

pensions NEWS

Message from the Chairman



2005 has been an exceptionally busy year for UK pension funds.

In April, the Government launched the Pension Protection Fund, which at last gives a measure of protection to members of occupational pension schemes whose employer fails and, in July, they told us how they propose that remaining pension funds should pay for it. The July proposals were a pleasant surprise, because they should give the ICI Pension Fund

credit for being a relatively well-funded scheme with a healthy sponsor. We hope that the Pension Protection Fund sticks to these proposals, in order to encourage other pension schemes to improve their funding too.

However, we can never be complacent. The Fund is still in deficit, people are living longer and so the Fund needs to plan further and further ahead so that it has enough assets to pay existing and future pensions. This is why we have agreed with ICI to bring forward the next formal Fund valuation, to ensure that our funding plan reflects the very latest information and forecasting techniques available. The valuation results will be important for the continuing good health of our Fund. I am standing aside from these funding discussions whilst temporarily discharging some of the duties of ICI's Chief Financial Officer. However, our Independent Trustee, Law Debenture, will as normal play a leading role in the discussions with ICI.

I will write to you again once the valuation results are known. Meanwhile, there have been many other developments in the world of pensions over the last twelve months – so I hope that you will find this year's Pensions News interesting and useful.

David Gee • *Chairman, ICI Pensions Trustee Ltd*

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OCTOBER 2005

The Pensions Act 2004

The Pensions Act 2004 has dominated the world of pensions over the last 18 months and its impact will continue to be felt for some time, as new regulations are drawn up.

Pension Protection Fund

One of the key elements of the new legislation is the Pension Protection Fund (the 'PPF'), which started on 6 April 2005. This is intended to give pension scheme members some protection for their pension benefits, should their employer become insolvent. This will be financed by an annual levy imposed on all eligible schemes, such as ours.

The PPF will provide two levels of compensation:

- Those pension scheme members who have reached normal pension age, or are already receiving a survivors' pension or a pension on the grounds of ill health, will generally receive 100% compensation.
- For most pension scheme members who are below normal pension age, the PPF will pay up to 90% compensation, but subject to an overall cap of £25,000 at age 65 and lower caps at lower ages. However, pension increases provided by the PPF will generally be smaller than those that would have been provided by the Fund and, in extreme circumstances, compensation could be reduced.

Pensions update

Other changes include the introduction of a new Pensions Regulator, with wider reaching powers than its predecessor, Opra (Occupational Pensions Regulatory Authority). Part of the Regulator's role is to help protect pension schemes and to give guidance in their running and administration.

The Minimum Funding Requirement will be replaced by a scheme-specific funding standard, which is intended to be a more appropriate test of a scheme's financial health. The scheme-specific funding standard will apply to the next formal full valuation after the 2005 exercise.

The changes will also affect the role of trustees, who will be legally required to have a certain level of knowledge and understanding of pension legislation and trust law, as well as the pension scheme for which they are responsible.

In general, the Government has concluded that the need for greater levels of financial information on pensions and saving is crucial to help members plan ahead. This has been targeted as an area for development over the next few years and will form a vital part of ongoing pension legislation. In addition, the Government is trying to encourage people to delay drawing their State pension until after State Pension Age (currently age 65 for men and age 60 for women).



Finance Act 2004 – “simplification”

In addition to the Pensions Act, the Government has also introduced a number of changes aimed at simplifying the complicated area of tax surrounding pension schemes. These will start to come into effect from April 2006 but will **not** affect pensions already in payment. The new legislation will change the approach to limiting members' benefits and contributions. Members will be allowed to contribute up to 100% of their earnings towards their pensions, tax-free. However, the total amount from members and employers paid towards pensions will be limited to an Annual Allowance of £215,000, rising to £255,000 by 2010. They will also introduce a new Lifetime Allowance (LTA) of up to £1.5 million on the total value of pension benefits. This limit will increase to £1.8 million by 2010. For those below the limit there will also be more freedom over benefit options than in the past.

Another key change will enable all members of company pension schemes to contribute to a personal pension at the same time; so you can contribute to a number of pension schemes simultaneously.

