

# pensions NEWS



PENSION  
FUND

## Message from the Chairman

**2006** marks an interesting milestone in the Fund's history. Following the sale by ICI of its Uniqema business this year, the number of contributing Fund members employed by ICI has fallen below 1,000 - compared with over 70,000 members in total.

As a trend, this is nothing new, of course. Ten years ago, the Fund had over 15,000 contributing members, but this figure has fallen steadily over the years as ICI has shifted its focus to other businesses and territories. So what has the Trustee been doing to adjust to these changes? Actually, quite a lot!

- As I reported to you earlier this year, the Fund conducted a full valuation in 2005 to incorporate latest estimates of how long pensioners may live and now has a new, increased schedule of contributions from ICI.
- Over 80% of the Fund is now invested in a 'cashflow-matching' portfolio. This means that the money to pay pensions comes mainly from lower-risk bonds, designed to produce cash at the right time.
- The remainder of the Fund is diversified amongst various different types of investment - not just equities - in order to spread risks more widely.
- This investment strategy also means that the Fund's cash demands on ICI to rectify the Fund deficit, although significant, are fairly predictable and less exposed to economic downturns. The Trustee Board believes that this is important for members' confidence in the security of their pension.
- As the historic connection between the Fund and ICI's ongoing businesses becomes less significant, so the role of Law Debenture and the independence of the Trustee Board becomes more important in relations with the Company.

So it is timely that, this year, the new Pensions Act allows us to open up the process for nominating Member-Nominated Directors to pensioner members, and we are particularly interested in hearing from pensioners with investment, legal or trustee experience (see pages 10-11). For anyone who would enjoy sitting the exams and contributing to all the Trustee meetings, we can promise you a challenging and interesting time!

**David Gee** ■ *Chairman, ICI Pensions Trustee Ltd*



### inside this issue

Ins and outs of the Fund

Investment report

Pension Protection Fund compensation

Actuarial update & Summary Funding Statement

Membership

Pension commutation

A Pensioner Director talks

Secretary's postbag

Member-Nominated Trustee selection

Trustee Board and Advisers

October 2006

# Ins and outs of the Fund for the year to 31 March 2006



*These figures are taken from the Fund's annual report and accounts which have been fully audited by KPMG LLP. If you would like a copy of the full annual report and accounts they are available from ICI Pensions Services (see back page for details).*

## How the money came in

	£m
Members' contributions	1
Employer contributions	140
Investment income	160
<b>Total income</b>	<b>301</b>

## How it was used

Pensions	-452
Cash lump sum in exchange for pension	-7
Transfers to other funds	-5
<b>Total expenditure</b>	<b>-464</b>

## Change in the Fund

Balance of income and expenditure	-163
Change in market value	628
<b>Total change in the Fund</b>	<b>465</b>

**Total assets: £7,061 million**

## Investment report

The key aims of the Fund's investments are to provide the cash needed to pay pensions and, within appropriate safety limits, to take some longer-term investment risk where there are reasonable prospects of generating returns that will grow faster than the liabilities.

In 2005/06, the main focus of the Trustee's investment activity was to improve the degree of inflation-protection in the bond portfolio, from which most day-to-day pension payments are made. The proportion of the Fund invested in inflation-protected bonds rose steadily over the year from 47% in March 2005 to 69% by March 2006. By the end of 2005, demand from other UK pension funds had made long-term inflation-protected bonds very expensive, but the Fund was able to continue implementing its strategy, by purchasing less expensive investments which protect against inflation within the next five years.

