

Members' ²⁰¹⁴ Newsletter

Akzo Nobel (CPS) Pension Scheme



Trustees' Review 2014

Welcome to the Members' Newsletter for 2014.

Funding of the Scheme

It is a legal requirement for defined benefit schemes like CPS to provide members with an update each year on the funding level of the Scheme.

The Scheme's funding level is fully assessed by way of an Actuarial Valuation report every three years. The last formal valuation of the Scheme's funding level was undertaken as at 31 March 2012 and we reported on this in the Members' Newsletter issued in 2013. During the intervening years annual updates on the funding level are carried out on an estimated basis.

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



Scheme's funding level

The interim annual update as at 31 March 2013 is set out below:

	£m
Total value of accrued liabilities	2,805
Market value of assets (excluding escrow account*)	2,466
Shortfall	339
Funding Level	87%

*The escrow is a secure account set up by the Company from which a pattern of contributions is released into the Scheme over time in order to help repair the funding deficit in a manner which is tax efficient to the Company.

Taking into account the value of the escrow account, the shortfall at the same date would be £230 million and the funding level 92%. The equivalent shortfall at the end of December 2013 is estimated to be £251 million.

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

- 1.** The Company will pay additional contributions of £42 million a year for six years, with the first payment paid in March 2013 and the last payment by 31 March 2018;
- 2.** Transfers from the existing escrow account into the Scheme of £25 million each year will continue to 31 March 2017, or until the account is emptied if earlier. Any balance in the escrow account will then be paid into the Scheme;
- 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 on-going valuation assumptions would be achieved by March 2018.

The next full valuation will take place as at 31 March 2015 and the Trustee will include an update on the funding position in the next Newsletter.



Trustee Board

Since the last newsletter the Trustee has completed its Member Nominated Directors (MNDs) nomination and selection exercise and there have been a number of changes to the Trustee Board.

Farewell to two long standing Trustees

John Steen decided not to stand for re-election and Tanja Osmond-Clarke retired from the Trustee Board in September 2013. We would like to thank John and Tanja for all their hard work and dedication over many years and wish them all the best for the future.

We also said goodbye to Kees van Zuijlen who retired as a Company Nominated Trustee Director in September 2013, after six years on the Trustee Board. We would like to thank Kees for his commitment and hard work over his period of office.

Welcome to the new Trustee Directors

Jon Bradley has replaced John Steen following the MNDs exercise in June 2013. In addition the Trustee Directors have co-opted Geoff Marsh onto the Trustee Board from November 2013 (as a replacement for Tanja Osmond-Clarke). Finally, Jasbir Gill has replaced Kees van Zuijlen as the Company Nominated Director.

The current Trustee Directors are;

Company Appointed Directors		Member Nominated Directors	
Richard Waterbury	Retired	Russell Deane	Powder Coatings (active member constituency)
Jon Dixon	Marine & Protective Coatings	Paul Brennan	Industrial Coatings (active member constituency)
Jasbir Gill ¹	Akzo Nobel NV	Justin Penney	International Paint (active member constituency)
Julie Shannon	Retired	Jon Bradley ²	Retired (pensioner and deferred member constituency)
		Geoff Marsh ³	Retired (pensioner constituency)

The Law Debenture Pension Trust Corporation p.l.c. – Independent Trustee

¹ appointed to the Trustee Board with effect from 18 September 2013 to replace Kees van Zuijlen who retired from the Board with effect from 18 September 2013

² appointed to the Trustee Board with effect from 1 June 2013

³ co-opted to the Trustee Board with effect from 28 November 2013

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

Investment Review The Trustee monitors the Scheme's investments every quarter with its investment adviser, Towers Watson.

As part of its management of the investments 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 (government and other bonds) once agreed funding level trigger points are reached.

The strategic asset allocation as at the date of the last Actuarial Valuation is shown below;

Type of Investment	Amount (%)
UK Equities	6.0
Global Equities (including Emerging Markets)	21.0
Property	8.0
Alternative Investments	7.0
Total Return-Seeking Assets	42.0
Government Bonds	15.0
Index-Linked Government Bonds	20.5
Corporate Bonds	20.5
Total Liability-Matching Assets	56.0
Cash	2.0

The Scheme's investment performance is measured regularly against a benchmark that is constructed 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.

To 31 December 2013	CPS Scheme	Blended Benchmark
1 year	7.0	5.5
3 years (annualised)	6.9	7.6
5 years (annualised)	9.0	9.2

At the end of 2013 the value of the assets stood at £2.45 billion with a further £109 million held in the escrow account.



Scheme News

Changes to the State Pension Age

State Pension Age will be increasing. It is currently age 65 for men and is increasing gradually for women from age 60 to 65. State Pension Age will increase further for both men and women, to age 66 by October 2020. For more information on your State benefits visit www.gov.uk and click on 'Working, jobs and pensions'.

New Tax Charges on Pensions Saving

From April 2014 the Annual Allowance (AA) for tax free savings will reduce further to £40,000 a year. The Annual Allowance is a limit on the level of pension savings members can make that attract tax relief. All pension contributions, increases in final salary benefits above inflation and AVCs are checked against the AA. This includes any benefits in 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. Given the reduction in AA you may wish to consider if AVCs remain appropriate for you.

If you are an active member of the Scheme, we will tell you if you have exceeded the AA within the Scheme, once the tax year has ended.

In addition, the Lifetime Allowance (LTA), which limits the total value of tax-relieved pension savings, will decrease from £1.5 million to £1.25 million from April 2014.

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 impartial financial advice. If you do not have a financial advisor you can find one by visiting www.unbiased.co.uk. To ascertain the level of your pension savings in the Scheme, you can contact the Scheme Administrators Towers Watson.

