ICI PENSION FUND

1967 Section Pension Transfer explanatory notes

For use with Financial Advisers

May 2019

Welcome

Explanatory notes to accompany the statement of entitlement to a guaranteed cash equivalent transfer value

These are technical notes which are designed to provide information and answers to questions that have been asked by Financial Advisers providing advice around transferring benefits out of the ICI Pension Fund (the Fund). They are not intended to be definitive. They are made available to Financial Advisers and members with a Financial Adviser for information only, to help the advisers understand and explain to members the value of benefits under the Fund.

The entitlement to benefits is governed by the Trust Deed and Rules of the Fund and by legislation. While the Rules of the Fund rarely change substantively (although they may be changed in the future), the legislation under which the Fund operates (and with which it must comply) can and does change from time to time, as governments introduce new pension policies and update legal requirements.

This leaflet is based on the information available and the laws in force at the time it was produced and our understanding of the Rules of the Fund.

Benefits are paid as set out in the Fund's Trust Deed and Rules which will override any inconsistent statements in this or any other communication.

Any mistake or simplification in this leaflet will not confer an entitlement to different benefits

Fund details

The Fund is a defined benefit (or 'final salary') pension scheme – members' pensions are, broadly speaking, based on their salary and length of service with the Company at the point they leave the Fund.

The Fund is a registered pension scheme under the Finance Act 2004. The pension scheme tax reference number is 00660547RD.

Prior to April 2016 the Fund was contracted out of the Additional State Pension. The Employer contracting out number is E3802247L. The Fund's contracting out number is S1400119X.

Is the Fund open?

The Fund is closed to new members, but remains open for Active members (members who are paying into the Fund having joined before it closed to new members) to earn future benefits.

What is the current funding position?

Information on the Fund's funding status is available in the Summary Funding Statement available to download from the Fund's website: **www.icipensionfund.org.uk**.

Where can I find more details about the Fund?

A copy of the Member Handbook and Frequently Asked Questions, along with other useful information, is available to download from our website: **www.icipensionfund.org.uk**.

Retirement Age and taking pension benefits

The Normal Retirement Age when members can take their benefits in full without reduction is age 62 for most members. If a member has a different Normal Retirement Age, this will be shown on their Pension Statement.

1) Early retirement

If the member joined the Fund before 6 April 2006, they have a protected pension age and can retire at any time from the age of 50 subject to relevant conditions in the Fund's Rules. Otherwise, unless they are suffering from ill health, they must be at least 55 years old before they can start taking their benefits. This is expected to rise to age 57 from 2028 (as a result of changes imposed by the Government).

Members can take early retirement so long as the amount payable when they reach their GMP age (currently age 65 for men and age 60 for women), would be at least as much as any Guaranteed Minimum Pension (GMP) that will be payable.

If a member is able to take early retirement, their pension will usually be reduced to reflect the longer length of time it is expected to be payable.

Subject to certain conditions, members may be able to retire early on more favourable terms if they are:

- over age 60 and started Pensionable Service before 1st November 1993; or
- an Active member within five years of their Normal Retirement Age and retiring early with their employer's consent; or
- an Active member over age 50 and retiring for one of a number of specified reasons beyond their control.

Active members may also be able to retire early (at any age) on the grounds of ill health. More information on the early retirement options and terms for members, including retiring early due to ill health, is included in the Member Handbook.

2) Late retirement

A member can (subject to the Trustee's consent in the case of a deferred member) delay taking their pension beyond their Normal Retirement Age (sometimes called 'late retirement'). When they start taking their pension, it will be increased (by an amount decided by the Trustee with advice from the Fund's actuary) to reflect the shorter length of time it is expected to be payable or, where the member remains in Service, the member can elect to continue to earn benefits in the Fund (in which case they will need to continue to pay contributions).

Early retirement factors have not been included in this leaflet as they are liable to change. However, they are available from the Administrator on request.

