factsheet

for active members of the Coats Pension Plan

Government Pension Reform

Please take a few minutes to read this Factsheet. It contains important information about new Government regulations and changes that affect the Coats Pension Plan ("the Plan").

On 6 April 2006 the Government's new tax regime for pensions is due to come into force. It is a major reform, allowing pension schemes more flexibility in providing benefits, and individuals more choice – for example the ability to join any number of pension schemes at the same time.

The Plan is approved by HM Revenue & Customs (the new name for the Inland Revenue). This brings important tax advantages for members but, at the same time, sets certain limits on the benefits that can be paid from the Plan and the contributions members can pay to the Plan.

The current Inland Revenue limits are withdrawn and replaced by new allowances:

- A "Lifetime Allowance" for the maximum amount of the value of all your pension savings which have benefited from tax relief. This allowance will initially be £1,500,000.
- An "Annual Allowance" for the maximum value of benefits that you can earn (or contributions that can be made on a money purchase basis) in any year under all your pension arrangements, initially £215,000. For the purposes of the Plan, the year over which you will be assessed for the purposes of the Annual Allowance will be the Plan year, which starts on each 1 April. However if you pay any contributions to the Plan on a money purchase basis i.e. as Additional Voluntary Contributions, they will be assessed in each tax year (i.e. starting each 6 April) for this purpose.

Companies and pension scheme trustees have some flexibility as to how they approach these changes. The reform is designed to make saving for pensions simpler and more flexible, and this factsheet should show you where this can make a difference.

Through this Factsheet we show the issues we have dealt with and the changes that will be made to the Plan. The changes apply from 6 April 2006 unless another date is stated.

1 Earnings cap

Under current requirements, earnings for contributions and benefits may be subject to an earnings cap, set by the Government. For the tax year 2005/2006 the earnings cap is set at £105,600. Normally this only applies if you joined the Plan on or after 1 June 1989.

As from 6 April 2006, the earnings cap is abolished, along with other Revenue limits, and replaced with the Lifetime Allowance. As a result, schemes are no longer required to limit contributions and benefits by reference to the earnings cap. The Coats Plan has decided to take this on board for its active members.

The Lifetime Allowance for the next five years is shown on the panel at the end of this factsheet.

The Government is expected to increase the Lifetime Allowance in line with inflation after 5 April 2011.

For information, to work out how much your pension entitlement is valued at in relation to the new Lifetime Allowance, your annual pension is multiplied by a factor of 20. (Note: although this does not affect your Coats pension while you are an active member, you may like to note that a different factor, 25, is used for pensions already in payment.)

In simple terms, someone who expects to receive a pension of over £75,000 a year (in current terms) is likely to hit the new limit, and if he does, he will be taxed on the excess. There are mechanisms for anyone who is over the limit at 6 April 2006 to register their existing benefits accrued to date (known as Primary or Enhanced Protection). Anyone whose Coats benefits are already in excess of the limit will receive a separate letter explaining what this means. Similarly anyone whose Coats benefits are projected to be in excess of the limit by the time they reach Normal Pension Date will also receive a letter explaining this in more detail.

There will be no mechanism for the Coats Pensions Office to identify anyone who has benefits held elsewhere which, when added to their Coats benefits, could take them over the limit. It will be your responsibility to check if you are close to the limit by getting up to date figures on all your other pension benefits. If you think you may be in danger of going over the limit, you will almost certainly need personal (and professional) financial advice in these circumstances which the Pensions Office is not permitted or qualified to give you.

2 Revenue limits

The Plan is designed to stay within current Revenue limits and so normally benefits can be paid without the Revenue's restrictions. However, some limits, for example the maximum pension of 2/3rds of final remuneration, are sometimes triggered.

The Government's new "simplified" approach will allow pension arrangements that are registered with HM Revenue & Customs to pay any level of benefits. There will be very few benefit limits, although they will always restrict the maximum tax-free cash sum. Where the value of benefits is in excess of the Lifetime Allowance (see above) additional tax will be payable. In reality, the Lifetime Allowance has been set so that very few people will be affected by it. The tax treatment of benefits will be much as it is now, as long as the benefits meet certain criteria and the overall value of them does not exceed the Lifetime Allowance.

As a result of the removal of Revenue limits, some members whose benefits would currently be restricted could receive higher benefits from the Plan. However, the cost of this has been assessed and found not to be high in the context of the Plan as a whole and the changes overall, and moving fully to the new rules for current active members should simplify the administration in future. We have therefore decided to remove the current Revenue restrictions as well as the earnings cap (see above) for active members as from 6 April 2006.

The exception to this is that if you have a guarantee from another pension arrangement, those guarantees will not be increased as a result of the removal of the old Inland Revenue limits – in other words, the old limits will still apply to the guaranteed benefits when tested against the Coats Plan benefits, and you will receive the higher figure as before.

