

**Alstom Pension Scheme**  
**Service Credit**  
**Questions and Answers**  
9 March 2007



The questions / answers have been split into four categories

<i><b>Category</b></i>	<i><b>Pages</b></i>
<i><b>General</b></i>	2 – 5
<i><b>Option 1 – Deferred Pension</b></i>	6 – 8
<i><b>Option 2 – Service Credit</b></i>	9 – 15
<i><b>The Modeller</b></i>	16 – 18

General Questions		
G1	What is the deadline for submission of the option form?	Your form must reach the pensions department by the 31 March 2007. No late forms will be accepted.
G2	Who do I send the option form to?	You should send your form directly to the pensions department. <b>DO NOT</b> return the form to your HR department. You should keep a copy of your form for your records.
G3	How will I know whether the pensions department have received my form?	The Pensions Department will acknowledge all forms received.
G4	Can I change my mind at a later date?	<b>No.</b> Once you have decided you cannot change your mind (unless you change your mind <b>before 31 March 2007</b> and ask in writing to retract your option form).
G5	Will the Trustees offer this option again in the future?	<b>No.</b> This is a one-off option and there will not be a further opportunity to elect a service credit
G6	What should I do if I am unsure as to what option to take?	If you have read all the literature provided and attended the presentation and you are still unsure as to which option to elect then it is recommended that you seek independent financial advice from a person that is authorised to give advice.  <b><i>Members of the Pensions Department are not authorised to give advice.</i></b>
G7	The option form doesn't have my name and NI number pre-filled.	This was intentional due to the complexities of collating and sending information out. Please fill in these important bits of information in the box at the top of the form.

General Questions (contd)		
G7	What are the differences between the 2006 section and my old section?	You need to refer to the benefits schedule to see the differences between the old section and the 2006 section. There are four benefit schedules – be sure to only refer to the one that is contained within your service credit information pack, as it is specific to the old section of the scheme that you were a member of.
G8	The benefits on death in service detailed on the benefits schedule gives no mention that there is a death in service lump sum payable of 4 x pensionable earnings under the 2006 Section. Why is this?	The benefit schedule only compares the death benefits payable from your existing deferred pension with the alternative death benefits arising from the service credit under the 2006 Section. The death in service lump sum of 4 x pensionable earnings is payable to all members of the 2006 Section, regardless of whether or not they elect the service credit, so it is not actually material to the comparison members should be making.
G9	What are the death in service benefits if a) I retain a deferred pension or b) I elect the service credit in the 2006 Section? <i>(Raised by Main Section member)</i>	These benefits are detailed on the benefit schedule (under the “benefits on death” section) included in your service credit pack.
G10	There appears to be no incentive to transfer.	There is, intentionally, no incentive. The decision is for you to make based on your beliefs for future career and salary progression with Alstom.
G11	Is there better Pension Protection Fund (PPF) protection if I take a service credit.	<b>No.</b> Nor conversely if you do not take the service credit. Indeed one way or another you are not better protected under current legislation.
G12	I used to work for Alstom, left and rejoined. I note that there is no mention of my previous deferred pension.	The service credit calculation is in respect of your current service with Alstom only. Your previous deferred pension still exists and is unaffected by this exercise.

General Questions (contd)		
G13	Why are the illustrations for comparing Deferred Pension and Service Credit pensions based on a Salary Increase at 1% above RPI each year.	<p>The assumed future earnings growth being 1% per annum above RPI is what the Actuary uses for valuing the pension scheme. It is applied across the board and allows for people earnings to rise above inflation whether it be through good increases, promotion, or merit.</p> <p>The one thing that is known is that each individual is different with different expectations and career aspirations. It is for this reason that the modeler enables members to test different scenarios which they may think may be more suited to them.</p> <p>National Average Earnings can be used as a proxy for guessing the future. It used to keep ahead of inflation by some 2% per annum but over recent years it has moved downwards to 1% per annum.</p> <p>Members have asked what is Alstom pay policy and the short answer is that when we are projecting 10, 20, 30 years ahead no one really knows but no one should read the 1% above inflation as any indication of what may happen to any individual, or, indeed any indication of future Alstom pay rewards.</p>
G14	What is RPI and NAE.	These are indices statistics issued by HM Government and are the Retail Price Index and National Average Earnings respectively.
G15	What about my BRASS 2 contributions (Please read as AVCs)	<p>Brass 2 contributions are unique to the Railways pensions Scheme (the BR stands for British Rail !). These are AVCs.</p> <p>AVCs are unaffected by the choice you face and will make.</p>

