Preparing for A-Day

Our ‘Talking Point Special’ newsletter (May 2005) provided you with latest details about the new pension tax rules that will come into effect on 6 April 2006. If for some reason you did not see that communication, you can view it at www.diageopensionsuk.com. You can also access the pensions website via Diageo One.

What do I need to do?

The new tax rules will affect a small minority of Diageo Pension Scheme members. However, if you are a Scheme member at Executive or Senior Executive Level, it’s important for you to be prepared.

By logging on to “my pension” on the pensions website you can print off an estimate of your Diageo pension benefits at any date or age. If you have not already done so, you should also obtain an estimate/valuation of pension benefits you have under any other tax-approved pension arrangement. For example, tax-approved pension benefits from previous employer arrangements, personal pensions, AVCs etc. To assist you in collecting this information we have prepared a sample letter which you may wish to adapt before writing to your other pension provider(s) – an example of this can be seen on page 3 of this leaflet and can be downloaded from the pensions website.

How is Diageo supporting me prior to A-Day?

Once you have collected your pension information, please keep it to hand. During November we will provide Executive and Senior Executive level members of the Diageo Pension Scheme with a personalised CD-ROM copy of ‘PensionMentor’ – our modeller tool that will help you get a better picture of your position under the new tax rules and, in particular, how close you are at A-Day to the £1.5m Lifetime Allowance. The modeller tool will be pre-populated with details about your Diageo Pension Scheme and AVC benefits. You will then be able to enter details about any other tax-approved pension benefits you may have.

The modeller will provide helpful information that will guide you through the new pensions tax system, but it will not constitute financial advice. Ultimately, it is your responsibility to determine whether the combined value of your tax-approved pension savings at A-Day means that you should register for “protection” (see Talking Point Special, May 2005).

For those individuals who at A-Day are very close to, or likely to break through, the Lifetime Allowance, Diageo has engaged the services of Deloitte & Touche to offer face-to-face generic financial advice. If this applies to you, we will be sending you a separate letter of invitation and further details during November.

Diageo is not able to give you specific individual financial advice - if you think you’ll need this, you will need to employ the services of a specialist financial adviser.

The following information applies only to UK employees who are members of the Diageo Pension Scheme at the Executive or Senior Executive levels. The information provided is based on our current understanding of the legislation. The position may change prior to 6 April 2006.

“If you are a Scheme member at Executive or Senior Executive level, it’s important for you to be prepared.”
Pensions after A-Day

Please remember, the following information provided is based on our current understanding of the legislation. The position may change prior to 6 April 2006.

Diageo’s approach to pensions after A-Day

Diageo has considered the implications of the A-Day changes in detail and has agreed that, in certain circumstances, current Diageo Pension Scheme members will be offered the opportunity to switch future pension membership from the Diageo Pension Scheme to Diageo’s unapproved pension arrangement. (An unapproved pension arrangement is simply an employer’s pension scheme which is not tax approved by the Inland Revenue. Unapproved schemes can provide separate benefits without reference to any statutory limits on benefits but without any tax savings on contributions or investments.)

Diageo’s unapproved arrangement will provide pension benefits using exactly the same formula as that used in the calculation of your (tax approved) Diageo Pension Scheme benefits. Diageo's unapproved pensions are unfunded – this means they are paid directly from Diageo’s own resources when you retire.

The main advantage of the unapproved pension arrangement is that the benefits will not be tested against the Lifetime or Annual Allowances. There is no personal tax liability until your pension is paid, but when that happens all pension payments are treated as earned income. (Just like pensions from tax approved arrangements).

For example, if at A-Day you will have a pension value greater than the £1.5m Lifetime Allowance and you remain in the (tax approved) Diageo Pension Scheme, you are likely to pay additional tax on the part of your pension value that is in excess of the Lifetime Allowance at retirement. Assuming you switch future pension membership from the Diageo Pension Scheme to Diageo’s unapproved pension arrangement from A-Day, you would not incur this additional Lifetime Allowance tax charge.

When you receive the CD-ROM containing your copy of ‘PensionMentor’ (in November) it will contain detailed information about the new tax rules and Diageo's approach. This will help you to ‘get to grips’ with the new tax rules and, in particular, determine how close you will be to the Lifetime Allowance at, and beyond, A-Day.

Diageo’s post A-Day approach is consistent with that taken by the Company in 1989 when the pensions “earnings cap” was introduced.

As now, there will be no compensation paid for any adverse personal tax costs that may arise in the delivery of Diageo pension benefits.
Sample letter for obtaining estimates of pension benefits
Available by download at www.diageopensionsuk.com or via Diageo One

New Pensions tax rules – estimate of benefits at A-Day

Your name
NINO
Membership No.

I understand that changes to the taxation of pensions will take place with effect from 6 April 2006. To enable me to decide whether I am likely to be impacted by the Lifetime Allowance at A-Day or in the future, I should be grateful if you would provide the following information:

> Type of pension e.g. Final Salary, Money Purchase, AVC etc
> Date of joining pension arrangement(s)
> Estimated Pension at 5 April 2006 (defined benefit schemes)
> Current Fund Value (money purchase / AVCs)
> Current investment fund choices (money purchase / AVCs)
> Increases to pensions in deferment (defined benefits – pre/post 1997)
> Earliest age at which unreduced pension can be taken (defined benefit scheme)
> Existing Revenue limits:
  > Estimated maximum pension at 5 April 2005
  > Estimated maximum tax-free cash at 5 April 2005
  > Current amount of any pension already in payment

Thank you for your kind assistance. An early reply would be appreciated.

Yours sincerely

[Sign here]