

A with profits investment option was available to members until the end of 2002 when it closed to future contributions. This leaflet is for members who have not yet retired and still have part of their account invested in the With Profits Section.

how are investment returns calculated?

The With Profits Section invests in a range of different asset classes in the same way as the other long term options although the mix is different. Returns to members are not directly related to the performance of the assets but are based on when contributions were invested.

Contributions invested	Rate of interest per year compound
Before 1 January 1997	5%
Between 1 January 1997 and 31 December 1999	3.5%
1 January 2000 and 31 December 2002	3%

Bonuses have been added when returns permitted.

There is the potential for future bonuses to be granted if returns are consistently good. However, this is likely to be affected by the potential change in status of the arrangement to defined benefit (see below).

can I transfer my With Profits account into one of the other options?

Yes, you can transfer the value of your With Profits account to the Growth, Moderate or Cautious options or, if you are within five years of your Target Retirement Date, to the Retirement Protection option. You are not able to transfer into the With Profits Section.

how are transfer values calculated?

If you want to transfer your With Profits account either to one of the other Cheviot options or to a different pension arrangement or if you want to retire early, your transfer value will be calculated on a "cash equivalent" basis. The cash equivalent is the amount needed to provide your account at your Normal Retirement Date. The Actuary calculates this amount using assumptions about future investment returns. Depending on the financial conditions at the time, this means that your transfer value may be less than your current With Profits account. You can compare the figures by looking at your benefit statement or your online account.

The actual transfer value paid will be calculated after we have received all application forms, fully and accurately completed.

what happens when I retire?

Your full account, including your With Profits account, will be available to purchase a pension. This process is explained in more detail in the "about your Cheviot Pension" booklet.

If you retire early, you will receive a transfer value calculated on the "cash equivalent" basis described above which you can use to purchase a pension. You can sometimes defer your retirement – please ask for details.

what happens if I die before retirement?

Usually the value of your account is paid as a lump sum. Sometimes, we may need to use some of your account to provide a dependant's pension.

what happens if I leave my employer or opt out?

Your With Profits account will continue to be invested and receive the interest shown overleaf. If you want to transfer to a different arrangement, a transfer value would be payable.

is a final bonus payable?

If you joined before 1988, there may be a final bonus payable when you take your benefits. The Pensions Administration team will provide you with the details at the time. The level of any final bonus varies according to market conditions and is not guaranteed.

status of the With Profits Section

The Section has always been run as a money purchase scheme and this was how it was understood by members and employers. This has been in doubt for some years following the KPMG case which suggested that some benefits may be more final salary in nature and more recently the Bridge case. The Supreme Court handed down its judgment in the Bridge case in July last year and broadly supported Cheviot's analysis that the benefits are money purchase benefits.

The Department for Work and Pensions disagreed with this analysis and have now introduced legislation to change the definition of money purchase schemes to exclude arrangements such as the With Profits Section. The legislation has not yet been brought into force but when it is, it appears that the With Profits Section will be required to comply with the regulations governing the funding of final salary schemes retrospectively to 1997.

As a result, employers will be obliged to support the arrangement and potentially pay further contributions to improve the funding position. For most employers, this is a very unwelcome development as they thought that their obligation to the Section was limited to paying contributions at an agreed rate in respect of their employees and these ceased when the Section closed to new contributions at the end of 2002.

what difference does it make if the With Profits Section is a final salary scheme?

We will send you information about the funding position of the Section on a regular basis. The costs of running the arrangement will almost certainly increase because the regulation around final salary schemes is considerable. The Trustee will need to consult more with employers and it may make it difficult for the Trustee to award bonuses in the future.

For more information, please see the website.