
**THE MERGER OF THE FOOTBALL LEAGUE LIMITED
PLAYERS' NON-CONTRIBUTORY CASH BENEFIT
SCHEME AND THE FOOTBALL LEAGUE LIMITED
PLAYERS' RETIREMENT INCOME SCHEME**

Explanatory Report to Players' Independent Financial Advisers

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1 INTRODUCTION

- 1.1 The Finance Act 2004 will have a significant impact upon footballers' pension arrangements when it comes into force on 6 April 2006. The trustees and the sponsoring leagues have been in detailed discussions about how to react to the changes. They have now agreed upon a way forward, which they consider to be in the best interests of the members. The proposal is to merge the Football League Limited Players' Non-Contributory Cash Benefit Scheme ("Cash Scheme") and the Football League Limited Players' Retirement Income Scheme ("Income Scheme") with effect from 6 April 2006. The provisional name for the merged scheme is the Professional Footballers' Pension Scheme ("Merged Scheme").
- 1.2 The purpose of this report is to give players' independent financial advisers advance notice of the changes that will occur on merger in order to assist them in advising their clients. It is in addition to the member communication that will be issued by the trustees in due course.
- 1.3 Where provisions will be largely unchanged as a result of the merger, they have not been repeated here.
- 1.4 The trustees are not in a position to provide financial advice to members and nothing in this document should be construed as providing advice.
- 1.5 The regulations that will govern the Merged Scheme are still subject to change and certain issues require further clarification with the Revenue. As such, the proposals summarised in this report may need to be revised between the time of writing and 6 April 2006.

2 THE MERGED SCHEME

- 2.1 The Merged Scheme will be a sectionalised retirement benefit arrangement. It will have two sections, one section replacing the Cash Scheme ("Cash Section") and the other replacing the Income Scheme ("Income Section").
- 2.2 The Income Scheme will be used as the basis for the Merged Scheme. It will be amended to create two sections. The assets and liabilities of the Income Scheme will be allocated to the Income Section. The assets and liabilities of the Cash Scheme will be transferred to the Cash Section.
- 2.3 With the exception of the new minimum benefit provisions (explained at paragraph 10.1(b) below), benefits will accumulate through each section in the same way as they do currently. The manner in which benefits accruing after 6 April 2006 will be paid out is, however, subject to the new Revenue limits that are to be introduced with effect from 6 April 2006 ("A-Day").
- 2.4 Historically the administration costs of running the Income Scheme have been funded using part of the commission payable on investments. Investments through the Income Section post A-Day will be on a non-commission basis (see section 9 below). This will give members maximum value for the contributions that are made. The administration expenses for operating the Merged Scheme will, for time being, be funded from its surplus assets.

3 WHY MERGE THE SCHEMES?

- 3.1 When the provisions of the Finance Act 2004 comes into force on A-Day they will have a significant impact upon footballers' pension arrangements.
- 3.2 One of the changes is a new limit on the proportion of benefits that a member can take as cash. Only 25% of pension benefits that accrue after A-Day can be taken in cash form. Currently all benefits accrued under the Cash Scheme can be taken as cash. In addition, some players are entitled to further cash from the Income Scheme.
- 3.3 If no action were taken, a member would be able to access a cash sum from the Cash Scheme equivalent to 25% of the total value of the benefits he has accrued after A-Day (in addition to his pre A-Day cash entitlement – which is unaffected). Any post A-Day benefit accrual in the Cash Scheme that could not be paid out as cash would remain in the scheme because the Cash Scheme has no facility for providing a pension. This is clearly not in the best interests of the members.
- 3.4 As a pension facility already exists through the Income Scheme, it has been decided to merge the schemes in order that excess funds in the Cash Section can be automatically transferred to the Income Section at retirement and paid out in pension form.

