

# pension news

GUS MONEY PURCHASE PENSION PLAN MEMBERS' NEWSLETTER | AUTUMN 2005

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## Welcome to the Autumn 2005 edition of *Pension News*

The debate about the future shape of pension provision continues as the Government and the media anticipate the Report from the Pensions Commission, chaired by Adair Turner. This will consider the future of State and private pension savings and is expected at the end of November. There will be more about the Report in the Winter edition of *Pension News*.

In this edition, we take a more detailed look at the changes currently being made to the UK pensions framework.

**If you have any queries about the Plan or your individual account, or would like to update your death benefits nomination form, then please contact the GUS Pensions Team at Capita Hartshead:**

**Email: [guspensions@capita.co.uk](mailto:guspensions@capita.co.uk)**

**Telephone: 0114 2298 273**

**Address: GUS Pensions Team,  
Capita Hartshead, 257 Ecclesall  
Road, Sheffield, S11 8NX ■**



This edition of *Pension News* includes information about the Annual Report & Accounts for the year ended 31 March 2005. This is enclosed as a separate insert + the new Trustee board + the Plan's new legal advisers + the revised Statement of Investment Principles + your annual benefit statement + an update on the Plan's investment performance

## Member nominated trustees

The last Pension News explained the process we were following to update the Member Nominated Trustee (MNT) arrangements, as both GUS and the Trustees agreed that the existing arrangements no longer reflected the current GUS group structure.

Active members of the MPPP submitted nominations in May to select two Experian employees, two ARG employees and one Burberry or GUS plc employee, to act as MNTs alongside the seven Trustees appointed by GUS.

Nominations were received from two Experian members, three Argos members and two Burberry/GUS plc members, and elections were held to determine the successful Argos and Burberry/GUS plc candidates.

Following the elections we are pleased to announce the following MNT appointments:

- Craig Macfarlane and Stuart Jenkinson (Experian). Craig has been an MNT since January 2000
- Lindsay Jessop and Patrick Butterworth (Argos)
- John McClelland (GUS plc). John has since left GUS and will be replaced in due course.

All new MNTs have now attended their first Trustee meeting and are having initial training to help them understand the complex issues that can arise in the management, administration and investment of pension schemes. These are considered in more detail on the back page. We will tell you more about the Trustees in the next *Pension News*. ■

## Burberry

Burberry has been carefully reviewing the different options available to Burberry members of the GUS MPPP following the proposed demerger. Burberry will shortly communicate to all its employees who are active members, details of the future pension arrangements it intends to put in place for them.

The demerger will have no direct impact on any other MPPP members or on Burberry deferred members. ■

## Annual benefit statements

Your personal benefit statement as at 31 March 2005 should be enclosed with this copy of *Pension News* together with a separate commentary from Prudential M&G, who invest and manage the funds of the Plan. Please note that the Prudential performance summary is based on a comparison of the offer prices of the GUS funds between 31 March 2004 and 31 March 2005. The unit prices which have been used to value benefits for the purposes of the benefit statements are at different dates, and therefore the investment return shown will be different from that stated in the performance summary.

You should contact the GUS Pensions Team at Capita Hartshead if you have not received a statement or if you have any queries about your individual account.

Your statement shows the value of your individual account at 31 March 2005 and we want to draw your attention to two changes to this year's statement:

**Benefit projections** – the benefit projections shown on your benefit statement are based on your total projected fund value and assuming that you continue to contribute up to retirement age if still in active service, using a range of pre-retirement

investment return assumptions. The projections have been carried out in accordance with the latest Statutory Money Purchase Illustration (SMPI) requirements, which were recently updated by the Actuarial Profession and approved by the Department for Work Pensions. As a result of updating the assumptions, your pension projections are likely to be lower than you might have expected compared with previous years' figures. The change is expected to bring your projected pension more into line with current annuity rates, and therefore should help you to plan more realistically for the future.



**State Pension** – you will also notice that details of your State Pension entitlement are shown this year, as well as your GUS Plan benefits – unless you opted out of this extra service. This follows a Government initiative intended to help members of occupational schemes plan more easily for retirement and to provide a more complete picture of the total retirement income they can expect to receive.

If you would like to find out more about State Pensions generally, you can contact the Pension Service at the Department for Work and Pensions on 0845 3000 168 or at [www.thepensionservice.gov.uk/](http://www.thepensionservice.gov.uk/) ■



## Changes to the UK pensions framework

In the last *Pension News* we considered the main provisions of the Pensions Act 2004 and its impact on the nature and scope of occupational pension schemes like the MPPP. In this edition we consider the main implications of the Finance Act 2004 which became law in July 2004, and has been reported extensively (and sometimes inaccurately) in the press.