General Questions (contd)		
G16	Why does the Alstom Defined Contribution Plan have better protection.	<p>It doesn't. It may appear to be in that strictly it can go bust without a deficit because the members have no idea what their pension will be until they retire. Their pension is based what their personal investment fund will buy them,</p> <p>Under the Alstom Pension Scheme the pension benefits are defined and known and the question is simply is the right amount of assets in the fund to pay these promised benefits.</p>
G17	The Trustee can increase/revalue pensions above the 5% cap, will they do so.	They can only do so if the Scheme has spare assets to pay for them. In the current funding environment this must be considered as extremely unlikely to happen.
G18	Why bother giving us a choice.	The choice is a delivery of a promise where members would be able to "exchange" their deferred pension revalued in line with RPI (subject to a 5% cap) to a pension which would rise, whilst remaining with Alstom, in line with salary increases.

Option 1 Questions - Deferred Pension		
D1	Does the "final pensionable earnings" include bonus payments ? <i>(raised by ABB member)</i>	The Final Pensionable Earnings figure shown under option 2 of the personal illustration does not include bonus payments as the definition of Pensionable Earnings under the 2006 Section is basic pay, plus fixed allowances.
D2	What Benefit is provided for "ill health" for deferred pensions. <i>(raised by ABB member)</i>	Please refer to the benefit schedule provided.
D3	Is the August 2006 statement on "final pensionable earnings" correct <i>(raised by ABB member)</i>	<p>The August 2006 statement will show a different Final Pensionable Earnings figure to the one shown on your personal illustration, as the FPE figure shown on your statement, will relate to the section of the scheme you were in prior to 6 April 2006.</p> <p>For ABB members the FPE definition is the higher of your Pensionable Earnings averaged over the best 3 consecutive tax years in the 10 years before retiring (or date of leaving the Scheme, if earlier) and the highest Pensionable Earnings in any tax year in the five years before retiring or leaving the Scheme, if earlier. Pensionable Earnings are gross PAYE earnings in the previous tax year less a deduction equal to the to the Lower Earnings Limit.</p>
D4	If the ABB pension is deferred for someone aged 59 and that person also drops out of the Alstom pension plan could they still take their pension at 60 without actuarial loss on the ABB portion <i>(raised by ABB member)</i>	No, the nil reduction from age 60 is only available to a member if they are still in employment and then retire immediately. In the situation described in the question, the deferred pension will be actuarially reduced for each complete month by which the date of retirement precedes age 65.

Option 1 Questions - Deferred Pension (contd)		
D5	Can I take my deferred pension as an early retirement pension now and continue to contribute to the 2006 section?	No. You can only take early retirement when you leave employment (unless you are age 60 and apply for flexible retirement in which case you have to stop contributing to the 2006 section). Some sections of the Scheme do not allow members to take early retirement without the consent of the Company and/or Trustees. Please refer to the benefits schedule for further information.
D6	Can I transfer out my deferred pension into another arrangement and continue to contribute to the 2006 section?	No. You may only transfer- out your benefits if you have stopped contributing to the Scheme.
D7	On the main section benefits schedule it says that if I keep a deferred pension (instead of taking a service credit) and then die there is a benefit payable of 150% of my contributions. How do I know how much this is? <i>(raised by Main member)</i>	All members have already been issued with a statement of benefits as at 5 April 2006. The amount payable on death can be found on this statement under the heading "death in deferment".
D8	In the unlikely event that in any particular year the RPI were to fall below 0% would the deferred pension be decreased or would it remain unchanged?	If "deflation" occurred, your deferred pension would remain at it's current level, it would not be reduced. In fact, your "accrued" deferred pension is protected by law.
D9	The deferred pension from a previous period of employment I had with Alstom is excluded from the service credit option. Will this continue under the existing rules?	Yes, benefits arising from an earlier period of employment with Alstom are unaffected by the service credit exercise. You are only being given the opportunity to take a service credit in relation to your deferred pension arising from your latest period of employment.