As further encouragement to delay the drawing of pensions across the country, the Government has raised the earliest age from which a pension can be taken from a pension scheme (except in cases of ill health). With effect from 2010 this minimum retirement age will be raised from 50 to 55.

In the light of these changes, the Trustee Board has decided to close the ICI Pension Fund AVC scheme to new contributions after 5 April 2006. Members currently paying AVCs will receive more details nearer the time. Existing AVC savings will not be affected.

Actuarial update

2005 was to be an interim check on the financial progress of the Fund prior to the next formal valuation in 2006. However, as discussed in last year's actuary's report, I have been monitoring the actual improvements in pensioners' life expectancy against the improvements anticipated in the 2003 formal valuation. The recent experience has continued to show improvements higher than expected.

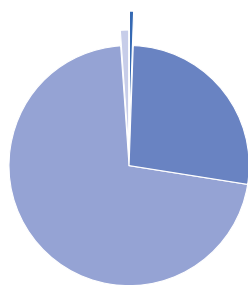


Following the discussion of the initial results of this year's interim check with both the Trustee Board and ICI in July, it was decided to upgrade the 2005 review into a full formal valuation. We have updated all the assumptions used in the 2003 valuation for 2005 conditions but, in particular, we have made a more radical change in the assumption about pensioners' improving longevity. The detailed analysis needed to decide on the right assumption has extended the valuation timetable.

The preliminary results of this investigation are being considered by the Trustee Board and ICI. A revised schedule of contributions will be put in place once these discussions have been concluded. As in 2003, the revised company contributions will have regard to the asset-backed guarantee put in place following the last formal valuation. The final results of the 2005 formal valuation and the new levels of contribution will be reported next year.

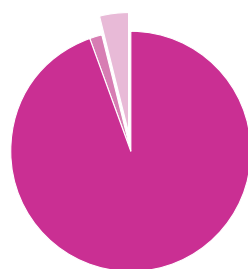
Robert Hails • *Scheme Actuary, Watson Wyatt Ltd*

Ins & outs of the Fund for the year to 31 March 2005



How the money came in

	£m
● Members' contributions	2
● Employer contributions	86
● Investment income	228
● Transfers from other funds	3
Total income	319



How it was used

● Pensions	-447
● Cash lump sum in exchange for pension	-7
● Transfers to other funds	-18
Total expenditure	-472

Change in the Fund

Balance of income and expenditure	-153
Change in market value	260
Total change in the Fund	107

Total assets: £6,596 million

Investment REPORT

Part of the duties of the Trustee Board is to determine the ongoing investment strategy and review and monitor the Fund's asset allocation to ensure that it remains appropriate. It is important that a balance is set between retaining investment stability and long-term growth and maximising investment return. The Trustee Board takes advice from professional investment consultants. The strategy is implemented by seven investment managers who take all day-to-day investment decisions.

During the year, it was decided to further reduce the Fund's holding in equities and to diversify into other asset classes. Accordingly, the Trustee Board has appointed two new investment managers: Southeastern Asset Management Inc and Goldman Sachs Asset Management Limited.

The Trustee Board sets each of the investment managers a benchmark against which performance is measured. The table below shows how the Fund as a whole has performed over the past few calendar years.

