

PRIVATE AND CONFIDENTIAL

Date: 29/06/2009
Our Ref: CARE Scheme Review
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Dear

Career Average Revalued Earnings (CARE) Scheme (the Scheme)

I am writing further to my letter dated 24 February 2009, to begin a period of consultation with you on the future benefit structure for the Scheme. In addition, I am providing a recap on the action taken on the Scheme review prior to the Trustee meeting held on 31 March 2009, together with details of the proposals agreed at the Trustee meeting and the next steps in the consultation process mentioned above.

1. Recap on past actions taken on the CARE Scheme review

Following the results of the actuarial valuation as at 30 September 2007, a consultation exercise was held during the autumn of 2008 with the participating employers in the Scheme.

The consultation exercise was supported by an Employer Day held on 25 September 2008, to which all employers were invited.

The consultation looked at four main issues:

- Continued build up of contingent buy out liabilities (far and away the biggest issue)
- Contribution rates and bonus objective
- Scheme Funding basis; and
- Scheme benefit structure.

The consultation period ended on 24 October 2008 and the Trustee considered the results at its meeting held on 20 January 2009. As there was no clear mandate from the employer consultation for a particular single course of action, the Trustee agreed that a working party should consider the responses in more detail and investigate a range of options to address the needs of the different employer groups. The working party recommendations were presented for consideration at the Trustee meeting held on 31 March 2009.

2. Trustee proposals

At the Trustee meeting held on 31 March 2009, the Trustee agreed to consult with employers on the following proposals, to take effect from April 2011:

- A new contracted-in Defined Contribution section should be developed for employers to join from April 2011. The aim of this proposal is to enable employers to continue to participate in the Scheme whilst at the same time ceasing to build up any further contingent buyout liabilities. The aim of this proposal is not to reduce future pension contributions made by either the members or the employers. Therefore, the intention is that contribution rates for the Defined Contribution section should be at the same level as those currently paid into the Defined Benefit 100ths section, namely employer contributions of 8.5% and member contributions of age divided by ten, minus 1. The contribution rates would need to be reviewed in advance of the introduction of the Government's Personal Accounts scheme from 1 October 2012.
- The contracted-out 80ths and contracted-in 100ths Defined Benefit sections should continue, but only those employers willing and able to bear the risk of continuing to accrue Defined Benefits (and build up contingent buy out liabilities) should remain in the Defined Benefit sections. A high level covenant assessment will be carried out and any employer deemed to have a weak covenant should be asked either to provide some form of security to cover the future build up of contingent buy out liabilities or to move to the Defined Contribution section of the Scheme from April 2011.
- The 80ths section should be closed to new employers.
- The bonus objective should be removed.
- Indexation of future service benefits (on active membership) should be capped at 2.5% from an agreed future date. This follows a recent change in legislation that permits the use of a lower cap on Limited Price Indexation (LPI) increases on Defined Benefits built up for future service. At present, pension built up under the CARE Scheme by active and deferred members is revalued fully in line with the Retail Prices Index with no cap.
- Employers in the Defined Benefits 80ths section can elect to move to the 100ths section for future service accrual.

In reaching these decisions, the Trustee is seeking to protect member interests whilst at the same time allowing employers to manage the future build up of contingent buy out liabilities. For employers moving to the Defined Contribution section, there would of course still be a liability to fund any deficits that arise in respect of past service.

3. Next steps

As mentioned in my earlier Scheme review letter dated 4 August 2008, a key determinant of the future of the Scheme will be the views of you, the employers. With this in mind, I have attached as Appendix A to this letter, a short questionnaire which I would ask you to complete and return by no later than Friday, 25 September 2009.

All responses received from employers will then be summarised for consideration by the Trustee and a further update will be issued to employers following the Trustee meeting.

In the meantime, should you have any questions on this, please feel free to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Paul Milton', with a long horizontal line extending to the left.

Paul Milton
Account Manager
Enclosed: Appendix A – Questionnaire