PILKINGTON
REFLECTIONS
The Pilkington Superannuation Scheme October 2003 1

Actuarial Valuation brought forward
FINELY BALANCED

Last year's 'Reflections' reported the findings of an actuarial valuation of the Scheme made as at 31 December 2000. It also showed the actuary's estimate of developments in the Scheme's funding up to 31 March 2002 and asked 'where next?'

We must be cautious says the Chairman

Chairman, Andrew Robb

The subject of pensions has rarely been out of the news during the past year and there is no sign of the situation changing in 2003.

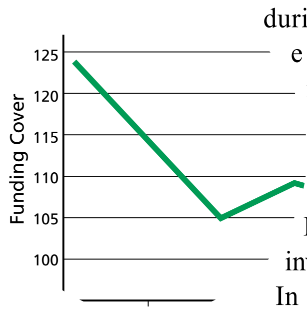
2002 proved a difficult year for many UK pension schemes, PSS included, as Fund values declined for the third year in a row. Although stockmarkets appear to have stabilised and have shown some improvement in recent months, it is unlikely that investment values will recover to the levels they were at two or three years ago and, therefore, we have to continue to consider very carefully our investment strategy to safeguard the Fund for the benefit of all members and pensioners.

In view of the very significant changes which have occurred in values the Trustee instructed the Actuary to bring forward the triennial valuation by one year in order to establish the state of the Fund as at 31 December 2002. At that time PSS's assets were just over a billion pounds and it is pleasing to report that the valuation of the liabilities at the same time was slightly less. Although the Actuary could not recommend a pension increase this year because of the absence of any significant margin, the valuation showed sound backing for the basic benefits promised in the rules. You will probably know from reading the newspapers that this is a much better situation than many U.K. pension funds at the moment and arises at least partly because of the fact that Pilkington, as employer, cannot take, and indeed never has taken, a holiday from paying regular contributions into the Scheme.

The valuation findings are reported in more detail in the main article in this issue of 'Reflections'.

Having the security of a certain contribution rate is valuable but does not remove all the issues that have to be dealt with. For instance the annual cost of benefits promised by the PSS rules is currently greater than the combined member and company contributions because of obligations imposed by legislation. The Trustee is presently reviewing this position in consultation with the Company.

A number of investment changes have taken place during the past eighteen months as the Trustee has continued to safeguard the Fund's investments.



In particular over that time the equity content has been brought down and the bond content has been increased so that today the Fund is split approximately 60% in equities and 40% in bonds. The Fund has a very mature membership profile with 12,000 pensions being paid and with only 3,000 active employees. Over time therefore it is likely that the equity/bond allocation will move further in favour of bonds

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SUPERPILK

If you are a surfer but haven't landed on superpilk.com recently, take another look.

The appearance has changed. The site is now hosted within Pilkington. Being internal offers the possibility of expanding content and updating it more frequently. There will shortly be a contact address through the site making it easier to email general queries to pensions and constructive comments about how to improve the site.

Falls in stockmarkets during summer 2002 further impacted the Scheme's funding (i.e. how many assets there are for each £ of pension liabilities).

The Trustee decided to bring forward the next actuarial valuation (usually these are made only every three years) by a year to 31 December 2002. It was felt vital to have an accurate and up to date picture when deciding if an increase could be afforded in July 2003.

Long term assets (and liabilities)

A pension scheme is a long-term activity. The youngest PSS member may not become a pensioner for another 40 years or more, can expect to live for 20 or 30 years in retirement, perhaps leave a spouse to whom a survivor's pension is payable.

The Actuary has to try and measure the amounts of pension and other benefits that will have to be made over the next half century and beyond.

This is done by "discounting" future payments to one point in time – the valuation date. The value calculated can then be compared with the fund's assets to see if funding is above or below one hundred per cent on the assumptions chosen.

Liabilities and assets can be compared in different ways to answer specific questions, for instance

- if the fund were to be wound up (and no more contributions and no more liabilities added) would it be able to cover the benefit promises built up to that point?
- if the fund were to run on, accepting new members and receiving contributions as now, will the contribution rate payable under the rules plus the present assets be sufficient to cover the benefits promised by the Scheme, and even allow improvements?