Cash sum option

On taking their pension, members have a one-off opportunity to exchange some of their pension for cash, which is also referred to as a Pension Commencement Lump Sum (PCLS) and is currently payable tax free. Any Supplementary Pension and GMP cannot be exchanged for cash – they must be taken as pension. This may restrict whether a member can exchange pension for cash and, if so, the amount they can exchange for cash.

(N.B. The Supplementary Pension is a temporary top-up pension, sometimes referred to as the State Pension Element, normally paid to eligible members on retirement but subject to a minimum age (depending on the member's circumstances) until State Retirement Age (as defined in the Rules of the Fund, subject to a maximum of age 65)).

The rules which apply to calculate the maximum cash sum are complicated but, in simple terms, the PCLS which can be taken is broadly equivalent to 25% of the value of the member's pension (based on HMRC rules). A member may choose to take less than this if they would prefer to receive a higher pension. The factors used to convert their pension into cash are determined by the Trustee with the agreement of the Company. In addition, the factors must be acceptable to the Fund's actuary. The Trustee may agree that any additional voluntary contributions (AVCs) that a member has made whilst a member of the Fund can be put towards a member's tax-free cash lump sum.

Do members have protected tax-free cash?

There is no scheme-specific protection for tax-free cash. If a member applied to HMRC for primary or enhanced protection, the Trustee is unlikely to be aware of this.

Commutation factors have not been included in this leaflet as they are liable to change. However, they are available from the Administrator on request.

Pension increases

1) Increases to the deferred pension before the benefit is paid

When a member leaves Pensionable Service, they become a 'Deferred member' until they start drawing their pension. Their pension is calculated based, broadly, on their Final Pensionable Pay and their Pensionable Service at their date of leaving and is known as their deferred pension. To help protect it against the effects of inflation during the period of deferment, this deferred pension is then increased each year until it starts to be paid, as outlined below:

a. The member's pension, excluding any Supplementary Pension:

On 1 November each year, the member's pension will be increased in line with the Retail Prices Index (RPI) published in respect of the year ended on the previous 31 July, up to a maximum annual increase of 5%.

Before 1 November 2008, higher increases may have been applied to deferred pensions.

Members who left the Fund on or after 1 January 1986

If the member left Pensionable Service on or after 1 January 1986, statutory minimum increases may apply to different parts of their pension, depending on when they joined the Fund and when they became a Deferred member.

In most cases, the Fund's annual increases in line with the RPI up to 5% are expected to give members a greater overall pension than applying the statutory minimum increases set out in legislation. To ensure this is the case, a check is carried out when a member takes their benefits and if the statutory minimum increases would have resulted in a higher benefit, the member's benefits will be increased accordingly.

b. Supplementary Pension (temporary top-up pension normally paid to eligible members between Normal Retirement Age and age 65, sometimes referred to as the State Pension Element):

Any Supplementary Pension earned after 5 April 1997 will increase in line with the RPI, as published in respect of the year ended on the previous 31 July, up to a maximum annual increase of 5% a year. Any Supplementary Pension earned on or before this date will not increase while the member is deferred. Instead, statutory minimum increases will be applied at the point the member takes their benefits from the Fund.

The first increase will be applied pro-rata reflecting the time since the member became deferred.

2) Increases to the pension once it is in payment

After a member has started taking their pension income, part or all of their pension will be increased every year to help it keep pace with inflation. Different increases may apply to different parts of their pension and may be applied at different times of the year as outlined below:

a. Increases to GMP

A member may have a GMP if they earned benefits in the Fund before 6 April 1997 or if they transferred GMP benefits into the Fund from another pension scheme. Before they reach GMP age, their whole pension will increase as outlined in `c' below.

After GMP age, increases to their GMP once in payment are applied in April each year as follows:

- GMP built up before 6 April 1988 is not increased by the Fund.
- GMP built up from 6 April 1988 to 5 April 1997 is increased by the Fund in line with increases in the Consumer Prices Index (CPI), up to a maximum of 3% a year.

