

21 Retirement benefit obligations

The Group has two defined benefit pension plans, Dairy Crest in the UK and Wexford in Ireland, both of which require contributions to be made to separately administered funds. The Dairy Crest Group pension fund is a final salary scheme that was closed to new employees joining after 30 June 2006. Employees joining after this date are invited to join a Dairy Crest Group defined contribution plan. The most recent full actuarial valuation of the Dairy Crest Group pension fund was carried out as at 31 March 2007 by the fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the defined benefit plans. These plans are wholly funded.

	Dairy Crest Group pension plans	
	2009	2008
	£m	£m
Net benefit expense recognised in the consolidated income statement		
Current service cost	12.8	17.2
Curtailment gains (sale of Stilton and speciality cheese business – see Note 4)	(0.5)	–
Interest cost on benefit obligation	42.1	37.9
Expected return on plan assets	(49.0)	(48.0)
Net benefit expense	5.4	7.1
Net actuarial (loss)/gain recognised in the statement of recognised income and expense		
Actual return less expected return on pension scheme assets	(231.1)	(68.3)
Experience gains arising on scheme liabilities	6.8	1.9
Gain arising from changes in assumptions underlying the present value of scheme liabilities	106.2	77.1
Net actuarial (loss)/gain	(118.1)	10.7
Related tax	32.9	(3.0)
Net actuarial (loss)/gain recognised in the statement of recognised income and expense	(85.2)	7.7

Actual negative returns on plan assets were £182.0 million (2008: £20.3 million).

	2009	2008
	£m	£m
Defined benefit (obligation)/surplus		
Fair value of plan assets: – Equities	264.9	389.6
– Bonds and cash	106.9	266.3
– Property and other	27.2	28.9
– Insured retirement obligations	114.0	–
	513.0	684.8
Defined benefit obligation: – Uninsured retirement obligations	(462.3)	(653.2)
– Insured retirement obligations	(114.0)	–
Total defined benefit obligation	(576.3)	(653.2)
Net (liability)/asset recognised in the balance sheet	(63.3)	31.6
Analysed: Dairy Crest scheme	(60.0)	33.6
Wexford scheme	(3.3)	(2.0)
	(63.3)	31.6
Related deferred tax asset/(liability)	17.2	(8.7)
Net pension (liability)/asset	(46.1)	22.9

In December 2008, certain obligations relating to retired members were hedged by the purchase of an insurance contract. This contract is included within scheme assets and its value will always be equal to the obligation as calculated under IAS 19 for those members covered. This will reduce the volatility of the reported defined benefit obligations in future periods.

At 31 March 2008, recognition of the net defined benefit surplus was not restricted by the implementation of IFRIC 14 (see Accounting Policies note).

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21 Retirement benefit obligations (continued)

Scheme assets are stated at their market values at the respective balance sheet dates with the exception of the insured retirement obligations which equal the valuation of obligations which it covers. The expected rate of return on equities of 8.25% (2008: 8%) reflects historic UK equity returns with an assumption for 2009 that unprecedented equity market falls in 2008/09 will give rise to marginally higher market returns in the medium term. They represent a reasonable risk premium over gilts. It is within the range of assumptions typically used by companies of a similar size. The expected rate of return on bonds of 7.1% (2008: 6.1%) is based upon the gross redemption yield available on a similar profile of gilts and corporate bonds.

The average duration of scheme liabilities is approximately 19 years. Discount rate assumptions for each reporting period are based upon quoted AA-rated corporate bond indexes, excluding collateralised bonds, with maturities matching the schemes expected benefit payments. Inflation assumptions are based upon the difference between long-term fixed income and index linked gilt yields. The scheme deficit is highly dependent upon these input assumptions which are struck at 31 March each year. A 0.1% decrease in the discount rate assumption would increase the scheme obligation by approximately £12 million.

Included in the above analysis is the Wexford Creamery pension fund. The net benefit expense in the year ended 31 March 2009 amounted to £0.5 million (2008: £0.4 million). The fair value of plan assets at 31 March 2009 was £7.8 million (2008: £8.6 million) and the defined benefit obligation was £11.1 million (2008: £10.6 million) resulting in a scheme deficit of £3.3 million (2008: £2.0 million).

	Dairy Crest Group pension plans	
	2009	2008
	£m	£m
Movement in the present value of the defined benefit obligations are as follows:		
Opening defined benefit obligation	(653.2)	(692.2)
Current service cost	(12.8)	(17.2)
Curtailment gains	0.5	–
Interest cost	(42.1)	(37.9)
Contributions by plan participants	(6.7)	(7.4)
Actuarial gains	113.0	79.0
Exchange impact	(1.8)	(1.8)
Benefits paid	26.8	24.3
Closing defined benefit obligation	(576.3)	(653.2)
Movement in the fair value of plan assets are as follows:		
Opening fair value of plan assets	684.8	691.8
Expected return	49.0	48.0
Actual less expected return	(231.1)	(68.3)
Contributions by employer	28.8	28.7
Contributions by employees	6.7	7.4
Exchange impact	1.6	1.5
Benefits paid	(26.8)	(24.3)
Closing fair value of plan assets	513.0	684.8

21 Retirement benefit obligations (continued)

The principal assumptions used in determining retirement benefit obligations for Dairy Crest Group's pension fund are shown below:

	2009 %	2008 %
Key assumptions:		
Rate of increase in salaries	4.4	4.8
Rate of increase in pensions in payment and deferred pensions (and price inflation)	2.9	3.3
Average expected remaining life of a 65 year old non-retired male (years)	20.9	20.9
Average expected remaining life of a 65 year old retired male (years)	19.8	19.8
Average expected remaining life of a 65 year old non-retired female (years)	23.2	23.2
Average expected remaining life of a 65 year old retired female (years)	22.1	22.1
Discount rate	7.0	6.5
Expected return: – Equities	8.3	8.0
– Bonds and cash	7.1	6.1
– Property and other	7.0	7.0
– Insured retirement obligations	7.0	n/a

The agreed cash funding requirement resulting from the last full actuarial review is for the Group to make cash contributions of 18.3% of pensionable pay amounting to approximately £16.5 million in 2009/10. Additionally, in the years ended 31 March 2009 and 2008 the Group paid an additional £12 million per annum as additional cash contributions.

History of experience gains and losses:	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
Fair value of scheme assets	499.5	625.9	691.8	684.8	513.0
Present value of defined benefit obligation	(602.2)	(687.9)	(692.2)	(653.2)	(576.3)
Net (deficit)/surplus	(102.7)	(62.0)	(0.4)	31.6	(63.3)
Experience adjustments arising on plan liabilities	(2.3)	5.0	1.7	1.9	6.8
Adjustments arising from changes in underlying assumptions	(21.0)	(54.7)	28.4	77.1	106.2
Experience adjustments arising on plan assets	21.0	86.9	2.7	(68.3)	(231.1)
Net actuarial (loss)/gain	(2.3)	37.2	32.8	10.7	(118.1)

The cumulative amount of actuarial (losses)/gains recognised in the statement of recognised income and expense since 1 April 2004 are £(39.7) million (2008: £78.4 million) and in the Company statement of recognised income and expense is nil (2008: nil). The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS, and taken directly to equity of £93.2 million, is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 1 April 2004.

The Company recognises no liabilities on its balance sheet, or charges or credits in its income statement or statement of recognised income and expense in relation to the Group pension plans. The legal sponsor of the Dairy Crest Group pension plan is Dairy Crest Limited.

The Group has charged £1.3 million in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2009 (2008: £0.7 million). The Company has charged £0.1 million in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2009 (2008: £0.1 million).