

Consultation Q&As

August 2010

Thank you for your feedback – we have received a wide range of questions during the consultation meetings held to date. In this document, we answer a number of the factual queries raised so far that have significance for the wider membership of the Scheme.

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**.

Background to the changes

1. What alternative proposals were considered and subsequently discarded?

The alternatives considered included offering a Career Average Revalued Earnings basis for future pensionable service, closing the Scheme to future defined benefit accrual with defined contribution provision in its place, and raising the Scheme's retirement age.

2. Did the Company consider increasing the Scheme's retirement age in line with the increase to State Pension Age?

The Company considered that raising the Scheme's retirement age in line with increases to State pension age would be a more detrimental change than the current proposal, and therefore decided not to propose increases to the Scheme's retirement age.

The Scheme does allow late retirement for members who believe this would be beneficial for them.

Administration of the new Gist scheme

3. Will any Trustee representatives be from the negotiated groups?

Representatives from the negotiated groups will be eligible to stand as Trustees in due course, as will other members. However, remember that all Trustees must consider the best interests of all members and beneficiaries – they do not represent specific groups.

4. If someone wants to stand as a Trustee, will training be provided?

Yes - full training is provided to all new Trustees.

Increase in contributions

5. Would the Company consider phasing in the increase to contribution rates?

The Company believes that the timescale of April 2011 gives members time to adjust.

6. If the proposal makes the Scheme more affordable, could the proposed increase in contribution rates be reduced?

The proposed contribution rate increase is an integral part of the proposed changes to make the Scheme more affordable and sustainable for the future. As such, the Company does not believe that lowering the proposed member contribution rate increase is possible.

7. Would the increased member contribution rate be based on my uncapped pensionable earnings?

No. Under the proposal, your contribution rate would increase but it is based on your capped pensionable earnings in each pay period. The Company is not proposing that you would contribute on uncapped earnings and receive benefits on capped earnings.

Cap on increases to pensionable earnings

8. What if my earnings are variable?

We recognise that this is an issue and it will be considered by the Company.

9. Can the Company provide an illustration of what effect the proposed cap would have had over the last 20 years, to establish what the likely impact of the proposal would be for the future?

The past is no guarantee of what will happen in the future. The Company believes it is more useful to show future projections. By using the pension calculator on the Scheme website you can see the likely effect of the proposal on future benefits.

10. Are there any plans in place to compensate people if they get a promotion which takes their pay rise over the pensionable earnings cap?

There is no compensation for the proposed cap on increases to pensionable earnings. However, the cap would not affect your actual earnings – you would still benefit from promotional pay increases. Only the earnings on which your pension contributions and benefits are based would be capped.

You should bear in mind that your pension contributions are based on your capped pensionable earnings. You could choose to make AVC contributions from the additional disposable income you may receive following a promotion.

Benefits

11. If I wish to apply for early retirement, do I have to apply before 1 April 2011 or could I still apply after this date?

You can still request early retirement from 1 April 2011. If you do retire early, you would then receive both your pension from the new Gist scheme and the current Scheme. The proposal would have no impact on your early retirement options.

12. Would there be any change to the ten-year service rule for early retirement?

There would be no change to the ten-year pensionable service requirement for early retirement.

13. Could I still take a tax-free lump sum when I retire, under the proposal?

You can take up to around 25% of the capital value of your pension fund as a tax-free cash lump sum. This would not change under the proposal.

If you are a Gist member, you would be able to take around 25% of your pension "pot" in the current Scheme as tax-free cash and around 25% of your pension pot in the new Gist scheme as tax-free cash.

Funding

14. What happens if the scheme is over 100% funded?

Despite Company contributions of over £400 million, the Scheme was estimated to be only 85% funded at 31 March 2010, based on the benefits it currently provides. So a key focus is on improving the funding position. Once the Scheme reaches full funding, an important objective will be to preserve the value of the Scheme's assets.

