

Nestlé UK Pension Fund



# How your VFMG works

As you were a member of the Rowntree Pension Fund at 6 April 1992, you have a Value for Money Guarantee (VFMG) applying to the pension you built up in the Nestlé UK Pension Fund (the Fund) to 31 July 2010. We are writing to remind you how the VFMG works.



## What is the VFMG?

The VFMG was first introduced on 6 April 1992 when you transferred to the Nestlé Rowntree Pension Fund from the Rowntree Pension Fund. It continued to apply when the Nestlé Rowntree Pension Fund merged with the Nestlé Pension Fund in 1994 to form the current Fund.

**The idea is to provide an underpin to ensure that you get as good value for the contributions you paid to 31 July 2010 as you would have done if you had continued to pay them to the Rowntree Pension Fund.**

Under the VFMG you have an individual cash pool or 'Capital Balance', which is made up of:

An amount representing the value of the benefits you had built up in the Rowntree Pension Fund to 6 April 1992



An amount equal to twice the contributions you paid into the Fund (including Rowntree Age Option contributions) between 6 April 1992 and 31 July 2010.



We also add interest to your VFMG Capital Balance each year using a Fund-specific interest rate, known as the 'Protected Rate'.

**Protected Rate:** We calculate the Protected Rate interest rate every year. It is a complicated calculation which is set out in the Rules of the Fund and which depends on inflation and the actual return on the Fund's investments. Since 1992 the Protected Rate has averaged over 7.5% a year.

## How do I know what my VFMG Capital Balance is?

We show it on your pension statement every year.

See the 'Benefits you've built up so far' section of the enclosed pension statement for the most up-to-date details of your Capital Balance at 31 March 2012.



## How does my VFMG work?

When you retire, your Rowntree VFMG Capital Balance is converted into a pension and compared with the part of your pension which you built up to 31 July 2010.

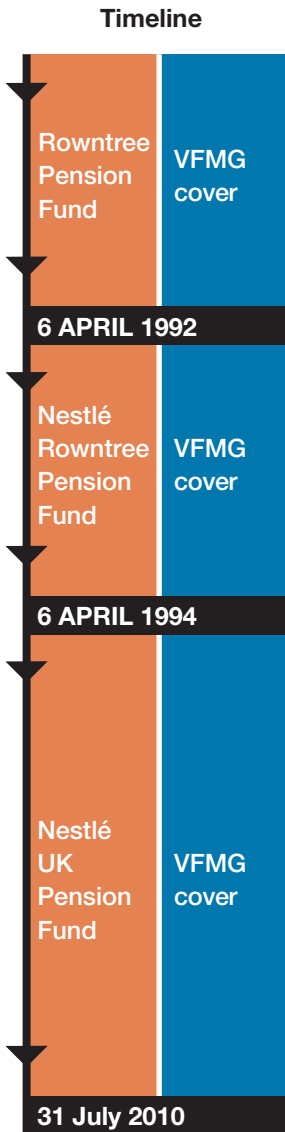
If the VFMG pension is bigger than the pension you built up to 31 July 2010 (including any increases granted since that date), you will be credited with the difference.

Difference/extra pension

Pension built up to 31 July 2010

VFMG Capital Balance (converted into a pension)

## What exactly do you compare my VFMG pension with?



Pension built up after 31 July 2010 is not taken into account.

### We take into account:

- the pension you built up to 31 July 2010 based on your actual Pensionable Service to that date;
- the Pensionable Service credit granted when you joined the Nestlé Rowntree Pension Fund on 6 April 1992;
- any added years you may have purchased through the Age 60 and Age 65 options made available to you in 1992.

### We do not take into account:

- any service credits granted in respect of an individual transfer into the Nestlé Rowntree Pension Fund or the Fund;
- AVC added years purchased after 6 April 1992;
- pension arising from money purchase AVCs built up with one of the Fund's former external AVC providers.

(The above benefits are paid on top of your Fund pension once the VFMG has been applied.)

## How does my VFMG Capital Balance get converted into a pension?

When you retire, your VFMG Capital Balance is converted into a pension using conversion factors which are set out in the Fund Rules.

$$\frac{\text{VFMG Capital Balance}}{\text{Conversion factor}} = \text{VFMG pension}$$

The conversion factors vary by age at retirement. Some sample rates are shown below.

Age at retirement	Conversion factor	Pension for each £1,000 of VFMG Capital Balance
55	13.408	£75 a year
60	11.940	£84 a year
65	10.416	£96 a year

## What does this mean in practice?

A number of different elements determine whether or not you get any extra pension from your VFMG. These are:

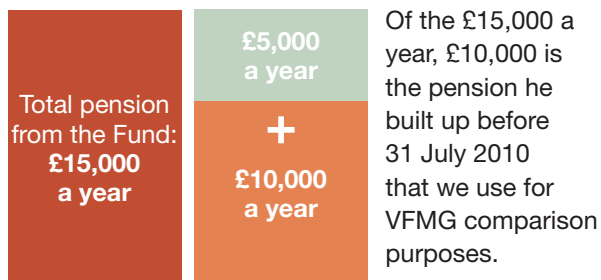
The amount of pension you built up to 31 July 2010

The size of your VFMG Capital Balance

Your age when you retire (determines conversion factor)

## Example 1

Harry retires on his Normal Pension Date at age 65 and his total pension from the Fund is £15,000 a year.

