

# Members' <sup>2013</sup> Newsletter

## AKZO NOBEL (CPS) PENSION SCHEME

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### Trustee's Review 2013

Welcome to the 2013 edition of the Members' Newsletter.

### Funding of the Scheme

The Scheme's formal valuation (which happens every three years) took place as at 31 March 2012. The valuation can take up to 15 months to complete. The 2012 valuation was completed ahead of schedule in February 2013.

Investment markets since the 2009 valuation have continued to be volatile. As we reported in the 2012 members' newsletter, yields on UK Government debt (or gilts) have recently been at historic lows, a trend which has continued over the last year. Because gilts have traditionally been viewed as the least risky asset for UK schemes, their yields are used as the base for assessing the value of the Scheme's liabilities. If yields on gilts are reducing, it means that the price or value of those gilts is rising. As a result these reductions in yields lead to increases in the assessed value of the Scheme's liabilities. Despite this difficult backdrop and with the continued support of the Company through its deficit contributions of £195 million over the last three years, the deficit as at 31 March 2012 has reduced to £220 million (2009 – £525 million). To repair this new level of deficit, a plan has been agreed for regular annual contributions to be paid by the Company to the Scheme over six instalments, the first of which was paid in March 2013. In addition, the contributions continue to be paid out of the escrow account, as agreed in 2007. Please see the Summary Funding Statement on page 7 for further details.



**AkzoNobel**  
Tomorrow's Answers Today

## Scheme's funding level

The valuation of the Scheme's funding level as at 31 March 2012 showed:

	£m
Total value of accrued liabilities	2,698
Market value of assets (including escrow account)	2,478
Shortfall	220
<b>Funding Level</b>	<b>91.8%</b>

## Eliminating the funding shortfall

The Trustee and the Company have negotiated ways to eliminate the funding shortfall, including:

1. Payments transferred from the escrow account to the Scheme over the period ending March 2017, at a minimum rate of £25 million a year, providing the funding of the Scheme still requires these contributions. At March 2012, the balance remaining in the escrow account was £124 million.
2. Additional deficit contributions are received from the Company to help improve the funding level. £60 million was paid in to the Scheme in both 2010 and 2011 and £75 million in 2012. £42 million will be paid annually between 2013 and 2018.
3. Taken in conjunction with the assumed rate of return on the invested assets in the Scheme and the escrow account, the Scheme Actuary was able to certify that he expected that the target of full funding against the ongoing valuation assumptions would be achieved by March 2018.

The next full actuarial valuation will take place as at 31 March 2015. An interim annual update will be produced as at 31 March 2013 and the Trustee will include an update on the funding position in the 2014 Newsletter.

## De-risking update

The Scheme has continued to reduce the risk profile of its assets and a new programme to maintain this progress has been agreed as part of the March 2012 funding settlement.

At each formal valuation the Trustee and Scheme Actuary estimate the life expectancy of Scheme members. In the event that Scheme members live to a greater age than estimated, it causes a financial strain on the Scheme. In May 2012 the Trustee entered into an insurance contract with a UK subsidiary of the global reinsurance company Swiss Re which protects the Scheme in this case.



## Trustee Board

Since last year's newsletter there have been no changes to the Trustee Board.

There remains a vacancy on the Board for a Company appointed Trustee Director. The Company are still considering candidates to fill the vacancy.

The current Trustee Directors are:

Company Appointed Directors		Member Nominated Directors	
Richard Waterbury	Retired	Russell Deane	Powder Coatings (active member constituency)
Jon Dixon	International Paint	Paul Brennan	Industrial Coatings (active member constituency)
Kees van Zuijlen	Akzo Nobel NV	Tanja Osmond-Clarke	Retired (pensioner member only constituency)
Julie Shannon	Retired	John Steen	Retired (pensioner and deferred member constituency)
		Justin Penney	International Paint (active member constituency)
The Law Debenture Pension Trust Corporation p.l.c. – Independent Trustee			

Richard Waterbury continues to serve as Chairman of the Trustee Board.

### Member Nominated Directors (MNDs) – nomination and selection exercise

Currently the MNDs for the Scheme include three active members (drawn from separate constituencies within the Scheme), one pensioner member and one Trustee Director (who may be either a deferred member or a pensioner). An appointed MND will normally serve for a term of five years.

The periods of office for four of the MNDs expire in the spring of 2013. The Trustee has decided to offer a series of terms of office of varying lengths to the new MNDs so that, in future, fewer terms of office would expire at once (which is felt to be in the best interests of the Scheme). There are currently vacancies for two MNDs from the active membership, for one MND from the pensioner and deferred member constituency and for one MND from the pensioner constituency only.

