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AkzoNobel
Tomorrow's Answers Today

September 2011

Dear Member

Akzo Nobel (CPS) Pension Scheme – Protection against inflation before and after retirement

I am writing on behalf of the Trustee to members of the Scheme to clarify the way in which your pension will be increased each year once it is put into payment and protected against inflation up to retirement.

Many of you will have read of the change made by the Government to the index used to assess the rate of inflationary increases to be applied for state pension and other benefits. This same change has been applied to the levels of increases awarded under company pension schemes where the level of those increases is driven by legislation, so called statutory increases. From April 2011 therefore the inflation index underlying the calculation of annual increases to your pension before and after retirement will vary depending on which portion of benefit is being increased. I am writing now because the changes will affect the way your pension is increased from April 2011.

Previously the inflation index driving statutory increases was the Retail Prices Index (RPI) but the reference index has now been changed to the Consumer Prices Index (CPI). Due to differences in the make-up of the index and the method of calculation, the annual increase in CPI has generally (though not always) been lower than RPI.

Increases for pensions in payment

Different increases will apply to certain portions of your pension once in payment, as set out below.

A. Your Guaranteed Minimum Pension (GMP)

This is broadly the pension earned in the Scheme through contracting out of the State Earnings Related Pension Scheme. The GMP built up before 6 April 1988 is not increased in payment. The GMP built up after 5 April 1988 will be increased by the Scheme in line with the CPI up to 3% per year. Any further increases in CPI beyond the 3% level will be paid with your State pension.

B. Your pension in excess of the GMP

a. The portion of your excess pension earned before 1 April 1999 will be increased by the higher of i) the increase in the CPI subject to a maximum of 5% per year, and ii) 70% of the increase in the RPI.

   RPI will continue to be used for the second part of this comparison as this increase provision is specified by the Scheme and is thus non-statutory. Any change to the relevant index would need to be agreed by the Trustee and the company.

b. The portion of your excess pension earned after 1 April 1999 (if any) will be increased in line with the CPI subject to a maximum of 5% per year.

The period used for measuring the increase in the RPI or CPI each year is the annual increase over the 12 months to September, the same period as is used for calculating the increase in State benefits. If you have not yet reached state pension age (defined for this purpose as age 60 for females and 65 for males), your entire pension will be increased in line with B above until state pension age when your GMP will come into payment.

Inflation-protection for benefits after you have left employment

The pension you have earned under the Scheme will be protected against inflation, subject to certain limits. Your pension will be protected in line with the full statutory requirements which apply different levels of inflation protection to various portions of your benefit.

a) Your GMP will be revalued to state pension age at a rate determined by statute and dependent on the date you left employment.

b) The amount of your pension (above the GMP) earned before April 2009 will be increased in line with inflation between your leaving date and retirement, subject to a cap of 5% per year compound for the period. For the purposes of this calculation, inflation is calculated by reference to the increase in the CPI.

c) The amount of your pension (above the GMP) earned after March 2009 will receive similar increases, subject to a cap of 2.5% per year compound for the period. For the purposes of this calculation, inflation is calculated by reference to the increase in the CPI.

Increases already granted to your pension before April 2011 will be unaffected by these changes.

Your revalued pension under this calculation will be compared to what your preserved pension would be, had it received full RPI increases up to April 2008 and then increases at 70% of RPI on the pre-1999 portion thereafter. You will receive the greater amount as a pension.

The description above is a summary which applies to most members, but different rules apply to those who left employment before 1991.

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If you have any questions about the contents of this letter, please contact the Scheme administrators by post at Towers Watson Limited, AkzoNobel (CPS) Pension Scheme, PO Box 545, Redhill, Surrey RH1 1YX. Alternatively, you can call them on 0113 394 9305 or email them at cps.pacontact@towerswatson.com.

Yours sincerely

Matthew Trueblood
Secretary to Trustee