3 Monitoring your benefits against the new Lifetime Allowance and Annual Allowance

You already receive an annual benefits statement from the Trustee showing your expected pension at your Normal Pension Date. As from April 2006 this will have additional information on it, to tell you what your benefits accrued to date amount to as a percentage of the Lifetime Allowance.

The value of your pension for tax purposes is calculated by multiplying the total of your Final Salary pensions, from all sources, by 20 (if you are already drawing a pension at

6 April 2006 you multiply the total by 25). You then add the result to the value of any Money Purchase or Defined Contribution accounts you have such as AVCs.

Similarly you will also be given a figure showing the value of one year's accrual of pension under the Plan, which is the figure to check against the Annual Allowance. This is known as the Pension Input Value, and will not appear on your benefit statement until 2007 (i.e. for the first Plan year after 6 April 2006).

N.B. You will need these figures if you have benefits from any other pension arrangement, or are making contributions to other pension arrangements, as you will be required to certify to each provider, including the Coats Plan Trustee, that you are within the new limits overall, including any other benefits from other pension arrangements, before any pension arrangement can settle your benefits, particularly tax-free cash.

You will also therefore need to ask for similar information from any other pension arrangement under which you are entitled to benefits.

4 Taxation

A member is responsible for the payment of any tax due if benefits exceed the new limits under the new legislation. A new requirement to certify your total benefits are within the Lifetime Allowance will be key to getting your benefits paid promptly. You will be given a 'Member Declaration Form' to complete, giving us information on any other benefits you may have which uses up part of your Lifetime Allowance, before we are able to pay out any benefits. Notes to guide you on this will be provided when you are close to retirement, or when you ask for a quotation of your benefits.

5 Early retirement

The lowest age at which the Revenue currently allows you to draw a pension from the Plan is age 50 (except in cases of ill health retirement) subject to the rules of the Plan. In April 2010 the Government is increasing this to age 55 for all pension schemes.

6 Late retirement

In some circumstances you may be able to defer taking your benefits. However, you should note that the latest date at which your benefits can come into payment is your 75th birthday.

7 Ill health early retirement

Ill health early retirement will not be affected by the age restriction on early retirement However, the Revenue will only allow benefits to be paid from a Plan such as this one if the following two conditions are met:
a) the Scheme administrators have received evidence from a registered medical practitioner that the individual is wholly incapable of work rather than partially incapacitated, and
b) the individual has already ceased employment in his or her occupation.

8 Death after retirement

At present, if you die up to five years after your retirement, a lump sum is paid to take account of the fact your pension has not been paid for five years.

The Trustee uses its discretion to decide who receives these payments, so under current law and practice they are usually free of inheritance tax.

In future, if you retire after age 70 and die after age 75 it will not be possible to pay this benefit as a lump sum. Instead your pension will continue to be paid until the end of the five year period at the rate it was payable at the date of your death. It will be taxed as income in the normal way i.e in the hands of the person who receives it.

9 Other pension schemes

There has been a significant increase in the flexibility available to individuals in terms of the methods available to save for retirement. At the moment you can only pay into a personal or stakeholder pension at the same time as being a member of the Plan if you earn less than £30,000 a year (or have done since 6 April 2000). In the future you can pay into as many pension schemes as you like, including the Coats Plan. The new allowances will apply to all of your schemes. If you wish to consider pension arrangements in addition to the Plan, we recommend you to take independent financial advice.

10 Additional Voluntary Contributions (AVCs)

An announcement was issued in December 2005 to all existing members with AVCs, advising them of changes in the factors and method of securing pensions from AVCs. If you are interested in paying AVCs for the first time you should read that announcement before proceeding.

There are several changes in the law affecting AVCs from 6 April 2006:

i) You will not have to take your AVC benefits at the same time as you draw your main Plan benefits. You will also be able to choose to transfer the AVCs to another arrangement at any time, which will give you the opportunity to select the AVC provider and the time when you want to convert the capital to pension.

ii) You will be able to take up to 25% of the value of the AVC as tax-free cash, even when you were not previously allowed to do so.

iii) The Government is removing the limit on the amount of contributions that can be paid into pension arrangements like the Coats Plan (currently 15% of taxable pay). As a result you will be able to pay more AVCs than previously allowed. You can make pension scheme contributions in total of up to 100% of your taxable pay within the Coats Plan (including your normal Plan contributions of 5%).

You can go beyond this level if you wish, outside the Coats Plan, even when you are still paying contributions to the Coats Plan. However, if your total contributions are more than 100% of your taxable pay, the excess will not benefit from tax relief. There would also be a tax charge if your total contributions in any year, together with the value of any other benefits earned in that year, result in benefits earned in excess of the Annual Allowance (see above).

iv) After leaving Coats' service, although you cannot pay any more AVCs into the Coats Plan, you can make pension scheme contributions elsewhere which qualify for tax relief of up to 100% of your taxable pay (or £3,600, if greater).

