NortelPensionsUK

Nortel Networks UK Pension Plan ('the Plan')

Glossary Factsheet

Additional Recoveries

Following the insolvency of Nortel Networks in January 2009, the ***Trustee*** has taken various actions to ensure that the ***Plan*** will receive a share of the US $7.3 billion 'lockbox' funds that were raised through liquidating the assets of the group between 2009 and 2011. These actions resulted in a global settlement which led to a series of payments to the ***Plan*** (known as recoveries), that we are expecting to total over £1.2 billion. These payments have already started and are currently expected to be completed in 2019.

Whilst the majority of this amount has been received, additional recoveries are still expected.

Additional Voluntary Contributions (AVC)

These are contributions paid by members in addition to the normal contributions paid by members and their employer, to secure benefits on a defined contribution basis.

Arrears payment

This is a lump sum payment that will be made to members who did not claim their pension once reaching ***Normal Retirement Age***. Such a lump sum will become payable at the date the member starts to draw their pension and represents the amount of pension they would have been paid had they claimed their pension at their ***Normal Retirement Age***.

Authorised Provider

This is a financial services company (e.g. a life insurance company or investment manager) that is authorised by the Financial Conduct Authority to provide such services (i.e. life insurance or investment management as applicable). In this context, this could relate to the provider of any pension vehicle used to receive a member's ***Transfer Value*** payment.

Back payment

This is a lump sum payment that will be made to reflect the value of any benefits that were not received during the ***PPF Assessment*** period (i.e. between the date of entering ***PPF Assessment*** in January 2009 and the date of exiting ***PPF Assessment***, expected to be in late 2018) as a result of benefits being cut back to ***PPF Compensation*** levels. Such payments will not be the whole difference between ***Full Plan Benefits*** and ***PPF Compensation***, but a percentage of this difference based on the funding in the ***Plan***. The percentage will be the same as is used to calculate the member's ***Share of the Funds***.

Child/Children's Allowances

This is the allowance that might be payable to a child on the member's death. Your Personal Statement will specify if a Child's Allowance is payable and how it is calculated. See '***Eligible Child***' to see who can receive a Child's Allowance.

Consumer Prices Index (CPI)

The Consumer Prices Index (CPI) is the official measure of inflation of consumer prices in the United Kingdom.

The CPI is published monthly by the Office for National Statistics, and measures the change in the cost of a representative sample of retail goods and services.

CPI is typically expected to be lower than the ***Retail Prices Index (RPI)*** as the method of calculation is different. Each measure looks at a different set of goods and services and applies a different calculation method to assess changes in their cost. A key difference is that RPI includes the cost of housing (e.g mortgage interest cost and council tax) whereas CPI does not.

Defined Benefit (DB) scheme

In a defined benefit (DB) scheme, a member's pension is worked out using a formula based on their salary and how long they were a member of the scheme.

Defined Contribution (DC) scheme

In a defined contribution (DC) scheme, a member builds up a pension pot while they work through contributions and growth in investments. Members can usually choose different investment funds, and they have choices of how to use this pot at retirement.

Default option

The default option is the form of benefit the ***Trustee*** will secure for you if you do not respond to the letter sent to you or you do not choose any alternative option available to you. Please note that the default option will not be the same for all members and you should therefore refer to your own member specific Option letter to understand what your default is and what alternative options (if any) you may have.

Deferred Pension / Member

This is a pension which has not yet come into payment and the ***Plan*** member is under ***Normal Pension Age***.

Early Retirement Pension

This is a pension which a member has chosen to start drawing earlier than their ***Normal Pension Age***.

Eligible Child

An Eligible Child must be:

- Your natural or legally adopted child; or
- A child who was financially dependent on you at the date of your death;

And must also be:

- under age 18; or
- under age 23 and in full time education or vocational training; or
- permanently disabled

Eligible Dependants

An Eligible Dependant means:

i. Your Spouse; or
ii. If you do not have a Spouse, a Financial Dependant

Your Spouse is someone who you are married to or in civil partnership with at the date of your death.

A Financial Dependant is a person who is:

i. financially dependent or interdependent on you for the provision of the ordinary necessaries of life; or
ii. dependent on you because of physical or mental impairment.

Financial advice

This is advice to a member following in depth analysis by a regulated and qualified financial adviser which gives a detailed recommendation taking into account a member's individual personal and financial circumstances and the options available to them. This would be provided by an Independent Financial Adviser qualified to advise on such matters.