Actuaries say that their financial assumptions about assets and liabilities

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THE TRUSTEE BOARD
at 1 October 2003

DIRECTORS

Mr A M Robb (Chairman)	**Mr R P Hemingway**
Mr R Abbott (E/ee)	**Mr T Izzett**
Mr S J Beesley *(E/ee-P)	**Miss M Jones** (E/ee)
Mr J D Butterley (E/ee)	**Mrs J Mafi** (E/ee)
Mr D E Cook*	**Mr J Mckenna**
Mr R Clarke*	**Mr K McKenna** (E/ee)
Mr A Cunliffe (E/ee)	**Mr G Nightingale***
Mr S M Gange	**Mr B Parker** (E/ee)
Mr J K Gillespie*	**Mr D A Vernon-Smith**
Mr P H Grunwell*	**Mrs C Wakefield** (E/ee)
Dr A D Havard* (E/ee-P)	**Mr E W J Wallin** (E/ee)

The Law Debenture Pension Trust Corporation plc

SECRETARY R W Neate
Pilkington Brothers Superannuation Trustee Limited,
Prescot Road St Helens Wa10 3TT (01744 692980)

Note 'E/ee' denotes the director is directly elected for a fixed term by the PSS's members (pensioners, where the abbreviation 'E/ee-P' is shown against a name). An '*' indicates that the director is in receipt of a PSS pension.

ALL CHANGE

Julie Halligan has been appointed the Group's next Pensions Manager in the UK.

A member of the Group's Legal Department for eighteen years Julie joined Pensions in August. It is planned she takes over responsibility for the PSS early in the New Year and the other aspects of her new role by Easter 2004.

Julie has joined Pensions at a time of more than usual potential change in the pensions world

- the Scheme's trustee will be debating the structure of future benefits in coming months (see 'Finely Balanced')
- much of the law and regulation of pensions is under Government review (see 'Another Try', back page).

In the meantime the existing PSS Rules and Revenue regulations have to be understood and operated. And for good measure a new computer system will be in process of bedding down in Pensions Department this winter!

ELECTIONS IN THE OFFING?

The last elections for Employee Directors of the Scheme were held in 2001. Another round will take place next spring. The Trustee's Articles say half the Employee Directors have to stand down in June 2004.

Due to go- they can stand again- are Ralph Abbott, Maureen Jones and Bernard Parker from the 'L' (local to St Helens) constituency.

The position is not so clear cut in the 'R' (remote from St Helens) constituency. There will already be a

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Chairman's Message

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in order to match more closely the assets of the Scheme with its liabilities. There will always be a significant equity element however because historically equities have outperformed bonds and in this way the Fund has been able not only to meet cost of living increases but also, over time, to improve benefits available to members. Although we do not expect a repeat of the substantial equity returns seen in the 1990's there is no reason to assume that equities will not continue to perform reasonably well over the long term.

As I said to you in my letter (to pensioners) of 3rd June 2003 the Trustee will continue to monitor closely the funding position and, of course, will treat as a priority the need to re-introduce the annual cost of living increase as soon as the position of the Fund allows.

Andrew Robb
Trustee's Chairman

THE SCHEME'S TOP TEN SHARE HOLDINGS AS AT 31 DECEMBER 2002

		£m
1	Treasury 8% 2021	64.59
2	Treasury 4.25% 2032	54.41
3	Treasury 5% 2025	42.98
4	BP	30.32
5	Treasury 2.5% Index Linked 2016	25.69
6	Vodafone Group	24.59
7	Glaxosmithkline	21.84
8	HSBC Holdings	20.94
9	Treasury 2.5% Index Linked 2024	18.87
10	Treasury 6% 2028	18.28

FINELY BALANCED

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(interest rates, earnings growth, price inflation and pension increases) have to hang together, if their calculations are to be a sensible guide to a scheme's funding outlook. The view is that the financial markets should provide the basis of assumptions and values. The interest rate earnable at a valuation date by investing in the Government's fixed interest stock is held to be a good starting place for fixing what investments may earn for the future. The difference in price levels between these stocks and index-linked bonds provides a pointer as to what to assume about long term price and earnings growth rates.

As well as financial assumptions, the actuary needs to assess how long pensioners and members will live, and the probability of contributors leaving and drawing benefits early, to calculate the total pension liability.

