

# InterContinental Hotels UK Pension Plan Pension Newsletter

Room for you

Defined Benefits Section – September 2011

Welcome to this year's Pension Newsletter, which includes the latest Summary Funding Statement and a summary of the Trustee's Annual Report for the year to 31 March 2011 as it related to Defined Benefits (DB) Section members. The full Annual Report is available on request from the Company Management Team or can be viewed or downloaded from the IHG pensions website at [www.pensions.ichotelsgroup.com](http://www.pensions.ichotelsgroup.com)

The Summary Funding Statement gives you the results of the 2009 actuarial valuation and details of the subsequent commitment by the Company to improve the funding of the Plan.

#### **Changes to the Trustee Board**

The Trustee Board is made up of nine Directors: three nominated by the Company, three Independent Directors and three nominated and selected from the Plan's membership. Since last year's newsletter, Terry Critchley has resigned as a Member Nominated Director due to his retirement from IHG. We thank him for his dedicated service as a Trustee and wish him a long and happy retirement. The nomination and selection process for Terry's successor will commence shortly.

#### **Proposed changes to benefits for employee members**

In July 2011, the Company announced that it was consulting with employee members about closing the DB Section for future pension build up. Briefly, the main proposals are to:

- Cease DB pension build up on 30 June 2013.
- Enrol affected DB Section members into the DC Section of the Plan on 1 July 2013.
- Limit salary increases between 1 October 2011 and 30 June 2013 for DB Section purposes to the rise in the Retail Prices Index, plus 2.5% a year, with any excess salary increase being eligible for employee and Company contributions in the DC Section.
- Leave unchanged the early retirement facilities as they apply to pension earned up to 30 June 2013.
- Put alternative benefits in place to compensate for the reduction in value of the DB benefits on death or ill-health which currently include an allowance for future service.
- Increase Company DC Section contribution rates for some grades of staff.

At the time of this newsletter going to press the consultation was still in progress. Once the consultation has ended, those directly impacted will receive announcements about what changes will be implemented and when. The outcome will be reported to other members in the 2012 newsletter.

#### **Freephone numbers**

I am pleased to let you know that the Plan's administrator, Mercer, has recently installed freephone numbers which are shown in the 'Contact details' section on page 6.

#### **David Coles**

Vice President Pensions

Room to be yourself

# Financials

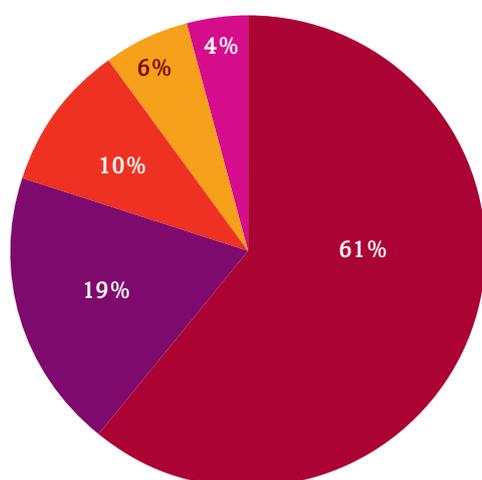
The information on this page provides a summary of the Plan's accounts (excluding specific assets of the DC Section) for the year ended 31 March 2011.

## Plan investments

In the 12 months to 31 March 2011, the return on the Plan's investments was 5%.

### Asset allocation

The Trustee has been working hard to implement the following investment structure for the Plan's assets. This is considered to best meet the Trustee's investment objectives:



Risk-reducing investments:	
Liability matching investments (e.g. Government and company bonds)	61%
Return-seeking investments:	
Global equities	19%
Funds of hedge funds	10%
Property	6%
Currency	4%
<b>Total</b>	<b>100%</b>

With the advice of a newly-appointed investment consultant, the Trustee is carrying out a review of the current investment strategy, taking into account the current funding level and the consequences of the proposal to close the DB Section for future pension build up in 2013, as outlined on the front page.