Option 1 Questions - Deferred Pension (contd)		
D10	The benefits shown for Ill Health for the ABB Section comparison of benefits to the 2006 Section are wrong and do not correspond with Rule 6 of Schedule 5 (Rules of the former ABB Plan)	They are not wrong, you should be referring to Rule 7 of Schedule 5 and in particular Rule 7.5(b) which makes no provision for Ill Health Retirement Pensions from Deferred status. Notwithstanding this your attention is drawn to the answer S7 later.
D11	On the meeting on 5 <sup>th</sup> May Bryan Radford said that <i>“The Company can reassure that service accrued while a member of the “deferred” ABB pension will be included in the calculation of ill health retirement pensions for those members who chose not to transfer their accrued pension into the new Alstom Pension”.</i> <b>(Raised in ABB Newcastle Q&amp;A session)</b>	<p>Bryan Radford has checked his diary and was not present at any meeting that day. Investigation reveals that the reference was to a letter dated 5<sup>th</sup> May from Messrs Burton, Bentley, Mills, Blundell to Mr Hogan and Mrs Taylor at Derby.</p> <p>Notwithstanding the ABB deferred pension (which in turn was calculated on the service in the ABB section) is included in the ill health calculation; see S7 later.</p>
D12	Why, under Option 1 does it not show the calculation of the Deferred Pension. I think it is wrong.	<p>This is reproduced from the Statement of Benefits as at 5 April 2006 that was sent to you last year. The Trustee would have presumed that if you thought it was wrong you would have queried it already.</p> <p>If you believe that the salary information is wrong you should check with your payroll to establish how they calculated the figures that were sent to and used by the Pensions Department.</p> <p>If a genuine mistake in passing information to the Pensions Department has occurred the Trustee, obviously, would investigate and if necessary ask for a new calculation to be undertaken.</p>



**Option 2 Questions - Service Credit**

S1

How is the adjustment factor determined?

The adjustment factor is based on the view that the average remaining *working life* with Alstom is 12 years. The service credit is reduced by a factor of 1% for each year between 6 April 2006 and age 65 (subject to a maximum adjustment of 12%). The factor of 1% pa used is based on the actuarial assumption that earnings growth will exceed price inflation (broadly used to revalue your deferred pension) by 1% pa on average.

On this basis, it is expected that the service credit increased in line with earnings for 12 years and then by price inflation until Normal Retirement Age (65) will produce a pension similar to your old deferred pension revalued (in line with price inflation) to Normal Retirement Age.

There is an improving adjustment to the service credit for ABB members to allow for the fact that they, if they remain in service until age 60, would be giving up the right to an unreduced pension from age 60 under the ABB Section. This means that a run in of 7 years rather than 12 years has been used so that the adjustment is a maximum of 7%. The adjustment for ages 60-65 is 100% on the basis that it was assumed that the majority of people in this category will not take the Service Credit.

The adjustment factor applicable to an ABB member, age 53 or below at 6 April 2006 is therefore  $100\% - 7\% = 93\%$ . For a Main, Babcock or Cegelec member this is  $100\% - 12\% = 88\%$ .

For an ABB member age 62 at 6 April 2006 the adjustment factor is 100%. For a Main, Babcock or Cegelec member this is  $100\% - 3\% = 97\%$ .