Pension schemes have, by law, to increase certain pension elements. But the rest is down to a scheme's rules. At this valuation the PSS's actuary started from the premise that PSS would not increase a pension element unless legally required. This was the biggest change in assumptions from the 31 December 2000 valuation when discretionary increases were costed into the scheme's liabilities.

The valuation revealed that the value taken for the assets (£998m) at 31 December 2002 was only £4 millions more than the value placed on pension liabilities built up for membership to that date with (in the case of contributors) allowance for future salary increases.

Extract from the Valuation Report

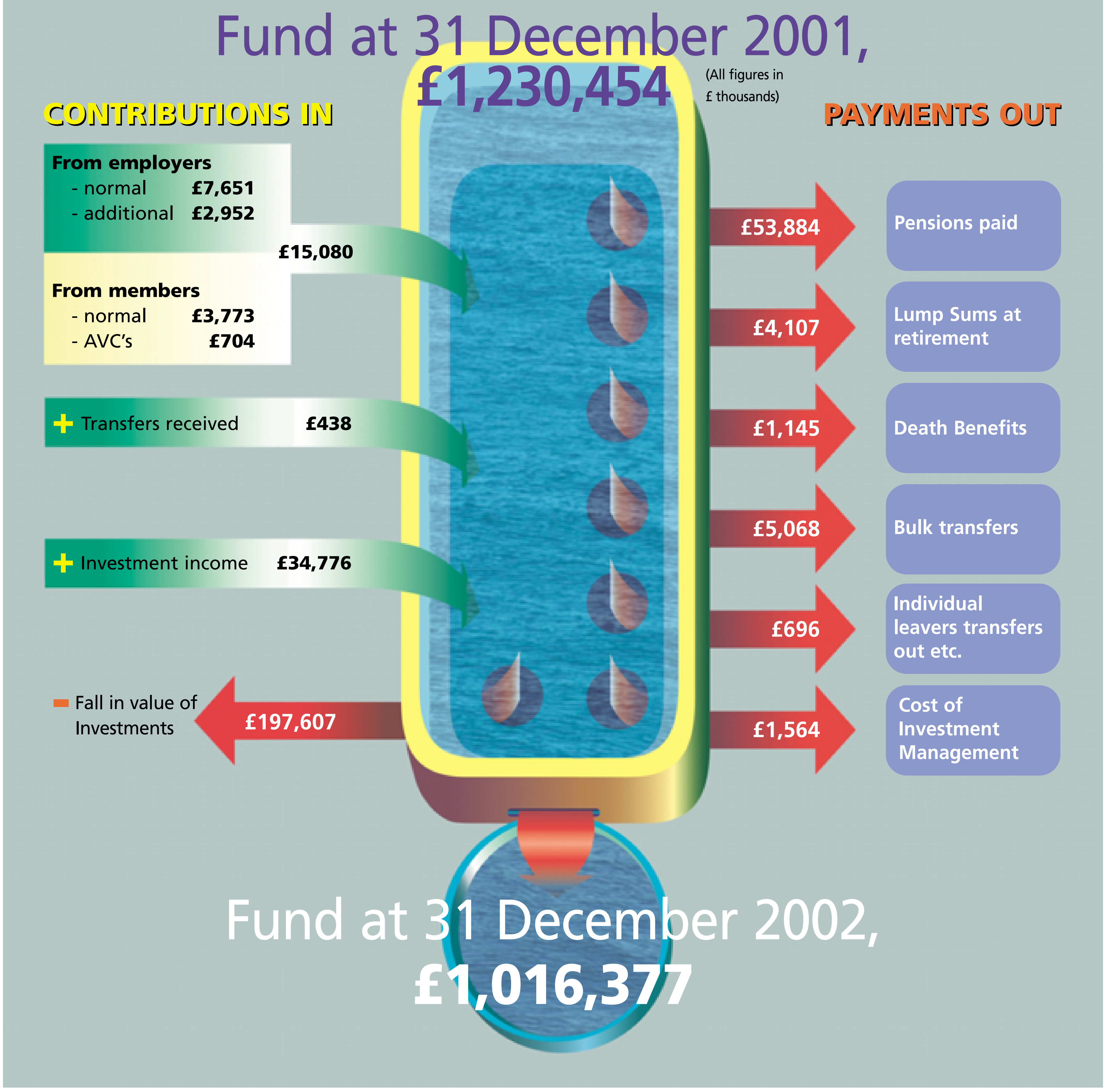
Value of past service ongoing liabilities:	£m	£m
Active Members	247·1	
Deferred pensioners	144·5	
Pensioners	603·2	
Funding target		994·8
Adjusted market value of assets		998·8
Total service surplus		**4·0**
Funding ratio		**100%**

Given the narrow gap between the asset and liability values and the ongoing uncertainty of investment markets the actuary concluded that the funding level would not allow a general pension increase in July 2003.