## Value of the Fund

	£000
<b>Value of the Fund at 31 March 2010</b>	<b>279,214</b>
<b>Income</b>	
Member contributions	581
Company contributions	23,416*
Transfer values received	9
Other income	634
Return on investments	13,647
<b>Total</b>	<b>38,287</b>
<b>Expenditure</b>	
Pensions	5,426
Cash options	1,161
Death benefits	55
Transfer values paid	650
Life assurance premium	68
Administration expenses	1,007
<b>Total</b>	<b>8,367</b>
<b>Value of the Fund at 31 March 2011</b>	<b>309,134</b>

\* Includes £19.2 million in special contributions paid before 31 March 2011.

## Membership

The bar chart below shows the membership details at 31 March 2011 and 2010:



# Summary Funding Statement for the DB Section of the Plan

Every three years the Trustee has to obtain a valuation of the Plan's assets and liabilities. This valuation is basically a financial health check carried out by the Plan's actuary – an expert at looking at finance and risks. The valuation compares the value of the benefits earned up to the valuation date that the Plan will have to pay in the future (the liabilities) with the amount of money currently invested in the Plan (the assets). The funding level is the percentage of the liabilities covered by the assets.

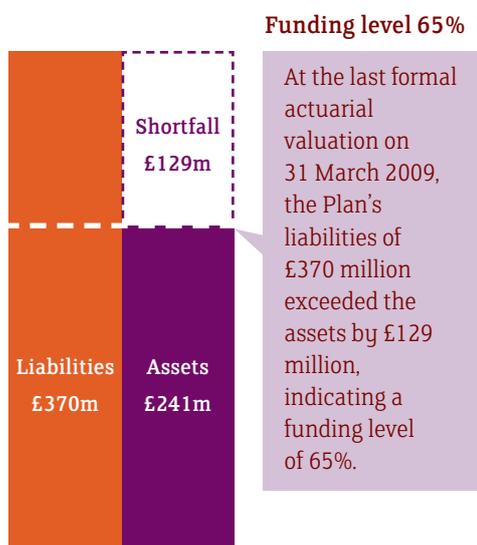
If the Plan has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities there is said to be a 'surplus'. The Company contribution required in the future is set at each valuation and, together with contributions made by active members, the money is invested to help provide your benefits.

## How well funded is the Plan?

The Plan's funding level is calculated by the Plan's Actuary on a basis using gilt (Government stock) yields less 0.5% a year. This is a prudent approach and tells us what the position would be if all the Plan's money earned slightly less than gilts, the target being a 100% funding level.

The estimated funding levels in 2010 and 2011 compared with the 31 March 2009 valuation are shown in the diagram below.

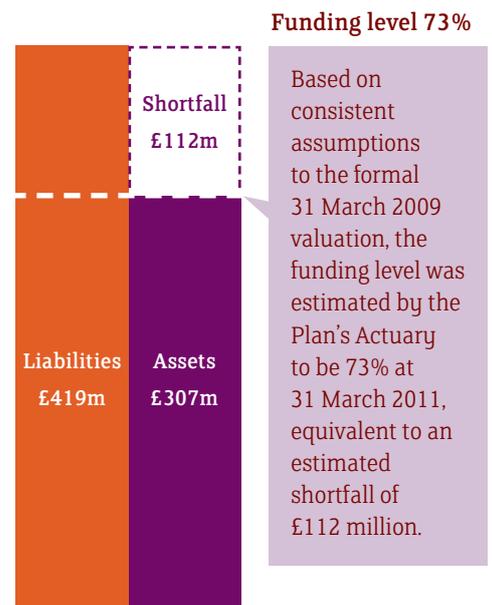
### Formal valuation at 31 March 2009



### Estimated position at 31 March 2010



### Estimated position at 31 March 2011



## What has influenced the funding level?

At 31 March 2011, the estimated funding level had improved since the 2009 actuarial valuation. This is due to the positive impact of higher investment returns than expected and the lump sum contributions paid by the Company during 2010 (£10 million as the first of three annual cash injections plus £4.9 million from the proceeds of hotel disposals) and 2011 (£4.3 million as a result of the Company's financial performance). This was however offset by a reduction in the return from UK Government gilt stocks which has increased the value of the Plan's liabilities.