Performance of the Fund

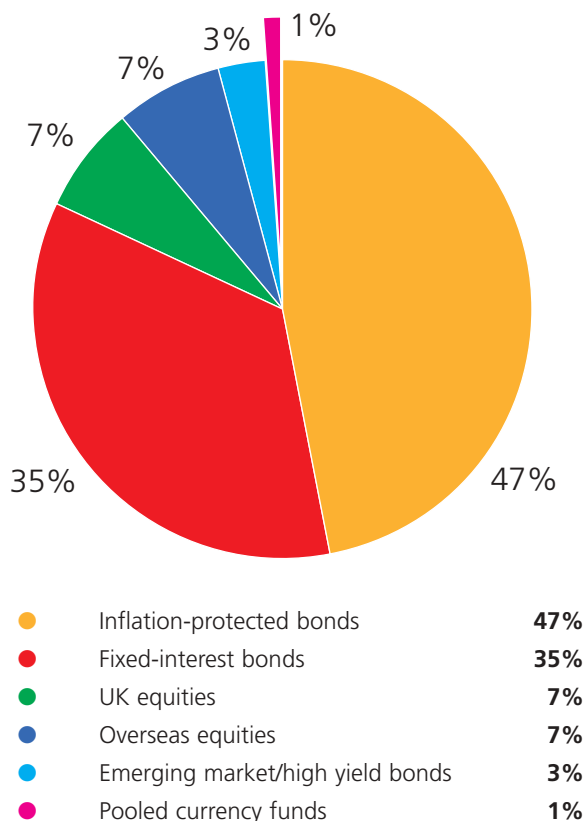
<i>Calendar year</i>	<i>Year 2004</i>	<i>Last 3 years</i>	<i>Last 10 years</i>
ICI Pension Fund	9.0%	5.9%	9.0%
Benchmark	9.1%	5.8%	9.5%

The Trustee Board has ensured that bonds remain by far the largest asset type in order to produce a predictable source of cash that should match expected future benefits.

Economic backdrop

Following the dramatic moves in world stock markets between 2000 and 2003, the last year has been relatively stable. This was in spite of a number of potentially destabilising influences, such as rising oil prices and the falling US dollar. As US growth remained strong, world equity markets slightly outperformed the major bond markets over the year.

Investment strategy – March 2005



Investment types

Bonds

Bonds are issued by governments or companies. There are several different types of bond:

- **Inflation-protected**
The capital and interest are linked to the rate of inflation.
- **Fixed-interest**
These generate a guaranteed fixed annual rate of interest.
- **Emerging market/high yield**
Emerging market bonds are issued by the governments and companies of developing economies, such as South America or the Eastern Block. High yield bonds are usually issued by companies with low credit ratings. Both of these can potentially offer higher returns but at greater risk.

Equities

These are shares in publicly quoted companies. The return is generated through increases in share prices and dividends. The value of equities rises and falls with company performance and investment market conditions.

Pooled currency fund

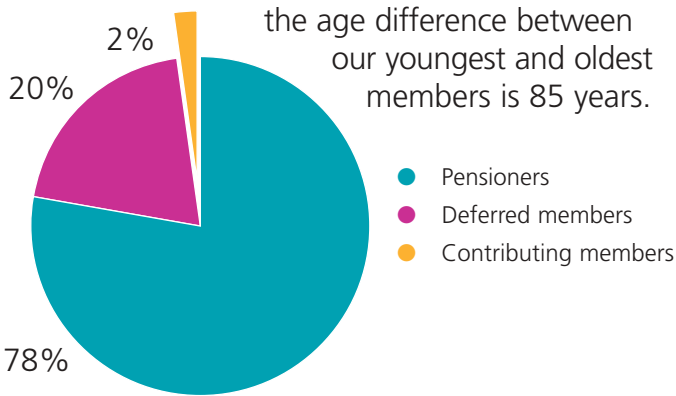
This is a fund in which a wide range of currencies are actively managed to seek additional returns.

Membership

Membership of the Fund has changed dramatically over the past decade.