## Investment performance

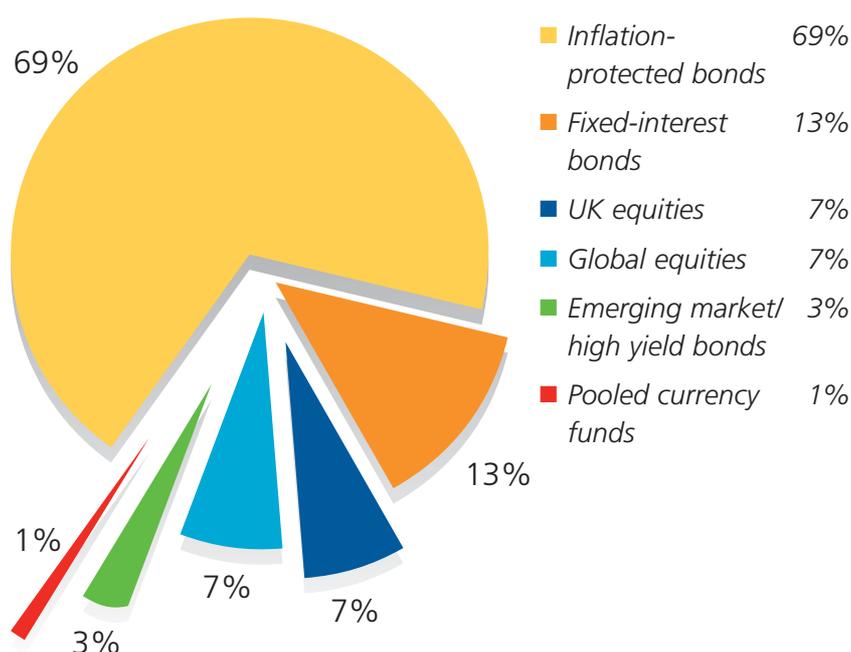
The Trustee Board sets each of its investment managers a benchmark against which performance is measured. The table below shows how the Fund as a whole has performed over the past calendar year and, to put this in context, average annual returns over longer periods.

ICI Pension Fund - performance vs Fund benchmark			
Calendar year	Year 2005	Last 3 years	Last 10 years
Actual	12.3%	10.3%	8.6%
Benchmark	12.3%	10.2%	8.7%

## Economic background

The world economy continued to grow steadily during 2005/06, helped greatly by continuing strong growth in Brazil, Russia, India and China (the so-called 'BRICs' countries) offsetting slow growth in Europe. The strong demand from these countries pushed world oil prices to record levels and, in some major countries, Central Banks started raising interest rates to head off future inflation. Against this background, most major equity markets rose for the third year in succession although, since the Fund's year-end, they have seen modest setbacks.

## Investment strategy - March 2006



## Investment types

### Bonds

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

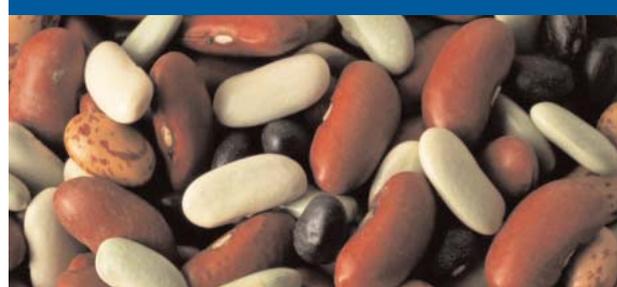
- Inflation-protected**  
 The capital and interest are linked to the rate of inflation.
- Fixed-interest**  
 These generate a guaranteed fixed annual rate of interest.
- Emerging market/high yield**  
 Emerging market bonds are issued by the governments and companies of developing economies, such as 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 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.



# Pension Protection Fund compensation

The Pension Protection Fund ('PPF') continues to find itself in the news on a frequent basis, particularly with regard to the level of compensation it provides. As there still seems to be some confusion over what the PPF does and, more importantly, does not provide by way of compensation, we have set out a summary of the current rules below.

The extent to which members of UK pension schemes are protected in the event of their sponsoring employer becoming insolvent depends partly on how well the scheme itself is funded and partly on whether or not they have yet reached the scheme's normal retirement age, or are in a protected category which is treated in the same way. The tables below summarise what difference this makes.

