

Protecting the future of the BOC Pension Scheme

Frequently asked questions

Thank you for your feedback – we have received a wide range of questions, as well as some general comments. In this document, we answer a number of the factual queries raised so far that have significance for the wider membership of the Scheme. Further FAQs will be issued during the consultation process.

Please note that if you have raised a query that relates to your own personal circumstances this will not be answered here.

If you have a query relating to your personal circumstances, please contact BOC Pension Services at pensions.uk@boc.com. However, BOC Pension Services is not authorised to offer financial advice, so if you require individual advice, please speak to a financial adviser. You can find an independent financial adviser in your area by visiting www.unbiased.co.uk

Cap on increases to pensionable earnings

1. How did the Company arrive at the 2.5% cap figure?

The Company felt that a cap of 2.5% a year on increases to pensionable earnings provided an appropriate balance between making the cost of the defined benefit pension scheme more affordable and predictable, and maintaining defined benefits for members.

2. Would promotional increases be included in the cap?

Promotional increases would be included in the cap on increases to pensionable earnings. This means that if you receive a promotion, this could increase your pensionable earnings but only up to a maximum of 2.5% a year.

3. If we get a salary increase in April 2011, would the cap apply?

Yes – any increases to your pensionable earnings which take effect from 1 April 2011 onwards would be capped at 2.5% a year.

4. Would all benefits be affected by the cap on pensionable earnings?

The death-in-service lump sum would NOT be affected by the cap on pensionable earnings under the proposal. The calculation of other benefits (e.g. early retirement, redundancy, ill health pensions and various death benefits) would be based on your final earnings or final pensionable earnings, which would be capped under the proposal. The other benefits that the Scheme provides would continue to be provided, and your eligibility would not be affected. There is more information about the other benefits on pages 11 and 12 of the special pensions newsletter.

5. I currently work part time. If I were to increase my hours after April 2011, would increases to my pensionable earnings be capped at my current hours or my increased hours? Also, would the converse apply; i.e. if a person worked full time and changed to part-time working, would the increases to pensionable earnings be capped at the part-time or full-time hours?

Part-time members' benefits are calculated on the full-time equivalent of their

pensionable earnings. This means that changing the number of hours you work (upwards or downwards) will not affect the pensionable earnings figure used to calculate your pension.

For example, if you now work half the normal working hours for a year and your pensionable earnings are £10,000, then your full-time equivalent pensionable earnings are £20,000. If you then work three quarters of the normal working hours for a year, and your pensionable earnings are £15,000, your full-time equivalent pensionable earnings will still be £20,000.

This means that any changes to your normal working hours after April 2011 would have no impact on the calculation of your pensionable earnings. The proposed pensionable earnings cap of 2.5% a year would work in the same way as for other members.

All that would change if you changed your normal working hours after April 2011 is the amount of pensionable service you would build up. This is because part-time members' benefits will continue to be based on a fraction of the pensionable service that a full-time member works. If, for example, you work half the normal working hours then you build up six months' pensionable service for each year worked.

6. How would the proposed cap on increases to pensionable earnings affect my final earnings, which are used to calculate death benefits?

Final earnings are used to calculate death benefits, including:

- Recognised dependants' pensions on death in service
- Death-in-service lump sums
- Recognised dependants' pensions on death in retirement and deferment
- Child's allowances

Final earnings are broadly your pensionable earnings for the 12 months before you leave the Scheme, retire or die. As your final earnings are based on your pensionable earnings (which would be capped under the proposal), the proposal to cap increases to pensionable earnings would also affect your final earnings.

Please note that for the purpose of calculating the death-in-service lump sum, the cap on increases to pensionable earnings would be ignored and your uncapped pensionable earnings would be used instead.

Pension built up before 1 April 2011

7. In the example on page 8 of the newsletter, why does the member only build up pensionable service of 1 year and 11 months for the tranche of service from 6 April 2009 to 31 March 2011, rather than 2 years?

Pensionable service is calculated in years and whole months. In the example, the member's total service was from 6 April 2000 to 31 March 2015, which is 14 years and 11 complete months (in line with the current Rules).

8. At retirement, would my pension for the period before 1 April 2011 be calculated using my pensionable earnings at 31 March 2011, or my pensionable earnings at my retirement date?

At retirement, the pension you have built up before 1 April 2011 would be based on the pensionable service you have built up to 31 March 2011 and your pensionable earnings at 31 March 2011. This amount would remain within the current Scheme, and would

increase each year in line with the legislation that applied at the time you earned your pension to help it keep pace with inflation.

9. Will the pension calculator allow me to model my deferred pension and add this to future pension?

Yes – the input screen for the pension calculator enables you to enter the value of the pension you have built up to date, as well as projecting your pension benefits for future pensionable service. Your benefit statement, which you will receive in July, will contain all the information you need for the calculator.

Member contributions

10. Do I pay pension contributions based on my actual pay or my pensionable earnings?

Your pension contributions are based on your pensionable earnings, not your actual pay. This means that your pension contributions would be calculated based on your capped pensionable earnings under the proposal.