4 OTHER FINANCE ACT CHANGES

- 4.1 Despite intensive lobbying on behalf of the trustees and the PFA, the Finance Act 2004 will prevent new joiners entering the Merged Scheme after 6 April 2006 from having the low normal retirement age that is currently available for footballers. Current members and those joining the Cash Scheme or the Income Scheme before 6 April 2006 will still be allowed to accrue benefits with a normal retirement age of 35. Members who join the Merged Scheme on or after 6 April 2006 must have a normal retirement age of 55.
- 4.2 Another change to the tax system means that the statutory earnings cap will be removed from 6 April 2006. To avoid the impact that this would have upon the funding position of the Cash Section, it has been decided to introduce a scheme specific earnings cap with effect from 6 April 2006. The cap will apply to earnings for the purpose of determining both contributions and benefits. It will start at the level at which the statutory earnings cap ceases on 5 April 2006 and will increase in line with inflation or at such other rate as the trustees determine from time to time.
- 4.3 The Finance Act 2004 will replace current benefit and contributions limits with an Annual Allowance and Lifetime Allowance from 6 April 2006. The Annual Allowance relates to the amount by which an individual's pension rights may increase each year. This limit will begin at £215,000 for the 2006/2007 tax year. The Lifetime Allowance is the maximum value of pension benefits that can be taken by an individual during his lifetime before additional tax liabilities apply. This limit will begin at £1,500,000 for the 2006/2007 tax year.
- 4.4 Where a member's benefits come into payment prior to age 50 (55 from 2010), there will be a reduction to his Lifetime Allowance of 2.5% for each complete year between the date on which the benefits are paid and the date on which the individual reaches the age of 50 (or 55 where appropriate).
- 4.5 Members whose cash entitlement exceeds (or may later exceed) 25% of his reduced Lifetime Allowance) or whose overall pensions benefits exceed (or may later exceed) the

reduced Lifetime Allowance should consider registering for enhanced or primary protection. The trustees are not in a position to advise members on this issue. They will recommend to members that they take independent financial advice.

- 4.6 From A-Day players will be allowed to participate in as may pension arrangements as they wish (subject to the Annual Allowance and Lifetime Allowance referred to above). As a result, the Income Section will have much greater competition. Whilst merging the schemes, it has therefore been decided to take the opportunity to review the structure of the Income Section to make it more competitive.

5 CASH SECTION

- 5.1 The benefits provided through the Cash Section will largely replicate those currently provided through the Cash Scheme. The benefits are based upon salary (subject to the salary cap, where applicable) and service with clubs. Membership of this section is automatic and non-contributory. Please note that the statutory earnings cap will be replaced with a scheme specific earnings cap with effect from 6 April 2006 (see paragraph 4.2 above).
- 5.2 Currently, players accrue benefits through this arrangement irrespective of whether they participate in the Income Scheme. From 6 April 2006, contracted players in the Premier League and Football League will continue to accrue benefits through this section at no further cost to them, but only during periods in which they contribute at least 3.75% of (capped) basic earnings to the Income Section. Players will accrue no further benefits through this section during periods when they contribute less than 3.75% of (capped) basic earnings to the Income Section. The following players can continue to contribute to the Income Section but will accrue no benefits through the Cash Section, irrespective of the level of their contributions:
- (a) players with former Football League clubs, which were relegated to the Conference League; and
 - (b) players who are registered with the Premier League and Football League but who are currently playing for a club on a non-contract basis.
- 5.3 The benefits accumulated through the Cash Scheme prior to 6 April 2006 (and any additional cash entitlement from the Income Scheme as at 5 April 2006) can be taken in full as tax free cash. Benefits accumulated through this section on or after 6 April 2006 are pooled with the member's fund in the Income Section arising from contributions made on or after 6 April 2006. Assuming the member has no benefits in other pension arrangements, he will be entitled to take 25% of the total post A-Day funds as tax free cash with the remainder to be used to provide him with a pension through the Income Section.
- 5.4 This section also provides a life assurance benefit of four times salary (subject to the salary cap where applicable) for dependants in the event of the death of a registered player. Please note that the statutory earnings cap will be replaced with a scheme specific earnings cap with effect from 6 April 2006 (see paragraph 4.2 above).