### Member charges

In the last edition of *Pension News* we said that we were reviewing the Plan charges and intended to let you have more details as soon as we were able.

This review has not yet been completed and at this stage it is only possible to confirm that the £19 active member charge and the £11 deferred member charge will both increase from April 2006.

We will write to every active and deferred member as soon as the new charging structure has been finalised. ■

#### Offsetting the increase in charges

We are hoping to introduce, from April 2006, a voluntary arrangement that would allow eligible members to pay lower National Insurance contributions. This would enable contributing members to offset, to some extent, the higher Plan charges by increasing their MPPP contributions at little or no net extra cost. You will receive more information about this over the next few months. ■

The Finance Act 2004 aims to simplify the current tax regime for tax-approved private pension schemes, (to be known as "registered schemes") from April 2006 and introduces the following changes:

#### New tax treatment

From 6 April 2006 the current complex mix of benefit and contribution limits that applies to UK pension schemes will be replaced by two new limits that will apply to all registered pension arrangements:

- a lifetime allowance (LTA) of £1,500,000 will apply to the amount of total tax-free pension savings that an individual can build up by retirement. The LTA will increase each year, broadly in line with price inflation, and any surplus pension savings at retirement will be subject to a 'recovery charge' of 25%, plus income tax at the member's marginal rate on pension payments (a total recovery charge of 55% if withdrawn as a lump sum instead of pension).

- an annual allowance (AA) of £215,000 will apply to the amount of pension savings that can be built up each year tax-free. The AA will also be increased annually, broadly in line with price inflation, and any contributions in excess of the AA will be taxed at 40% and must be declared on a self-assessment tax form. Members will in future be able to save up to the higher of £3,600 or 100% of earnings each year tax-free, provided that contributions do not exceed the AA. Any extra pension contributions, on top of those normally made to the MPPP, can be paid as Additional Voluntary Contributions (AVCs), Additional Normal Contributions (ANCs) or to a separate pension arrangement, such as a stakeholder pension.

For members of money purchase schemes such as the MPPP, it is the

**face value of the member and employer contributions** that must be taken into account when assessing benefits for the purpose of the LTA and the AA.

#### Tax-free cash

Under the new regime, up to 25% of your MPPP individual account (provided it is within the LTA) can be taken as a tax-free lump sum. Currently, MPPP members are able to take a proportion (or even all) of their account value as cash, depending on the size of their account and the length of their company service. This will no longer be possible for pension savings built up after April 2006. However, the old rules will apply to your savings up to that date and our Plan administrators, Capita Hartshead, will calculate the cash entitlements of all members at 5 April 2006 to ensure that no-one is worse off in relation to past service.

From next April, 25% of AVC funds can also be taken as tax-free cash, so removing one of the current key differences between AVCs and ANCs.

#### Minimum retirement age

Under the new regime, the minimum retirement age for most members of registered pension schemes, such as the MPPP, will increase from 50 to 55, from 6 April 2010. However, MPPP members who joined the Plan before 6 April 2006 and are active members of the MPPP on that date, will retain the 'right' to take their benefits from age 50, as long as they retire from active service and take all pension benefits that are due to them from the Plan.

We will keep you advised of any other changes to the MPPP resulting from this legislation, in future editions of *Pension News*. ■

*This article is only a summary of the complex legislative changes and is not intended to be a comprehensive document.*

### Statement of investment principles

Following the changes in January 2005 to the investment funds available to Plan members, the Trustees have amended the Statement of Investment Principles (SIP) to reflect the up-to-date position. If you would like a copy of the SIP please telephone GUS pensions on 020 7318 6234 or email [guspensions@capita.co.uk](mailto:guspensions@capita.co.uk) ■



## New legal advisers

Linklaters were appointed as the Plan's legal advisers from 1 April 2005. This followed a detailed review by the Trustees of the services they felt they needed from their lawyers in the new pensions environment.

**Claire Petheram, Linklaters.**

A shortlist of legal firms, all of whom seemed able to meet the Trustees' requirements, was drawn up and selection interviews were held, chaired by David Morris, the Chairman of Trustees.

