

Menzies Pension Fund Proposed Pension Scheme Change Members Questions

1. Does the change affect the way my pension is increased when it is in payment?

No, there is no change to the way your pension increases when in payment (see Q5 for details).

2. Will the change affect my pension if I retire this year?

As revaluation takes place only once a year, there will be very little change to your pension if you retire/leave within one year of the date of change.

3. Will the change have an affect on my life assurance benefits?

No, your life assurance benefits are based on your Pensionable Salary and there is no change to the way this is calculated. However you must be a member of either the Menzies Pension Fund or the money purchase scheme to be covered for full life assurance benefits.

4. Can I take early retirement at 31 May 2010 but still continue to work?

With company consent, you may take your pension and continue to work *as long as you are at least age 55 and you reduce your working hours to 25 per week or less*. Please discuss this option with your manager before making a decision.

5. If I take my pension and continue to work, would my total pension (in payment) be increased each year in line with inflation up to a maximum of 5% pa?

Pensions *in payment* are increased annually as follows:

- The pension earned up to 30 April 2006 is increased *in payment* in line with inflation up to a maximum of 5% pa and a minimum of 3% pa, and
- The pension earned from 1 May 2006 is increased *in payment* in line with inflation up to a maximum of 2.5% pa.

6. How would my pension increase if I left the scheme on 31 May 2010 with a deferred pension?

Deferred pensions are increased annually as follows:

- The pension earned up to 5 April 2009 is increased *in deferment* up to your retirement date in line with inflation up to a maximum of 5% pa, and
- The pension you earned from 6 April 2009 is increased *in deferment* up to you retirement date in line with inflation up to a maximum of 2.5% pa.

7. In the phrase "Pensions earned will increase each year at 1% (or inflation if lower)", does the 'lower' apply to the rate of inflation being lower than 1%, or 1% being lower than the rate of inflation?

The 'lower' applies to the rate of inflation being lower than 1%.

8. Does this mean that the annual pension increase is capped at 1% no matter what the rate of inflation is? And if the rate of inflation is lower than 1%, then that lower figure will be the rate of annual increase rather than 1%?

Yes, that is correct. However please do not get confused between your pension being revalued each year as an 'active' member and being increased when in payment (see Q5).

9. Why was a 1% cap decided upon? Other institutions considering similar proposals are using higher values.

The Company considered a number of options to reduce the liabilities. Some of these were:

- Closing the scheme and moving all current members to the money purchase scheme;
- Increasing the retirement age;
- Introducing a Pensionable Salary offset;
- Changing the rate of benefit accrual;
- Increasing the member contributions

The proposed change is seen as a compromise between the need to control costs and risks and the Company's desire to continue to provide pension benefits of a defined benefit nature to members currently in the Scheme.

10. The proposed changes hit current employees hardest, with little or no impact on existing pensioners (or those who defer). Why is this?

Legislation dictates what is permitted. Pensions already built up by deferred members are protected and therefore a change that would result in a member's accrued pension being reduced cannot be made. The pension you have already built up in the Menzies Pension Fund is protected and only the rate of revaluation going forward is changing if you remain an active member.

The same legislation applies to retired members - changes cannot be made that will reduce their pension in payment. We can however reduce the level of their annual increases to the statutory minimum if they agree and we are currently going through an exercise to give pensioners this option. This was mentioned in Q6 in the initial Q&A document.

11. If the fund's shortfall is met, will the company continue to make additional payments to the scheme in order that any shortfalls in the future can be met?

The pension scheme actuaries calculate the amount the Company needs to contribute to meet the liabilities of the Scheme. The Trustees then agree a contribution strategy with the Company and in relation to the current deficit, the Company has agreed on a 15 year recovery plan with the Trustees. Once the shortfall is met, the Company will agree a more appropriate funding plan covering future accrual and any future shortfall.

Ultimately, the health of the pension scheme is inextricably linked to the success of the Company.

12. Are the pensions for senior managers affected by this change?

Yes, all members are affected by the change from non management to directors.

13. Why are provisions not made to protect the fund during prosperous economic periods?

The economics of running a defined benefit pension fund are complex. To put the current position in perspective it is worth remembering that the Menzies Pension Fund was in surplus until the last couple of years. The asset values have been hit by the unprecedented global economic downturn in 2008-2009. Current low interest rates have at the same time increased the long term liabilities which are measured using appropriate discount rates. People living longer is the third main reason for the deficit as the trustees need to provide pensions for longer than anticipated (and has nothing to do with the economic downturn). Our fund is not unique in this regard as virtually all the UK defined benefit pension schemes have seen substantial increases in their deficits.