These increases are set by legislation and so may change if the Government changes the position.

b. Increases to any Supplementary Pension

- No increases are paid on any Supplementary Pension earned before 6 April 1997.
- Any Supplementary Pension earned on or after 6 April 1997 will increase in line with increases in the RPI (as published in respect of the year ended on the previous 31 July), up to a maximum increase of 5% a year.

c. Increases to the balance of the member's pension (excluding any GMP in payment after GMP age or Supplementary Pension)

The rest of the member's pension will typically increase in line with increases in the RPI, as published in respect of the year ended on the previous 31 July, up to a maximum increase of 5% a year. If, when they retire, they exchange some of their pension for a tax-free cash sum, increases will be applied to the pension they are actually receiving after that exchange.

Increases applied by the Fund, excluding increases to any GMP in payment, are applied to each member's November pension payment. When we make this increase, we send members a document confirming the amount of the increase and how the increase was calculated.

The first pension increase will be applied pro-rata to allow for the fact that the pension has not been in payment for a full year and, if the member has not been deferred for long enough to receive a deferred pension increase, the increase will reflect the time since becoming deferred.

Death benefits

What is payable on death of a deferred member?

- A Spouse's pension of 52.5% of the member's pension entitlement is payable, including any increases applied up to the date of the member's death. If the member became deferred after 6 April 1975, for the first five years after the member's death, their Spouse will receive a higher annual pension of 100% of the member's entitlement, including any increases applied up to the date of their death, but no Supplementary Pension will be payable. Any increased pension payable in the initial five-year period may be reduced in order to pay children's pensions.
- If the member has no Spouse, a pension may be paid to a Dependant. (See page 9 for more details).
- Children's pensions may be payable to eligible Children. These would be a percentage of the member's pension entitlement, excluding any Supplementary Pension. (See page 9 for more details).
- If there is no surviving Spouse or children and no Dependant's pension is payable, the amount the member has contributed to the Fund plus any interest to the date of their death will be repaid to their estate. Their contributions for this purpose will include contributions deemed to have been made by the member through 'salary sacrifice'.

What is paid on death in retirement

A Spouse will receive an annual pension equal to 52.5% of the member's pension excluding any Supplementary Pension and ignoring any exchange for cash on retirement. If death occurs within five years of retirement, the Spouse's pension will be equal to 100% of the member's pension for the remainder of the five-year period, excluding any Supplementary Pension being paid, and ignoring any exchange for cash on retirement. Any increased pension payable in the initial five-year period may be reduced in order to pay children's pensions.

OR

If there is no Spouse, a pension may be paid to one or more eligible Dependants, allocated in a way that the Trustee decides. The total amount of any Dependants' pensions cannot add up to more than a Spouse's pension.

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Children's pensions may be payable. These would be a percentage of the member's pension, excluding any Supplementary Pension and ignoring any exchange for cash on retirement.

Please note that if the member is male and chooses to become a Special Category member on retirement, Spouse's and children's pensions will only be payable in relation to benefits earned before 17 May 1990, although certain minimum Spouse's benefits in relation to any period of contracted-out employment may be payable. If the member is a female Special Category member, no Spouse's or children's pensions will normally be payable, although certain minimum Spouse's benefits in relation to any period of contracted-out employment may be payable. If the member is a female Special Category member who left or retired from the Fund prior to 28 October 1985, the Trustee may have a discretion to consider paying a discretionary pension to a Spouse or children.

What if the member has a partner but isn't married on death?

Same-sex spouses and civil partners are currently paid the same benefits on death as spouses, excluding Guaranteed Minimum Pension benefits.

Under the Rules of the Fund, a partner's rights are more certain if the member is married or in a civil partnership than if they are in a long-term relationship. If a member is not married or in a civil partnership, their partner will need to satisfy certain conditions to receive a pension on the member's death.