The Company also makes regular contributions to the Plan. In accordance with the Actuary's recommendation, from July 2010 these were set at 37.5% of Annual Earnings for Staff section members and 53.8% of Pensionable Salary for Executive section members.

Please note that as long as the Plan continues, benefits will continue to be paid in full even though the funding level may be below target from time to time.

## What is the contribution strategy to meet the Plan's funding shortfall?

The Trustee's aim is for the 31 March 2009 shortfall of £129 million to be eliminated by 31 March 2017 at the latest. The Trustee has agreed with the Company that this will be achieved by a combination of (a) higher investment returns and (b) additional Company contributions as specified below:

- 1 Additional contributions from the Company of £30 million over the period up to 31 July 2012 (£20 million of which has been paid to date).



- 2 A proportion of any sale proceeds from the disposal of hotels (£11.3 million of which has been paid to date).



- 3 Payments relating to the growth in the Company's published earnings (£4.3 million of which has been paid to date).



- 4 If the total amount of the payments to the Plan in 1 to 3 above is less than £100 million by 31 March 2017, a balancing payment will be made by the Company by 31 March 2017 to bring the total up to £100 million (including any other Company additional contributions paid for this purpose).

The contribution strategy is subject to review at future valuations in the light of actual experience, and the Trustee will consider if further Company contributions are required at the next valuation (due to be carried out as at 31 March 2012).

**“At 31 March 2011, the estimated funding level had improved since the 2009 actuarial valuation.”**

## What protection is there for members?

The money to pay members' pensions is held in a fund separate from the Company's assets. If the Plan were ever to wind up (come to an end), the Company would be required to pay a contribution into the Plan to enable members' benefits to be completely secured with an insurance company. At the 31 March 2009 actuarial valuation, the cost of securing accrued benefits with an insurance company was estimated as £331 million, exceeding the assets by £90 million.

It is estimated that the shortfall on this basis has reduced to £76 million as at 31 March 2011. The reduction in this shortfall is due to additional Company contributions paid to the Plan, investment returns and changes in the estimated cost of securing the Plan's benefits with an insurance company.

A pension scheme whose sponsoring employer becomes insolvent, and is unable to meet the costs of providing pensions, will normally apply to the Pension Protection Fund (PPF) to take over the Plan and pay some compensation to members. Further information about the PPF can be obtained at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk) or by calling the PPF helpline on 0845 600 2541.

Please note that the Company remains committed to supporting the Plan. The information about the insurance company position shown above is to help you understand the financial security of your benefits.

## Have there been any payments from the Plan to the Company?

There have not been any payments to the Company out of the Plan in the 12 months to 31 March 2011, nor at any time since the Plan commenced. The Plan rules only allow the possibility of payments to the Company in the event of surplus funds being available on the winding-up of the Plan.

## Is there anything else that I need to know?

Further information on the Plan's funding and investment principles can be found in the documents listed on page 6, which are available on request from the Company Management Team. The contact details are provided on page 6.

The Trustee's Annual Report for the year ended 31 March 2011 also provides investment and funding information. It is available on request from the Company Management Team or can be viewed or downloaded from the IHG pensions website at [www.pensions.ihotelsgroup.com](http://www.pensions.ihotelsgroup.com)

If you are thinking of leaving the Plan for any reason, before you take any action you should consider contacting an independent financial adviser.

# Pension increases

Under the rules of the Plan:

- a) Pensions in payment in excess of any Guaranteed Minimum Pension (GMP) are increased by the rise in the Retail Prices Index (RPI) up to a maximum of:
- 5% a year for pensionable service up to 5 April 2006; and
  - 2.5% a year for pensionable service after 5 April 2006.
- b) Deferred pensions in excess of any GMP are increased by the rise in the RPI up to a maximum of 5% a year for all pensionable service.

The Plan handbook states that the Company and Trustee aim to give additional increases based on two-thirds of any rise in RPI that is above the guaranteed level. The increases are applied to the amount of pension above any GMP that may have built up in respect of membership of the Plan up to 5 April 1997.