The term of office for the MND for the pensioner and deferred member constituency will be for five years. After many years of service to the Scheme, John Steen has decided that he will not be standing for re-election for this vacancy.

The term of office for the MND for the pensioner only constituency will be no longer than 18 months. Tanja Osmond-Clarke has agreed to stand for re-election.

For the active MND vacancies, the Trustee has decided to offer terms of three and five years. Russell Deane has agreed to stand for re-election for the three-year term while Paul Brennan is standing for re-election for the five-year term. In a further change, the Trustee has decided to offer these vacancies to active Scheme members from any Akzo Nobel company.

At this time, we are therefore looking for nominations from members within each constituency. Nominations from active members need to be supported by ten other active members and nominations for pensioner or deferred members must be supported by five members who are either deferred members or pensioners of the Scheme.

If you wish to be considered for the position of a MND of the Scheme, all nominations must be received by 5pm Monday 6 May 2013\* with a Nomination Form enclosed. Please note that any forms received after the closing date will not be accepted. The Trustee is happy to receive supporting nominations in any medium.

The MNDs will be chosen by a selection panel, comprising some or all of the Trustee Directors, which will meet on Tuesday 14 May 2013. The results of the nomination and selection exercise will then be confirmed to Scheme members in the next members' newsletter.

\*This is a Bank Holiday, however applications will be accepted on this date.

## Investment Review

During 2012 the global economy continued its recovery from the recession following the credit crunch. The recovery however remains fragile and concerns remain about the economic situation in Southern European countries including Cyprus, Greece and Italy.

The Trustee monitors the Scheme's investments every quarter with their investment adviser, Towers Watson. The Trustee looks to reduce the investment risk to the Scheme by better matching the Scheme's assets with its liabilities. In practice this means investments in Return Seeking Assets (mainly equities) continue to be moved into Matching Assets (bonds) once agreed trigger points are reached.

The strategic asset allocation at 31 January 2013 is shown below, including the effect of the escrow account assets.

Type of Investment	Amount (%)
UK Equities	6.0
Global Equities	21.0
Property	8.0
Reinsurance and Currency Funds	7.0
<b>Total Return Seeking Assets</b>	<b>42.0</b>
Fixed interest Government bonds	15.0
Index-Linked Government bonds	20.5
Corporate bonds	20.5
<b>Total Matching Assets</b>	<b>56.0</b>
<b>Cash</b>	<b>2.0</b>

The Scheme's investment performance is measured regularly against a benchmark, that is made up from a blend of financial indices (such as the FTSE All Share Index) reflecting the Scheme's mix of assets. The recent performance of the Scheme is shown below.

At the end of December 2012 the value of the assets was £2.3 billion with a further £133 million held in the escrow account.

To 31 December 2012	CPS Scheme (%)	Blended Benchmark (%)
1 year	6.49	6.54
3 years (annualised)	9.25	9.83
5 years (annualised)	5.45	5.71



# Scheme News

**Pension Increases** Most members in receipt of a CPS section pension will receive an increase in April 2013 based on the September 2012 Consumer Prices Index figure, which was 2.2%. Members who are not part of the CPS section will receive an increase in April 2013 based on the Retail Prices Index figure as at January 2013, which was 3.1%.

## Discard

The discard in the Scheme is that part of the earnings for active members of the CPS benefit section that is in the disregarded calculation of both contributions and benefits. In April 2013, the discard will increase from £2,976 to £3,036. This is in line with the central percentage increase to salaries for Akzo Nobel in April 2012.

## State pension reform changes

In January 2013 the Department for Work and Pensions published information on the Government's plans for the reform of the State pension system. It is intended that from April 2016 both the Basic State Pension of £107.45 per week for a single person and the earnings related State Second Pension will be replaced by a single, flat-rate State pension, which is expected to be around £144 per week (in current terms). To receive a full State pension, individuals will need to pay sufficient National Insurance Contribution for 35 years or have been receiving credits. The age from which you can receive the State pension (State Pension Age) will also increase to 67 by 2028 for both men and women. The State Pension Age will then be reviewed every five years and adjusted, if necessary, to reflect changes in life expectancy.

## Auto enrolment for current employees

The Government has introduced new legislation to make it easier for people to save for their retirement by requiring all employers to automatically enrol their workers into a qualifying workplace scheme if they are not already in one. The Company has reviewed the Scheme and can confirm that it meets all of the requirements to be classed as a qualifying scheme for auto enrolment. This means that the Scheme meets minimum quality standards relating to the rate of benefit accrual and retirement age. Active members will therefore continue to accrue benefits in the Scheme as normal and the Company will not be required to enrol them into a separate alternative arrangement.