Dependants of unmarried or widowed members

If a member is not married or has been widowed, or has asked to be treated as a single person and the Trustee has accepted their request, the Trustee has the discretion to consider applications for a Dependant's pension.

Before using its discretion, the Trustee will consider all relevant factors. For example, in order to be considered for a Dependant's pension, an unmarried partner must prove that they were financially dependent on the member at the date of their death, and are unable to support themselves adequately financially in the future. Consequently, a partner could potentially find themselves refused a pension, if they are unable to provide sufficient evidence to support their application.

The same rules apply to any other family member who, in the absence of a Spouse, might ask to receive a Dependant's pension. If the Dependant is a child, the pension will normally stop at age 18. However, the Trustee has discretion to continue paying the pension if the child is wholly or mainly incapacitated by reason of injury or mental or physical illness or is receiving full-time secondary education which has been continuous since that age. In such cases, the pension will normally stop at age 19 unless the child was wholly or mainly incapacitated by reason of injury or mental or physical illness. In order to pay a pension to a child who is over age 23, the Trustee must also be satisfied that the child was dependent on the member because of their mental or physical illness.

Reduction of a Spouse's pension

The Trustee has the power to reduce the pension payable to a Spouse in the following circumstances:

- The Spouse is 15 or more years younger than the member, or
- The marriage or a civil partnership took place after retirement and the Spouse is 10 or more years younger than the member, or
- The marriage or civil partnership took place whilst the member was in receipt of a pension and within six months of their death.

Children's pensions

Children's pensions are paid for children up to age 18. The Trustee has the discretion to pay a child's pension for longer if the child is wholly or mainly incapacitated by reason of injury or mental or physical illness or, if the child is in full-time secondary education, up to age 19. The total pension payable is split equally between eligible children.

If the member dies within five years of retirement, children's pensions are not normally payable during the remainder of the five year period. However, the Trustee has discretion to reduce a Spouse or Dependant's pension in order to pay children's pensions during this period.

The total of any children's pensions will be equal to the following percentages of the member's pension:

One Child	20%
Two children	30%
Three children	40%
Four or more children	47.5%

If there is no surviving Spouse and no Dependant's pension is payable, the total children's pensions will be equal to the following percentages of the member's pension (excluding any Supplementary Pension and, if they died in retirement, ignoring any exchange for cash at the time they retired) as set out below:

One Child:	52.5%
Two children:	72.5%
Three children	82.5%
Four children	92.5%
Five or more children	100%

Children's pensions will not automatically be paid to a step-child, an illegitimate child, a foster child, an adopted child, or, if the member is retired, any child of a marriage that came about after their pension became payable. However, the Trustee does have absolute discretion to award a pension to such children.

The Fund and equality legislation

Changes have been made to the Fund to comply with the law on equal treatment of men and women, which may affect men and women who were in service after 17 May 1990. Further changes are currently being explored by the Trustee with its advisers following a recent court case regarding the unequal treatment of Guaranteed Minimum Pensions (GMPs). These additional changes may affect members with Pensionable Service between 17 May 1990 and 6 April 1997.

More information is detailed below.

1) Equalisation of benefits (excluding the GMP)

The European Court ruled in May 1990 that private sector pension schemes had to provide the same rights and benefits to both men and women. This ruling applies to any benefits earned after 17 May 1990. Previously, the Fund had different Normal Retirement Ages – age 62 for men and 60 for women. As a result of the Court ruling, this was changed so that everyone had the same Normal Retirement Age of 62. To ensure members were not worse off as a result of this change, and to conform to equality legislation, the Fund agreed the following for members who were in Pensionable Service before 1 November 1993:

- Women could still draw their benefits from age 60 without reduction for early payment.
- Men could draw their benefits from the age of 60 and any benefits earned after 17 May 1990 would not be reduced for early payment.

