opportunity for current non-members to join the Fund in order to get access to Lane 3 will be the December payroll
- The changes will be implemented from 1 January 2012 when benefits will begin to build up on the new basis

# Questions and Answers