11. What could I do if I couldn't afford the increased contributions?

If you couldn't afford the increase in member contributions, you would have a number of options:

- Level 2 members would have the option to drop to Level 1, in which case their contributions would reduce from 5% to 4.8%. However, retirement benefits for future pensionable service would then build up at a lower rate. Visit www.bocpensions.co.uk/db for more information.
- You could opt out of the Scheme and join the BOC Retirement Savings Plan. Visit www.bocpensions.co.uk/rsplan for more information.
- You could opt out of the Company's pension arrangements and set up a personal pension instead, although the Company would not contribute to this.

Don't forget that the actual cost to you would be quite a lot less than the 8% and 4.8% contribution rates proposed for Levels 2 and 1 respectively, assuming that you pay UK Income Tax and National Insurance. This is because of the tax relief and National Insurance savings you receive. The cost would be even less if you participate in Salary Exchange. Look at the contribution calculator on the Scheme website at www.bocpensions.co.uk/contributioncalculator to see what the actual cost to you would be.

12. Can I make or increase AVCs to make up the difference?

Yes. You can make or increase AVCs, which could help to bridge any shortfall arising from the proposed changes.

If you are in Salary Exchange, there is no limit to the maximum amount of AVCs you can make, subject to you receiving at least the national minimum wage. You can start or increase your AVCs at any 1 April before your Retirement Age, or at any time following a significant change in lifestyle.

If you have opted out of Salary Exchange, you can pay up to 15% of your taxable earnings (up to the Scheme Notional Cap), less your Scheme contributions, in AVCs. You can start or increase AVCs at any time before your Retirement Age.

13. Are AVCs taken from my gross or net salary?

If you are in Salary Exchange, your salary is reduced by the value of your AVCs, which are then made by the Company on your behalf. This means that your AVCs are effectively deducted from your gross salary (i.e. before Income Tax and other deductions).

If you have opted out of Salary Exchange, your AVCs are deducted from your gross salary. This means that you would receive the same amount in Income Tax relief on your AVCs as you would if you were in Salary Exchange (but there would be no National Insurance savings).

Salary Exchange

14. How do I join Salary Exchange?

If you want to join Salary Exchange, you need to complete a Salary Exchange opt-in form and return it to your local HR/Personnel Department. You can download this form from the Salary Exchange section of the website at www.bocpensions.co.uk/salary_exchange/docs/salary_exchange_opt_in_form.pdf

Alternatively, forms can be requested from BOC Pension Services.

15. How long will Salary Exchange continue to run?

The Company has no plans to withdraw Salary Exchange. Salary Exchange will continue for as long as it is advantageous for the Company and members, and for as long as legislation allows.

16. What do the proposed changes mean for members who are not in Salary Exchange?

In the majority of cases, your contributions to the Scheme would continue to cost you slightly more if you do not participate in Salary Exchange. This is because, under Salary Exchange, your salary is reduced by an amount equal to your pension contributions and the contributions are paid by the Company on your behalf. This means you pay less National Insurance. See question 14 for information about joining Salary Exchange.

You should note that there are some members for whom making contributions through Salary Exchange may not be beneficial, particularly those who earn around £7,500 or less. However, if this applies to you, you should have been notified of this when the programme was introduced.

Changing membership levels

17. Can Level 1 members move up to Level 2?

Yes. If you would like to transfer from Level 1 to Level 2, you can download a 'Change from membership Level 1 to Level 2' form from the website at www.bocpensions.co.uk/db/forms/change_from_membership_level_1_to_level_2.pdf or contact BOC Pension Services for a copy.

18. How often can I switch between membership levels?

You can switch between membership levels as often as you like.

19. Is it better to drop to Level 1 and pay AVCs, rather than stay in Level 2?

In Level 1, pension is based on an accrual rate of 1/100 of pensionable earnings for each year of pensionable service in the Scheme. The calculation is the same for Level 2 members except an accrual rate of 1/60 is used. The accrual rate makes a big difference to the pension you receive. Using an accrual rate of 1/100 rather than 1/60 means the pension will be about 40% lower (assuming pensionable earnings and pensionable service are the same).

The amount you would need to pay in AVCs to make up the difference in pension received is likely to be more than the difference between Level 1 and 2 contributions. The Company is not authorised to offer financial advice, so if you require individual advice, please speak to a financial adviser.

20. Will the pension calculator show me the effect of dropping to Level 1 on my pension?

Yes – you just need to input ‘Level 1’ on the input screen rather than ‘Level 2’.

Opting out / leaving the Scheme

21. Would I achieve a better pension if I:

- a. **opted out and joined the BOC Retirement Savings Plan?**
- b. **opted out and joined a private pension?**

- a. If you opted out of the Scheme and joined the BOC Retirement Savings Plan, it is unlikely that you would be able to achieve a better pension for the same amount of your contributions under the proposal.

Furthermore, the BOC Retirement Savings Plan is a defined contribution (DC) rather than a defined benefit scheme. Pensions in a DC scheme are determined by how much you contribute, investment growth and the cost of buying a pension at retirement instead of a formula contained in the rules and defined at the outset. This means you have no certainty about the amount of pension you would receive at retirement.

