

Reflections

An improved position but still some way to go

Mr A M Robb *Chairman*

SINCE MY LETTER to you all earlier this year to advise of the outcome of the 2011 Valuation and the updated position at 31 December 2012, I can now update you again. I am pleased to be able to report further positive progress towards the achievement of the different funding targets which we have identified. As at the end of September 2013, the funding position on a Technical Provisions or ongoing basis had improved to 92% (82% at Valuation date). This means that as at that date the deficit was in the region of £119m (£289m at Valuation date). This is of course still a very large number and consequently a large shortfall but it is a significant improvement against the position at the valuation date or even at the end of last year.

In my letter of June 2013 I referred to our objective of reaching full funding on a more prudent basis even than the Technical Provisions, in order to reduce the Scheme's reliance on the Company going forward. The position on this more prudent basis (for those more technically minded using a discount rate of gilts flat) has also improved. As a consequence we have implemented agreed steps in the de-risking plan thus reducing the overall level of risk run by the fund whilst maintaining a level of target return deemed appropriate to keep full recovery within the next 8 years as a realistic achievable goal.

Each de-risking step means the overall volatility of the fund is reduced. This is beneficial for all stakeholders – Trustee, Beneficiaries, Members and Company. As I mentioned above, the ultimate aim is to reduce the reliance of the Scheme on the Company. This continues to be the longer-term goal. Ahead of this though it is very encouraging to see the ongoing funding level back over 90%.

The Company has injected £23m this year in accordance with the Recovery Plan and will do so again next year and until 2018. The Members and Beneficiaries

should not forget the substantial support from the Company which has been and continues to be vital in the Fund's recovery. Even during what have been very difficult trading times for the NSG Group, the Trustee has been able to rely on the Company's support which has been invaluable.

In addition to such support, it is true to say that not only has the investment performance been encouraging but gilt yields have increased, moving in the Scheme's favour as higher interest rates have the effect of reducing the valuation of our liabilities. The Trustee has increased the level of hedging as the funding position has improved to protect the Scheme against the impact of future movements in interest rates and inflation whilst being mindful of the need to retain some flexibility to outperform government stocks so that the deficit or funding gap can be closed and further increases in longevity can be accommodated.

This year has seen some important changes to the governance structure of the Scheme which partly reflect the changes in the composition of the membership which have taken place in the last ten years, with



Andrew Robb

a smaller number of Active Employee members and an increasing proportion of Pensioners and Deferred members. Since I became a Trustee Director in 1998 the number of Active Employee members has fallen from 4,563 (23% of total Scheme members) to 1,263 (8% of total Scheme members), the number of Pensioner and Deferred Pensioner members has been more stable, falling from 15,489 to 14,363, so overall membership has fallen by about a quarter. (As an aside I was interested to see that in 1998 the assets of the Scheme were about £1.2bn – today they are £1.4bn despite the fact that, in the intervening period, after all contributions, we drew down cash totalling over £460 million to pay pensions but the liabilities of the Scheme were only about £800m – today they are £1.5bn - i.e almost double which demonstrates the impact amongst other things of government impositions, members living longer and very low interest rates.) These changes are also designed to streamline the oversight of the Scheme in accordance with modern practice.

The Trustee Board has been reduced in number from a maximum of 24

THE TRUSTEE BOARD

The Pilkington Superannuation Scheme is operated and managed on behalf of the membership by a Corporate Trustee – PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED. This company is represented by its Board of Directors which from 1 July 2013 comprises up to 14 Directors. There are currently 14 Directors with no vacancies.