The valuation also highlighted the issue referred to by Andrew Robb in his Chairman's statement, namely that the annual cost of benefits being built up is greater than the combined member and employer contributions because of obligations imposed by legislation in recent years. Previously, the Trustee has been able to reserve a small part of the fund surpluses to cover the gap but now there is insufficient surplus and, therefore, the Trustee is reviewing the options available to it to correct the position, in consultation with the Company.

KEY FEATURES OF THE PSS FINANCIAL STATEMENTS FOR 2002

The full Financial Statements forming part of the Trustee's Report are available on **www.superpilk.com** or from Pensions Department



Pilkington Aerospace Limited

Pilkington Aerospace Limited's participation in PSS will be ended by the time this newsheet is dropping through the letterbox.

This Pilkington subsidiary has been sold and, having received clearance from various governments, will become a part of the GKN group from the end of September.

Because the parent/subsidiary relationship has ended Inland Revenue rules require Aerospace to come out of the Scheme, so members will become preserved pensioners from that time.

Under current Revenue rules the older members affected by this change of ownership will have to leave their employment before applying for payment of pension from PSS. This restriction may end when the "simplification" proposals (see 'Another Try') come into place.

ELECTIONS

Continued from page 1

vacancy. Fred Mapp has to resign when Pilkington Aerospace leaves Scheme membership. The other Employee Directors (Kevin McKenna, John Butterley and John Wallin) will draw lots to decide which is to stand down this time round.

The Trustee will agree the nomination procedures and voting timetable this Autumn.

INVESTMENT REPORT 2002

Extracts from the Review of Investment Performance 2002 (the full review by PPSL's Chief Investment Officer, Jeff McMahon, is included in the Trustee's Annual Report)

Economic Growth and Monetary Policy

At the beginning of 2002, financial markets were pricing in a strong recovery in the US economy and a rise in short-term interest rates. After a strong start, with Q1 02 annualised US GDP growth reported at 5%, the 'recovery' lost steam and investors' attention turned to the chances of the US experiencing a 'double dip'. In the light of subsequent weaker economic data, the US monetary authorities eventually responded with a further cut in interest rates in early November. This 50 basis-point cut took the Fed Funds rate to 1.75%, the lowest level for 40 years. US economic imbalances apparent at the start of 2002 did not upset the economy as many had feared. The private sector financial deficit narrowed without any severe repercussions. The trade deficit continued to widen, although the dollar remained relatively resilient until late in the year.

In the event the US was one of the strongest economies among the major markets in 2002 with annualised US GDP growth of 2.4%. In the UK the equivalent number was 1.8% growth for 2002, 0.8% in the Eurozone and –0.3% in Japan. The European Central Bank left interest rates on hold at 3.25% until early November, when it cut rates to 2.75%. However, the UK's Monetary Policy Committee left rates on hold at 4% throughout the year, as the weak manufacturing sector was offset by a buoyant consumer sector. At home, confidence was supported by low rates of unemployment and a 29% year-on-year rise in house prices, according to the HBOS index. Towards the year-end, however, there were signs that the UK housing market might be running out of steam. Globally, attention turned to the possibility of deflation.

Corporate Malpractice

During the year prominent news was given to corporate misdeeds, particularly in the US. The collapse of Enron in December 2001 resulted in the downfall of its auditor, Andersen, in March charges of obstruction of justice. This was followed in July 2002 by the US's largest ever corporate bankruptcy, WorldCom, where revenue numbers were found to have been inflated by more than $9bn, and by further accounting related frauds at Tyco (where the CEO was indicted on charges of corruption) and Xerox, to name but two. In Europe, Vivendi Universal's CEO came under scrutiny as similar issues plagued the French media company.