Option 2 Questions - Service Credit (contd)		
S2	<p>Does "service credit" include for "scheme benefits" (applicable to all sections)?</p> <p>How was the benefit calculated?</p>	<p>Your deferred pension is calculated based on the Rules applicable to that Section as at 5 April 2006. Please refer to the statement of deferred benefits previously issued to you.</p> <p>The service credit is then calculated as follows:</p> <p>"deferred pension x 75 / adjustment factor x FPE"</p> <p>(where FPE = 2006 Section Final Pensionable Earnings definition)</p>
S3	<p>Why does the service credit indicate a reduction from age 53 to 65. How can this be justified?</p>	<p>Please refer to S1 above</p>
S4	<p>Why is there a difference between Aug 2006 statement on final pensionable earnings and the current credit transfer pack issued the beginning of February 2007? (<i>raised by ABB member</i>)</p>	<p>See the answers to D1 and D3 above. The personal illustration uses the 2006 Section definition of Final Pensionable Earnings, whereas the August 2006 uses the ABB definition of Final Pensionable Earnings.</p>
S5	<p>Where are the questions and answers on the web site?</p> <p>Please give web address and confirm they are up to date.</p>	<p>The intranet address is <a href="http://iww.pensions.Alstom.com">iww.pensions.Alstom.com</a></p> <p>The questions and answers can be found by clicking on News in the toolbar shown on the home page. This will then take you to a section on the service credit. You will find the questions and answers here along with the modellers.</p> <p>The questions and answers will be updated on a weekly basis. Please note, the Q&amp;As can only be found on the intranet site not the internet.</p>

Option 2 Questions - Service Credit (contd)		
S6	Does the "service credit" take into account contracted out status (protected rights)?	<p>The service credit provides you with an additional pension in the 2006 Section in lieu of your benefits built up in the Scheme for service completed up to 5 April 2006.</p> <p>The protected rights benefits act as an underpin to your deferred pension and your deferred pension cannot be less than the benefits built up in the protected rights fund.</p> <p>This underpin carries over to the 2006 Section if you elect to take the service credit.</p>
S7	What are the reduction factors for the MAIN and ABB section in deferment if ill health pension is awarded?. Please give an example on how this may be applied?	<p>Under the Rules of the Main Section if an ill-health pension is awarded the benefit payable is the deferred pension without reduction for early payment.</p> <p>There is no provision in the Rules of the ABB Section for payment of an ill health pension for deferred members, however, for members not choosing the service credit, if an ill-health pension is awarded to an active members under the 2006 Section the Company has agreed to allow payment of an ABB deferred pension with an early retirement factor applied (up to age 60 not 65), regardless of age.</p>
S8	Some employees have noted a significant difference in service credit despite having similar years service and similar salaries! Please explain how this could occur?	<p>The service credit is based on the old Section deferred pension, what their old sections were, Final Pensionable Earnings (2006 Section definition) and age (which is used to determine the adjustment factor), at 6 April 2006. Any variances in these factors between members will result in a different service credit.</p>
S9	Salary "Pay Grading" may influence an employees decision to accept a service credit. When will individuals know how they may be affected?	<p>Queries regarding pay grading should be referred to your Human Resources Department. You should note, however, that the deadline for choosing the service credit remains at 31 March 2007.</p>

Option 2 Questions - Service Credit (contd)		
S10	Does service credit recognise the enhanced total contribution level of the ABB Section <i>(raised by ABB member)</i>	<p>The service credit is calculated using the formula shown in S2, above; ie it is reflecting a <b><i>defined benefit to defined benefit</i></b> calculation <b>and not</b> a <b><i>defined contribution</i></b> formulae. The employee/employer contribution rates applicable at that time reflected the cost of providing your benefits (and the resulting deferred pension) under your former benefit structure.</p> <p>It should also be remembered that the previous contribution rates applicable to the separate sections were applied to quite different pensionable earnings/salaries and often very different contribution rates did not result in different contribution amounts.</p>
S11	What are the new early retirement factors for pensions taken from 60 yrs onwards	<p>The early retirement factors can be found by logging onto the intranet: web address is <a href="http://www.pensions.alstom.com">www.pensions.alstom.com</a>. Go to the home page and click on the News item in the toolbar. You will find the early retirement factors by scrolling down the page, under the section marked "important changes to the early retirement factors".</p>
S12	If I had 10 years pensionable service in my old section, why am I not getting the same number of years in the 2006 section?	<p>The service credit has been calculated based on formulae, which incorporates your accrued deferred pension in your old section. An adjustment factor is applied to take into account that your service credit pension will increase in line with assumed salary increases in the future. If no adjustment factor were made then the pension from the service credit would not be equivalent in value to the deferred pension given up. This is because, in general, it is assumed that salary increases will exceed the increase applied to deferred pensions. A deferred pension increases by inflation (up to a maximum of 5% per annum) whereas salary increases are not limited and, in general, on average, have been historically higher than inflation over a period of time. Each member should consider their own personal circumstances and use the interactive modeller to produce different illustrations based on different assumptions.</p>

**Option 2 Questions - Service Credit (contd)**

S13

I have noticed that the 2006 Section provides increases to pensions in payment of RPI capped at 2.5%. Will this apply to my pension from my service credit if I elect to take the service credit option?