## How well funded is the scheme?

<b>Funding level</b>	<b>Not enough to pay PPF compensation</b>	<b>Enough to pay PPF compensation, but not enough to secure all benefits</b>	<b>Enough to secure all benefits with external insurance companies</b>
<b>Consequences</b>	PPF takes over the Fund completely. Members get PPF compensation, but nothing more	Fund pays equivalent of PPF compensation. Anything left over paid in accordance with legislation and Fund Rules	Fund is wound up and members get their pensions in future direct from external insurance companies
<b>Where is the ICI Pension Fund currently?</b>		ICI Pension Fund assets are more than 100% of the amount required to cover PPF compensation at 31 March 2006	

## What type of member are you?

<b>Not yet retired</b>	<b>Early retired pensioner under normal retirement age</b>	<b>Ill-health pensioner or receiving spouse/child pension</b>	<b>Pensioner over the normal retirement age</b>
Compensation is equal to your current pension reduced by 10%		Compensation is equal to your current pension	
Annual compensation currently limited to £26,050 at age 65, but less if it is paid at lower ages (eg £20,432 at age 50)			

## Compensation increases for all members

No increases on any compensation for pension earned up to 5 April 1997

Increases on compensation for pension earned from 6 April 1997 limited to lower of inflation or 2.5% each year

# Actuarial update

As mentioned in last year's Actuarial update, the planned 2005 interim check on the financial progress of the Fund was upgraded to a full formal valuation, which has now been completed, and a revised schedule of contributions has been put in place. As in 2003, the revised company contributions have regard to the asset-backed guarantee set up following the 2003 formal valuation.

As well as completing the 2005 valuation, I have also completed the 2006 interim check on the financial progress of the Fund - including monitoring the actual improvements in pensioners' life expectancy against the improvements anticipated in the 2005 formal valuation. The recent experience, when compared to our anticipated improvements, has been within the range of results seen in our detailed analysis in 2005. Nevertheless, I will continue to monitor the development of pensioner life expectancy on an annual basis, to check whether the 2005 assumptions need to be revised.

Since last year's actuarial update, a new legal requirement has been introduced, which means that all members of the Fund will now receive an annual Summary Funding Statement from the Trustee, setting out the key details of the Fund's latest financial position. The latest Summary Funding Statement, covering the results of the 2005 formal valuation and the 2006 review, is enclosed with this newsletter.

**Robert Hails** ■ *Scheme Actuary, Watson Wyatt Limited*

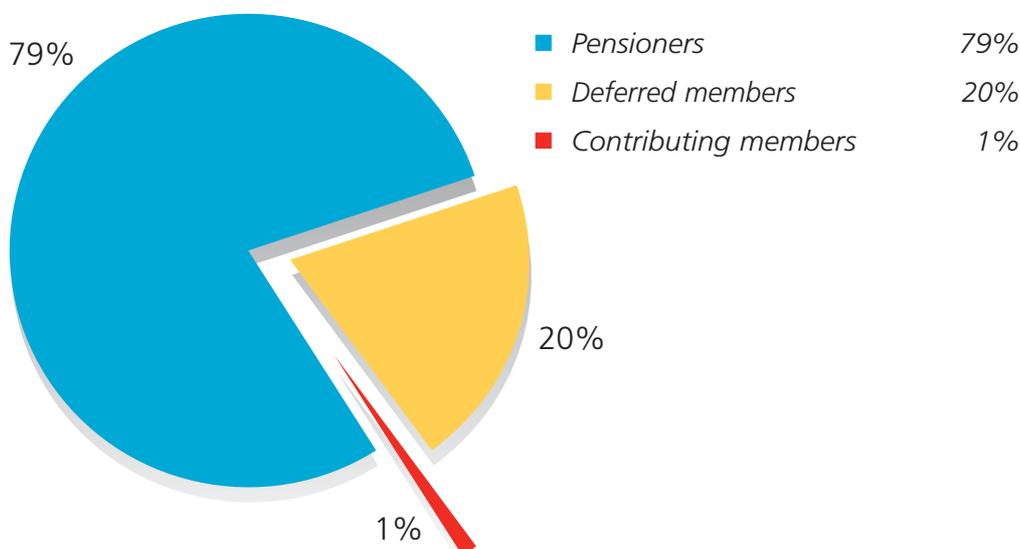


## Pension increases

The rate of inflation on which this year's pension increases are based is 3.3%. This reflects the change in the Retail Prices Index in the 12 months to July 2006. Individual pension increases are affected by a number of other factors too, which are explained in the Annual Increase Statement sent to all pensioners. The increase takes effect from 1 November 2006.

