

# **Trustee's announcement to pensioner members of the Dana Manufacturing Group Pension Scheme (the "Scheme")**

**Dear Member**

## **Background**

According to our records, you are presently receiving a pension from the above Scheme. This announcement is being sent to you by the Trustees of the Scheme and is intended to be the first of several that you may receive over the next few months.

Over the last year, the Trustees have been in regular communication with the Company regarding the funding of the Scheme and we have been seeking to increase the amounts paid into the fund by the Company in order to try to improve the financial security for members' benefits.

As you may be aware, the Company has been facing financial difficulties. Over the last six months our discussions with the Company have become much more detailed and complex. Much of the detailed financial information that Dana has shared with us has been of a commercially sensitive nature and, as is quite normal, Dana required the Trustees to sign a confidentiality agreement in order that this information could be considered without being made publicly available.

It is an unfortunate consequence of that agreement that we have been unable to communicate with you to the extent we would have wished either in writing or personally when you have spoken to us.

However, matters have now reached a stage where the Company has announced the outline of its intentions with regard to the Scheme and we are now able to bring you up to date.

## **Financial Position of the Scheme**

The Scheme has a significant deficit, which as explained above, the Trustees were seeking to address with the Company. The Company has made representations to us that it cannot afford to meet the shortfall in the Scheme and together with the trustees of the other Dana schemes, we were asked to consider options for the future.

None of these options provided for full funding of the pension scheme. We, as trustees, have employed professional advisers to assess the financial position of the U.K. Group in order to investigate whether there was a viable option that included both a solvent company and a solvent pension scheme. The conclusions reached are that there is no such option available.

The legal process is quite complicated but it may have been possible for the Trustees to have served a demand for the substantial pension debt on the employer and pressed for payment. The advice we have received is that the money would not be there to meet the payment and the outcome would probably have been insolvency for the Company.

The Company has put forward a package of measures which involves the Scheme receiving a substantial sum of money including a share of proceeds of the sale of some businesses and also a payment from the Dana group of companies. Whilst the sum is significant, it is not enough to secure every member's benefits in full.

The Trustees have on balance agreed to that proposal as the alternative would probably have led to insolvency where both the outcome and the likely proceeds to the Scheme would have been unpredictable and likely to be less than the sum on offer.

The Pensions Regulator (tPR) (the regulator of work based pensions set up to protect members' benefits) and the Pension Protection Fund (PPF) have been fully involved in the discussions with the company and the PPF have been instrumental in negotiating the financial agreement with the Company. Both tPR and the PPF believe that the agreement reached represents the best outcome which can be achieved for Scheme members in the circumstances.

There are still some technical points which remain to be completed which are necessary in order for the proposal to proceed. The actions being taken by the Company and the Trustees are therefore subject to those technical points being completed.

## **Your benefits**

The actions being taken will result in the PPF being notified and also tPR will be involved.

There will follow a period of assessment during which time the PPF will look into the finances of the Scheme to consider whether it will enter the PPF or whether it will be wound up outside of the PPF. If the Scheme does not enter the PPF, the Scheme's actuary has estimated that there will not be sufficient funds to buy-out every member's benefits in full with an insurance company. However, we will be approaching insurance companies to investigate whether benefits can be secured with an insurer which are larger than those provided with by the PPF. If that is possible then the Scheme will not enter the PPF. If the Scheme enters the PPF, then members will be paid compensation directly by the PPF.

Once the assessment period starts, benefits will be restricted to PPF compensation levels.

You should note that even if the Scheme enters the PPF and compensation is paid this does not mean that your accrued benefits will be paid in full. The level of

compensation paid by the PPF varies considerably between those members who have already passed their normal retirement age and those who have retired early and who have not yet reached their normal retirement age.