No. Any pension derived from the service credit will still receive increases of RPI up to 5% per annum once in payment. However, Babcock members will no longer have a 3% per annum guarantee.

S14

Why has the service credit been based on 75ths when I have chosen to join the 65<sup>th</sup> tier?

75ths was the accrual rate chosen for all members regardless of the tier they may have elected. This decision was taken to simplify the communication exercise (ie same conversion calculation for all members) and to reflect the fact that members may chose to change their tier in the future.

Please note that the resulting **service credit pension** would be exactly the same if 85ths or 65ths had been used instead though the service credit would have been higher or lower respectively. For example a service credit of 10 years at 75ths could be re-expressed as

Accrual	Service Credit
65ths	8 years 8 months
75ths	10 years 0 months
85ths	11 years 4 months

In each case the resulting pension would be 13.3% of Final Pensionable Earnings.

Option 2 Questions - Service Credit (contd)		
S15	As I am in the 65ths tier will my service credit be converted to 65ths or be left as 75ths?	If you elect the service credit, this will be recorded (and will remain) on the pensions database as 75ths.
S16	The Final Pensionable Earnings (FPE) figure shown on my personal illustration is below my expectations. How has this been arrived at?	The FPE has been calculated using the 2006 Section definition of Pensionable Earnings, which is basic earning plus fixed allowances. Bonuses and overtime are not pensionable under the 2006 Section.
S17	<p>You say that my deferred pension is reduced by 7% to calculate the Service Credit but this is not true you haven't used my ABB Final Pensionable Earnings and therefore you have actually applied a further and additional 2% deduction.</p> <p>This is unfair and misleading as the calculation method is wrong and not as outlined in the rest of the communication pack. <i>(Raised in ABB Newcastle Q&amp;A session)</i></p>	<p>This is not true. The Service Credit is calculated using the 2006 Section definition not your previous section's definition of Final Pensionable Earnings.</p> <p><b><i>If you want to double check that the right deduction has been made it is really very simple to do so.</i></b> Divide the pension shown in Option 2 with the Pension shown in Option 1. {We did the calculation for the member who raised the question and showed that the deduction formulae was 93.16% ie 6.84% so marginally less than the 7% he was expecting and certainly not the 9% he thought it was.} The reason for this slightly better answer is that service credits have been rounded to the nearer month.</p>

**Option 2 Questions - Service Credit (contd)**

<p>S18</p>	<p>I have 11 years 4 months in <b>ABB</b> so therefore to covert this service at 55ths to years @ 75ths surely the formulae is simply :</p> $\frac{\text{Service Credit}}{75} = \frac{11.25}{55} * 0.93$ <p>ie 15.34 years (15 years 4 months) not the 14 years I have been given</p>	<p><b>No.</b></p> <p>The ABB pension is based on a different salary definition to the one used by the 2006 Section. Your calculation would only work if and only if by coincidence the two definitions were the same.</p> <p>For this to be true would require your overtime and bonuses to be exactly equal to the Government's Lower Earnings Limits. The actual formulae is</p> $\frac{\text{Service Credit}}{75} * FPE_{2006} = \frac{11.25}{55} * 0.93 * FPE_{ABB}$
<p>S19</p>	<p>There is a rumour that my sector/unit may be sold on or we may be made redundant. If I take the service credit and this were to happen then I would almost certainly lose out because the opportunity for my pay rises to outstrip inflation would be immediately curtailed.</p> <p>If this happened will the Company put things "right."</p>	<p>There no plans, in the case of a corporate restructure, to unravel members benefits so that "with the benefit of hindsight" they could be put back to the better position.</p> <p>The decision you face is purely consensual and is both one-off and irreversible.</p>
<p>S20</p>	<p>The deduction is actually a fudge to correct an error in the funding assumptions used by the Trustee.</p>	<p>No.</p> <p>There has been a change in the funding assumptions to reflect the fact that future salary progression assumptions are, now, principally aligned with increases in basic salaries. Until 2006, most members pensionable earnings included elements of overtime and bonuses earnings which fluctuate over members' ages - in the 40s were higher than those in the 50s as people do less overtime. The salary progression for these required different assumptions.</p>