6 INCOME SECTION

- 6.1 The benefits provided through the Income Section will largely replicate those currently provided through the Income Scheme. Membership of this section will continue to be voluntary.
- 6.2 From 6 April 2006, contracted players in the Premier League and Football League wishing to accrue further benefits through the Cash Section must contribute at least 3.75% of (capped) basic earnings to the Income Section. The following players can continue to contribute to the Income Section but will accrue no benefits through the Cash Section, irrespective of the level of their contributions:
- (a) players with former Football League clubs, which were relegated to the Conference League; and
 - (b) players who are registered with the Premier League and Football League but who are currently playing for a club on a non-contract basis.
- 6.3 The contributions are paid into the member's individual account. The account is invested in accordance with the member's instructions.
- 6.4 When the member retires, that part of the account which is attributable to contributions paid before 6 April 2006 will be used to provide any cash lump sum which was permitted to be paid by the Revenue as at 5 April 2006 in addition to the cash benefit payable through the Cash Section with the balance being used to provide a pension.
- 6.5 That part of the account which is attributable to contributions paid on or after 6 April 2006 will be pooled with the member's benefits accrued on or after 6 April 2006 through the Cash Section. Assuming the member has no benefits in other pension arrangements, he will be entitled to take 25% of the total funds as tax free cash with the remainder to be used to provide a pension through the Income Section.

7 JOINING THE SCHEME

- 7.1 Cash Section
- (a) Members of the Cash Scheme on 5 April 2006 will automatically become members of the Cash Section on 6 April 2006.
 - (b) Players who register with the Premier League or Football League on or after 6 April 2006 and who are playing for a club on a contract basis will automatically become members of the Cash Section on registration unless they opt out. The three-month waiting period under the Cash Scheme will no longer apply.
 - (c) There is no provision for a player who opts out (or transfers his benefits away from the Cash Section) to join (or rejoin) at a later date.
 - (d) If a player becomes a registered player having completed a period as a trainee player, a scholarship player or an apprentice, his membership is backdated to the date he became a trainee player, a scholarship player or an apprentice. The relevant date for the purpose of determining his normal retirement age will therefore be the start of traineeship, scholarship or apprenticeship.

7.2 Income Section

- (a) Members of the Income Scheme on 5 April 2006 will automatically become members of the Income Section on 6 April 2006.
- (b) Newly registered players after 6 April 2006 will be eligible to become members of the Income Section.
- (c) Players who have previously contributed to the Income Section but are not currently contributing, either through:
 - (i) choice;
 - (ii) a break in their registration; or
 - (iii) a period of playing for a non-eligible club;

can resume contributions at a later date (provided they satisfy the eligibility conditions at that time). Subject to Revenue approval, they shall be treated as having continued in membership throughout. A pre A-Day joiner should therefore be entitled to resume contributions after A-Day and retain his retirement age of 35 in respect of all benefits.

- (d) If a player decides not to join the Income Section when first eligible (or to transfer his benefits away from the Income Section) he will only be allowed to join (or re-join) at a later date with the permission of the trustees (see paragraph 12.3 below).

8 CONTRIBUTIONS

8.1 Cash Section

- (a) No member contributions will be payable to the Cash Section as the whole cost is met through a levy on transfer fees. Currently, benefits accrue in the Cash Scheme irrespective of whether the member pays contributions to the Income Scheme. From 6 April 2006, Premier League and Football League contracted players will only accrue further benefits through the Cash Section during periods in which they contribute at least 3.75% of (capped) basic earnings to the Income Section.
- (b) Premier League and Football League contracted players do not have to pay any contributions to the Merged Scheme in order to receive life assurance benefits through the Cash Section.

8.2 Income Section

- (a) A member of the Income Section can decide upon his level of member contributions. From 6 April 2006, Premier League and Football League contracted players will accrue further benefits in the Cash Section during periods where he contributes at least 3.75% of (capped) basic earnings to the Income Section.

- (b) Regular contributions will be deducted from a player's pay and paid to the Income Section each month. It may be possible to pay additional single contributions from time to time up to the Annual Allowance.