It was a difficult decision, but the selection panel agreed that Linklaters should be appointed. As we explained in the last Pension News, trustees now have much more onerous responsibilities than in the past. We asked Claire Petheram, the lead lawyer on GUS pensions work, to summarise the key challenges which now face trustees. Claire writes:

"The Pensions Act 1995 imposed a whole raft of new requirements which signalled the need for a more rigorous approach to the role of the pension scheme trustee. The terms of the 1995 Act have been built on by the Myners Report and, most recently and significantly, by the Pensions Act 2004 – widely seen as throwing down the gauntlet for those responsible for pension fund stewardship. Pension scheme trustees across the UK are now faced with the task of rising to the challenges posed by the new legislation. Two key challenges are:

### **Trustee knowledge and understanding**

To operate effectively, pension scheme trustees have always had to have a certain level of knowledge and understanding about the way pension schemes work and the benefits they provide. The Pensions Act 2004 made this 'knowledge and understanding' a legal requirement and the new Pensions Regulator has issued guidance detailing those areas of the law with which trustees must be familiar. The GUS Plan Trustees are currently working with their advisers to ensure that they comply with the new requirements.

### **Liaison with the Pensions Regulator**

The Regulator has stated that he needs clear and open communication with pension scheme trustees. Information must be provided at particular times and in particular circumstances. The Trustees of the GUS MPPP are well aware of the challenges posed by the new legislation. They have already taken steps to ensure that they are 'ahead of the game' and are responding positively and constructively to the challenges." ■

## Investment update for the quarter to 30 June 2005

An investment update from Prudential M&G for 2004/5 is enclosed with your benefit statement, which shows good overall performance for the last one, three and five years. Performance for the quarter to 30 June 2005 was disappointing by comparison and is shown below. However, members should be aware that although short-term performance can be a useful measure, the Trustees focus more on the longer-term performance, which is of much greater importance.

**Specialist UK Equity Fund** This Fund, which is actively managed, had a disappointing quarter with performance falling below the FTSE All Share Index by 2.4%.

**UK Index-linked Gilt Fund** The Fund underperformed the FTSE A Index-linked Gilts (over 5 Years) Index by 0.2% over the quarter. The Trustees have decided it would be in members' best interests to switch to the Index-linked passive fund as the costs are marginally lower. This switch is likely to take effect from 1 January 2006.

**Cash Fund** This Fund achieved a total return of 1.3%, outperforming the Libor 7-day Index by 0.1%.

**Passive UK Equity Fund** The Fund underperformed the FTSE All Share Index by 0.1% over the quarter.

**Passive International Equity Fund** This Fund, which was made available to members from 1 January 2005, underperformed the benchmark by 0.2% over the quarter.

**Passive Index-linked Fund** This Fund also underperformed its Index (the FTSE A Index-linked Gilts (over 5 Years) Index), by 0.1% for the quarter. ■

And finally... we hope you have found this *Pension News* interesting and thank you again for your feedback so far. We do value your comments about its content and layout so please continue to send these to Group Pensions at GUS plc, One Stanhope Gate, London, W1K 1AF or email [guspensions@capita.co.uk](mailto:guspensions@capita.co.uk). The next edition of *Pension News* will include a feature on the Plan's investment manager + website update + an outline of the report from the Pensions Commission + legislation recap + further information about the Trustees + and more...

# Highlights from the Annual Report & Accounts for the year ended 31 March 2005

INSERT TO GUS MONEY PURCHASE PENSION PLAN MEMBERS' NEWSLETTER | AUTUMN 2005

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Information about the Plan's investments, including investment performance over the past year, is contained in the enclosed leaflet from Prudential M&G.

The information below is taken from the GUS MPPP Annual Report & Accounts for the Plan year ended 31 March 2005. PricewaterhouseCoopers, the Plan's auditors, have given an unqualified audit opinion on the financial statements included in the Report & Accounts. A copy of the full Annual Report & Accounts can be obtained from Group Pensions by telephoning 020 7318 6234 or by emailing [guspensions@capita.co.uk](mailto:guspensions@capita.co.uk)