15. What discussions have taken place on the financial status and funding of the Scheme between the Trustees and the Company since the publication of the last report in 2009?

The Trustees monitor the funding position on a quarterly basis and maintains a regular dialogue with the Company on Scheme funding.

The Trustees publish regular newsletters to keep members updated with the Scheme's funding position. The Valuation Special Newsletter published in July 2009 and the Summary Report and Accounts of December 2009 give details of the Trustees' view of the funding position. These are available on the Scheme website.

16. What is the funding requirement of the UK Scheme relative to other Linde Group company schemes?

Linde's worldwide pension arrangements are designed to reflect local market practice and local law, which differ greatly from country to country. As such, Linde's worldwide pension arrangements are not comparable with the Scheme.

It is worth noting, however, that as at 31 December 2009 around 55% of Linde's defined benefit pension liabilities on an accounting basis relate to its UK pension arrangements.

New scheme for Gist

Financials

17. Would the Company share its financial projections for the new Gist scheme?

The funding of the new Gist scheme would be agreed with the new Trustees once the new Gist scheme is established.

18. What would be the cost of setting up the new scheme?

The additional cost of setting up a new scheme would be small compared to the savings made as a result of the proposed changes.

19. What would the administration cost of the new scheme be?

The additional cost of administering the new scheme would be affordable.

20. How would Gist fund the new scheme with a declining active membership?

The Scheme's active membership is declining in both the Gases and the Gist businesses. Gist has a commitment to continue to support members' pension funds and would continue this support within the new scheme. Gist would work with the Trustees of the new Gist scheme to put a funding plan in place which reflects the scheme's membership.

21. Who would underwrite the new Gist scheme?

The Gist scheme would be supported by Gist Limited. It would also qualify for entry into the Pension Protection Fund in the unlikely event of employer insolvency.

Benefits

22. How do the benefits being offered to Gist employees compare to what is being offered to Gases?

The total benefits payable from the two schemes for Gist members would be calculated from 1 April 2011 to be the same as the benefits payable to Gases members from the current Scheme from 1 April 2011.

The way this would work is as follows.

On normal retirement, the following would be payable:

- a normal retirement deferred pension from the current Scheme in respect of your pre-1 April 2011 pensionable service; and
- a normal retirement active pension from the new Gist scheme in respect of your post-1 April 2011 pensionable service.

Deferred members of the current Scheme receive different benefits to active members on death or early retirement on ill-health, incapacity or redundancy grounds. To ensure that the total benefits payable from the two schemes would be calculated from 1 April 2011 to be the same as the benefits payable to Gases members from the current Scheme from 1 April 2011, so long as you are a member of the new Gist scheme, the new Gist scheme benefit would:

- be calculated including both your pre-1 April 2011 pensionable service built up in the current Scheme and your post-1 April 2011 pensionable service built up in the new Gist scheme; and
- a deduction would then be made equal to the benefit payable by the Gases scheme on the event of your death or early retirement.

Note, however, that if you take early retirement from the current Scheme whilst continuing to contribute to the new scheme you may receive a lower benefit in the future. See question 23 below.

23. Can I take my pension from the current Scheme whilst continuing to build up benefits in the new Gist scheme?

Yes – you could take a deferred pension from the current Scheme whilst continuing to work for Gist and building up benefits within the new scheme. This early retirement pension would be subject to the same rules as at present and would be actuarially reduced because of its early payment.

However, if you did take early retirement from the current Scheme whilst continuing to contribute to the new scheme, your service within the current Scheme would no longer count for the purpose of calculating other benefits from the Gist scheme – such as redundancy, enhanced early retirement and death benefits. This means that if you take early retirement from the current Scheme whilst continuing to contribute to the new scheme, you may receive a lower benefit in the future.

24. Could Gist employees within five years of retirement remain within the current Scheme, since it would not be worth them paying into the new Gist scheme for the small amount they would get out of it?

