

Dow Corning Limited Pension Plan (“DCLPP”) Integration with State Scheme Benefits

Like a number of UK occupational pension plans, the Dow Corning Limited Pension Plan is integrated with both the Basic State Pension and the State Second Pension (S2P, previously known as SERPS). The Plan takes into account both the contributions paid to and benefits paid from the State.

Exactly how do the Plans integrate with the State Pension Schemes?

The Dow Corning Plan integrates with the State Schemes in 2 separate ways.

Integration with the Basic State Pension

Members earn the right to receive a Basic State Pension from the State by paying National Insurance contributions. The DCLPP allows for this at State Pension Age by reducing your Plan Pension by a “State Adjustment” which is based on the Basic State Pension.

In light of this, contributions to the DCLPP are only deducted from your earnings above a level which is broadly equivalent to the Basic State Pension, known as the “lower earnings limit” (LEL), currently around £79 each week.

Integration with the State Second Pension (S2P)

By Contracting Out of the State Second Pension, the Dow Corning Plan implicitly agrees to provide the benefits which would otherwise have been provided from S2P. In doing so, you receive a reduction in your National Insurance Contributions. You will not receive the SERPS/S2P pension from the State.

Why Integrate?

The Dow Corning Plan is designed to give members an overall target pension made up of Plan benefit and State benefits. To reflect the integration with the Basic State Pension you are only required to pay Dow Corning Plan contributions on your earnings in excess of the LEL as mentioned above.

You may also be interested to know about a High Court case (“Shillcock”) where it was confirmed that integration with State Benefits did not contravene sex discrimination legislation. It was accepted that it was perfectly legitimate to have a pension scheme that sought to achieve broad integration with the State Scheme.

What Happens Between Normal Retirement Age & State Pension Age?

Normal Retirement Age under the Dow Corning Pension Plan is 60. This differs from State Pension Age which is 65 for men and is to be gradually raised from 60 to 65 for women. To allow for the fact that you will only receive your State Benefits from State Pension Age, the “State Adjustment” will **not** be deducted at Normal Retirement Age. It will only be deducted when you reach State Pension Age.

In practice, the State Adjustment is calculated at Normal Retirement Age and paid as a temporary extra pension until you become eligible to receive your State Benefit. This temporary pension is increased in the same way as your ordinary Scheme Pension. At State Pension Age (“SPA”), the current temporary pension is deducted. The Plan’s “State Adjustment” at retirement is calculated as follows:

1/40	X	Your Pensionable Service (Max 40 years)	X	The Basic State Pension in the tax year of retirement
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The cost of providing the temporary extra pension falls as part of the ongoing cost of the Dow Corning Plan.

What happens if you work part-time?

If you work part-time, your Pensionable Service builds up in proportion to the number of hours you work e.g. if you work half-time, your Pensionable Service builds up at half the normal rate. Your benefits are then calculated in the same way as for a full-time member, based on your Pensionable Service worked out on this prorata basis and the full time equivalent Pensionable Salary. This prorated Pensionable Service is also used to calculate the State Adjustment and this leads to a smaller reduction, giving consistency in the calculation of benefits.

How does your Plan compare with other Plans?

Pension Scheme designs differ from one plan to the next. A recent survey carried out by the National Association of Pension Funds (NAPF) showed the majority of final salary schemes provide a pension of 1.67% of earnings for each year of service. Dow Corning provides 1.9% less the State Adjustment at SPA. This survey also showed that over two thirds of schemes have a Normal Retirement Date of 65. This compares to a retirement age of 60 under the Dow Corning Plan.

Integration with State Benefits is an integral part of the design of the Pension Plan and Dow Corning feels that, overall, the pension benefits they provide compare favourably with those of other employers.