## Membership

|   |              |
|---|--------------|
| <b>Contributing Members at 31 March 2004</b>      | 8,156        |
| Less: Adjustment for late notification of leavers | (181)        |
| Leavers due to Shop Direct Sale                   | (4,962)      |
| <b>Revised opening balance</b>                    | <b>3,013</b> |
| Add: New entrants                                 | 645          |
| Less:   |              |
| ■ Retirements                                     | (42)         |
| ■ Transfers out                                   | -            |
| ■ Deaths  | (3)          |
| ■ Refunds   | (130)        |
| ■ Preserved members                               | (265)        |
| <b>Contributing Members at 31 March 2005</b>      | <b>3,218</b> |
| <b>Preserved Members at 31 March 2004</b>         | 1,823        |
| Add: Adjustment for late notification of leavers  | 133          |
| Adjustment for Shop Direct Sale                   | 4,445        |
| <b>Revised opening balance</b>                    | <b>6,401</b> |
| Add: New preserved from active                    | 265          |
| Less:   |              |
| ■ Retirements                                     | (1,044)      |
| ■ Deaths  | (3)          |
| ■ Transfers out                                   | (1,940)      |
| <b>Preserved Members at 31 March 2005</b>         | <b>3,679</b> |
| <b>Total Membership at 31 March 2005</b>          | <b>6,897</b> |

## Financial Statements for the year ended 31 March 2005

|  |                    |
|--|--------------------|
|  | £                  |
| <b>Net assets of the Plan at 1 April 2004</b>  | <b>65,373,486</b>  |
| <b>Income</b>                                  |                    |
| ■ Contributions receivable                     | 7,194,752          |
| ■ Transfers in                                 | 24,194             |
| ■ Investment rebate                            | 67,859             |
| ■ Other income                                 | 178,917            |
|  | <hr/> 7,465,722    |
| <b>Expenditure</b>                             |                    |
| ■ Benefits                                     | (8,463,811)        |
| ■ Leavers                                      | (16,147,565)       |
| ■ Other payments                               | (162,263)          |
| ■ Administrative expenses                      | (544,344)          |
|  | <hr/> (25,317,983) |
| Income less expenditure                        | (17,852,261)       |
| Change in market value of investments          | 7,262,020          |
| <b>Net assets of the Plan at 31 March 2005</b> | <b>54,783,245</b>  |

### **Trustee of the Plan**

The Trustee of the GUS Money Purchase Pension Plan is G.U.S. (Money Purchase) Pension Trustees Limited, the Directors of which are as follows:

Mr D Morris

*(Chairman from 1 October 2004)*

Mr JM Corlett

*(Chairman to 30 September 2004)*

Mr PJ Blythe

Mr CA Gibbons

Mr P Loe

Mr C Macfarlane

Mr MR Sibbald

Mr RS Sindall

There were no resignations or appointments during 2004/5. However, since April, contributing members have elected four new Member Nominated Trustees – one from Experian, two from Argos and one from Burberry/GUS plc as explained in the newsletter.

### **Trustee Meetings**

Trustee meetings are held regularly, usually three times a year. Each Trustee has one vote and a decision may be carried by simple majority. In the event of a tie, the Chairman will have the casting vote.

An Investment Sub-Committee has been formed and terms of reference were agreed in June 2004. It held its first meeting on 22 March 2005.

### **Professional Advisers**

The Trustees have appointed the following advisers to help them run the MPPP efficiently and in line with the Plan rules.

#### **Administrator**

Capita Hartshead  
257 Ecclesall Road  
Sheffield S11 8NX

#### **Investment Manager**

Prudential M&G Pooled Funds  
7th Floor  
3 Minster Court  
Great Tower Street  
London EC3R 7XH

#### **Investment Consultants**

Watson Wyatt LLP  
Norfolk House  
7 Norfolk Street  
Manchester M2 1DW

#### **Investment Performance Measurement**

Watson Wyatt LLP  
Norfolk House  
7 Norfolk Street  
Manchester M2 1DW

#### **Solicitor**

Berwin Leighton Paisner *(to 31 March 2005)*  
Adelaide House  
London Bridge  
London EC4R 9HA

Linklaters *(from 1 April 2005)*

One Silk Street  
London EC2Y 8HQ

#### **Auditors**

PricewaterhouseCoopers LLP  
101 Barbirolli Square  
Lower Mosley Street  
Manchester M2 3PW

#### **Group Life Insurer**

Sun Life Financial of Canada  
Basing View  
Basingstoke RG21 4DZ

#### **AVC Provider**

Prudential M&G Pooled Funds  
7th Floor  
3 Minster Court  
Great Tower Street  
London EC3R 7XH

#### **Secretary to the Trustee**

Mrs R Roberts  
GUS plc  
One Stanhope Gate  
London W1K 1AF

#### **Bankers**

National Westminster Bank Plc  
42 High Street  
Sheffield S1 1QG