This meant that men with Pensionable Service before and after 17 May 1990 effectively had two different Normal Retirement Ages:

1. 62 for benefits earned on or before 17 May 1990
2. 60 for benefits earned after 17 May 1990

How the Fund addresses this issue depends upon when the member became a Deferred member:

a. Men with Pensionable Service before 1 November 1993 who became deferred before 5 June 2014:

When they became deferred, the Trustee applied an increase to any benefits earned after 17 May 1990. This means that all their benefits are calculated based on a 'Normal Retirement Age' of 62 and, if they take their pension earlier than age 62, a reduction will be applied to all of their benefits. This is because the initial increase that was applied at the date they left Pensionable Service is intended to cancel out the subsequent reduction in respect of the post 1990 Pensionable Service so that the net effect is that there is no reduction to their post 1990 pension.

b. Men with Pensionable Service before 1 November 1993 who became deferred on or after 5 June 2014:

Any early retirement reduction will be applied as follows:

- benefits earned before 17 May 1990 are treated as if the member has a Normal Retirement Age of 62.
- benefits earned after 17 May 1990 are treated as if the member has a Normal Retirement Age of 60.

2) Equalisation of the GMP

The European Court ruling in May 1990 described on the previous page did not apply to State Pensions, which had different retirement ages for men and women in many EU countries, including the UK. As GMPs replace Additional State Pension benefits and the rules governing GMPs are set out under legislation, it was concluded at the time that GMPs didn't have to be taken into account when equalising benefits.

GMPs, like the Additional State Pensions they replaced, are calculated differently for men and women in that women built up GMP at a faster rate than men; and GMP age (the age at which GMP is treated as becoming payable) is 60 for women and 65 for men. As a result, two people with identical birth dates, Pensionable Service and earnings can expect to receive different GMPs simply because one is a man and the other is a woman. Sometimes a man will receive a greater benefit and at other times a woman is better off and this position can change over time.

A legal ruling in October 2018 confirmed that GMPs must also be equalised and outlined a number of methods of doing so. The Fund Trustee is currently working with its legal advisers and the Fund actuary to understand the implications of this ruling and how it may need to be applied to the benefits earned by Fund members.

As we don't yet know whether a member will be affected by the Court judgment and, if they are, what the effect might be, transfer values are currently being quoted on an unadjusted basis. Members may therefore want to wait until the position has been confirmed to ensure that the transfer value reflects the value of their adjusted benefits.

Alternatively, if a member would rather go ahead with the transfer of their benefits on an unadjusted basis, they may want to let their receiving scheme know that there could be a top-up payment due in the future (if they are impacted by the Court judgment), to see whether they will be able to accept such a payment at a later date. If not, the Trustee will need to consider whether there is an alternative way of paying this benefit (if a member is impacted by the Court judgment).

We recommend that members discuss this with their financial adviser.

Pension transfers

Do you permit partial transfers?

No. Partial transfers are not permitted. However, if the member has paid AVCs they may transfer the value of their AVCs out of the Fund and leave their Defined Benefit pension in the Fund.

Is the Fund a member of a transfer club?

No.

Do all forms have to be returned within the guarantee period?

Ideally we would like to receive all forms within the three-month guarantee period. The member's section and IFA declaration MUST be returned within the guarantee period. However, any information pertaining to the receiving scheme may follow on if necessary.

If you wish to seek financial advice about any aspect of your pension, you may find **www.moneyadviceservice.org.uk** a useful place to find an adviser.

Make sure your adviser is registered with the Financial Conduct Authority – go to **www.fca.org.uk** to be sure.

You should always check whether an independent financial adviser will charge you for any services they offer, and that you agree any fees with them beforehand.

From 6 April 2019, The Pensions Advisory Service, Pension Wise and the Money Advice Service have been merged into the new "Money and Pensions Service". The new body will provide guidance on pensions, debt and other personal money matters. At the time of writing, the website address set out above for the Money Advice Service remains correct; however we will update you in due course if this is altered.