9 INVESTMENT

9.1 Cash Section

- (a) The funds in the Cash Section will continue to be invested at the trustees' discretion in accordance with the professional advice that they receive from time to time.

9.2 Income Section

- (a) All contributions paid by a member to the Income Section will be credited to his individual member account.
- (b) The trustees have appointed Standard Life Investments as the investment manager for the Income Section from 6 April 2006. Standard Life Investments offer a wide range of investment funds, giving members a choice of investment styles and markets in which to invest. The trustees will regularly review the performance of the investment manager.
- (c) All existing members will need to make a decision regarding how their contributions to the Income Section are to be invested by 31 July 2006.
- (d) The trustees are establishing a core range of Standard Life investment funds that operate on a tracker (also known as passive) basis. These funds offer professional investment management at a low cost and without the risks associated with active management. A member's account can be invested in one or more of the following range of core funds:
 - (i) FTSE (UK equity) Tracker
 - (ii) Global Equity (1/2 UK, 1/2 overseas) Tracker
 - (iii) UK Gilt Tracker
 - (iv) Consensus (typical pension fund) Tracker
 - (v) Sterling (cash)
- (e) In addition to the core fund range, members can also choose to invest their account in any of the other funds available from Standard Life Investments. These funds are managed on an active management basis and may have higher charges. The range includes Managed, Property, Ethical and With Profit funds as well as an extensive range of equity and bond funds.
- (f) If members select from this wider range of funds, both they and their adviser will be required to sign a disclaimer to confirm that they understand that higher charges and risks may be associated with these funds.

- (g) 100% of the member's account will be allocated to the Standard Life investments by reference to the current unit price. No initial charge or bid/offer spread will apply and no commission payable. No penalty will be applied in the event of a member taking benefits on retirement or death. No penalties will apply should a member transfer to another approved pension arrangement. The only exceptions to this are if members choose to invest monies into the Standard Life With Profit or Property Funds where market value adjustment exit charges can apply.
- (h) The only charges that will apply to the Standard Life investments are the annual management charges. The current annual management charges for the Standard Life range of funds are:

Type of Standard Life Investments Fund	Annual Investment Management Charge (non-commission basis)
Core range of Funds	0.1% - 0.2%
Wider range of Standard Life Specialist Funds	0.3% - 1.0%

- (i) All Standard Life investments from 6 April 2006 will be made on a non-commission basis. The trustees consider that this arrangement is in the best interests of the members by giving them the maximum value from contributions made. It will also enable the Income Section to offer investment management charges which are extremely competitive in the market place.
- (j) Where a member's pre A-Day Income Scheme contributions are invested with an insurer other than Standard Life, he may elect to continue to use this vehicle for his post A-Day contributions. In these circumstances, the member and his adviser will be required to sign a disclaimer to confirm that they understand that higher charges and risks may be associated with these contributions.
- (k) If a member does not make a decision in respect of how his contributions are to be invested, by default his account will be invested on a lifestyle basis with Standard Life. This seeks to secure the higher long term returns available from equities but, acknowledging the volatility of equities, moves monies into cash as the member's retirement approaches. Under the default lifestyle basis an individual account will be invested as follows:

Term to Retirement (years)	FTSE Tracker Fund (UK equities)	Sterling Fund (Cash)
5 +	100%	Nil
4	80%	20%
3	60%	40%
2	40%	60%
1	20%	80%
0	nil	100%

- (l) Members will have the option to leave any funds accumulated before 6 April 2006 in their existing investment vehicles or to switch them to a Standard Life fund. Please note, however, that penalties may be applied when money is disinvested from certain funds. The first switch into a Standard Life fund or between Standard Life funds within any calendar year is free. Any additional switches will each be subject to a charge. However, please note that multiple switches (e.g. switching out of two funds and re-applying the proceeds amongst three new funds) on the same day are treated as one switch.