If you have not yet reached your normal retirement age and you did not retire due to ill health or are receiving a dependent's pension, currently, PPF benefits (or PPF compensation as it is more correctly known) are broadly 90% of the benefits you have earned subject to a cap of £26,050 pa. (for 2006/7)

For those of you who have passed your normal retirement age the initial amount of pension will not be reduced.

However, for both groups, annual pension increases are only granted on that part of a pension which was earned in respect of pensionable service after 5 April 1997. These increases are capped at 2.5% per annum and are likely to be lower when the annual increase in the index of retail prices (rpi) is lower. **There are likely to be differences in the dates on which pensions are increased.**

Other differences will be explained more fully in due course.

#### **What does entering the PPF mean?**

The PPF has a website ([www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)) which contains a great deal of useful information about what it is, how it is run and what does membership mean for members.

We attach a set of frequently asked questions which has been reproduced from the PPF website and we will continue to keep you informed of matters as they progress. If you wish to raise any question in relation to this announcement please either:

- a. Write to the Scheme's administrators, Mercer HR Consulting, Stratford Court, Cranmore Boulevard, Shirley, Solihull, West Midlands, B90 4QT,

**OR**

- b. Send in your question by email to [e-mail mailbox],

**OR**

- c. Call the question line answerphone on [tel no]

Please note that if you raise a question it will be considered by the Trustees and a response will either be sent directly to you or it will be collated and used in a general question and answer document to be circulated at a later date.

**"B Fund" members**

Finally, for those of you who have benefits under the B Fund which are payable in addition to those earned under the Scheme, please note that the B Fund has been wound up and each member's policy will be assigned to you personally in your own name instead of coming under the responsibility of the Trustee directors. After this exercise has been completed, your benefits under the B Fund will be provided through your own personal policy with the insurance company outside of the PPF. If the Trustees have your correct address, you will be informed of this when it happens and from that point onward, any queries you have should be with the insurance company. It is important that you ensure that we are aware of your present address and any changes.

We will continue to keep you informed of matters as they progress, but in the meantime if you have any questions, please contact the Scheme administrators, Mercer HR Consulting, Stratford Court, Cranmore Boulevard, Shirley, Solihull, West Midlands, B90 4QT.

**For and on behalf of Dana Manufacturing Group Pension Scheme Limited  
Trustee of the Dana Manufacturing Group Pension Scheme**

**Robin Birkett  
Albert Caddick  
Steve Harrison  
Brian Howells  
Jack Marr**

**Trustee Directors**

Please note that Ron Cross is no longer a Trustee Director of the Scheme

19 February 2007

# Questions and Answers

Reproduced from the website of the Pension Protection Fund  
([www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk))

(words or phrases which are underlined are explained in more detail on the PPF website, however we have attached the explanation of compensation at the end of this announcement)

## **A1. If my pension scheme qualifies for the Pension Protection Fund, what will happen to all the benefits I've accrued working for my employer?**

If the Pension Protection Fund assumes responsibility for your scheme, then compensation will be offered in lieu of your existing scheme benefits at the Pension Protection Fund level of compensation.

## **A2. How can I find out if my scheme is protected by the Pension Protection Fund?**

Most defined benefit occupational pension schemes and defined benefit elements of hybrid schemes are likely to be covered by the Pension Protection Fund. Defined benefit pension schemes which are not covered will be set out in regulations to be made by the Secretary of State for Work and Pensions in due course. To check that your scheme meets further eligibility criteria, see who is eligible.

## **A3. Under what conditions will the Pension Protection Fund assume responsibility for my pension scheme?**

Having established that your scheme is eligible for the Pension Protection Fund, your scheme must then satisfy the qualifying conditions.

An assessment period will be triggered if there is a qualifying insolvency event in relation to your employer. During this period, the Pension Protection Fund will decide whether it must assume responsibility for the scheme.

In particular the Pension Protection Fund will be looking to see if the scheme can be rescued and also whether the scheme has sufficient assets to secure benefits on wind up that are at least equal to the compensation that the Pension Protection Fund would pay if it assumed responsibility for the scheme.