Modeller Questions		
M1	How do I access the interactive modeller?	<p>The interactive modeller can be accessed through the pensions intranet site at <a href="http://iww.pensions.alstom.com">iww.pensions.alstom.com</a>.</p> <p>On the home page there is a toolbar marked News. Click on this and it will take you to a section on the service credits. The modeller can be found here.</p>
M2	Why have you used a future salary growth of 3.5% for the projected service credit pension on my illustration and only 2.5% for my deferred pension?	<p>Typically, on average, salaries grow quicker than the increase based on just the change in the Retail Prices Index (inflation). Therefore it was thought that a reasonable assumption would be to say that earnings would increase 1% per annum more than inflation.</p> <p>In most of the old sections of the Scheme deferred pensions increase in line with inflation but up to a maximum of 5% per annum. As inflation has been fairly low in recent years it was thought that an estimate of 2.5% was reasonable. We therefore set the salary growth assumption to be 3.5% per annum.</p> <p>Of course you should take into account your own circumstances and what assumptions you believe are reasonable. You can use the interactive modeller to help you provide some alternative projections based on different assumptions.</p>
M3	When using the interactive modeller, where do I find the service credit pension figure?	<p>The service credit pension at 6 April 2006 is detailed on your personal illustration in the second paragraph under option 2. Do not confuse this with the figure shown on your personal illustration in the example box which is the projected service credit pension at age 65.</p> <p>Make sure you read and print the notes by clicking on the “notes box” which appears at the top of the modeller page before using the modeller.</p>



Modeller Questions (contd)		
M4	The modeller doesn't produce correct answers. <i>(raised by ABB member)</i>	<p>We believe the modeller is working correctly but the user needs to exercise care and they should read the notes carefully.</p> <p>In particular, "ABB" members should use the modeller with extreme care because of the early retirement reductions that may or may not apply. – <b>see Note 10</b>. This particularly is pertinent if an <b>Age you wish to leave the 2006 Section (optional)</b> is used.</p> <p>If, for example, age 62 is used then the graph shows the "old Section" pension paid at 62 with no actuarial reduction being applied. Pensions paid from 63, 64, 65 have actuarial reductions applied because the modeller assumes that the person has left at 62 and rather than taking immediate unreduced retirement becomes a deferred pensioner for 1, 2, or 3 years respectively.</p>
M5	Why have you increased my Final Pensionable Earnings by 3.5% pa rather than applying increases to my pensionable earnings. Does this affect the figures shown at age 65 under option 2 of my personal illustration?	<p>Looking at the projected pension at age 65 under option 2 we have taken the Final Pensionable Earnings (FPE) calculated as at 6 April 2006 and increased this figure by 3.5% pa. In practice any increase given will be applied to your pensionable earnings (not FPE) and a 3 year average of pensionable earnings will be used to calculate your benefits when you leave the Scheme. This may result in a different figure to that shown on your personal illustration. The figures shown are intended to be a guide only.</p>
M6	Will the Pensions Department release an unprotected version of the Modeller	<p>No. This is to prevent members rewriting it and saving an incorrect version which might inadvertently be used by someone else.</p>

<b>Modeller Questions (contd)</b>		
M7	Please advise what the current reductions are to pensions under the Alstom Scheme where early retirement is allowed and taken. Does the modeller correctly reflect the current pension reductions?	Yes, the modeller does include the correct early retirement factors. Details of the current early retirement factors can be found on the Pensions Intranet site under the "News" bar.
M8	Why does the modeller show a high growth rate - after age 60 - if you left service?	It doesn't really, what it does reflect is a combination of two factors, the older you are when you take early retirement the lower the early retirement and the more revaluations will be applied from leaving until retirement.

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