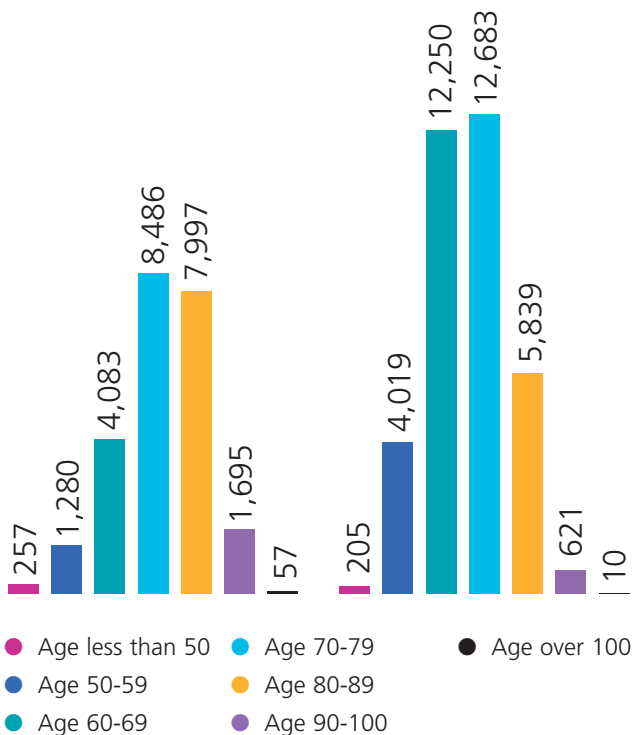
As the pie chart below shows, more than three quarters of our members are pensioners, whilst only 2% are contributing members. As the Fund is closed to new contributing members and people are living longer, the proportion of pensioners will continue to increase and the number of contributing members will continue to decline.

Retirement can now exceed the number of years spent in your working life and it is interesting to see the age distribution of our pensioner members within the Fund; currently, the age difference between our youngest and oldest members is 85 years.



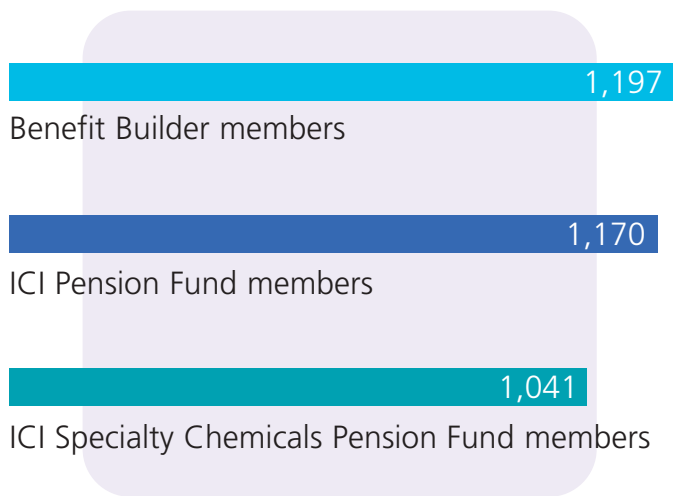
You can see from the charts below the difference in the age profile between female and male pensioners.

Female pensioners Male pensioners



EMPLOYEE PENSION provision

ICI has experienced a dramatic change in the membership profile of its UK pension funds; there are now more employed members in the defined contribution scheme, Benefit Builder, than in either of the two defined benefit schemes, ICI Pension Fund and ICI Specialty Chemicals Pension Fund, as shown in the chart below.



This reflects the closure of the two defined benefit schemes to new members from 1 October 2000.

Pension increases

The rate of inflation on which this year's pension increases are based is 2.9%. This reflects the change in the Retail Prices Index in the 12 months to July 2005. Individual pension increases are affected by a number of other factors too, which are explained in the Annual Increase Statement sent to all pensioners. If you retired after 31 October 2004, you will receive a proportionate increase to your pension. The increase takes effect from 1 November 2005.

Nominated Dependants

It is becoming increasingly common for couples to live together rather than get married. However, the Fund does not automatically provide benefits for unmarried partners. Here are some of the questions that frequently come up about Nominated Dependants' pensions in this context.

- **Which Fund members can nominate a Nominated Dependant?**

Firstly, the member must be a present or former contributing member – not someone already receiving a spouse's or dependant's pension. Secondly, there must be no one else who could claim a spouse's pension – so the member must be unmarried, widowed or choosing to be treated as single.

- **What if a member dies before they sign a nomination form?**

The Trustee has discretion to consider applications from people who were not nominated. Before deciding to exercise its discretion, the Trustee has to consider various issues including the financial position of the Fund. Consequently, such a person may need to prove financial hardship and have a good reason why the member did not nominate them.