- b. If you opted out of the Scheme and joined a personal pension plan, it is unlikely that you would be able to achieve a better pension for the same amount of your contributions under the proposal. This is because you would not benefit from the significant Company contributions.

The Company is not authorised to offer financial advice on what might be best for you, so if you require individual advice, please speak to a financial adviser.

22. When can I join the BOC Retirement Savings Plan?

You could join the BOC Retirement Savings Plan whenever you want.

23. If I left the Company before 1 April 2011, how would my pension be calculated?

Your pension would be calculated at your leaving date under the current rules (i.e. based on the current definition of pensionable earnings and your pensionable service to your leaving date).

Benefits

24. I have 40 years' pensionable service in the Scheme. If I stop contributing to the Scheme and continue working for another four years, would my pension be based on pensionable service of 40 or 44 years?

If you are a Level 2 member, your pension would be based on 40 years' pensionable service at age 65. This is because pension is limited to two-thirds of final pensionable earnings in the Scheme.

25. Would the age I can take my pension and the tax-free cash sum change under the proposal?

No, the proposal does not affect the age at which you can begin taking your pension and take your tax-free cash sum.

26. What effect would the proposal have on my death-in-service lump sum benefit?

The proposal would have no effect on your death-in-service lump sum benefit. This would still be based on your final earnings, which would not be capped under the proposal.

27. Do the examples in the special newsletter use a retirement age of 65?

Yes, as this is the Scheme's normal retirement age.

Other

28. Would the proposed changes require a new scheme to be created?

If you are a Gases member, you would remain in the current Scheme. A new scheme would not be created for future benefits and you would remain an active member of the current Scheme for all pensionable service.

If you are a Gist member, a new scheme would be set up providing identical benefits specifically for Gist members.

29. Are transfers into and out of the Scheme allowed?

You can transfer your pension benefits out of the Scheme into another registered pension arrangement at any time before your pension is paid. However, transfers into the Scheme have not been allowed since 1997.

30. Does the proposal affect members who have already retired?

No. The proposed changes would have no effect on those who have already retired, or who retire before 1 April 2011.

31. Does the proposal affect current deferred members?

No. Members with a deferred pension and members who leave the Scheme before 1 April 2011 are not affected by the proposed changes.

32. Would all the current literature (statements/helpline/websites etc) remain the same?

The current Scheme's literature and pensions website would be updated to reflect agreed changes. New literature would be produced for the new Gist scheme. The new Gist scheme would remain administered by BOC Pension Services, so the pension helpline would remain the same.

33. Are senior managers affected by the proposed changes?

The increase in members' contributions, cap on increases to pensionable earnings and the revised cap on increases to pensions in payment would apply to all contributory members, including senior managers.

34. Would all anniversary dates be moved to 1 April 2011?

No, your anniversary date would remain the date you joined the current Scheme.

35. Can you provide an explanation of contracting out and the State Second Pension?

The State Second Pension (S2P) provides an additional top-up pension from State Pension Age (SPA) and replaced the State Earnings Related Pension Scheme (SERPS) in April 2002. S2P is paid in addition to the Basic State Pension.

The Scheme is contracted out of S2P. This means that the benefits the Scheme provides are broadly equivalent, or better than, a prescribed standard set by the Government. As a result of being contracted out of S2P, you and the Company make lower National Insurance contributions. As you pay reduced National Insurance contributions, you receive lower S2P at SPA.

36. Would the current BOC Retirement Savings Plan remain a common scheme for Gases and Gist employees?

Yes.

New scheme for Gist members

37. Would the new scheme represent all Gist employees irrespective of the divisions they work in?

Yes, the new scheme would apply to all existing Gist contributory members from 1 April 2011.

38. Would new employees or members of the DC Plan be allowed to join the new Gist scheme?

No. The existing DB scheme has been closed to new members since 30 June 2003. This means that new employees or members of the DC Plan would not be able to join the new Gist scheme.

39. Would Gist members receive two separate annual pension statements from April 2011 – one for the 'old' scheme and one for the 'new' Gist scheme?

Yes, although both statements would be produced by BOC Pension Services.

40. Would the new Gist scheme be covered under the Pension Protection Fund (PPF)?

Yes – the new Gist scheme would benefit from PPF protection in the same way as the current Scheme.

41. If an employee chooses to opt out and then is subsequently made redundant, is there an entitlement to the current Scheme redundancy terms?

No. An employee who chooses to opt out becomes a deferred member. The entitlement for redundancy terms in the current Scheme (and new scheme) applies to contributory members only.

Legal notes

1. The description of the Scheme's benefits is only a summary. If there is any discrepancy between the description of benefits in this communication and the Scheme's formal governing documents (as amended from time to time) then the formal governing documents will prevail.
2. The current proposed changes may alter during the course of consultation, and you will receive a further communication at the end of the consultation process to explain the Company's final plans.
3. This communication is issued by The BOC Group Limited on behalf of all affected Scheme members - The BOC Group Limited, BOC Limited, BOC Healthcare Limited, Gist Limited and Linde CryoPlants Limited.