In an attempt to restore investor faith, the US Securities and Exchange Commission set a deadline of 14 August, by which date all chief executives were required to sign off on the validity of their financial reports. The New York Stock Exchange now also requires that half of a company's directors are truly independent of management. The hope is that these measures will result in companies adopting a less aggressive approach to accounting and a reduction in the number of instances where accounts are manipulated to flatter earnings.

Geographical Tensions

Tensions became increasingly evident as the year drew to a close and expectations rose that a US invasion of Iraq was imminent. The result was the return to favour of defensive stocks and 'safe-haven' asset classes during December. Oil prices soared to over $30/bbl in December, largely due to the oil workers' strike in Venezuela, but markets were clearly factoring in an increased war risk as well.

However, throughout the year tensions had played a part in depressing investor confidence. While serious conflict between India and Pakistan was narrowly avoided, hostilities between Israelis and Palestinians deepened as the year progressed. Global terrorism, in the form of bomb attacks in Bali and Kenya, resurfaced in the final quarter.

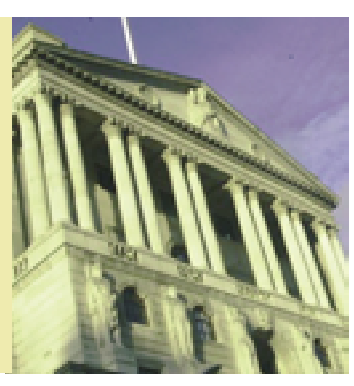
Corporate Activity

Corporate activity remained depressed in 2002. In the UK, the most noteworthy large transactions during the year were the successful bid by US cruise operator Carnival for P&O Princess, the formation of National Grid Transco from the merger of National Grid and Lattice, and HSBC's purchase of Household in the US. Meanwhile companies such as Corus saw high profile deals fall apart, an outcome that was severely punished by shareholders triggering its eviction from the FTSE 100 index in December.

In Continental Europe, the largest deal was that between Credit Agricole and Credit Lyonnais in December. Other deals suffered at the hands of the regulators – including E.On's proposed acquisition of Ruhrgas – while mere rumours of mergers fuelled the performance of a variety of stocks, such as German bank Commerzbank and HVB in the final quarter. In the US, the biggest deals were the Pharmacia and Pfizer tie-up, agreed in July, and Northrop's February acquisition of TRW.

Investment Policy

	£000's
UK Bonds increased by	128,554
Overseas Bonds decreased by	(35,299)
Index Linked increased by	25,886
UK Equities decreased by	(64,057)
Venture Capital decreased by	(2,211)
Overseas Equities decreased by	(17,473)
Property decreased by	(10,172)
	25,228



The policy movements outlined above, together with movements in market prices during the year, resulted in the following changes in the distribution of the investment portfolio.

	31.12.2002	31.12.2001
	%	%
FIXED INTEREST	**41.0**	**22.7**
UK Bonds	28.8	12.5
Overseas Bonds	0.0	2.8
Index Linked	12.2	7.4
Cash	1.6	4.5
Venture Capital	0.3	0.5
EQUITIES	**57.1**	**71.4**
UK	35.1	44.2
Overseas	22.0	27.2
Property	0.0	0.9
	100.0	100.0
Investment Assets (at market value)	£1,006m	£1,218m

Return on Investment

The overall return (i.e. capital depreciation plus income) on the investments held by the Scheme in 2002, as reported by WM, was –13.6%. During the year the Retail Prices Index (including mortgage interest payments) rose by 2.9%.

For the 10 years to December 2002, the annualised return on the Scheme's investments was 6.7% - again reported by WM. Over the same period retail price inflation was 2.5% per annum therefore giving rise to an annualised real return of 4.1%.

Relative Performance

	2000	2001	2002	3 years	5 years
	%	%	%	% p.a.	% p.a.
Scheme Annual Returns	-3.5	-11.3	-13.6	-9.6	0.8
Benchmark Returns	-1.8	-10.8	-12.6	-8.4	1.2

Note: The Trustee Directors set performance targets from 1st January 1997 at +0.5% above the benchmark (WM All Funds median return) on a rolling 3 year basis. The benchmark was changed from 1st January 2001 to a series of specific indices for each asset class, and a higher Bond content was simultaneously adopted. As a consequence of the transition to new benchmarks and weightings the Directors withdrew performance targets for the year 2001. On 14 January 2002 the Trustee Directors accepted the recommendations of the Benchmarking Committee to move the Scheme to a 65:35 Equity/Bond neutral allocation, from the 75:25 Equity/Bond benchmark set a year earlier. The necessary switch from equities to bonds to complete this exercise was undertaken in January. On 26 September 2002 the Trustee Directors approved the further benchmark move on 1 August 2002 to a 60:40 Equity/ Bond neutral allocation. The performance target of +0.5% above the collective benchmark was restored for the year 2002.