- **If two people have been living together for a long time, is that enough to prove financial dependency?**

No. Fund Rules specify two tests. The "past test" looks at the degree of financial dependence, whereas the "future test" looks at whether the dependant could reasonably be expected to support himself/herself financially in future. In order to decide this, the Trustee must ask questions about total household income, who used to pay for what, how the financial picture has changed since and prospects for future employment.

- **If I satisfy all the conditions for a Nominated Dependants' pension, how much will I get?**

The maximum that the Trustee can award is the same as a spouse's pension. When determining the amount, the Trustee may take account of the financial condition of the Fund and you could receive less if the Trustee decides that you do not need the full amount to support yourself.

- **What can members do to help themselves – get married?**

That's a much bigger question – getting married affects lots of other financial things, like state pensions, wills and inheritance tax. A spouse has a right to a pension, whereas a nominated dependant's right depends on how the Trustee views their circumstances. If you are entitled to nominate someone for a Nominated Dependants' pension but haven't done so yet, you can obtain a nomination form from ICI Pensions Services.

Secretary's POST BAG

During the year, the Membership Secretary receives many questions on pension issues from our members. The answers often provide useful information for all, and as this section has proved popular in the past, we have again included a selection of questions.

There are two Secretaries to the ICI Pension Fund:

- **Membership Secretary – Tracey Dalmon, ICI Pensions Services**
Tracey heads a team of 14 experienced advisers who administer the Fund and handle all member queries.
- **Board Secretary – Charles Amos**
Charles looks after investment and policy and briefs the Trustee Board on any issues that have to be decided. Charles has recently been joined by Maria Cormican, who handles legal issues.

Q1 I've heard that, from next year, companies will be able to limit pension increases to 2.5%. Will this happen to my ICI pension?

A1 No. From April this year, the law in general allows companies to restrict future pension increases to the lower of inflation ('RPI') or 2.5%, but only where the Trust Deed allows this change and, even then, only in relation to benefits earned after 6 April 2005. However, the ICI Pension Fund Trust Deed does not allow such changes and so increases will continue to be based on the lower of inflation or 5%.

Q2 How often do I need to update my Expression of Wishes form?

A2 We would recommend that all members who are not already drawing their pension should update this form every five years, or immediately if they marry, divorce, have children or lose a family member who was named on the original form.

Q3 I'm a deferred pensioner over 50. Would I be better off retiring before April next year, or afterwards?

A3 This is a very complex question and so ICI Pensions Services is unable to give advice to individual members on this. It deserves particularly careful thought at this time, because pension taxation rules are changing in April 2006 and so pension quotations which you may have obtained in the past should be checked before you take any decisions. The article on page 3 gives more detail on the new rules and, if you are unsure what to do, you may wish to discuss this with an independent financial adviser.

Q4 Last year's article on 'living wills' was very interesting – but did you realise that the law is slightly different in Scotland?

A4 Many thanks for pointing out that, for members resident in Scotland, you may be able to appoint a Health Care Proxy who would be able to take part in medical decisions about your health care on your behalf, if you're unable to do this yourself.

Q5 My partner and I are planning to register as Civil Partners as soon as the law allows. Will this enable him to claim a full spouse's pension if anything happens to me after this date?

A5 When the new law starts in December 2005, a Civil Partner will initially only be able to claim spouse's pension rights in relation to your contracted-out benefits earned since April 1988. After December 2005, future service will earn benefits equal to a spouse's pension for a registered Civil Partner and so, over time, the value of a Civil Partner's pension for employees still working will improve. The Fund also plans to develop a Civil Partnership Pension Statement for those who are interested. If your Civil Partner is able to show that he has been financially dependent on you, he may be better off claiming a Nominated Dependant's pension – the article on page 7 gives more detail on this.

Q6 Will I lose my ill-health pension if I try to find a part-time job?

A6 Ill-health pensions can be reviewed at any time and so the Trustee has arranged a rolling audit program to look at a proportion of cases each year. For most ICI ill-health pensioners, what matters is whether your health has recovered sufficiently to do your ordinary work while you were working for ICI. The Trustee looks at a variety of evidence when assessing whether your health may have recovered to this extent. If the Trustee concludes that it has, your ill-health pension would be stopped, whether or not you are actually working. On the other hand, the Trustee would not assume that your health is fully recovered merely because you have found a part-time job which is less demanding than, or different from, your old job.