## Membership

The membership profile is continuing to change; 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.



## Summary Funding Statement for the period ending 31 March 2006

### ICI Pension Fund (the 'Fund')

The enclosed Summary Funding Statement is being sent to you on behalf of ICI Pensions Trustee Limited, who is the Trustee responsible for looking after the Fund.

# Commutation ■ “Should I commute part of my pension?”

## New rules on tax-free lump sums

Following tax changes in April this year, most deferred and contributing members now have the option to exchange a larger proportion of their pension than before for a tax-free cash lump sum when they retire. These used to be called ‘commutation payments’ but, following the tax changes in April, they are now referred to as ‘Pension Commencement Lump Sums’ or ‘PCLS’ for short. But, if you do take the maximum lump sum, your future pension - and pension increases - will be lower.

Although the Trustee cannot give financial advice to individual members, we have highlighted below **some common misconceptions** on this subject. This is definitely an area where it can pay to obtain genuinely independent financial advice on your own circumstances.

### **“Pensions are taxable, so I’m bound to be better off exchanging as much of my pension as possible for tax-free cash.”**

It’s not as simple as that. It all depends what you plan to do with the money. The ICI Pension Fund rules include some safeguards as to the minimum terms of exchange, but these already take some account of likely tax benefits.

If you are planning to invest the money, you may not be able to replace the pension you are losing, unless you can afford the risk of investing in things which could go down as well as up. On the other hand, if you are planning to pay off credit card debts, you may well be better off, because borrowing on most credit cards is so expensive.

### **“Commutation is a great deal, because my future pension increases will be calculated as if there had been no commutation payment.”**

Pension increases were only ever awarded on this basis by ICI using its discretionary powers and this practice has now been discontinued for members retiring after 5 April 2006. However, the rate at which pension payments can be commuted for tax-free cash has been improved at the same time. So taking a lump sum may still be a good deal, but it’s important not to double-count the benefits when you see how much larger the lump sums now are.

### **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](http://www.unbiased.co.uk)**



## Re-issue of member booklet

New pension laws have resulted in a number of changes to the Fund. We are therefore producing separate, revised booklets for active, deferred and pensioner members and will be issuing these during the coming year, starting with pensioners.

**“I’m worried about the security of my ICI pension, so I’d rather get hold of as much of it as possible now and buy a second pension.”**

Diversification is a good general principle for investing, but it is worth studying the numbers first. Your entitlement to PPF compensation (see page 4) could easily be higher than the second pension you could buy, although PPF compensation has significant caps for higher paid members. In addition, HM Revenue & Customs has introduced strict rules governing the circumstances in which these lump sums can be used (‘recycled’) to buy a second pension.

**“My husband and I want to enjoy our retirement as much as we can whilst we still have our health.”**

This is a much sounder reason for taking a lump sum. But remember that you don’t have to take the maximum possible lump sum.

**“There’s no way I’m wasting my hard earned pension paying for independent financial advisers - they only try to sell you things anyway.”**

That is up to you. But would you spend this amount of cash buying a house without getting it surveyed? Most Independent Financial Advisers should be willing to charge for advice by the hour (rather than on a sales commission basis) and then give you back any commission they earn on particular products. This may give you more confidence that their interests are aligned with yours.

**“As you only retired last year, you should go back and ask for a larger commutation payment now.”**

HM Revenue & Customs only allows one tax-free lump sum payment, which must be taken immediately on retirement. So these new rules do not benefit any existing pensioners.



# A Pensioner Director talks

## An interview with John Fitzpatrick

John has worked for ICI for more than 40 years within a number of businesses, including the Agricultural Division, C&P, Katalco and Syntex. John was originally appointed as a Trustee Director in 1997 and has remained active in the pensions area, as one of the organisers of the Northern Pensions Conference in Newcastle. He is now serving as a Pensioner Director and we asked him how he came to be selected and how he sees his role.

