

Early retirement reduction for deferred members

When members retire early from a defined benefit pension arrangement, their pensions are paid at a reduced rate to account for the fact that the pension is being paid earlier and will have to be paid for longer.

A reduction of 4% a year is currently applied in the Fund for each year that the member retires in advance of Normal Pension Date. So, for example, a member with a Normal Pension Date of age 65 and no special terms applying, who decides to retire at age 55, would receive a pension reduced by 40% (4% x 10 years).

What is changing?

At the moment both active and deferred members have their pensions reduced by 4% a year if they retire early. From time to time, the Trustee reviews the rate of reduction and considers whether to make any changes. Following a recent review, the Trustee has decided to introduce new rates of reduction for deferred members. These will come into effect for any early retirements from deferred status taking place on or after 1 April 2011. There will be no change to the reduction applied to early retirements from active status – these will continue to be reduced by 4% a year in line with the Rules of the Fund.

Why is the Trustee making this change?

The Rules require that the Trustee must be reasonably satisfied that when reducing the pension for deferred members on early retirement, the value of the benefit on early retirement is at least equal to the value at Normal Pension Date, the 'equal value test'. The current reduction of 4% a year is more generous for deferred members than the reduction that would apply under the terms of the 'equal value test'. This therefore places a financial strain on the Fund each time a deferred member retires early. In conjunction with the Company's review of its pension arrangements, a decision has been taken to calculate the reduction for early retirements from deferred status on an equal value basis to be fair to all members of the Fund.

How will deferred pensions be reduced for early retirement from 1 April 2011?

From 1 April 2011, the reduction will be calculated in a different way. There will no longer be a fixed percentage rate that is multiplied by the number of years that you are retiring before your Normal Pension Date. Instead, different rates of reduction will be applied depending on how many years you are from your Normal Pension Date.

For example, from 1 April 2011, if a deferred member with a Normal Pension Date of age 65 (and no special retirement terms) decides to take early retirement at:

- Age 64 – the pension would be reduced by a total of 6% (compared with 4% currently)
- Age 57 – the pension would be reduced by a total of 40% (compared with 32% currently)
- Age 50 – their pension would be reduced by a total of 60% (compared with 60% currently)

The assumptions used to produce these rates will be reviewed on a regular basis by the Trustee and so could change again in the future.

Who will be affected?

This change will affect:

- Any deferred members who built up pension in either the Fund or the Final Salary section of the Purina UK Pension Plan before 31 July 2010 and who wish to take early retirement from the Fund from 1 April 2011;
- Any active members who built up pension in either the Fund or the Final Salary section of the Purina UK Pension Plan before 31 July 2010, leave the Company's employment and subsequently decide to take early retirement from deferred status from 1 April 2011;
- Any active members who choose to build up pension in Lane 2 or 3 of the Fund after 1 August 2010 and who take early retirement from deferred status from 1 April 2011.

Who will not be affected?

The change will not affect you if:

- You are planning on taking early retirement on or before 31 March 2011;
- You only have pension in the Fund on a defined contribution basis in Lane 1;
- You are a pensioner member who has already taken early retirement from the Fund.

What do I need to do?

Deferred members – If you have already received a quotation for early retirement on or after 1 April 2011, you should contact Nestlé Pensions to obtain a revised quotation. You may also wish to consider whether you are able to retire before 1 April 2011.

Active members – If you want to retire early, bear in mind that your status at retirement (active or deferred) will determine the amount of reduction applied to your pension from 1 April 2011. This is particularly relevant if:

- You wish to consider retiring between age 50 and 55 by the route outlined on page 5; or
- You worked for the Company on a previous occasion and also have a period of deferred service in the Fund relating to that previous period of employment.