As at 1 November 2013 the Directors of the Trustee were:-

Mr. A.M. Robb (Chairman)
 Mr. S.J. Beesley* (E/ee P)
 Mr. D. Corf* (E/ee P)
 Mrs. N.J. Ellison, Group Functions (E/ee)
 Mr. S.M. Gange*
 Mr. D.P. Gilchrist, Automotive, Lathom (E/ee)
 Mr. K. Greenfield
 Mr. R.P. Hemingway*
 Mr. B.J. Kay
 Mrs. J. Mafi, PRSL (E/ee)
 Mr. J. McKenna*
 Mr. K. McKenna, Greengate (E/ee)
 Mr. G. Nightingale*
 Mr. G.M. Sayers* (E/ee P)

Secretary: Miss J.P. Halligan
 Pilkington Brothers Superannuation Trustee Limited,
 Group Pensions Department, Prescott Road, St. Helens,
 Merseyside WA10 3TT
 Tel. (01744) 692185 Fax. (01744) 737336

*Note: 'E/ee' denotes the director is directly elected for a fixed term by the PSS members (where the abbreviation is 'E/ee P' by the pensioners)
 * denotes the director is in receipt of a PSS pension.*

ADVISERS

The Board of the Trustee has appointed the following advisers to support its work in administering and managing the PSS:-

Scheme Actuary: Jane Curtis (FIA) of Aon Hewitt Limited

Investment Consultant: Towers Watson Limited

Auditors: PricewaterhouseCoopers LLP

Lawyers: Hogan Lovells International LLP

Bankers: National Westminster Bank plc

Investment Managers: State Street Global Advisors Limited
 Rogge Global Partners plc
 PIMCO Global Advisors (Ireland) Limited
 CBRE Global Collective Investors UK Limited
 Henderson Global Investors Limited
 Legal & General Assurance
 (Pensions Management) Limited
 Insight Investment Management
 (Global) Limited
 Nephila Capital Limited

Custodian: JP Morgan Chase Bank

DISTRIBUTION OF DEATH BENEFIT

Not everyone has benefits arising on their death but there are several circumstances when such sums are payable. In order to avoid these amounts of money forming part of the deceased's estate (and increasing the likelihood of Inheritance Tax being payable or the amount of tax due) these are payable at the Trustee's discretion.

This means no-one has a right to such money. The Trustee does however endeavour to pay the money in accordance with the wishes of the deceased. To assist the Trustee to make its decision a more detailed process than had previously been in place has recently been adopted in relation to nomination forms.

The administrator in effect has to make enquiry to try to verify at the time of death, that any declaration made by the deceased and notified to the administrators remains valid. One important factor is the date of such declaration and the closer this is to the date of death, the greater the weight that can be attributed to it. This is why henceforth you will receive a blank declaration form every 2 years. It would be very helpful if you could complete and return this each time even if it simply repeats the earlier wish. This is a new approach – we had always said there is no need to send in a new form if the nominee is not changing but we are now advised to enquire behind the declaration especially if it was made some time ago.

The administration team will therefore be asking more questions than has been the case in the past. It is simply following legal advice that due enquiry is needed in all cases (and most particularly where there is no, or no recent, declaration). This means that a new enquiry form will be sent out to the person reporting a death to ascertain sufficient information to enable the Trustee to make a decision.

Many people will have nominated their surviving spouse or children but sometimes the family circumstances will have changed between the date of the declaration and the date of death. It may be the case that the named beneficiary has predeceased the member. Therefore we have re-designed the form to allow notes to be added – to enable people to cater for this – by way of example the named beneficiary may be the spouse and the notes may state that in the event that person is deceased then equally between surviving children.

Similarly it could be that children are nominated while they are children but once they reach 18 or older the preference may be to revert back to a spouse.

Everyone's circumstances are different and everyone's circumstances change with time. The main message is to maintain your declaration as an up-to-date statement of your wishes possibly with a secondary circumstance covered. You will receive a form on a 2 year cycle – we will be sending some out every month rather than all together to facilitate registering the newly returned forms.

This is all being done to help the Trustee to fulfil its duty to exercise its discretion correctly having made due enquiry into the relevant circumstances. It is not intended to be an intrusion at what is after all a difficult time so I ask you all to be understanding when questioned and to help the administrators to help the Trustee to ensure the benefit is distributed appropriately.