### ■ How did you come to be nominated as a Pensioner Director?

*"I only found that out afterwards! Apparently, the Trustee Board considered around a dozen or more pensioners who are former Trustee Directors, or otherwise familiar with pensions issues, and chose a shortlist of four. Two of those shortlisted declined nomination because of work commitments, which left two of us in the final selection process."*

### ■ What selection process did you have to go through this time?

*"The Board Secretary, Charles Amos, sent me a letter asking if I was interested in becoming a Pensioner Director and invited me to an interview at ICI's head office, together with another candidate. Over dinner on the evening before we both had an opportunity to question Charles on, for example, how the Board operated now in comparison to our previous experience and the time we would need to spend."*

### ■ What was the interview like?

*"Having spent over 40 years working for ICI, I had not had many job interviews during my career. The selection panel had four members, with David Gee leading the questioning. I was asked about what I had been doing since leaving ICI but the one question I found difficult was to describe myself in single words!"*

### ■ What is the commonest misunderstanding about the role of a Pensioner Director?

*"A lot of retired employees I talk to have the idea that a Pensioner Director will be able to influence decisions in pensioners' favour. It is almost impossible to convince them otherwise! I spent 14 years as a member of the Pensions Standing Committee which was a pressure group looking towards improved pension benefits. The general impression seems to be that the Trustee Director's role is an extension of this."*

### ■ What significant changes have you seen in the Company since you worked for them?

*"When I retired from ICI at the end of 1998, it was still a major bulk chemical producer. I had worked in Agricultural Division, C&P, Katalco and Syntex (but actually working in the Research Department at Billingham) working on Catalysts. These businesses no longer exist within the Company and I hear about new businesses of which I have little knowledge. There were over 11,000 contributing members then, now there are about 800. With the sale of Uniqema there are no longer any ICI plants near to where I live."*

### ■ How is being a Trustee Director today different from when you last undertook this role?

*"Things have changed dramatically in the nearly eight years since I was last a Board member. The Fund is now very mature and the investment strategy has changed markedly with a major move out of equities into bonds to match the membership demographics. The Board has a much more 'in depth' approach to the business in hand and there is much more emphasis on the security of the Fund than I remember."*



# Secretary's postbag



During the year, the Membership Secretary receives many questions on pension issues. Here is a selection:

**My pension payslip shows all my bank details. With all the media coverage about identity theft, I wonder whether this could be a security risk?**

Congratulations to Mr Sheppard of Nunthorpe for spotting this potential problem. We have not had any reports of pension payslips being stolen but, just to make sure, we changed the format in June this year, so that nowadays only the last four digits of bank account numbers are printed.

**Now that the Fund has closed the AVC scheme to new contributions, what alternatives do I have for my AVC savings?**

The Fund itself does not provide any alternatives. However, the ICI Benefit Builder pension plan has opened a separate section especially for employee members of the Fund who wish to pay more towards their pension savings. You will soon have access to this arrangement via a dedicated website. You can also transfer your existing AVC savings out of the Fund, although we would suggest that you get independent financial advice on the potential costs first.

**If I've already made a Will, why do I also need to complete the death benefit nomination form for the Fund?**

A Will can only deal with your own property. Death benefits may be a right under the Rules of the Fund, but who receives them is entirely at the discretion of the Trustee. Whilst the Trustee will always give consideration to the wishes expressed in your death benefit nomination form, it is under no legal obligation to follow them and so you should bear this in mind when drafting your Will.

**I am 45 years old and so, by the time I reach 50, the Inland Revenue's normal Minimum Retirement Age will have risen to 55. What happens if ICI then makes me redundant at 50?**

The Government has made an exception so that, even after April 2010, existing redundancy rights from age 50 will be protected, so you would still be eligible for an early retirement pension - provided that the Government doesn't change the rules again!

