

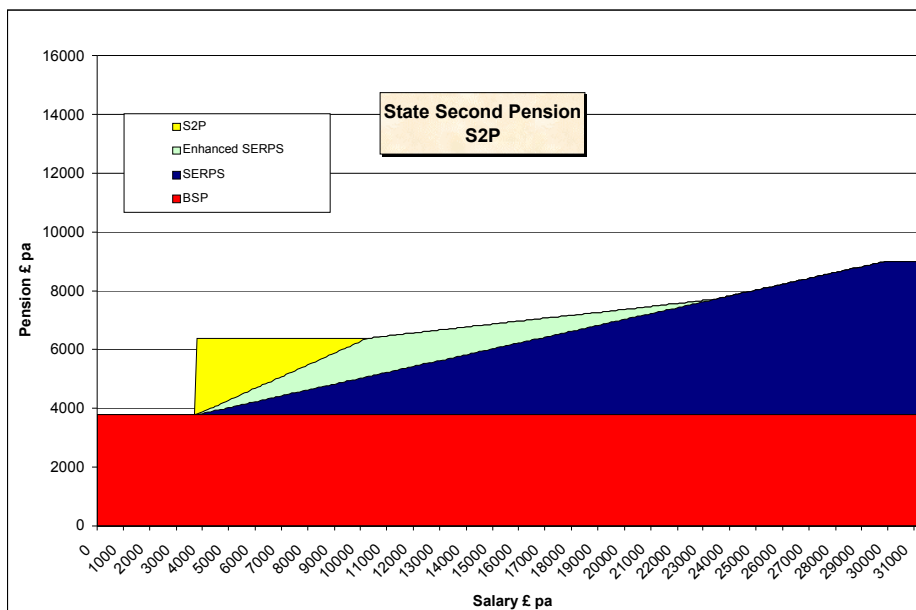
The State Pension Scheme and Contracting Out

State pension benefits consist of two parts : the Basic State Pension (depending on the number of years worked with earnings above the lower earnings limit) and the Additional Pension (State Earnings Related Pension Scheme or now State Second Pension) dependent on earnings since 1978.

Up until 5/4/2002, the State Earnings Related Pension Scheme (SERPS) provided a benefit of approximately 20% of earnings above the lower earnings limit (currently £4,108) for a full working life. There is an upper salary limit as well.

With effect from 6 April 2002, SERPS is being replaced with a modified SERPS, known as the State Second Pension (S2P). S2P provides an enhanced level of SERPS for those earning under around £25,000.

The graph below shows the position as it was when S2P was announced in 2001.



Contracting-out is the process whereby members of a pension scheme opt out of SERPS/S2P and in return for accruing no SERPS/S2P pension, the members and the employer pay lower National Insurance Contributions (1.6% saving for the employee and 3.5% for the employer).

The existing Dow Corning Ltd Pension Scheme has been contracted out of the earnings related part of the State Pension system since 1988. As a result of being contracted-out, members of the Dow Corning Ltd Pension Scheme do not accrue SERPS benefit (blue coloured section above). Active members eligible to receive the enhanced SERPS benefit under S2P (light blue and yellow sections above) will still be eligible for this as a top up to their State Pension.