No, the new Gist scheme is for all Gist employees who are members of the current Scheme, not just those who are some time away from retirement. The total benefits payable from the two schemes would be calculated from 1 April 2011 to be the same as the benefits payable to Gases members from the current Scheme from 1 April 2011.

Most of your benefits on retirement would be provided by the current Scheme, with your pension earned after 1 April 2011 coming from the new scheme.

25. Would my pension remain within the current Scheme until I am 65 if I do not apply to take early retirement before 1 April 2011, or can I still apply for it any time up to age 65?

You can still request early retirement from 1 April 2011. If you do retire early, you would then receive both your pension from the new Gist scheme and the current Scheme. The proposal would have no impact on your early retirement options.

Administration

26. Would the new Gist scheme have a PAC forum?

This is under consideration.

27. Would the Trustees from Gist on the current Scheme come across to manage the Gist scheme? Could they sit on both Trustee boards?

This is under consideration.

28. What will the administration arrangements be for the new scheme?

The new scheme would be administered by BOC Pension Services, as the current Scheme is.

Other

29. What happens to your pension provisions if you transfer between Gases and Gist?

This is under review.

30. How has the executive scheme been affected by the proposal?

The changes apply to all members, including senior managers in the executive scheme.

31. Does the pension calculator include the deferred section of my pension?

In the same way as the existing pension calculator for the current Scheme, the pension calculator for consultation takes into account the benefits built up to 1 April 2011, as well as projecting future benefits from that date.

32. Can we have a worked benefit example which reflects the real changes in salary during the period of the example?

In line with legislation and good practice, the examples in the special newsletter were designed to illustrate how the cap would work. Given the number of variables, it is not possible to predict with accuracy exactly what the figures would be.

33. What is the Company's position on the Government's intention to use CPI as the measure of price inflation?

On 8 July 2010, the Minister of State for Pensions announced the Government's intention to move to using the Consumer Price Index (CPI) instead of the Retail Price Index (RPI) as the measure of price inflation relevant to pension schemes from 2011. This would be used to calculate the statutory minimum for increasing pensions in payment and revaluing deferred pensions.

The detail of exactly what this could mean for pension schemes is not yet clear and the Scheme is not alone in this uncertainty.

The Company will therefore keep the situation under review as the legislation is clarified and will make a further announcement in due course.

Other questions and answers given in the first wave of GIST consultation forums in week commencing 5th July.

34. What protection is the Company willing to give to protect employees' pensions against high inflation?

The Company believes that the 2.5% annual cap on increases to pensionable earnings achieves a balance between the need to make the Scheme more affordable and protecting members' pensions from inflation. It has taken into account recent levels of inflation and the current public policy framework to maintain low inflation in the longer term, and believes the proposal is the right solution. The Company would therefore not plan to revisit this cap in the future.

35. Has the business considered averaging out the 2.5% cap over a longer period than 1 year?

The Company considers that a 2.5% annual cap on increases to pensionable earnings strikes the right balance between making the Scheme more affordable and maintaining good benefits for members. How the cap would work was carefully considered by the Company when designing the proposal, and there are no plans to change this.

36. Would the Company consider increasing the 2.5% revaluation cap for pension earned from 6 April 2009 to 31 March 2011?

The Scheme rules stipulate that deferred pensions must be revalued in line with legislation and the law changed with effect from 6 April 2009. This was communicated to members in the December 2009 newsletter and the Company has no plans to change the Scheme rules regarding this.

37. Under the proposal would dependants' pensions increase in payment by 2.5%?

Dependants' pensions would also be affected by the proposal to cap increases to pensions in payment. The proportion of your pension earned before 1 April 2011 would increase in payment by RPI up to 6% a year compound, as at present. The proportion of your pension earned from 1 April 2011 would increase in payment by RPI up to 2.5% a year. These increase rates apply both to your pension and any pension paid to your spouse or dependant after you die.

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 the contractual employers of all affected Scheme members – The BOC Group Limited, BOC Limited, BOC Healthcare Limited, Gist Limited and Linde CryoPlants Limited.