## Reduced allowances for tax-free pension saving

From April 2014 the Annual Allowance (AA) for tax-free savings will reduce further to £40,000 a year. All pension contributions, increases in final salary benefits above inflation and AVCs are checked against the AA. This includes any benefits in any other pension arrangements, not just the Scheme. Any unused allowances from the three previous tax years can be carried forward if this limit is exceeded. In addition, the Lifetime Allowance (LTA), above which the total value of pension savings is subject to tax, will decrease from £1.5 million to £1.25 million.

The new limits are unlikely to affect most Scheme members. However, to help active members monitor their position, the annual Scheme benefit statement will show Scheme pension savings.

It is your responsibility to review all your pension savings and pay any tax due. If you think you may be affected by these changes we recommend you take independent financial advice. If you do not have an Independent Financial Adviser (IFA), you can find one by visiting [www.unbiased.co.uk](http://www.unbiased.co.uk)

## Increased flexibility at retirement

In the past the Scheme has not allowed members to transfer within one year of their Normal Retirement Date. The Trustee recognises that for some members transferring their Scheme benefits at retirement to a defined contribution arrangement may provide retirement benefits that better suit their circumstances. The Trustee recently agreed to relax its position and to allow members to transfer in the one year period prior to Normal Retirement Date. The Trustee recommends that you take independent financial advice if you are considering transferring your Scheme benefits.

## Accounts

The following figures have been extracted from the Scheme accounts for the year ended 31 March 2012. The accounts have been audited by PricewaterhouseCoopers LLP (PwC) and copies are available on request.

	2012	2011
	£000's	£000's
<b>Receipts:</b>		
Contributions	112,618	99,033
Transfers from other schemes	30	10
Other income	0	0
<b>Total receipts</b>	<b>112,648</b>	<b>99,043</b>
<b>Payments:</b>		
Benefit payments	112,512	110,701
Payments to and on account of leavers	11,818	3,321
Administration expenses	4,866	4,701
<b>Total payments</b>	<b>129,196</b>	<b>118,723</b>
Fund at the beginning of the year	2,162,432	2,044,859
Excess of payments over receipts	(-16,548)	(-19,680)
Net Returns on investments	208,881	137,253
<b>Fund at 31 March 2012</b>	<b>2,354,765</b>	<b>2,162,432</b>
<b>The Fund comprises:</b>		
Main Scheme investments	2,337,461	2,139,286
AVC Scheme assets	11,590	12,744
Net current assets	5,714	1,395
Defined Contribution Section	0	9,007
	<b>2,354,765</b>	<b>2,162,432</b>

This report is not the statutory accounts but a summary of the information relating to both the Fund Account and Net Asset Statement, which were independently audited by PwC. PwC issued an unqualified audit opinion about the truth and fairness of the financial statements and an unqualified audit statement about contributions.

## Membership

	Pensioners and other beneficiaries	Members with deferred pensions	Contributing members
31 March 2012	20,195	11,694*	753
31 March 2011	20,273	12,656	800

\*During 2011/2012, the Trustee carried out an Enhanced Transfer Value exercise for deferred members. This resulted in a large number of deferred members transferring out of the Scheme during the 2012 Scheme Year.

### Questions about your pension?

If you have any questions about your pension, please contact the administrators at Towers Watson Limited, Akzo Nobel (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**



# Summary Funding Statement

as at March 2012

It is a legal requirement for defined benefit schemes like the CPS to report annually to members on their funding status. The Scheme's funding level is fully assessed every three years, with annual updates carried out on an estimated basis in the intervening years.

## The 2012 funding valuation

The latest formal funding valuation showed that on 31 March 2012 the funding position of the Scheme was:

	£ million
Total value of accrued liabilities	2,698
Market value of assets	2,355
Shortfall	343
<b>Funding level</b>	<b>87%</b>

The Trustee and Company agreed that this shortfall would be eliminated through the following steps:

1. The continuation of regular contributions from the escrow account established for the Scheme. This escrow account has a security charge placed over it, meaning the Company cannot access the assets without the consent of the Trustee. These assets remain invested for the benefit of the Scheme and the escrow account balance is being transferred to the Scheme over the period ending March 2017, at a minimum rate of £25 million a year, providing the funding of the Scheme still requires these contributions.
2. Additional deficit contributions to be paid into the Scheme at the rate of £42 million a year for six years. The first contribution of this series was paid in March 2013, and the contributions will continue at this rate until 31 March 2018.