Performance Commentary

Summary of individual manager performance:-

	Performance for rolling 3 year Periods to 31 December		
	2002	**2001**	**2000**
	%pa	%pa	%pa
UK Equities	-15.2	-1.0	8.8
Benchmark	-13.5	1.3	10.1
N. American Equities	-9.9	10.5	22.6
Benchmark	-15.8	2.3	15.5
European Equities (Deutsche)	-14.5	2.8	19.7
Benchmark	-16.0	-0.9	17.0
Japanese Equities (INVESCO)	-33.2	0.9	16.1
Benchmark	-24.2	0.7	13.4
Government Bonds	7.2	2.9	9.3
Benchmark	5.8	1.9	8.9
Index Linked Bonds	5.9	4.6	10.1
Benchmark	3.7	2.4	9.5
TOTAL FUND	-9.6	2.0	10.8
Benchmark	-8.4	2.0	10.5

Source: WM Company

This is the third consecutive year of falling values for this Scheme and the average UK pension fund. Although the Scheme investment return was –13.6% in 2002, the WM All Funds Universe average returned –15.2% (excluding property).

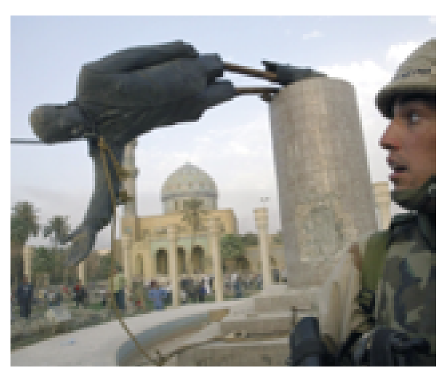
In 2002 for sterling investors our Japanese benchmark fell 18% and was the best major market. Similarly our US, European and UK equity benchmarks fell 29.5%, 27.0% and 22.7% respectively.

Before any allowance for exceptional transition costs, unusually all the Scheme's equity portfolios underperformed their respective benchmarks in what was a very difficult year for managers.

In stark contrast bond markets produced their best level of returns since 1998. The Scheme's government bond benchmark (over 15 year Gilts) delivered a total return of 9.9%, the Scheme's equivalent return was 10.4%. The index linked benchmark returned 8.4% against 9.4% for the Scheme. Corporate bonds were separately included in the new benchmark at the start of the year. WM have calculated the Scheme's corporate bond return at an adjusted 8.1% against 8.4% for the adjusted benchmark – after allowing for January's benchmark change and appropriate transaction costs. For corporate bonds the Scheme's unadjusted reported return was 7.8% against 10.9% for the benchmark in 2002.

Prospects

Certainly for most of the first quarter of 2003 geopolitical tensions caused investors to price greater risk into financial assets. Indeed by mid-March continued equity weakness had sent the FTSE 100 to a new eight-year low. These falls took the dividend yield on the UK equity market above the yield on benchmark government bonds for the first time since 1957. However, since then and following from the swift conclusion to the Iraqi conflict equity markets have rallied strongly. The 9.4% return from the FTSE All Share Index in April, was the best monthly performance from the UK equity market since September 1992. The ending of the war seems to have marked something of a turning point triggering a relief rally, but investors will now increasingly focus on the underlying fundamentals for both growth and valuations.



Some survey data has already been published covering business and consumer confidence after the fall of Baghdad on 9th April. Certainly there has been a bounce in consumer confidence, especially in the US and the UK. But the pattern in US

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INVESTMENT REPORT 2002

consumer confidence may be similar to 1991 when confidence jumped immediately after the end of Desert Storm, but then trended lower for the rest of the year. In both the US and UK confidence remains well below levels of a year ago. Meanwhile in the Eurozone consumer confidence remains close to six year lows.