Notes:
a. There will be a tax charge if your total contributions in any year, together with the value of any other benefits earned in that year, result in benefits earned in excess of the Annual Allowance (see above).
b. Protection for existing AVC payers: Members who started paying AVCs before 8 April 1987 had the right to take all their AVC funds as tax-free cash. That right will be protected and this will allow the full amount of AVC funds to be taken as first call on the tax-free cash, not just 25% of the AVC fund. Note however that these members will only be able to contribute up to 10% of taxable earnings as AVCs within the Plan, to prevent additional liabilities arising in the Plan from higher than expected residual pensions after taking AVC cash.
c. When AVC benefits become payable from the Plan, there will be an opportunity to choose whether the AVC fund is used to buy pension with or without a spouse's pension, or with or without RPI increases.

11 Flexible retirement

There is an increasing desire to ease the transition from working life to retirement. In the new legislation the Government has allowed trustees and employers to respond to this demand if it can be accommodated within the employer's business.

The Plan will allow members to take their benefits while continuing to work, for example part time, as they move more gradually to retirement, subject to the Company's consent.

The main changes are summarised below.

11.1 Early payment

Before your Normal Pension Date, you can apply to receive all your benefits earned to date while you carry on working. The consent of your employer will be needed to do this. If you are allowed to do this, your service from then on would be classed as a new period of service. To avoid over-complicating the Plan administration, you would in any event only be allowed to exercise this option once. You would have to take the pension benefits based on all your service to date. You could not split the pension already earned. A reduction would apply for early payment in the same way as at present.

If you die after your benefits have come into payment, but while still in service, the death benefits for this period of service will be worked out as for death after retirement even though you may still be employed (see the Plan booklet).

If you take benefits in this way you can earn future benefits under the Plan, as if you were joining as a new member. However you should note that in this case, the total lump sum death benefit will be restricted to the total that would have been paid if your service had continued without drawing any benefits, i.e. 4 times your annual earnings, plus £3,000 (this additional £3,000 was previously called the death grant). Your highest annual earnings figure recorded during your membership will be used in this calculation, as before. Any benefits above the Lifetime Allowance will be subject to tax which will not be paid by the Plan, but passed on as provided in the legislation to the appropriate party.

Lifetime Allowance

Tax Year	Lifetime Allowance
2006/7	£1,500,000
2007/8	£1,600,000
2008/9	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

Further details

If you would like any further details, please contact your Unit Pensions Officer who will liaise with the Coats Pensions Office.

Please read this factsheet alongside your Plan booklet and keep it in a safe place for future reference. Until such time as the formal rules can be amended, they will be deemed to incorporate the changes described in this factsheet. The Trust Deed and Rules and the Explanatory Booklet will be revised in due course to reflect all these changes.

Issued for and on behalf of the Trustee and the Company.

Date: February 2006

Please note

Please note that the information in this factsheet is provided in good faith, based on our best available knowledge and understanding of the new legislation at the present time. It should not be construed as a definitive statement of the new laws and regulations (which are not yet fully finalised) and if there is a conflict between this Factsheet and the law, the latter will override this document. Members are also asked to note that, as ever, the Trustee, the Company and the Pensions Office are not allowed to provide advice, but only information. This Factsheet contains information but before you take any major decisions on pensions matters you are strongly advised to take independent financial advice.

11.2 Late payment

When you reach your Normal Pension Date, if you carry on working for your employer, you can apply to receive your benefits at any time before you eventually stop working for your employer but no later than age 75. The pension you have earned up to Normal Pension Date would then be increased in line with late retirement factors until your actual retirement. Alternatively, with the Company's consent, you may be able to earn additional pension for any period of service beyond Normal Pension Date, in accordance with the Plan rules. Note however that for anyone who has completed 40 years' contributory service, if you wish to accrue any additional benefits beyond Normal Pension Date, you will not be able to draw any of your benefits before your actual date of retirement, and future increases in Pensionable Earnings will be restricted to 5% p.a.

If you die after Normal Pension Date but before your benefits start to be paid, the death benefits will be calculated as if you had retired on the day before you died.

12 Pension Increases

The Government made changes to the rate of increase that needs to be applied to pensions in payment earned from 6 April 2005. From this date, schemes were only required to pay annual increases at the rate of inflation up to a maximum of 2.5%. Previously, schemes had been required to provide increases on any pension built up after 5 April 1997 at the rate of inflation, up to a maximum of 5% each year.

However, the Company has no current intention to change the Plan rules in this way.