10 RETIREMENT BENEFITS

10.1 Cash Section

(a) Accrual basis

- (i) Currently, Premier League and Football League contracted players accrue benefits through the Cash Scheme irrespective of whether they contribute to the Income Scheme. From 6 April 2006, they will accrue further benefits through this section at no further cost to them, only during periods in which they contribute at least 3.75% (capped) basic earnings to the Income Section. They will accrue no further benefits through the Cash Section during periods when they contribute less than 3.75% of (capped) basic earnings to the Income Section. (See paragraph 5.2 for details of players who are eligible to contribute to the Income Section but who will not accrue benefits through the Cash Section, irrespective of the level of their contributions.)
- (ii) As a result, members will accrue benefits through the Cash Scheme/ Cash Section during any periods of registered contractual status with a Premier League or Football League club:
 - (A) before 6 April 2006; and
 - (B) on or after 6 April 2006 during which they contribute at least 3.75% of their (capped) basic earnings to the Income Section.
- (iii) During each such period benefits will accrue as currently in that:
 - (A) a member will accrue a benefit equal to 3/80ths of his final earnings for each complete year of service (with a proportionate amount for each additional complete month) with a club; and
 - (B) If the member moves from one club to another, service and final earnings with each club will be used to calculate the amount of benefit accrued with each club. The amount of benefit accrued with each club is increased each year between leaving the club and normal retirement date. All the "slices" of benefit are added together at normal retirement date to arrive at the total benefit payable.

(b) Minimum benefits

- (i) From 6 April 2006 a minimum cash benefit will be introduced for all members who have completed 1 year of service in the Cash Section. Upon retirement from the Merged Scheme the value of their benefits in the Cash Section will be the greater of the benefits accumulated using the accrual basis described in paragraph 10.1(a) above and the minimum benefit.
 - (ii) The level of the minimum benefit is subject to review from time to time by the trustees, but will be introduced on 6 April 2006 at £5,000 for members who have completed 5 years or more of total service. For players whose total service amounts to less than 5 years, it will be £1,000 for each completed year of service.
 - (iii) Where a member's service is less than 5 years as a result of him ceasing to be a registered contract player through injury, the trustees may at their discretion treat him as having completed 5 years service for the purposes of determining the level of his minimum benefit.
- (c) The benefits accrued through this section prior to 6 April 2006 can be taken in full as tax free cash. Benefits accrued through this section on or after 6 April 2006 will be pooled with the member's fund in the Income Section arising from contributions made on or after 6 April 2006. Assuming the member has no benefits in other pension arrangements, he will be entitled to take 25% of the total post A-Day funds as tax free cash with the remainder to be used to provide a pension through the Income Section. Benefits accrued (or paid out) through other pension arrangements will impact upon the amount of tax free cash that can be taken from the Merged Scheme.
 - (d) If a member's total pension benefits from all pension arrangements are less than 1% of the Lifetime Allowance they may all be taken as cash. However, it appears that this is only available from age 60 and only 25% of the cash sum relating to benefits accrued on or after 6 April 2006 will be paid tax free. The balancing 75% will be subject to income tax.

10.2 Income Section

- (a) Where a member has contributed to the Income Section before 6 April 2006, his funds accumulated during that period must be used to provide him with a pension, unless he was entitled at 5 April 2006 to take some of them in cash form.
- (b) Where a member contributes to the Income Section on or after 6 April 2006 the funds accumulated through this section will be pooled with his entitlement through the Cash Section. Assuming the member has no benefits in other pension arrangements, on retirement he may take a tax-free cash sum from the Merged Scheme which is equal to 25% of the value of his total pension benefits accrued on or after 6 April 2006. Any remaining benefits must be used to provide a pension.

10.3 Incapacity Benefits

- (a) If a member ceases to be registered player before his normal retirement date due to incapacity, he may be entitled to an immediate payment of the benefits earned

to that date. In order to be assessed for incapacity benefits the member will need to provide medical evidence to the trustees to demonstrate his incapacity.

11 DEATH BENEFITS

- 11.1 The benefits payable on the death of a member will be the same in the Cash Section as they were previously in the Cash Scheme. This benefit will continue to be insured by the trustees. Due to the exclusions that are now routinely applied to group life assurance policies, it has been necessary to amend the governing provisions in order that the death benefit payment will be conditional upon (and limited to) the payment made to the trustees under the insurance policy.