**Will my son's Child Pension still be paid once he goes to university?**

Probably not because, generally, most Child Pensions cease at age 18. The only exceptions are for children still at secondary school, who may continue receiving it until age 19, and children who are permanently incapacitated, who may continue to receive a Child's Pension at the discretion of the Trustee.

**What's a 'Pensions Input Period?'**

This is the reference point for calculating the Annual Allowance under the new tax regime for pensions savings. The Pensions Input Period for ICI Pension Fund runs from 1 April to 31 March - the same as the Fund's financial year.

**Why does my pension quotation show a deduction that's not exactly 25% of my pension if I take the maximum tax-free lump sum?**

There are two possible reasons. Firstly, the maximum lump sum which a member of a defined benefit pension fund can take is still governed by HMRC taxation rules, which do not equate exactly to commuting 25% of each year's pension. Secondly, any statement calculated on data earlier than 6 April 2006 - including this year's Annual Benefit Statements for contributing members - will have reflected the old limits on maximum lump sum payments. However, all quotations and annual benefit statements now being issued by the Trustee do reflect the new HMRC rules.

# New arrangements for choosing Member-Nominated Directors



**The deadline for returning nomination forms and questionnaires for the current vacancies is Monday, 15 January 2007.**

Under the new Pensions Act, the process for nominating Member-Nominated Directors ('MNDs') of the Fund is being opened up to all members from end-January 2007 and so the process for selecting new MNDs from those nominated is changing. This article explains the main changes and how members can participate in future.

## **Trustee Board Structure**

Since the early nineties, the Fund has been run by a Trustee Company, ICI Pensions Trustee Limited (ICIPTL). ICI has agreed that half of all ICIPTL directors (excluding the independent director, Law Debenture) will be MNDs. As there are currently 11 directors on the board, the total number of MNDs will be five. The remaining five directors have historically been nominated by ICI, but the final decision on their appointment lies with Law Debenture.

As these new arrangements are being implemented for the first time, all five vacancies for MNDs are open and need to be filled. Appointments are generally for five years, but with some exceptions which are explained later.

## **What does being a Member-Nominated Director (MND) involve?**

Being an MND nowadays typically involves devoting at least 15 days a year to attending trustee board meetings, committee meetings and training events, with as much time again needed to study papers in advance. Due to the complex nature of pension schemes, all directors of ICIPTL are required to sit the PMI Award in Pension Trusteeship exam (or some equivalent qualification). Frequent training on all aspects of trusteeship is provided to help Directors meet all these requirements. In addition, ICI supports the Fund by allowing Trustee Directors who are ICI employees time off from their normal duties and, since 2005, has also paid pensioner directors to compensate for the time required.

To find out more about what is involved in being on a trustee board, you can visit the Pensions Regulator's website at [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) or ask ICI Pensions Services for an information pack.

## **What is the nomination process?**

To be nominated as an MND, you must be a contributing member, deferred pensioner member or pensioner member (but not a spouse/dependent pensioner) who has the support in writing of at least three other Fund members.

Nomination forms, plus an Information Pack on the nomination and selection process, are available from ICI Pensions Services, together with the detailed questionnaire, which will be the basis of the selection process.

## **What is the selection process?**

The first stage - shortlisting the most suitable candidates - is done by the Trustee's Policy and Administration Committee. Final selection is then based on a live interview with a selection panel of five directors of ICIPTL, one of whom will be Law Debenture. The other directors on the panel will also be members of the Fund and, so far as is practicable, will represent a cross-section of the ICIPTL Board. The criteria used by the selection panel are available to all nominees as part of the Information Pack.

There is no formal quota for any MNDs to be active members, pensioner members or deferred members, but the selection panel will have in mind that the balance of MNDs should take account of the different segments of the Fund's membership.

## **Does an MND need to have any previous trustee experience?**

The selection panel will be looking for a mixture of experience and new thinking. So a lack of previous experience as a trustee is not necessarily a barrier, provided that you have the ability and willingness to train for the role, although some previous financial or legal experience could be particularly relevant. Since the Trustee Board would prefer not to lose too many experienced Directors at once, modified rules will apply to the 2007 selection process so that special weight will be given to recent experience in trusteeship of a large fund. However, if an existing Member-Nominated or Pensioner Director is reappointed, they will be reappointed only for the balance of their existing five-year term.