3. Taken in conjunction with the assumed rate of return on the invested assets in the Scheme and the escrow account, the Scheme Actuary was able to certify he expected that the target of full funding against the ongoing valuation assumptions would be achieved by 31 March 2018.

At March 2012, the balance remaining in the escrow account was £124 million. Including this the funding level would be 92%.

The estimated funding level of the Scheme has improved from 71% as at 31 March 2009 when the last full valuation was completed. The improved funding position reflects a recovery in the value of the invested assets, a reduction in liabilities due to the Government's decision to base statutory minimum increases for pensions applying in some Scheme benefit sections (both in deferment and in payment) on the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) from 2011, together with deficit reduction contributions paid into the Scheme. For similar reasons the funding position has also improved relative to the position shown in the last Summary Funding Statement.

The next full valuation will be carried out as at 31 March 2015. An Actuarial Update Report will be carried out as at 31 March 2013 and will provide an approximate update to the funding level of the Scheme on an ongoing basis.

## Other Information

The Pensions Act 2004 requires certain additional items of information to be provided to members.

### 1. Repayment to the Company or modifications imposed by the Regulator

There is a requirement to report whether any repayment out of the Scheme has been made to the Company during the year. There has not been any payment to the Company out of Scheme funds since the date of the last Summary Funding Statement.

In certain circumstances, the Pensions Regulator has powers to intervene in a scheme's funding plan, by changing the future accrual of benefits, setting the level of the funding target, setting the terms of the recovery plan and/or imposing a schedule of contributions. The Trustee also confirm that the Regulator has not used any of these powers in relation to the Scheme.

### 2. The position on 'winding up'

A pension scheme is 'wound up' when a company goes out of business and must pay the scheme enough money to buy all the benefits built up by members from an insurance company. While there is no certainty that Akzo Nobel could pay this amount in that event, the intention is for there to be enough money in the Scheme to pay pensions now and in the future.

Without any further contribution from the Company it is estimated that at 31 March 2012 the assets of the Scheme would have been enough to provide around 63% of the members' benefits with an insurance company. At March 2009, the equivalent position was estimated to be 55%. This degree of under-funding on this measure is not unusual for UK pension schemes with strong employers backing them. Members should also be aware that in an insolvency event, any monies not yet transferred across from the escrow account would be paid to the Scheme.

In the event of a company insolvency the Pension Protection Fund (PPF) may take over the Scheme and pay certain benefits to members. There are limits on the compensation amounts paid by the PPF and this would not give exactly the same benefits as those provided by the Scheme. Further information is available on the PPF website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk) or in writing from the **Pension Protection Fund, Knollys House, Addiscombe Road, Croydon, Surrey CR0 6SR.**

**It should be stressed that the CPS Trustee continues to monitor the financial strength of the participating employers and the ultimate parent Akzo Nobel NV through direct face-to-face dialogue and by the use of external specialists, and they have been advised that the Company's ability to meet its commitment to the Scheme remains strongly based – in technical jargon there continues to be a 'strong covenant'. The Company's commitment to meet its obligations is clearly demonstrated by the funding and security arrangements put in place following the 2012 actuarial valuation.**

## Other Documents

There are a number of documents available about the Akzo Nobel (CPS) Pension Scheme.

### Statement of Investment Principles

This explains how the Trustee invests the Scheme's assets.

### Schedule of Contributions

This shows how much money has been agreed to be paid into the Scheme by the Company and active members.

### Annual Scheme Report and Accounts

This shows the Scheme's income and expenditure over the year, as well as other information.

### Formal Actuarial Valuation Report

This is the report on the latest completed valuation of the Scheme, as at 31 March 2012.

### Actuarial Update Report

This provides a short-form update to the ongoing position. The last Actuarial Update Report was completed as at 31 March 2011.

### Statement of Funding Principles

This sets out the policy of the Trustee in relation to Scheme funding and other related matters.

### Recovery Plan

This sets out the plan for eliminating the past service deficit revealed by the March 2012 valuation.

## More Information

If you require a copy of any of these documents, or have a question about the Scheme or the information in this Statement, please contact the **Secretary to the Trustee, Akzo Nobel (CPS) Pension Trustee Limited, 26th Floor, Portland House, Bressenden Place, London SW1E 5BG** (email: [matthew.trueblood@akzonobel.com](mailto:matthew.trueblood@akzonobel.com)).

