



AVON RUBBER PENSION TRUST LIMITED

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Dear Member

**Avon Rubber Retirement and Death Benefits Plan ("the Plan")
Summary Funding Statement at 31 March 2013 and important information in relation to the recent budget**

I enclose the annual funding statement for the Plan which shows the funding position as at 31 March 2013, which is the date of the latest formal valuation.

You will see that the Plan's funding level has increased from 94% to 98% between 31 March 2012 and 31 March 2013.

The Trustee will receive an update from the Plan's actuary on the funding position of the Plan as at 31 March 2014 later in the year, and the results of this update will be sent to all members.

We are also taking this opportunity to send members the following additional information:

Budget 2014

Enclosed is a leaflet produced by HM Treasury explaining the changes to pensions introduced in the 2014 budget. You will see that the changes affect defined contribution (DC) schemes predominantly but there may be some impact on members of the defined benefit (DB) section of the Plan.

All members – 'small pot' lump sum transfer limits

Some members may not have had the opportunity to build up substantial pension savings. Where a member's pot is sufficiently small (and provided certain other conditions are satisfied), the member can take all of their pension benefits as a cash lump sum from age 60. The financial limits on withdrawing these 'small pots' have recently been increased so as to give members more flexibility. If you have a small pension pot, you may qualify for a cash lump sum in the following instances:

- If the capital value of your pension benefits under the Plan is less than £10,000 (the previous limit was £2,000).
- If the capital value of your pension benefits under the Plan together with all of your other pension benefits (in any registered scheme) is less than £30,000 (the previous limit was £18,000).

If you have reached or are approaching age 60 and have benefits within the Plan that meet these criteria, we have asked our administrators Mercer to contact you. If you have benefits outside the Plan you will need to contact the relevant scheme administrators to calculate whether you come within the £30,000 limit.

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Deferred members

The greater flexibility for DC benefits does not apply to DB benefits under the Plan. Your DB pension will continue to be paid in accordance with the rules of the Plan and current legislation.

You will continue to have some choice about how you receive your benefits. For example, you can give up part of your pension for a tax-free cash sum at retirement. The pension that is left is payable for life (with annual increases and a survivor's pension) and cannot subsequently be converted into cash.

Before retirement it has always been open to DB members to transfer their DB benefits under the Plan to a DC scheme, such as a personal pension, so that they become DC benefits. Having relaxed the rules on DC pensions the Government is currently considering whether transfers from DB to DC schemes should be banned. A decision on this could be made this summer, so if you want to explore a transfer, you should take prompt action.

It is important to remember that there are pros and cons to each type of benefit which depend upon your personal circumstances. You are strongly advised to take independent financial advice to understand what converting DB into DC benefits would mean for you and your dependants, but if you wish to do this you should contact Mercer.

Contacting us

If you have any queries on any of the above items then you can contact us using the details provided on the final page of the Summary Funding Statement.

Kind regards.

Yours faithfully



Miles Ingrey-Counter
Chairman



Avon Rubber Retirement and Death Benefits Plan Summary Funding Statement at 31 March 2014

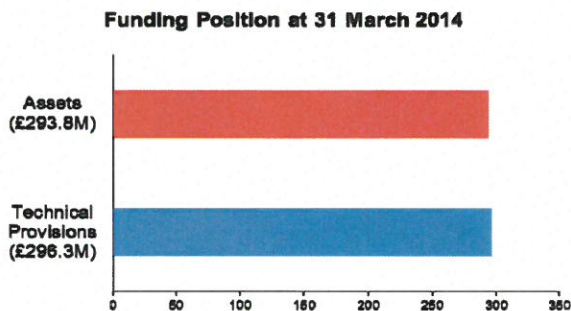
This Statement explains the funding that supports benefits in the Avon Rubber Retirement and Death Benefits Plan ("the Plan"). It tells you about the longer-term outlook for the Plan and the financial support the employer provides.