13 Death in service lump sum and dependants' pensions

13.1 Due to the change in Revenue limits, it will be possible to make the payment of £3,000 on top of the 4 times earnings in respect of the lump sum benefit on the death of an active member. (The figure of £3,000 was limited to the amount you had already paid in contributions.)

For the purpose of the death in service benefits (i.e. the lump sum of 4 times earnings, plus £3,000 and the pension payable to dependants), the earnings cap referred to in 14 below will not be applied. However if at any time the Trustee decides to insure these benefits, the amount payable on your death will be limited to the existing level in force, with any increases subject to the amount the Trustee can insure with an insurer without any enquiry into the state of your health.

13.2 Children's pensions on death of member

Where children's pensions are paid either on death in service or on death after retirement, they are currently payable until the age of 18. This is extended up to age 25 if the child is still in full-time education. Under the new rules, the upper age limit of 25 will be cut to 23, although any children's pensions already in payment on 5 April 2006 will continue to be paid on the old basis.

14 Cash sum payments

14.1 The Government has changed the rules on the amount of cash that members can take when benefits become payable. For most people, this means that the amount that can be taken tax-free has increased. We have decided to take advantage of this by changing the amount of cash sum you can ask for to the new maximum, which will be 25% of the value of your benefits.

To protect our members, we will use the existing formula for the period before 6 April 2006 if a larger cash sum would result. The figure that applies as at 5 April 2006 will therefore be calculated and can be increased in line with increases in the Lifetime Allowance. This will then be added to the maximum cash you can receive in respect of benefits earned after 6 April 2006, to determine your overall maximum. In summary, you will get the option to take the maximum tax-free cash sum allowable overall, if that is what you wish to do. For most people this will represent an increase in the cash available. If you choose to take a higher cash figure this will leave a smaller pension. Note that this is not a recommendation to take cash and we recommend members should take independent financial advice before taking this option.

14.2 Change to AVC restrictions

The Government is removing the restriction that for a member who started to pay additional voluntary contributions ("AVCs") after 7 April 1987, they must be used to provide a pension and not a cash sum. We have decided to take advantage of this relaxation so that members who started to pay AVCs after 7 April 1987 may ask to take 25% of the value of their AVCs as cash.

15 Transfer of benefits instead of refund of contributions on early leaving

Members who leave pensionable service before Normal Pension Date with less than two years' membership (and who did not transfer any benefits into the Plan from other pension arrangements), currently receive a refund of the member's own contributions and the value of any AVCs. The refund is subject to tax (currently at the rate of 20%) and a charge to re-instate such members into the State Pension System.

This is changing so that by law, if the member has at least 3 months' membership, benefits earned to the date of leaving can be transferred to another Pension arrangement instead. This will mean settlement of refunds will be slower in future as the Plan will have to offer both alternatives and wait for a response.

The tax on any refund will normally be 20% for anything up to £10,800 and 40% on any higher figure. This tax will be deducted at source; however if the member has paid AVCs, any increase due to investment returns or interest on the AVCs will be paid to the member. This increase will also attract tax and the individual will have to account for this directly with the Revenue.

16 Eligibility conditions

As a result of the change in rules on leaving service benefits in the previous section, the Company has decided that there should be a 6 month waiting period before a new employee is allowed to join the Plan.

17 Paid paternity and adoption leave

The law was changed from 6 April 2005 so that during any period of paid paternity leave and paid adoption leave your pension benefits will continue and death in service benefits will continue to apply as if you were working normally. You will be required to contribute to the Plan during this paid leave but you cannot be asked to pay more contributions than those based on the pay you actually receive.

18 Civil Partnerships

With effect from 5 December 2005, death benefits payable from the Plan to spouses must, by law, be paid to registered civil partners.

If you are in a registered civil partnership at the date of your death, the Plan provides all of the benefits your spouse would have received (had you been married) to your civil partner.

If a registered civil partnership comes to an end, the ex-partner is treated in the same way for pension sharing as an ex-spouse would be for pension sharing on divorce.

Further details of the Plan death benefits are shown in the Plan booklet. Anyone with a civil partner should advise the Pensions Office in writing, and should consider amending their Expression of Wish forms.

19 Trivial Pensions exchangeable for cash

Under the old Revenue rules, anyone over age 50 with a pension of less than £260 a year (who had not yet retired) could elect to give up the small pension and take a cash lump sum instead. The Rules are due to change from 6 April 2006, and although the limit will be higher, it has to take into account all pensions you receive from other pension schemes too, with the new documentation requirements making it harder to take cash sums. Members will have to certify to the provider of each pension arrangement from which they want to take cash, whether the total value of benefits from all pension schemes is under £15,000. (This figure will increase in the same way as the Lifetime Allowance is increased by the Government each year.)

The option will also apply only to people aged between 60 and 75 in future.