The assessment period will take at least one year during which time the scheme will continue to be administered by the trustees subject to various restrictions and controls. The actual timing will be driven by the time taken to determine the eligibility of the pension scheme to be transferred to the Pension Protection Fund.

## **A4. I took early retirement and am in receipt of my pension. I have yet to reach my scheme's normal pension age. When I retired I chose to commute part of my pension for a lump sum. How will this affect any compensation I**

**might receive from the Pension Protection Fund if it assumes responsibility for my scheme?**

Where a member has taken early retirement and has not reached normal pension age, the fact that the member has commuted part of his pension for a lump sum will be taken into consideration, for the purposes of applying the compensation cap, when determining the compensation payable to the member from Pension Protection Fund. A member who is in receipt of a pension but has not reached normal retirement age is entitled to compensation at the 90% compensation level, which is subject to the compensation cap. Where a member has commuted part of his pension for a lump sum, in order to check whether the member's benefits are above the compensation cap level the first step is to work out the overall level of the benefit the member has received. If the overall level of benefit the member has received, taking into account the commuted lump sum, is in excess of the compensation cap, the lump sum will be taken into consideration when calculating compensation. Please view the [FAQs for industry professionals](#) for an example of how the Pension Protection Fund would calculate the level of compensation. If the member's benefits, taking into account the commuted lump sum, do not exceed the compensation cap, the lump sum will not be taken into account when calculating the member's compensation.

**A5. I am a deferred member of my employer's pension scheme. I am currently 53 years old. If the Pension Protection Fund became involved with my scheme, would I have to wait until I reach my scheme's normal pension age to receive my pension?**

If a member (aged 50 or over) has not retired prior to the scheme entering an assessment period he may apply to the trustees of the scheme for early retirement whilst the scheme is in an assessment period.

The trustees should then carry out two calculations.

1. Calculate the member's pension entitlement under the scheme rules.
2. Calculate what the member would receive under the Pension Protection Fund. (This would include the use of admissible, rather than pension scheme, rules, following Pension Protection Fund rules for revaluation from the assessment date and application of the compensation cap, the 90% rule, and actuarial reduction).

The trustees should then bring into payment the lower of the two. Where scheme rules would not permit early retirement, the amount payable under the scheme rules will be £0 so the trustees would bring into payment the lower sum, namely £0.

**A6. Will the Pension Protection Fund let me commute part of my compensation for a lump sum when I retire?**

After the assessment period has begun, under Pension Protection Fund's rules, retiring pension scheme members may commute part of their periodical compensation in return for a lump sum (sometimes called a tax free cash sum).

This applies to those pension scheme members who did not have this right under their pension scheme rules.

**A7. Once in payment, will my compensation from the Pension Protection Fund be increased at all?**

The part of the compensation that is derived from pensionable service on or after 6 April 1997 will be increased (or 'indexed') annually in line with the increase in the Retail Prices Index in the 12 months up to 31st May, capped at 2.5%.

The indexation date is 1st January each year, with the first indexation being awarded from 1st January after becoming entitled to compensation, with a proportionate amount payable in the first year of entitlement.

**A8. Will compensation in respect of pensionable service before April 1997 be increased in payment?**

In line with the statutory minimum required of pension schemes, no indexation will be paid in respect of pensionable service completed before April 1997. Only compensation derived from pension service on or after 6 April 1997 will be increased in payment.

**A9. What happens to my life assurance benefits if my scheme enters an Assessment Period?**

Once an Assessment Period commences, any life assurance cover providing a lump sum under the pension scheme ceases.