Pension scheme valuations are carried out at least every three years in accordance with legislation. The latest valuation of the Plan was carried out at 31 March 2013 and we provided you with a statement setting out the results of that valuation earlier this year.

The purpose of this Statement is to provide the results of the latest actuarial update as at 31 March 2014.

At 31 March 2013, the Plan's actuary found that the Plan had a shortfall of £6.1 million, which is the same as a funding level of 98%.

The Scheme Actuary is required to provide the Trustee with an approximate update of the funding position each year. The position as at 31 March 2014 is set out below:



At 31 March 2014, the amount of money required to provide benefits under the technical provisions in full (i.e. the benefits promised to members) was estimated to be £296.3 million. The value of the Plan's assets at that date was £293.8 million. Therefore the shortfall at the date was £2.5 million, corresponding to a funding level of 99%.

Over the period between 31 March 2013 and 31 March 2014, the Plan's funding position has improved. This is primarily due to an increase in the underlying gilt yields over the period, which has resulted in a lower value being placed on the Plan's technical provisions.

Understanding the statement

As a Trustee Board, we are responsible for developing a funding target for the Plan. We set out our aims, the funding target we believe is suitable for the Plan, and how we aim to achieve this. To work out the funding target, the actuary needs to make a number of assumptions and look at how the outcome can change if any one of these turns out to be too low, or too high. We then use our judgement to consider how confident or cautious we want to be and we decide on a suitable safety margin to build into our target.

In the valuation, the actuary works out the amount the Plan needs to cover its funding target under the technical provisions. Then she takes the value of the Plan's assets from the audited accounts. The actuary then compares the assets with the funding target. This gives the funding level. The chart above shows you the level for our Plan.

The Company's support

The funding target we agree for the Plan meets the requirements of the Pensions Act 2004 and is called the 'technical provisions'. It aims to produce a prudent reserve of money to hold against the Plan's future needs. We have discussed our funding plan with Avon Rubber plc (the Company) and they have accepted the target and agreed to make the contributions. The Plan relies on Avon Rubber plc and its financial support to:

- make extra contributions when there is a funding shortfall; and
- put in more money if the target set for funding the Plan turns out to be too low.

To address the shortfall disclosed in the 31 March 2013 valuation, the Company agreed to pay the following contributions:

1 April 2013 to 31 March 2014	£300,000
1 April 2014 to 31 March 2015	£300,000
1 April 2015 to 30 September 2015	£150,000
1 October 2015 to 31 March 2016	£200,000
1 April 2016 to 31 March 2017	£450,000
1 April 2017 to 31 March 2018	£450,000
1 April 2018 to 31 March 2019	£450,000

In addition, the Company will cover the management expenses of running the Plan of £175,000 in the year ending 31 March 2014 and £250,000 per annum in subsequent years.

We must also tell you if there have been any payments to Avon Rubber plc out of Plan funds in the last twelve months. There have not.

The Pensions Regulator can change the Plan, give directions about working out its technical provisions or impose a schedule of contributions. We are pleased to say that it has not needed to use its powers in this way for our Plan.

What if the Plan started to wind up?

Even though funding may temporarily be below target, the Plan will continue to pay benefits in full as long as it continues. As part of the valuation, the actuary must also look at the Plan's solvency estimate – the position if it started to wind up (come to an end). This does **not** mean that the Company is thinking of ending the Plan.

The actuary looked at whether the Plan had enough money at the valuation date to buy insurance policies to provide members' benefits. Insurance companies have to invest in 'low risk' assets, which are likely to give low returns and policy prices will include administration charges and a profit margin. This means that even if a plan is fully funded on the technical provisions basis, the solvency figure is likely to be less than 100%.

If the Plan had started winding up at 31 March 2013, the actuary estimates the amount the Plan needed to ensure benefits were paid in full (the full solvency position) was £524.2 million. On this basis the Plan's shortfall was £212.7 million.