More worryingly, global business confidence has actually deteriorated since the end of the war. The April ISM manufacturing index in the US fell to 45.4 from 46.2 in March. Readings below 45 have historically been linked with US recessions. Similarly, in the Eurozone, the German IFO index fell from 88.1 to 86.6 in April, its lowest level since December 2001 – a time when the German economy was in recession.

Globally the monetary authorities are aware of the need to stimulate growth in a low inflation environment. Inflation looks set to move lower following the recent stabilisation in oil prices around $24/bbl after their mid-March peak of almost $32/bbl. In conjunction with the low levels of business confidence global interest rates could well go lower in the short term.

After the strong post-war rally in equities it would be natural to expect some consolidation in markets whilst the corporate fundamentals gradually catch up. Valuations have come down a long way in recent years, and companies continue to rationalise and restructure in response to the present low inflation, low growth environment. Lower interest rates and low inflation indicate a favourable background for bonds – further equity gains may have to wait until later in the year when there is greater visibility on global growth and the US in particular.

HERE FOR A SEASON

The recent war in Iraq led to the calling up of reservists, including some PSS members. So what happens to PSS pensions in this situation, and others, when members are away from work?

It was relatively straightforward for the reservists. The rules say, and statutory regulations require, pensionable service to continue during the enforced absence. The Scheme continues to collect contributions based on the reservist's normal salary, but the Ministry of Defence makes good the employer's contribution.

In other absence situations the answer is generally there in the Rules. So if an employee is absent through sickness contributions are still due to the Scheme and contributory membership continues. If sick pay ends the Rules require the employer to make good any contribution shortfall.

Should a member take a period of unpaid leave the situation is more complex but, in essence, comes down to the fact that the period will not be pensioned (i.e. his record will show a service gap) unless the member pays both his contributions and the company's.

In recent years Governments have introduced various rights to absence. The first of these was maternity leave. The expectant member's contributory membership continues, without the need for her to contribute, during the period for which she receives statutory maternity pay. If she elects to return to work after the leave ends, the whole absence is treated by the scheme as pensionable. The same principle will apply to the recently introduced legal right to paternity leave.

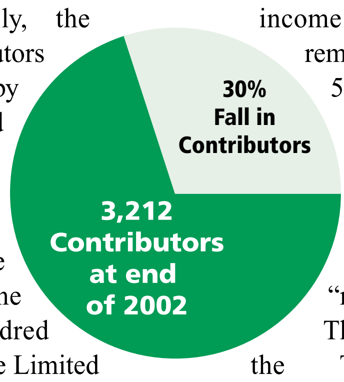
Finally there is parental leave, which allows parents a legal right to periods of time away from work during a child's early years. The Scheme will treat this as unpaid leave.

A LONG VIEW

The Trustee's Report and the Financial Statements concentrate on what has happened over a twelve-month period. Read in isolation trends are not thought about.

Put the last few years Reports side by side and the scale of change in PSS since the merger with the Pilkington Pension Scheme just over five years ago (mid 1998) becomes obvious.

Most dramatically, the number of contributors to the Scheme fell by 30% to 3212 at end of 2002 (4563 at end of 1998). A further drop will be seen in 2003 with the withdrawal of the almost two hundred Pilkington Aerospace Limited contributors at the end of September.



Over the same period there has been a small decline in the number of pensions being paid as new retirements are not keeping pace with the number of beneficiaries' deaths.

The Scheme's contribution income (member, employer contributions and income from investments) has remained in a narrow range £48-50 millions a year over the last four years. On the other hand benefit outgo was over £59 millions in 2002, up by 15% over the same period, confirming the Scheme to be a "net disinvestor".

This year, and in the future, the Trustee's Report (see www.superpilk.com) will include a section showing movements in key data on a five year timescale.

For all the latest news visit www.superpilk.com

PILKINGTON PENSION SERVICES LIMITED

During the autumn the Pensions and Investment activities of Pilkington Pension Services Limited are being separated.

PPSL, which is regulated by the Financial Services Authority, will concentrate on its investment management activities for the Scheme.

Pensions administration – taking in record keeping, benefit calculations, and the pensions payroll – will transfer to a Department within the Group's Headquarters.

Pensions' telephone numbers will stay the same and the Department will still be located in the Court Block at Prescot Road, so the only noticeable change may be the name on the stationery!

