February 2014

Nestlé UK Pension Fund
Purina Pension Deduction

Prior to 31 July 2010, you built up benefits in the Final Salary Section of the former Purina UK Pension Plan ('the Purina Plan') which were transferred to the Nestlé UK Pension Fund ('the Fund') on 1 August 2010. These benefits are subject to a Pension Deduction. We are writing to remind you about it and how it works.

What is the Purina Pension Deduction?

The Purina Plan was designed to provide a total pension at retirement using the following formula:

Pensionable Earnings x **Pensionable Service** x **1/60**

The total pension payable was to be provided partly by the Plan and partly by part of the State Pension arrangements (the Additional State Pension, known as 'SERPS' at the time and then State Second Pension).

The Pension Deduction was designed to be broadly equivalent to the pension you were likely to build up in SERPS whilst an active member of the Plan. When you reach a certain age, the Pension Deduction is taken away from your Plan pension to account for the fact that you will also receive a pension from the State. See example opposite.

How is the Pension Deduction calculated?

The Pension Deduction is calculated using a formula based on part of your earnings, service and a Deduction Fraction based on the number of complete tax years between 6 April 1978 (when SERPS was introduced) and the date at which you reach your 65th birthday. The Pension Deduction is therefore different for each member.

As there have been many changes to the State Pension system since the Pension Deduction was first designed and further changes are planned, it is unlikely that your Pension Deduction will actually correspond exactly to the value of your Additional State Pension when it finally comes into payment.

Example

Jon was a member of the Plan for 20 years and retired on his 65th birthday with Pensionable Earnings of £30,000 a year.

Jon's annual pension was calculated as follows:

£30,000 x 20 years x 1/60 =	£10,000
Less a Pension Deduction of:	£3,000
Pension payable from Plan:	£7,000
Plus	
Additional State Pension:	£3,000
Total income:	£10,000

When is the Pension Deduction applied?

Originally the Pension Deduction was applied at State Pension Age. However, in July 2009, the Trustee changed this from State Pension Age to age 65 to ensure greater equality between male members and female members with State Pension Ages of lower than 65. Then, in August 2010, in anticipation of the Government's planned increases to the State Pension Age, the Trustee made a further change so that now the Pension Deduction is applied at whichever is the later of your 65th birthday or your State Pension Age.

Why is the State Pension Age relevant?

The State Pension Age is the earliest age from which all parts of the State Pension, including the Additional State Pension, become payable.

What is my State Pension Age?

- For men born before 6 December 1953, the current State Pension Age is 65.
- For women born between 5 April 1950 and 6 December 1953, State Pension Age is between 60 and 65.
- For men and women born on or after 6 December 1953, the State Pension Age will start to increase from 65 to reach 66 in October 2020, from 66 to 67 between 2034 and 2036 and from 67 to 68 between 2044 and 2046.
- Further changes are planned, including bringing forward the increase in State Pension Age to 67, but these have not yet been made law.

Visit **www.gov.uk/calculate-state-pension** to use the State Pension Calculator and find out what your State Pension Age is under current law.

What does this all mean in practice?

Depending on how old you are when you first decide to take your benefits and when your State Pension Age is:

- your Pension Deduction may be applied immediately at the moment that you take your benefits; **or**
- you may initially receive a higher 'pre-Deduction' pension and then receive a lower pension once you reach the age at which your Pension Deduction is applied.

See examples below.

Harry has a State Pension Age of 65 and decides to takes his benefits from the Fund on his 65th birthday, which is when he also starts to receive his State Pension. Using the formula on the previous page, the pension payable from the Fund is £13,000 a year before the Pension Deduction is applied. Harry's Pension Deduction is £4,500 a year, so this amount is immediately taken off his Fund pension to give him a starting pension of £8,500 a year from the Fund.

Joanne takes her benefits on her 63rd birthday, but does not reach her State Pension Age until 66. For the first three years of her retirement, Joanne receives a 'pre-Deduction' pension from the Fund. By the time she reaches her 66th birthday, Joanne is receiving a pension of £10,000 a year from the Fund. On her 66th birthday, she starts to receive her State Pension and at the same time, a Pension Deduction of £1,500 a year is applied. Thereafter she receives a lower pension of £8,500 a year from the Fund.

How do I know what my Pension Deduction is?

Page 2 of your benefit statement contains the most up-to-date details of your Pension Deduction as at 31 March 2013.

As long as you remain an active member of the Fund or opt out of the Fund **and** remain employed by the Company, your Pension Deduction will be adjusted every year in line with RPI inflation (up to a maximum of 5% a year) until you reach whichever is the later of your 65th birthday or your State Pension Age. You will receive an update of the amount of your Pension Deduction each year in your benefit statement.

If you leave the Company's employment your Pension Deduction will, first, be adjusted to the date you leave employment as described above. Then, second, it will be adjusted between the date you left employment and the later of your 65th birthday and your State Pension Age in line with CPI inflation (up to a maximum of 5% a year for service up to 5 April 2009 and 2.5% a year for service from 6 April 2009 to 31 July 2010).

Taking tax-free cash at retirement

Under current legislation, when you retire you have the option of giving up part of your pension in exchange for a tax free cash lump sum. Under current HMRC rules, the maximum tax-free cash lump sum you can take is linked to the amount of your starting pension – the larger your starting pension, the more cash you can take.

This means that the maximum tax-free cash lump sum available to you will be larger if you draw your pension before the date your Pension Deduction is applied. However, remember that you'll be giving up more pension in order to take more cash.

When you die

If you die before your Pension Deduction has been applied, we will immediately reduce any spouse or dependant's pension that is payable by one half of the value of your Pension Deduction at the time of death.

Where can I find more information?

This leaflet gives a summary of how the Pension Deduction works. The precise terms are governed by the Trust Deed and Rules of the Fund, which take precedence over the information in this Notice. If you would like to see a copy of the relevant parts of the Trust Deed and Rules, please contact Nestlé Pensions.

Contact details

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