**A10. When a scheme is being assessed or has entered the Pension Protection Fund can a scheme member transfer out?**

When a scheme is in an assessment period, the trustees may only pay a transfer value where, before the assessment date, the member has requested and accepted the transfer value in writing and has designated a scheme willing to accept that transfer value. Further, the trustees may only pay that transfer value if:

- they are satisfied that to do so is consistent with the objective of ensuring protected liabilities do not exceed assets (or that where they do, the excess is kept to a minimum); and
- they reduce the transfer payment to the extent necessary to ensure that it does not exceed the cost of securing the benefits which correspond to the compensation that would be payable if the Pension Protection Fund were to assume responsibility.

Where the assessment period has come to an end and the Pension Protection Fund has assumed responsibility for a scheme, the member will become entitled to compensation at normal pension age. Once the Pension Protection Fund has assumed responsibility for the scheme, a member would not be entitled to a transfer payment unless pensionable service was ended by the start of the

assessment period and at that time the member had less than 3 months' pensionable service in the scheme.

**A11. I am 62 years old and 5 months and have retired early, two years ago when I was 60. My normal retirement date is my 65th birthday. If my scheme entered an assessment period now, how would the compensation cap be adjusted to reflect the fact that I am not 65? Would it take into account age in years and months?**

The compensation cap is adjusted by the compensation cap factors to reflect the member's age at the time the assessment period starts (or the date your compensation starts if you are not already drawing a pension at that time).

These factors are available on the guidance section of the website. The factors use the member's age at his last birthday, so in this scenario the cap factor that would apply would be for age 62.

**A12. My current scheme rules say that if I die, my spouse and children would receive a pension. If my scheme were to enter the Pension Protection Fund would this still be the case?**

Compensation is payable to spouses and unmarried partners under the provisions of the Pensions Act 2004 providing there was provision (including discretionary provision) under the original pension scheme's admissible rules. Compensation from the Pension Protection Fund is payable in accordance with Pension Protection Fund Rules. In brief, where the admissible scheme rules make provision for a survivor's pension, spouses and unmarried partners are entitled to periodic compensation of 50% of pension scheme member's periodic compensation.

Evidence must be provided to qualify for compensation. Spouses must provide a marriage certificate and unmarried partners must provide proof that they were both, cohabiting with the pension scheme member at the date of his/her death and that they were financially dependent upon or interdependent with the pension scheme member.

In relation to children's pensions, the amount of compensation payable where compensation is also payable to a surviving spouse or partner is as follows:

**One child 25%** of member's periodic compensation

**Two or more children 50%** of member's periodic compensation, divided equally between the children

The situation in respect of compensation for surviving dependants is different if the pension scheme's admissible rules:

- provide compensation for surviving spouses or unmarried partners but such a pension is not in payment; **or**
- do not provide compensation for a surviving spouse/partner at all.

**A13. I am 62 and have taken early retirement under my scheme's rule which allows members to take early retirement after the age of 50 on a full pension if they are made redundant (there is no reduction for early payment). My normal retirement date under the scheme rules is 65. Have I reached normal pension age? (updated 20/1/06)**

No. Normal pension age is your normal retirement date under the scheme rules, or such earlier age specified in the scheme rules where the only condition for you to retire without actuarial reduction is the attainment of a particular age or length of service. Where scheme rules permit members to retire before their normal retirement date without actuarial reduction, but any other condition or contingency (for example redundancy) applies, that rule does not operate to reduce the normal pension age of the member.

It is possible to have separate tranches of benefits which have different normal pension ages, such as benefits payable for a period of service when that benefit accrued with a different normal pension age.

In reaching this conclusion, the Pension Protection Fund has sought the advice of Andrew Simmonds Q.C.

**A14. Will the compensation cap currently set at £26,050 increase each year in the future and if so by what factor? (updated 25/5/06)**

The compensation cap is subject to review in accordance with paragraph 27 of Schedule 7 of the Act, which provides for the cap to be increased by order of the Secretary of State in line with any increase in the general level of earnings. Any increase will take effect on the 1st April following the end of the tax year to which the review relates.