LOWER TRANSFERS

The Scheme has over 3000 preserved pensioners. These are members who left employment before retirement age unable to draw pension until some time in the future.

Preserved pensioners have a legal option of exchanging their pension for a transfer payment to another pension arrangement. The option is there through to one year before normal retirement (age 65 for most PSS members), unless pension payment has started.

Any transfer value has to reflect the "cash equivalent" of the pension rights being given up. A consequence of the actuarial valuation (see 'Finely Balanced') is that the basis of transfer values paid by PSS has changed.

This year PSS has only paid pension increases required by law. There was no general discretionary increase.

The Trustee has agreed its actuary's advice and removed the allowance built into transfer payments for discretionary increases.

Preserved pensioners thinking of transferring should assess whether this is the right time.

ANOTHER TRY

In December 2002 the Department for Work and Pensions and the Inland Revenue released their ideas on changing pensions related law. A period for public comment followed. In June the DWP announced more detailed plans. The Inland Revenue will be issuing more details of its intentions this autumn.

Behind the Government's thinking is the realisation that pensions law is too complicated. For twenty-five years Government after Government has piled change on change and not stepped back from the detail to see the whole picture. New types of pension arrangements have been recognised by Government and surrounded by different legal and tax regulation, sometimes at odds with other sorts of pensions. Many of the laws written in the last few years aimed at protecting members of pension schemes have been found to have more holes than the Wolves' defence.

The Government's conclusion is that much of the administrative detail should be ditched, regulation made simpler, more protection for members introduced, and employers' costs kept down. Some circle to square!

The table summarises some of the key changes the Government is planning to put in place in coming years. How much happens will depend on the timing of the next election, and its outcome.

Area of Change	Purpose and Effect
Inland Revenue limits	Different types of pension arrangements (e.g company schemes, personal pensions, stakeholder plans) are governed by different Inland Revenue rules concerning maximum contributions in, pensions and lump sums out. One new set of Revenue limits will apply to all types of pensions from April 2005. Individuals will be allowed to build up the pension that can be provided by a "lifetime fund value" of (currently proposed) £1.4 millions. They will be able to contribute to any sort of pension scheme (e.g. company or personal etc.) at the same time, but will be taxed heavily on any fund value above the lifetime limit. The change will introduce more flexibility into pensions saving, but the new limits (based on fund values rather than actual pension rates) will lead to a rethinking of pension scheme benefit structures. **The changes are unlikely to affect anyone already retired by 2005.**
Retirement Ages	The earliest age from which pension schemes (company or personal) will be able to pay pensions is to become 55 (50 now) by 2010. It will also become difficult for companies to impose 'normal retirement ages' below 70 under separate age discrimination proposals. Both moves are aimed at keeping people "economically active" for longer to contain the costs of State benefits as people live to greater ages.
Pension Protection Fund	One of several ideas aimed at safeguarding pensions. A central fund is to be set up and ensure pensions are not completely lost if an earnings linked pension arrangement is underfunded when an employer fails. It will be funded by compulsory premiums from earnings related schemes. The actual detailed extent of the cover and, therefore, the cost to a scheme like PSS is unclear. (At the moment the only circumstance in which members have any hope of centrally provided compensation is when the underfunding is a result of fraud).
Debt on employer rules	When an employer terminates its pension arrangements, he may have to inject cash to bring it to a certain funding level. That funding level is to be increased, so that members' and pensioners' rights at the winding up date can be bought from an insurance company. Once the regulations have come into force they will apply to windings up started after 10 June 2003.
Scheme funding	At the moment many schemes are subject to a Minimum Funding Requirement ('MFR') test. Intended to safeguard members' interests when it was brought in, its workings have proved flawed in the financial market conditions of recent years. An MFR level of 100% may sound comforting, but it is not! The Government plans that pension schemes set their own funding targets on actuarial advice. If the employer does not accept the proposals and trustees want to force the issue they will have a new power of wind up. This will trigger a 'debt on the employer', see above. The Government's idea alters the balance of power as between an employer and a trustee body.
Compulsory pension increases	Currently the law requires pension schemes to increase pension earned by a membership of a scheme since April 1997 by price inflation up to 5% a year. This 'limited price indexation' of pensions in payment will be reduced to a maximum of 2.5% p.a. This cut in Government imposed cost will offset some of the cost of the premiums due to the Pension Protection Fund, see above.