Q7 Why have I been asked to fill in a form to confirm personal information which ICI Pensions Services should have already?

A7 Every year, we can have nearly a hundred cases of correspondence received where it is not absolutely clear which member it refers to. This is particularly a problem for people with very common surnames. To protect the confidentiality of other members, we have to be sure which member we should really be talking to before dealing with this correspondence. The best way of doing this is to ask members to confirm additional information, such as their date of birth and latest address, so that we can be sure that we write to the correct person.

Q8 Where is the usual flyer about the household insurance scheme?

A8 Following changes in insurance regulations in January 2005, the Trustee is unable to supply information about insurance products. If you have previously been a customer of the pensioner insurance scheme designed by Sutton Winson Ltd, they will contact you directly this year or, if you wish, you can contact them directly on FREEPHONE 0800 917 4505. If you need insurance advice, we would suggest contacting an independent financial adviser or insurance broker.

Independent Financial Advisers

The Trustee Board, by law, is unable to offer financial advice. If you would like financial guidance you can obtain information about an Independent Financial Adviser (IFA) on Tel: 0800 085 3250 or at: www.unbiased.co.uk

A Trustee Director talks – an interview with John Fionda



John has been with ICI for over 30 years, mainly with Uniqema, which many of you will know as the Ethoxylates/Surfactant business at Wilton. John became a Trustee Director in 2001 after three years on the Pensions Standing Committee.

- **What prompted you to become a Trustee Director?**

The Pensions Standing Committee gave me a good introduction to pensions and the ICI Fund, so the trustee role was a natural progression for me from there. I felt the opportunity to continue working with the ICI Pension Fund was too good to miss.

- **What do you most enjoy about being a Trustee Director?**

The satisfaction from knowing that our pensioners are being well looked after and, even though they no longer work for ICI, the effort and commitment that they have put in is still being recognised and rewarded.

- **How has the new pension legislation affected your role?**

The pension legislation really underlines what we are already trying to achieve for the ICI Pension Fund – we aim to ensure that it is well run and secure. The Trustee Board has always been very proactive regarding legislation and training, for example all Directors have passed the PMI exam and new Directors must sit the exam within six months of joining the Board.

Training is taken very seriously; we have five training events every year plus further training should any issue arise, so we are well supported in our role.

- **What are the most pressing issues now for the Fund?**

Longevity – pensioners are living longer, which is really good news. However, it does create further issues for the Fund and is something to be taken into account when reviewing the way forward, particularly with regard to ongoing funding.

- **What are your views on the UK pension situation and the changing demographic trend?**

People are living longer and might even be retired for longer than they have worked. If they want to maintain their living standards, they should start looking at pension options as soon as they start work. However, it is never too late to start saving and, given the wide choice of options available, there is no reason not to do so.

- **How well do you feel the Company supports the Fund?**

I feel the Company supports the Fund 100%. For example, ICI asks very senior managers to be Trustee Directors and site managers support Trustee Directors by allowing them the time to attend numerous meetings and training events. This shows a real commitment to ensuring the Fund is looked after by individuals with the breadth and depth of experience needed to address the ongoing issues that we face.

- **When you are away from your trustee duties, how do you relax?**

I enjoy the theatre, watching football and playing snooker – badly! I also like reading anything and everything, listening to music, gardening and country walks with my wife – as long as we stop for a bar meal – real ale preferred!

HOW Trustee Directors are chosen

Your chance to have your say

Among the many changes being introduced by the Pensions Act 2004, the Government is also proposing to change the way trustees are chosen.

What happens at present?

Under the current arrangement:

- The Trustee of the Fund is a company, ICI Pensions Trustee Limited.
- The Trustee Board comprises 11 Trustee Directors, three of whom are employees of ICI, five are from ICI management and two are pensioners. The remaining Trustee Director is Law Debenture itself, which, as owner of all the share capital, has a variety of powers to protect the Fund.
- The three ICI employees (officially referred to as 'member-nominated directors') have been nominated through the ICI employee consultation system and selected by a UK-only subgroup of the ICI European Works Council.
- The two pensioners are nominated by the Trustee Board.