**A15. If an individual is a member of two different pension schemes which relate to employment with unconnected employers and the Pension Protection fund (co-incidentally) assumes responsibility for both schemes, does the cap apply to both schemes taken together?**

If the Pension Protection Fund assumes responsibility for two unconnected schemes of which an individual is a member of both, the cap will apply to each pension and not to the two pensions combined. The fact that an individual has benefits in other schemes will not affect his entitlements in relation to the one scheme in the PPF.

This only applies in respect of schemes which are not connected occupational schemes. A scheme is connected with another occupational pension scheme if the same person is or was an employer in relation to both schemes.

**A16. Do I have to declare the compensation I receive from the Pension Protection Fund to the Department for Work and Pensions?**

If you are in receipt of certain social security benefits you are required to declare any compensation payment(s) you have received from the Pension Protection Fund to your local Jobcentre, Jobcentre Plus Office, the Pension Service or local authority. Please contact your local Jobcentre, Jobcentre Plus Office, the Pension Service or local authority for further information.

# Compensation

Information on how decisions are taken regarding which pension schemes are eligible for the Pension Protection Fund can be found at '[who is eligible](#)'. Broadly speaking the Pension Protection Fund will provide two levels of compensation:

1. For individuals that have reached their scheme's normal pension age or, irrespective of age, are either already in receipt of survivors' pension or a pension on the grounds of ill health, the Pension Protection Fund will pay **100% level of compensation**.

In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100% of the pension in payment immediately before the assessment date (subject to a review of the rules of the scheme by the Pension Protection Fund).

The part of this compensation that is derived from pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index capped at 2.5%. This could, potentially, result in a lower rate of increase than the scheme would have provided.

2. For the majority of people below their scheme's normal pension age the Pension Protection Fund will pay **90% level of compensation**.

In broad terms and in normal circumstances, this means 90% of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme by the Pension Protection Fund) plus revaluation in line with the increase in the Retail Prices Index between the assessment date and the commencement of compensation payments (subject to a maximum increase for the whole period calculated by assuming RPI rose by 5% each year). This compensation is subject to an overall cap, which equates to £26,050 at age 65 (the cap will be adjusted according to the age at which compensation comes into payment).

Once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index capped at 2.5%. Again, this could result in a lower rate of increase than the scheme would have provided.

In addition there will also be compensation for certain survivors.

The Pension Protection Fund has the ability to alter the levy to meet its liabilities. However, in extreme circumstances compensation could be reduced.

- Revaluation and indexation could be reduced by the Pension Protection Fund if circumstances required it.
- Levels of compensation could be reduced by the Secretary of State on the recommendation of the Pension Protection Fund.

## Examples

### *Existing pensioner who has passed his/her normal retirement age*

Under normal circumstances, a 75 year old pensioner who retired in 1995 and is now receiving a pension of £100 per week will continue to receive that amount (£100 per week) as compensation from the Pension Protection Fund.

### *Person who has not yet passed his/her normal retirement age and who has not yet retired*

The compensation payable to those who have yet to reach the scheme's normal pension age is normally based on pensionable salary at the point pensionable service ends, the number of years in the scheme and the accrual rate of the scheme, increased to keep pace with inflation.

If a 35 year old active member was on a pensionable salary of £18,000 (the salary permitted by the Pension Protection Fund to calculate compensation) and had 10 years' pensionable service in his scheme at the time of the insolvency event, with an accrual rate of 1/60th, in simple terms his compensation would be calculated as follows:

(Years of service / Accrual rate) x Pensionable Salary = £X

**(10 / 60) x £18,000 = £3,000**

**(10 [years of service] / 60 [accrual rate]) x £18,000 [pensionable salary] = £3,000**

This person would be entitled to compensation of 90% of £3,000 per year. This equates to **£2,700** per year. This would be revalued from the time of the insolvency event to normal pension age in line with the Retail Prices Index capped at 5%. Any compensation derived from pensionable service on and after 6 April 1997 will then be increased each year in line with the Retail Prices Index, capped at 2.5%.