The Pension Protection Fund

If the Plan starts to wind up before you retire, Avon Rubber plc has to pay whatever the Plan needs to buy the insurance policies for members. If Avon Rubber plc becomes insolvent, the Pension Protection Fund (the PPF) may step in and pay some compensation to members. There are more details on the PPF website at www.pensionprotectionfund.org.uk.

Any questions?

If you have any questions about the Plan or your benefits, please contact us. You can also ask to see the Plan's formal documents, including our Statements of Funding and Investment Principles. We may make a charge to cover the cost of photocopying, postage and packaging if we need to send you copies. The latest audited accounts and actuarial report, as well as the Schedule of Contributions are also available.

Please contact Avon Rubber Retirement & Death Benefits Plan, c/o Mercer Limited, PO Box 505, Chichester, PO19 9AF. Tel: 0800 046 6183, email: AvonRubber@Mercer.com.

By law, we cannot give you advice about your pension arrangements. If you are thinking about any changes, you may want to obtain independent financial advice.

Budget 2014: greater choice in pensions explained

People's pensions are hard-earned over years of work. It is only right they have the freedom to choose how and when they access them during retirement.

At the moment people don't have full flexibility when accessing their defined contribution pension during their retirement – they are charged 55% tax if they withdraw the whole pot.

We're announcing that from April 2015, people aged 55 and over will only pay their marginal rate of income tax on anything they withdraw from their defined contribution pension – either 0%, 20%, 40% or 45%.

How the current system works

The government has already helped increase the security of people's income in retirement by introducing automatic enrolment into workplace pensions and the triple lock guarantee. But the current system is complicated and restricts people's choices.

Under the current system, there is some flexibility for those with small and very large pots, but around three-quarters of those retiring each year purchase an annuity.

Pension pot options

Currently, you can take up to 25% of your pension pot tax-free. With the rest, you have 5 options.

If you withdraw all your money then you are charged 55% in tax

If you are aged 60 and over and have overall pension savings of less than £18k you can take them all in one lump sum – this is **trivial commutation**.

A '**capped drawdown**' pension allows you to take income from your pension, but there is a maximum amount you can withdraw each year (120% of an equivalent annuity).

With '**flexible drawdown**' there's no limit on the amount you can draw from your pot each year, but you must have a guaranteed income of more than £20k per year in retirement.

But three quarters of people buy **an annuity** – an insurance product where a fixed sum of money is paid to someone each year, typically for the rest of their life.

Regardless of your total pension wealth, if you are aged 60 or over, you can take any pot worth less than £2k as a lump sum, as this classifies as a 'small pot'.



We plan to overhaul the system completely

From April 2015, from age 55, whatever the size of a person's defined contribution pension pot, we propose that they'll be able to take it how they want, subject to their marginal rate of income tax in that year.

There will be more flexibility. People who continue to want the security of an annuity will be able to purchase one and people who want greater control over their finances can draw down their pension as they see fit.

To help people make the decision that best suits their needs, everyone with a defined contribution pension will be offered free and impartial face to face guidance on the range of options available to them at retirement.

The government has published a consultation on these changes alongside the Budget.

But in the meantime, from 27 March 2014 ...

We're increasing the amount of overall pension wealth you can take as a lump sum from £18k to £30k.

We're also increasing the maximum amount you can take out each year from a capped drawdown arrangement from 120% to 150% of an equivalent annuity.

And we're reducing the amount of guaranteed income needed in retirement to access flexible drawdown from £20k per year to £12k per year.

We're increasing the size of a small pension pot that you can take as a lump sum, regardless of your total pension wealth, from £2k to £10k.

We're also increasing the number of personal pension pots you can take as a lump sum under the small pot rules, from two to three.

Who will benefit

The changes coming into effect on 27 March will mean around **400,000** more people will have the option to access their savings more flexibly in the financial year 2014-15.

From April 2015, the **320,000** people who retire each year with defined contribution pensions will have complete choice over how they access their pension.