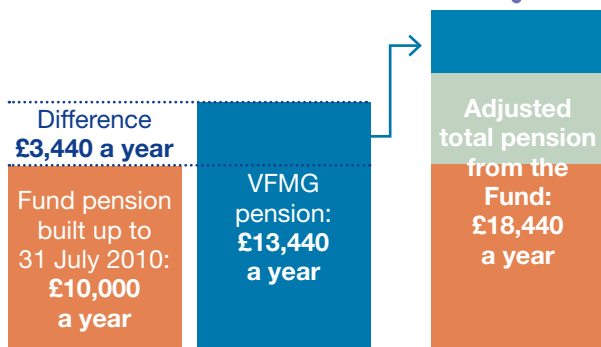


His VFMG Capital Balance at retirement is £140,000. We calculate his VFMG pension (using a conversion factor of 10.416 for age 65) as follows:

$$\frac{£140,000}{10.416} = \mathbf{£13,440 \text{ a year VFMG pension}}$$

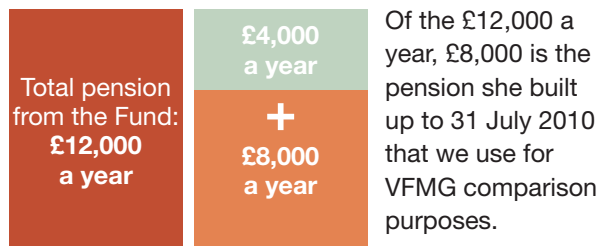
We then compare the two amounts. Harry's VFMG pension is bigger than the comparative pension he built up in the Fund to 31 July 2010. So, in this case, we add the difference (an extra £3,440 a year) to his total pension from the Fund.

Harry receives a pension of £18,440 a year instead of a pension of £15,000 a year.



## Example 2

Sally takes early retirement at age 60 and her total pension from the Fund is £12,000 a year.

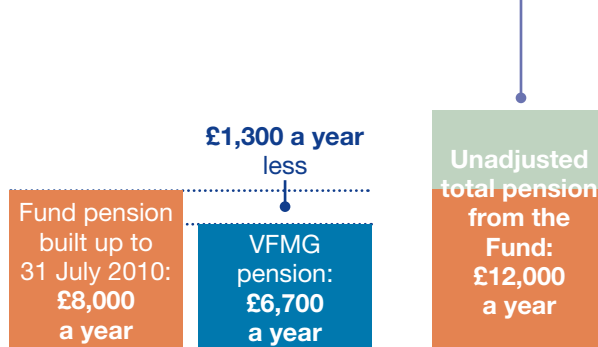


Her VFMG Capital Balance at retirement is £80,000. We calculate her VFMG pension (using a conversion factor of 11.940 for age 60) as follows:

$$\frac{£80,000}{11.940} = \mathbf{£6,700 \text{ a year VFMG pension}}$$

We then compare the two amounts. Sally's VFMG pension at retirement is lower than the comparative pension she built up in the Fund to 31 July 2010, so there is no extra pension to pay as a result of the VFMG.

Sally receives an unadjusted pension of £12,000 a year from the Fund.



## Can I calculate now whether I will have any VFMG pension when I retire?

No. It will depend on future inflation, future investment returns on the Fund's assets and your age when you retire.

The estimated VFMG pension listed in the 'Benefits you could build up if you stay in the Fund' section of the enclosed pension statement is based on a number of assumptions, none of which may be borne out in reality. None of the assumptions are guaranteed and, as a result, the extra pension could be more or less than the figure illustrated.

### Use the modeller

You can use the modeller on the Fund's website at [www.nimpensions.co.uk](http://www.nimpensions.co.uk) (password: nestlepensions) to see the effect of changing the age at which you retire and the inflation assumption.

The modeller automatically takes into account the VFMG comparison when calculating the pension figures.



The figure produced by the modeller will include any extra VFMG pension that may be payable based on the assumptions you have selected.

## Are there any other benefits arising from the VFMG?

The Fund's current practice is for any extra pension arising from the VFMG to:

- **be increased once in payment** in line with RPI price inflation capped at 5% a year;
- **include a 5-year guarantee.** This means that if you die within the first 5 years of your retirement, the Fund will pay a lump sum to your beneficiaries equal to the value of the remainder of the first 5 years of pension payments (ignoring any future pension increases);
- **include a spouse or dependant's pension on your death.** The amount payable depends on how many years you have been retired when you die. For example, if you die in the first year of your retirement, the pension payable will be equal to 60% of your extra VFMG pension. However, if you die after 5 years of retirement, the pension payable will be 66.6% or two-thirds of your extra VFMG pension.

**Note:** The VFMG only applies when you retire. It does not apply if you die before you retire.

## **Where can I get more information?**

This leaflet is intended to give you a summary of how your VFMG works. The precise terms relating to your VFMG are defined in the Trust Deed and Rules of the Fund, which takes precedence over the information in this leaflet. If you would like to see a copy of the Trust Deed and Rules please contact Nestlé Pensions.

# Contact us

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