14. In years to come we may experience more economic downturns. Does this mean the only option will be to close the pension fund altogether? Reading between the lines, it appears this may be the intention. Staff morale should not be underestimated.

There are many companies who are indeed closing their schemes to future accrual. What the Board of Menzies is trying to achieve is to allow existing members to continue to accrue benefits albeit on a reduced basis. It is not a risk free strategy for the Company and there are no future guarantees. The Company hopes that keeping the scheme open for future accrual rather than closing it will be positive for staff morale.

15. Given the UK economy is still in recovery from the recent recession the proposal (to reduce revaluation to a max 1%) seems to be a knee jerk reaction to what must surely be long-term investments for the fund. If the investments were to recover what would the possibility of the current change reverting back to a higher level of revaluation?

The proposed change is not intended to be a short term fix, the reduction in future liabilities will go some way to securing the long term future of the Scheme. As mentioned in Q13 the economic downturn is not the sole reason the fund is in deficit, longevity has a large part to play.

The economy will fluctuate many times over the lifetime of the Scheme and no doubt longevity will improve too, therefore the Company needs to take action now to reduce the risk of facing the same funding issues at the end of future triennial valuations.

Please be assured that the Trustees continually monitor the funding position and take regular investment advice from their advisers. Any significant change in the schemes investment strategy will be detailed in the Trustees annual newsletters, issued to all members at the end of each year (see the pensions website for past copies).

16. The letter mentioned the fact that the company wanted to keep the fund open but by diluting the benefits so much is it not almost certain that people will probably pull out effectively closing the fund by default?

See the answer to Q14

17. Can the Company provide any information on how the money purchase scheme has performed in the recent past to allow prospective members to make an informed decision as to that option?

Yes, there is information on the pensions website:

www.johnmenziespensions.com

select the icon "Menzies Money Purchase Pension Scheme"
scroll down to "Legal & General - Member website"
select "L&G quarterly performance - latest"

As you will see, markets go down as well as up and the amount of pension you can purchase will depend on annuity rates at the time of retirement.

The "Newsletter 2009" also gives valuable information about the money purchase scheme as well as the performance stats at the end of the March 2009 (page 5).

18. If I join the money purchase scheme and then leave within 3 months of becoming a member of that scheme, will I be forced to take a refund of my own contributions despite the fact I have been a member of the Menzies Pension Fund for over 9 years?

Yes, as the money purchase scheme is an entirely separate scheme with its own set of scheme rules you will be given a refund of your contributions if you leave within 3 months of joining.

More information regarding 'Leaving the Scheme' can be found in the money purchase booklet on the pensions website.

19. If I join the money purchase scheme, can I transfer my Menzies Pension Fund pension into the money purchase scheme and if not where can I transfer it?

As the Menzies Money Purchase Pension Scheme does not accept any transfers in, you will have the option to leave your pension deferred in the Menzies Pension Fund (see Q6) or transfer it to another registered pension scheme, for example, a personal pension or a stakeholder scheme. Due to the funding shortfall in the Menzies Pension Fund, transfer values are currently reduced.

20. Will my life cover be affected if I leave the Menzies Pension Fund?

Yes. Your life cover will reduce to the basic cover of twice annual basic salary. To remain covered for the higher lump sum and dependant's pension, you will need to join the money purchase scheme. The money purchase scheme has exactly the same life cover benefits as those in the Menzies Pension Fund.

21. Will the company look to reinstate partially or fully the lost benefits through this proposal or previous changes if the fund were to return to being fully funded?

The move to 1% revaluation is unlikely to be reversed in the future as it is essential, in the Company's view, that the inflation risk is controlled in this way if the Scheme is to remain open for future accrual.

22. If accrued deferred pensions are protected (Q10), why should transfer values be reduced (Q19)?

The position in relation to reduced transfer values emanates from the current deficit in the Scheme's funding. If the Trustees continued to pay full transfer values, this could weaken the Fund's funding position further and, as a consequence, reduce the level of security for non-transferring members and pensioners. While the Trustees accept this may cause some inconvenience, they are acting in the best interest of all members.