What's changing?

Although the new legal requirements have not yet been finalised, we expect that the existing arrangements will remain in place until 31 October 2007. The key features that we expect from the new system are:

- In future, it will be up to the Trustee Board (not ICI) to establish fair, transparent and proportionate processes for the nomination and selection of Trustee Directors drawn from the Fund membership.
- Nomination processes can be either direct, by individual members, or indirect (eg by unions, employee consultation arrangements or other associations), provided that any indirect process can reasonably be regarded as 'sufficiently representative'.

- The Pensions Regulator has suggested that any of the following methods of selection could be considered:
 - ballot
 - selection panels
 - member representative committees
 - pension management committees
 - existing Trustee Directors.

Your chance to influence the process

The Trustee Board's assessment of the existing system is that it has a good track record of identifying member-nominated and pensioner Trustee Directors who understand trusteeship.

However, the existing system has offered little scope for the great majority of members to participate in the process.

What next?

If you have any views – whether for or against the existing set-up – we would welcome letters to the Membership Secretary at ICI Pensions Services, the address for which can be found on the back page. We are particularly interested in views on the following questions:

- What qualities or previous experience should the selection process look for?
- How should the five places for Trustee Directors drawn from the membership be shared between employees, pensioners and deferred members?
- What organisations, if any, would you regard as 'sufficiently representative' to make nominations on behalf of employees, pensioners and deferred members?
- Which of the selection methods proposed by the Pensions Regulator would you prefer and why?



[Trustee Board] from left to right: Bob Taubinger, Ian Canham, Philip Gillett, David Loose, Wynne Turner, John Bloxsome (Law Debenture), David Gee, Maria Cormican, John Fionda, Alf Friston, Kevin January, Brian Bunt and Charles Amos.

Trustee Board

David Gee *Chairman* ‡
Brian Bunt *Pensioner* *
Ian Canham *Imperial Chemical Industries PLC* †‡
John Fionda *Uniqema* ‡
Alf Friston *ICI Paints* *‡
Philip Gillett *Imperial Chemical Industries PLC* *
Kevin January *ICI Paints* †
David Loose *ICI Paints* *
Bob Taubinger *Pensioner* †
Wynne Turner *Imperial Chemical Industries PLC* †‡
The Law Debenture Trust Corporation p.l.c. *‡‡

The Board uses four committees to help in the running of the Fund:

‡ Appeals Committee
 * Investment Committee
 † Policy & Administration Committee
 ‡ Strategic Risk Committee

Charles Amos *Board Secretary*
Maria Cormican *Assistant Board Secretary*
Tracey Dalmon *Membership Secretary*

Principal Advisers

Scheme Actuary:

Robert Hails, Watson Wyatt Limited

Auditor: KPMG LLP

Investment Adviser:

Watson Wyatt Investment Consulting

Investment Managers:

Ashmore Management Company Limited
 Barclays Global Investors Limited
 Goldman Sachs Asset Management International
 ICI Investment Management Limited
 Muzinich & Co Limited
 Southeastern Asset Management, Inc.
 UBS Global Asset Management (UK) Limited

Solicitors:

Allen & Overy LLP
 Hammonds

Pensions Helpline

If you have a query about your benefits, you can contact the Pensions Helpline at:

Tel: **01707 607500**

Address: **ICI Pensions Services
 PO Box 545, Redhill
 Surrey RH1 1YX**

The Pensions Helpline is open from 0900–1700, Monday to Friday. Please have your payroll number (on your payslip) with you when you call, as it will help us to trace your record quickly. Any change of address or change in bank details must be given in writing, due to the risk of fraud. The ICI Pensions Services team cannot alter these details without your signature.

Contributing members

If you have a query about your benefits, please contact your local HR Department. You can also ask questions by emailing the Membership Secretary at:

Membership.secretarial@eu.watsonwyatt.com