Pension Increases

Most members in receipt of a CPS section pension will generally receive an increase in April 2014 based on the September 2013 Consumer Prices Index figure which was 2.7%. Members who are not part of the CPS section will generally receive an increase in April 2014 which is generally based on the Retail Prices Index figure as at January 2014, which was 2.8%.

Pensions Liberation

What is pension liberation?

Pension liberation also known as 'pension loans' and 'pension scams', is a transfer of a scheme member's pension savings to an arrangement that will allow them to access their funds before the age of 55.

In rare cases, such as terminal illness, it is possible to access funds before age 55 from a current pension scheme. For the majority, promises of early cash will be bogus and are likely to result in serious tax consequences.

When can pension liberation become fraud?

Pension liberation can be illegal where members are misled about key consequences of entering into one of these arrangements. This could be because they're not informed of the tax consequences, fees involved or how the remainder of their pension savings are invested.

Pension liberation can result in tax charges and penalties of more than half the value of a member's pension savings, and those being targeted are usually not being told about these potential tax implications.

How are individuals targeted?

An increasing number of companies are targeting savers claiming that they can help them take their pension cash early. Individuals may be targeted through websites, mass texting or through cold calls. Individuals should be very wary about giving out information in response to a text or cold call. They should always make sure that they know who they are dealing with.

Where can I get further information from?

The Pensions Regulator has produced a leaflet on the subject and a copy can be found at <http://www.thepensionsregulator.gov.uk/regulate-and-enforce/pension-liberation.aspx>

In addition The Pensions Advisory Service (TPAS) has published an information video on the subject which can be found at <http://www.youtube.com/watch?v=qQ65kiXnSEA>

Reminder to AVC investors

If you are paying AVCs you should review your investment strategy on a regular basis, and ensure it remains appropriate to meet your objectives at retirement. If you are not already doing so, you may like to consider paying AVCs as these are a simple and effective way to supplement your benefits from the Scheme and you can choose how much you pay each month. AVC payments count against your Annual Allowance (see page 5)

If you are invested in the Lifestyle strategy it is particularly important to keep the administration team advised of your Selected Retirement Age as your investments will switch automatically 5 years prior to your Selected Retirement Age.

Scheme Accounts

The following figures have been extracted from the Scheme accounts for the year ended 31 March 2013. The accounts have been audited by PricewaterhouseCoopers LLP (PwC) and copies are available on request.

	2013	2012
Receipts:	£000's	£000's
Contributions	86,008	112,618
Transfers from other schemes	0	30
Other income	1	0
Total receipts	86,009	112,648
Payments:		
Benefit payments	119,061	112,512
Payments to and on account of leavers	34,227	11,818
Administration expenses	5,080	4,866
Total payments	158,368	129,196
Fund at the beginning of the year	2,354,765	2,162,432
Excess of payments over receipts	(72,359)	(16,548)
Net Returns on investments	183,668	208,881
Fund at 31 March 2013	2,466,074	2,354,765
The Fund comprises:		
Main Scheme investments	2,451,660	2,341,524
AVC Scheme Assets	10,194	11,590
Net Current Assets	4,220	1,651
Defined Contribution Section	0	0
	2,466,074	2,354,765

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 2013	20,006	10,457	668
31 March 2012	20,195	11,694	753



Summary Funding Statement

as at March 2013

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 (the Formal Valuation), with annual updates carried out on an estimated basis in the intervening years.

The 2012 Formal Valuation

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

	£ million
Total value of accrued liabilities	2,698
Market value of assets (excluding escrow account)	2,355
Shortfall	343
Funding level	87%

At 31 March 2012, the balance remaining in the escrow account was £123 million. Including this the funding level was 92%.

The 2013 Actuarial Update Report

The Scheme Actuary has produced an Actuarial Update Report, required under the scheme-specific funding regime, as at 31 March 2013. This provides an approximate update to the funding level of the Scheme on an ongoing basis. As at 31 March 2013 the approximate funding position of the Scheme was:

	£ million
Total value of accrued liabilities	2,805
Market value of assets (excluding escrow account)	2,466
Shortfall	339
Funding level	88%

At March 2013, the balance remaining in the escrow account was £109 million. Including this the funding level was 92%.

The Actuarial Update Report indicates that the shortfall, excluding the escrow account, has decreased over the 12 months to 31 March 2013 by approximately £4 million. This is mainly due to the change in the financial assumptions used to

calculate the value of the liabilities (reflecting changes in financial market conditions), although this was partially offset by the deficit reduction contribution of £42 million paid in March 2013 and a greater investment return achieved than expected.

Shortfall reduction

The Trustee and Company agreed that the shortfall recorded at the 2012 Formal Valuation 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 by the Company 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 agreement envisages that these 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 that he expected that the target of full funding against the ongoing valuation assumptions would be achieved by 31 March 2018.

The next Formal Valuation will be carried out as at 31 March 2015. The next Actuarial Update Report will be produced as at 31 March 2014 and will provide a further approximate update of 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. Payment to the Company or modifications imposed by the Regulator

There is a requirement to report whether any payment out of the Scheme has been made to the Company since the date of the last Summary Funding Statement. No such payment has been made.

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 confirms 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. If this happens, the company is required to pay the scheme enough money to buy out from an insurance company all the benefits built up by members. 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. 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 these 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 or in writing from the **Pension Protection Fund, Knollys House, Addiscombe Road, Croydon, Surrey CR0 6SR.**

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 5BH (email: matthew.trueblood@akzonobel.com).**

Other Documents

There are a number of documents available in respect of 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 to March 2013, 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 2013.

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.

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. The Trustee has been advised that the Company's ability to meet its commitment to the Scheme remains strong, based on good quality earnings, cash flows and balance sheet strength.