FUND CASH FLOWS

INCOME

+

Contributions from Employer

Normal
9,240



Additional
5,283



Deficit funding
23,000



Contributions from Members

Normal
4,334



AVC's
206



Investment Income
24,377



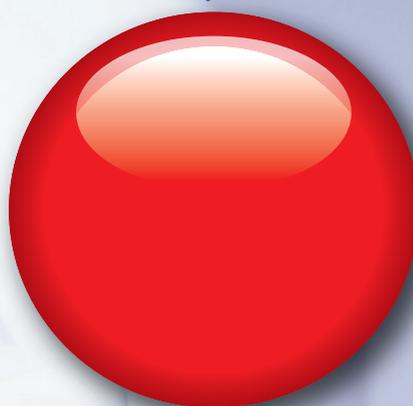
Change in value
of investments
127,536



EXPENDITURE

-

Pensions Paid
68,284



Lump Sums
at Retirement
8,934



Death Benefits
1,213



Individual Leavers,
transfers out etc.
1,237



Investment Management
expenses (net of rebate)
3,187



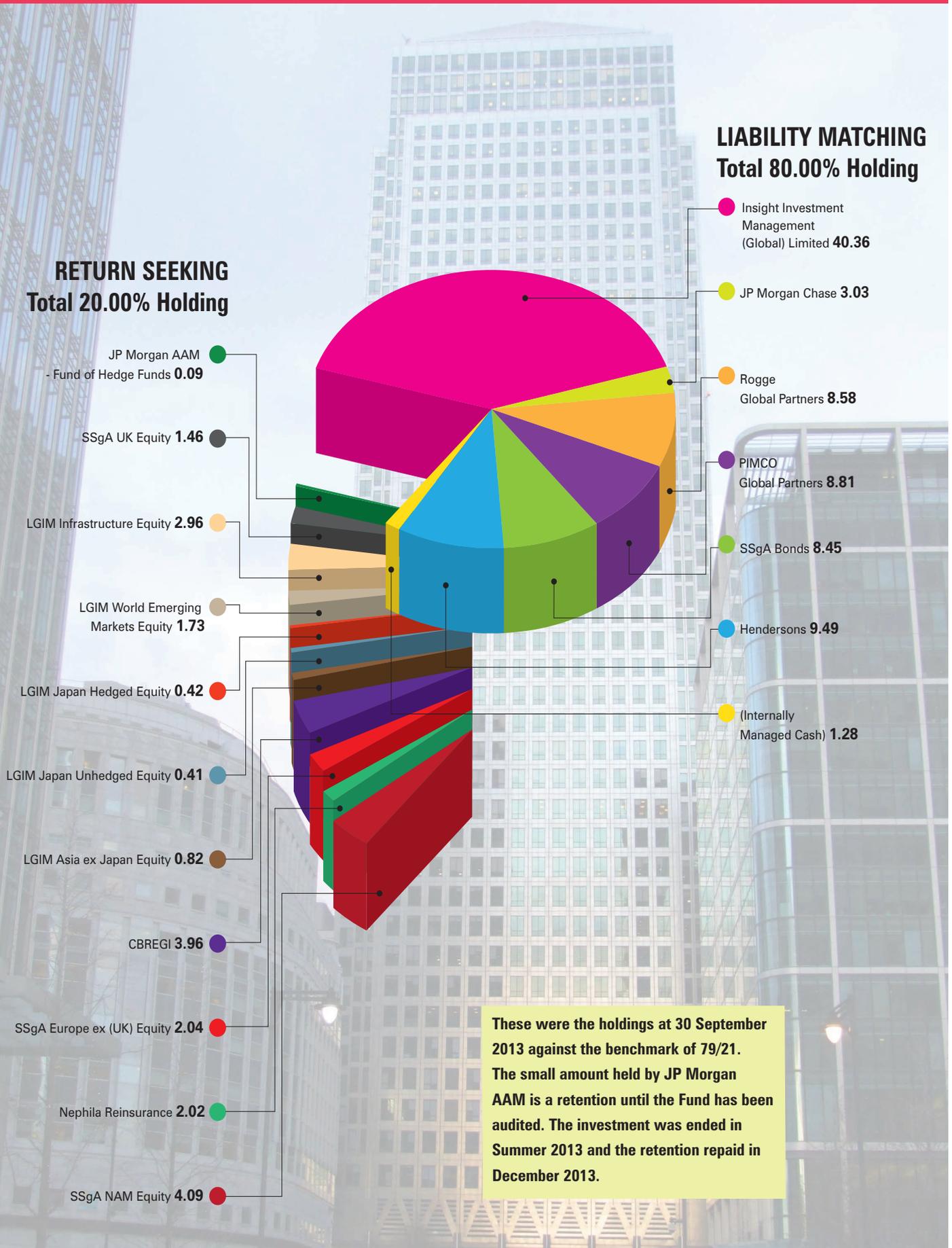
Fund Value at 31.12.11 = 1,311,902

Fund Value at 31.12.12 = 1,423,023

The detailed Trustee Report and Accounts are available on the Scheme's website.