12 TRANSFERS

- 12.1 The trustees are aware that some players may wish to take a transfer of benefits to another arrangement before A-Day. Players have a right to take a transfer and the trustees are obliged to pay a transfer within 3 months of a benefit quotation having been accepted by a member. For the avoidance of doubt, players are entitled to take a transfer of benefits from either the Cash Scheme or the Income Scheme, whilst leaving their benefits in the other.
- 12.2 The administrators will endeavour to process transfers as quickly as possible during the period leading up to A-Day. However, members wishing to transfer are encouraged to submit their applications as early as possible to avoid disappointment. **Subject to any delays experienced with insurance companies, the administrators would anticipate being in a position to process transfer applications in advance of A-Day if they are received by 31 January 2006.**
- 12.3 Should a player who has transferred his benefits to another arrangement before A-Day then wish re-join the Income Scheme/ Income Section he will only be allowed to do so with the permission of the trustees (see paragraph 7.2(b) above). If he has been and remained a member of the Cash Section since before 6 April 2006 he will be entitled to accrue further benefits through both sections with a normal retirement age of 35. Please note that there is no facility to rejoin the Cash Scheme/ Cash Section (see paragraph 7.1(c) above).

13 BENEFIT ILLUSTRATIONS

13.1 Example 1

A player has benefits in the Cash Section of £30,000, an individual account in the Income Section of £100,000 and no pension benefits elsewhere. All of his benefits accrued on or after 6 April 2006.

The total value of benefits is $£30,000 + £100,000 = £130,000$.

The maximum cash sum is 25% of $£130,000 = £32,500$.

The cash sum payable from Cash Section = $£30,000$.

The cash sum payable from Income Section $(£32,500 - £30,000) = £2,500$.

The balance of the individual account in the Income Section to be used to purchase a pension (£100,000 less £2,500) = £97,500.

13.2 Example 2

A player has benefits in the Cash Section of £50,000, an individual account in the Income Section of £100,000 and no pension benefits elsewhere. All of his benefits accrued on or after 6 April 2006.

The total value of benefits is £50,000 + £100,000 = £150,000.

The maximum cash sum is 25% of £150,000 = £37,500.

The cash sum payable from Cash Section = £37,500.

The cash sum payable from Income Section = £0.

The balance of the individual account in the Income Section plus the excess from the Cash Section is used to purchase a pension (£100,000 plus £12,500) = £112,500.

13.3 Example 3

A player has accrued the following benefits:

- Cash Scheme prior to 6 April 2006 of £20,000
- Income Scheme prior to 6 April 2006 of £60,000
- Cash Section after 6 April 2006 of £40,000
- Income Section after 6 April 2006 of £100,000

The total value of benefits is £220,000

The total benefits accrued prior to 6 April 2006 are £80,000.

The total benefits accrued after 6 April 2006 are £140,000

The tax free cash available will be as follows (not taking into account any indexing applicable to the cash entitlement at 6 April 2006):

- 100% of Cash Scheme accrual prior to 6 April 2006 = £20,000
- 25% of benefits accrued from 6 April 2006 = £35,000
- Total £55,000

The following sums are available to purchase a pension:

- Income Scheme funds accumulated prior to 6 April 2006 = £60,000
- Balance of total benefits accrued after 6 April 2006 = £105,000

- Total £165,000

14 FURTHER QUERIES

- 14.1 Further details of the Merged Scheme will be provided to members in due course. They will also be provided with an option form in respect of the Income Section asking what level of contributions they wish to make and where they would like their contributions to be invested. A disclaimer will be included in case they select non-core investments.
- 14.2 Any queries in respect of members' current benefit entitlements should be submitted to The Football League and PFA Administration Limited in the usual way.
- 14.3 Any queries regarding the content of this report should be submitted **by email** to Stephanie Wroe (SWroe@football-league.co.uk) by 2 December 2005.