## **What about vacancies?**

All nominations will be valid for three years. So, even if you are not immediately selected, you may be re-interviewed for a future vacancy. In addition, Pensions News will in future include an annual reminder inviting new nominations and reminding members of the main elements of the nomination and selection process.

In the unlikely event that the number of nominations initially received is less than the number of vacancies, the selection process set out above will still be followed to help ensure that only individuals with appropriate competencies are selected to become MNDs.

## **Questions and comments**

We are keen to receive your questions and views on these new arrangements. If you have questions or comments, please write to the Membership Secretary at ICI Pensions Services (see address on back page). If you wish to object to the arrangements, you should also write to the Membership Secretary at ICI Pensions Services, by 31 December 2006, quoting your pensioner/employee number. If more than 5% of the membership objects, we will hold a ballot of the entire membership to decide whether or not to implement these new arrangements.

But, naturally, the Trustee Board hopes that members will welcome the fact that the nomination process is now being opened up to all Fund members and that there is more opportunity for pensioners and deferred members to participate in the process, in order to build a Board which better reflects the balance of the current membership.

## **Any Questions?**

If you have a question which you would like addressed in next year's Pensions News, you can e-mail us at **membership.secretarial@watsonwyatt.com** or write to the Membership Secretary at **ICI Pensions Services PO Box 545, Redhill RH1 1YX UK**

# Trustee Board and principal Advisers



From left to right:  
 Brian Bunt, Charles Amos,  
 Helen James (Law  
 Debenture), John Fitzpatrick,  
 David Gee, Wynne Turner,  
 Philip Gillett, Bob  
 Taubinger, John Bloxsome  
 (Law Debenture),  
 Ian Canham, John Fionda,  
 Alf Friston and Kevin  
 January at this year's  
 two-day conference held  
 at The Manor House,  
 Godalming - almost at  
 the height of this  
 summer's heatwave!

<b>David Gee</b>	Chairman <sup>f</sup>
<b>Brian Bunt</b>	Pensioner*
<b>Ian Canham</b>	Imperial Chemical Industries PLC†‡
<b>John Fitzpatrick</b>	Pensioner†† (from 14 July 2006)
<b>John Fionda</b>	Uniqema‡ (to 1 September 2006)
<b>Alf Friston</b>	ICI Paints* <sup>f</sup>
<b>Philip Gillett</b>	Imperial Chemical Industries PLC*
<b>Kevin January</b>	ICI Paints†
<b>David Loose</b>	ICI Paints*
<b>Bob Taubinger</b>	Pensioner† (to 13 July 2006)
<b>Wynne Turner</b>	Imperial Chemical Industries PLC‡ <sup>f</sup>
<b>The Law Debenture Trust Corporation p.l.c.</b>	*† <sup>f</sup>
<b>Charles Amos</b>	Board Secretary
<b>Maria Cormican/ Fraser Sparks</b>	Assistant Board Secretary
<b>Tracey Dalmon</b>	Membership Secretary

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

- ‡ Appeals Committee
- \* Investment Committee
- † Policy & Administration Committee
- <sup>f</sup> Strategic Risk Committee

## 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@watsonwyatt.com**

## Principal Advisers

Scheme Actuary:	<b>Robert Hails, Watson Wyatt Limited</b>
Auditor:	<b>KPMG LLP</b>
Investment Adviser:	<b>Watson Wyatt Investment Consulting (Watson Wyatt Limited)</b>
Investment Managers as at 31 March 2006:	<b>Ashmore Management Company Limited Barclays Global Investors Limited Goldman Sachs Asset Management International Muzinich &amp; Co Limited Southeastern Asset Management, Inc. UBS Global Asset Management (UK) Limited</b>
Solicitors:	<b>Allen &amp; Overy LLP Hammonds</b>

## 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.