

# Notes to the financial statements

## 31 Retirement benefit obligations

Retirement benefit obligations relate to two funded defined benefit schemes, the J Sainsbury Pension and Death Benefit Scheme ("JSPDBS") and the J Sainsbury Executive Pension Scheme ("JSEPS") and an unfunded pension liability relating to senior employees. The defined benefit schemes were closed to new employees on 31 January 2002. The assets of these schemes are held separately from the Group's assets.

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2006 on the projected unit basis. The results of this valuation were approved by the schemes' trustees in June 2007. The retirement benefit obligations at 21 March 2009 have been calculated, where appropriate, on a basis consistent with this valuation.

A triennial valuation will be carried out at March 2009 by Watson Wyatt, the schemes' independent actuaries on the projected unit basis with a statutory completion date of June 2010.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

The amounts recognised in the balance sheet are as follows:

	2009 £m	2008 £m
Present value of funded obligations	<b>(3,610)</b>	(3,668)
Fair value of plan assets	<b>3,310</b>	4,171
	<b>(300)</b>	503
Present value of unfunded obligations	<b>(9)</b>	(8)
Retirement benefit (obligations)/assets	<b>(309)</b>	495
Deferred income tax asset/(liability)	<b>87</b>	(129)
Net retirement benefit (obligations)/assets	<b>(222)</b>	366

The retirement benefit assets or obligations and the associated deferred income tax balance are shown within different line items on the face of the balance sheet.

### (a) Income statement

The amounts recognised in the income statement are as follows:

	2009 £m	2008 £m
Current service cost – funded schemes	<b>(50)</b>	(74)
Current service cost – unfunded scheme	<b>(1)</b>	(2)
Past service cost	<b>(2)</b>	(2)
Included in employee costs (note 6)	<b>(53)</b>	(78)
Interest cost on pension scheme liabilities	<b>(249)</b>	(230)
Expected return on plan assets	<b>273</b>	284
Total included in finance income (note 5)	<b>24</b>	54
Total income statement expense	<b>(29)</b>	(24)

Of the expense recognised in operating profit, £48 million (2008: £70 million) is included in cost of sales and £5 million (2008: £8 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a loss of £876 million (2008: a loss of £96 million).

### (b) Equity

The amounts recognised in the statement of recognised income and expense are as follows:

	2009 £m	2008 £m
Net actuarial (losses)/gains recognised during the year	<b>(903)</b>	542
Cumulative actuarial (losses)/gains recognised	<b>(309)</b>	594

## Notes to the financial statements continued

### (c) Valuations

The movements in the funded retirement benefit obligations are as follows:

	2009 £m	2008 £m
Beginning of year	(3,668)	(4,395)
Current service cost	(50)	(74)
Past service cost	(2)	(2)
Interest cost	(249)	(230)
Contributions by plan participants	(7)	(10)
Actuarial gains	246	922
Benefits paid	120	123
Transfer from provisions (note 22)	-	(2)
End of year	<b>(3,610)</b>	<b>(3,668)</b>

The movements in the fair value of plan assets are as follows:

	2009 £m	2008 £m
Beginning of year	4,171	4,298
Expected return on plan assets	273	284
Actuarial losses	(1,149)	(380)
Contributions by employer	128	82
Contributions by plan participants	7	10
Benefits paid	(120)	(123)
End of year	<b>3,310</b>	<b>4,171</b>

The major categories of plan assets as a percentage of total plan assets are as follows:

	2009 %	2008 %
Equities	39	45
Bonds	50	46
Property	3	4
Other	8	5
	<b>100</b>	<b>100</b>

### (d) Assumptions

The principal actuarial assumptions used at the balance sheet date are as follows:

	2009 %	2008 %
Discount rate	6.5	6.9
Inflation rate	2.8	3.5
Future salary increases	2.8	3.5
Future pension increases	<b>2.0-2.8</b>	2.4-3.5

Consistent with the prior year, the discount rate is based on the annualised yield on an AA-rated sterling corporate bond index.

The average expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

	2009 Fair value £m	2009 Expected return %	2008 Fair value £m	2008 Expected return %
Equities	1,279	8.0	1,893	8.0
Bonds	1,662	5.1	1,922	5.1
Property	105	7.0	160	7.0
Other	264	4.0-7.0	196	4.0-7.0
	<b>3,310</b>	<b>6.3</b>	4,171	6.6

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The combined life expectancy for both the schemes operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and women), is as follows:

	2009 years	2008 years
Male pensioner	21.7	21.6
Female pensioner	23.2	23.1

The mortality assumptions used are the same as those adopted in the prior year.

### (e) Sensitivities

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £317 million.

A movement of 0.5 per cent in the inflation rate would increase or decrease the retirement benefit obligations by £321 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £64 million.

### (f) Experienced gains and losses

The history of experience adjustments on the plans for the current and previous financial years is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of retirement benefit obligations	(3,619)	(3,676)	(4,401)	(4,368)	(3,512)
Fair value of plan assets	3,310	4,171	4,298	3,710	2,976
Retirement benefit (obligations)/assets	(309)	495	(103)	(658)	(536)
Experience gain/(loss) on plan liabilities	171	(79)	(236)	(27)	(6)
Experience (loss)/gain on plan assets	(1,149)	(380)	89	428	134

The expected contributions to defined benefit schemes for the next financial year beginning 22 March 2009 are £93 million (2008: £125 million).