The annual increase is based on the rise in RPI over the year up to May, which this year was 5.2%. The Company has decided to provide funding for the discretionary increase in excess of the guarantee outlined above. This means that from 1 October 2011 the following increases in excess of any GMP will be applied:

- Pensioners – 5.1% in respect of pensionable service before 6 April 2006 and 4.3% for pensionable service after 5 April 2006.
- Deferred pensions – 5.1% for all pensionable service.

Pensions that have been in payment for less than a year, and deferred pensions for members who left the Company less than a year ago, will receive a proportionate increase.

The following table shows the history of the last 10 years' pension increases:

Year	% increase
2010	5.1
2009	0.0
2008	4.3
2007	4.3
2006	3.0
2005	2.9
2004	2.8
2003	3.0
2002	1.1
2001	2.1

Some pensioners and deferred pensioners who were members of the old Inter-Continental Scheme before 6 April 2000 may receive an increase that is worked out on a slightly different increase basis. Members to whom this applies were given written details before the merger of the Plans in 2000.

## Have you visited the pensions website?

In the pensions area of the IHG website you'll find lots of useful information about the Plan, including downloadable handbooks, forms, newsletters and the full Trustee's Report and Accounts. There are also links to useful pension-related websites.

Why not visit the site to see for yourself?

[www.pensions.ichotelsgroup.com](http://www.pensions.ichotelsgroup.com)

## Online AVC facility

Did you know that if you pay Additional Voluntary Contributions to DC Choice (the pension arrangement for Defined Contribution Section members and administered by dc-Link), you can manage your individual account online? This will enable you to check your current balance, the contributions paid into your account, the returns on your investment and to switch your investment choices online. If you are interested in this facility, call the DC Choice Helpline on 01733 353418.

## Company Management Team

The following individuals make up the Company Management Team, which is responsible for managing the outsourced administration and assisting the Trustee Directors with their duties.

**David Coles†** - VP Pensions

**Keith Sully** - Director, Pension Administration & Policy

**Rob Watson** - Secretary to the Trustee

† Contact for Internal Dispute Resolution Procedures.

**Jerry Sykes** - VP Benefits Plan Investments

**Jane Young** - Trust Accountant

**Angela Schofield** - Secretary and Administrator

You can contact the Company Management Team at:

✉ No.1 First Avenue, Centrum 100,  
Burton-on-Trent, Staffordshire DE14 2WB

☎ Tel: 01283 511 311

@ Email: enquiries.pensions@ihg.com

## Trustee Directors

The following individuals make up the Board of Trustee Directors, which is responsible for the day-to-day running of the Plan and the membership as a whole.

### Three Independent

Sam Dow (Chairman)

Anthony Stern

Nita Tinn

### Three Employer Nominated

Sean Harrison

Jerry Sykes

Ralph Wheeler

### Three Member Nominated

Lewis Howes (selected from deferred/pensioner membership)

Paul Phillips (elected from active membership)

Vacant position to be filled in due course (elected from active membership)

## Additional documents available on request from the Company Management Team

**Statement of Funding Principles** – explains the approach adopted by the Trustee to fund the Plan.

**Recovery Plan** – sets out how the funding deficit will be met and over what period.

**Statement of Investment Principles** – sets out how the assets of the Plan are invested.

**Schedule of Contributions** – shows how much money is being paid into the Plan by the Company and members.

**Actuarial Valuation Report as at 31 March 2009** – contains details of the Plan's funding position.

## Contact details

### Active/deferred members

✉ Mercer Limited  
Stratford Court  
Cranmore Boulevard  
Solihull  
West Midlands  
B90 4QT

☎ **Freephone tel:** 0800 389 7835

@ **Email:** ichotelsgroup@mercer.com

### Pensioners

✉ Mercer Limited  
52 Westgate  
Chichester  
West Sussex  
PO19 3HF

☎ **Freephone tel:** 0800 197 3437

@ **Email:** ichotelsgroup.pensionpayments@mercer.com

### Tax Office details (Pension Payroll)

✉ Birmingham Tax Office  
City Centre  
36 Union Street  
Birmingham  
B2 4AE

☎ **Tel:** 0845 302 1437

Please help us to keep in touch with you by notifying Mercer of any change to your home address. This is especially important for deferred members as we lose touch with a number of these members each year.