(all figures in £ thousands)

INVESTMENT MANAGERS



AVCs

Members currently paying AVCs have been advised of a change to the formula for calculating these benefits which will become effective after 31 December 2013. The factor currently used in the benefit calculation of 1.50 is to be changed to 1.19 from 1 January 2014. Anyone commencing to pay AVCs from that date will receive benefits based on the new formula unless and until it changes again. The change is to recognise that benefits are now calculated on a fixed pensionable salary.



PSS DC AVC TRANSFER

Insurance Option - PSS Rule 11 (a) (ii)

It has been decided by the agreement of the Company and the Trustee to change the rules of PSS to enable a member, should he wish to do so, to transfer his DC AVC 'pot' to another provider without the need for the remainder of his PSS benefit to be transferred. It has previously been the case that a member had to transfer ALL his benefit – PSS plus AVC – to a third party.

The new facility is NOT available to people paying AVC contributions directly into PSS – only those paying to Prudential.

It is strongly recommended that independent financial advice is taken before any transfer of benefits is effected.

EQUITABLE LIFE

As you may have read in the national press, the Equitable Life Payment Scheme was set up by HM Government to make fair and transparent payments to Equitable Life policy holders who suffered financial losses as a result of Government maladministration which occurred in the regulation of Equitable Life.

There is a great deal of detail about the Payment Scheme on the website <http://equitablelifepaymentscheme.independent.gov.uk> or you can ring 0300 0200 150 to find out if you are eligible for a payment. The Payment Scheme has requested details about those PSS members which it has calculated to have suffered a loss in respect of which a payment is to be made.

The Payment Scheme requested from us details of first names, addresses and status – i.e. whether the individual is an active, paid up or pensioner member. The information which we have, was provided and the Payment Scheme will contact those individuals to whom a payment is to be made. The Payment Scheme is independent of the PSS Trustee and the Pension Scheme so we are unable to answer individual queries on it. The information on the website above may be helpful.

Any member with an Equitable Life AVC investment may transfer that benefit to another plan. It is recommended that anyone considering this course of action takes independent financial advice before deciding what to do.

TRANSFERS FROM PSS

There are two issues which have arisen recently in connection with transfers from PSS.

The first concerns members who may decide to opt out of PSS on account of the capping of pensionable pay and to join the Defined Contribution plan offered by Friends Life. In the event that a former PSS member wishes to transfer his/her PSS benefit to Friends Life then Friends Life will only accept such a transfer (or in fact any transfer from a Defined Benefit scheme) if certain conditions are met. These conditions are set out in a letter which is available from ASK HR or Group Pensions Department. The second is the increasing incidence of pension liberation schemes. These are often promoted by companies which suggest that they can help people to gain access to their pension fund early. The Pensions Administration Team send out the Pension Regulator's advice document to anyone asking for a transfer value and this gives some idea of the potential impact of entering into any such arrangement and the tax charges, which can be large, which may result.

The old adage applies – if it seems too good to be true, then in all likelihood, it is!

EXISTENCE CHECK

Whilst it has always been our practice to carry out an existence checking exercise after each valuation, so in effect every three years, this is now carried out annually. In addition we have tried this year to locate the deferred members with whom we have lost contact. It is important that we have up-to-date addresses for members in order that we can maintain contact with them.

These checks include members living in the UK and those living overseas. In addition we are now required to check beneficiaries against lists issued by the UK and US Treasuries. We ask your forbearance and co-operation if you are contacted during any of these exercises either by us directly or one of the agencies which is assisting us. We are simply doing what is required of us in administering the Scheme for the Trustee and for the benefit of the members.



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to a maximum of 14, made up of 7 Employer Nominated Directors (including two independent outside directors with substantial experience of pension matters), three Pensioner Nominated (elected) Directors and four Active Member Nominated (elected) Directors. This led to several of the Member Nominated Directors ('MNDs') previously elected by Active Employee members stepping down from the Board. Both the Pensioner Nominated Directors who had previously been Directors were re-elected and Mr. Gordon Sayers joined the Board to increase the number of Pensioner MNDs to three. In addition I would like to welcome Mrs. Nikki Ellison as a new Active MND. The full list of current Directors is set out on page 2.

I would like to take this opportunity to thank those Directors who have served on the Board – both as Employer and Employee Directors – and who stood down this year. These are Graham Ingle, Tim Izzett, Steven Jones, Annette Kelleher, Gary Luck and David Pinder. Many had been on the Board for some time and have worked very hard for the benefit of the whole membership. Being a Director takes commitment and, particularly at the time of joining, entails a steep learning curve. I thank them all most sincerely on your behalf.

I introduced Keith Greenfield as a new independent Director in last year's Reflections. I can advise now that I am retiring at the end of 2013 after almost 16 years on the PSS Board and 14 years as its Chairman. I am pleased to advise that Keith is to take over the Chair. I am confident that he has the experience and expertise to undertake this role and I am happy that I am leaving the PSS in a safe and capable pair of hands.

At the same time, Glen Nightingale will also step down. Glen was an Executive Director of Pilkington plc for over 12 years and has also been a Director of PSS Trustee for almost 16 years - we joined together in February 1998. He has worked tirelessly for the good of the PSS membership, still today being a member of the Investment and Audit Committees and having been heavily involved on the Committee which negotiated for the Trustee during the takeover of Pilkington plc; the Longevity Working Party; the Valuation Committee on several occasions and many other ad hoc committees. He recognises the limitations within which the Scheme has to operate and the difficulties faced by the Company in balancing the needs of its businesses against the calls for support from PSS. Glen has always been an enormously valuable support to me during the very challenging times of the last decade and I would like to thank him both personally and on behalf of you all for his magnificent contribution over many years to the running of PSS.

The two vacancies resulting from our retirement are to be filled by two new Trustee Directors nominated by the Company – first Phil Wilkinson, who is CIO of NSG Group and who has experience of pension matters, and secondly by Peter Thompson who is a member of BES Trustees Limited, a firm of professional independent trustees, and who is a very experienced and respected figure in the pensions world.

I should also like to take this opportunity to thank Julie Halligan, Christine Molyneux, Wendy Rodriguez and all the staff of Pensions Department for their tremendous support over my time as Chairman. We all owe them a great debt for the hard work they undertake on our behalf coping with the many changes and challenges which have occurred.

Finally I wish the Trustee Board every success in the future, particularly in continuing to build on the foundations we have put in place to restore the Scheme's financial position. There is no doubt that over the last ten years pension scheme management has become much more difficult and more complex than ever before but I have every confidence in the ability of the Board with the help of its advisers and staff and the continuing support of the Company to steer the Scheme's future course and to reach a successful outcome for all members.



Keith Greenfield



Glen Nightingale

MEMBERSHIP

31 December 2011	31 December 2012
Active	
1756	1545
Deferred	
3095	3123
Pensioners/Spouses	
11425	11242
Total	
16276	15910

USEFUL NUMBERS

OFFICE MOVE

Group Pensions Department have now moved from 10th Floor Tower to 3rd Floor Court Block, Prescott Road.

It can still be contacted on the same numbers and address as before. See below.

If you have any queries about your pension benefit, please contact Group Pensions Department

Group Pensions Department,
Pilkington Group Limited,
Prescott Road,
St Helens,
Merseyside WA10 3TT

Telephone:
(01744) 692596

Fax:
(01744) 737336

Email:
pensions.administration@nsg.com

For Healthcare queries
contact BUPA helpline
on: 0845 606 6715

Income tax queries contact
Inland Revenue direct
on: 0300 200 3300