Financial Conduct Authority (FCA)

The Financial Conduct Authority (FCA) is a regulatory body in the United Kingdom, which operates independently of the UK Government and regulates financial sector firms providing services to consumers. This includes monitoring the conduct of any company or individual whose services fall under their regulatory remit as well as authorising them to provide such services (where applicable).

Full Plan Benefits

These are the benefits that would have been due to a member in accordance with the ***Plan's*** Rules had the sponsor of the ***Plan*** had not become insolvent, or if, following insolvency, the ***Plan*** had recovered sufficient assets to secure ***Plan*** benefits in full with an insurance company.

Guaranteed minimum pension (GMP)

The Guaranteed Minimum Pension is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

Initial Pension/Starting Pension

This is the level of pension a member will start to receive from the ***Plan*** after it has exited ***PPF Assessment*** and the ***Trustee*** has secured their benefits with an insurance company. This level will reflect the assets available in the ***Plan*** at the point it exits ***PPF Assessment***, as well as any choices the member has made in relation to the form of pension they would like to receive.

Insurer / Insurance Provider

The Insurer/Insurance Provider refers to the specialist insurance company that will be chosen by the ***Trustee*** to provide benefits in the future for those members who are not choosing to transfer their benefits away from the ***Plan*** to an ***Authorised Provider*** of their own choice, or who are not taking a lump sum instead of a pension. The Insurer will be authorised by the ***Financial Conduct Authority*** and will be chosen by the ***Trustee*** during 2018, taking into account a number of factors including their expertise, price, reputation and financial strength.

Lifetime Allowance (LTA)

The Lifetime Allowance (LTA) is the limit set by HM Revenue and Customs ('HMRC') on the value of payments from all of a member's pension schemes (whether these are lump sums or retirement income) that a member can build up over their lifetime without triggering an extra tax charge. The current standard LTA is £1 million. It is due to increase to £1.03 million from 6 April 2018. However, members who have previously applied for protection may have a higher personal LTA. The LTA does not apply to any spouse's or dependant's pension the member is receiving.

Funds accumulated in excess of the LTA are subject to a tax charge (currently 55% if the benefits in excess of the LTA are taken as a lump sum, or 25% if they are taken as income (on top of any tax payable on the income in the usual way)).

Minimum Pension Age

This is the minimum age at which you are permitted to draw your pension from the ***Plan***. This will differ for each member according to whether they have a protected minimum pension age under the Rules of the ***Plan***.

Normal Pension Age (NPA)

This is the age at which a member is permitted to draw their pension without any reduction to reflect the pension being paid earlier than ***Normal Retirement Age***.

Normal Retirement Age (NRA)

This is generally age 60, 62 or 65, depending on your category of membership. You will have previously been notified if your NRA is earlier than this.

Pension Protection Fund (PPF)

The Pension Protection Fund (PPF) is a statutory fund in the United Kingdom which provides compensation to members in the event that the sponsor of their pension fund becomes insolvent. The difference between ***PPF Compensation*** and ***Plan Pension Value*** will vary from member to member.

The Plan

The ***Plan*** is the Nortel Networks UK Pension Plan.

Plan Pension Value

The Plan Pension Value is the total cost, estimated by the Scheme Actuary, of securing a member's pension payments based on their original ***Plan*** benefits before entering the PPF, including any eligible spouse's/dependant's pension, with an insurer.

Plan Administrator

Administration of the ***Plan's*** benefits is performed by Willis Towers Watson.

Details of how to contact the Plan Administrator are in your Option letter and on our website **www.nortelpensions.com**

PPF Pension Value

This is the total cost, estimated by the Scheme Actuary, of securing a benefit equal to the member's ***PPF Compensation*** with a third party insurance company.

PPF Assessment

This is the name for the process which the ***Plan*** has been involved in since January 2009. It is, in general, a process to determine if a ***Defined Benefit*** scheme is eligible to enter the ***PPF*** when its sponsor becomes insolvent.

PPF Compensation

This is the level of pension payable if a scheme enters the ***PPF***. During ***PPF Assessment***, the ***Trustee*** cannot pay benefits in excess of these levels. More complete details of PPF Compensation levels can be found at:

http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx

PPF Compensation Cap

For members who had not reached their scheme's normal pension age when entering ***PPF Assessment***, the ***PPF Compensation*** they will receive will be subject to a monetary cap.

Retail Prices Index (RPI)

In the United Kingdom, the Retail Prices Index (RPI) is a measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

RPI is typically expected to be higher than the ***Consumer Prices Index (CPI)*** as the method of calculation is different. Each measure looks at a different set of goods and services and applies a different calculation method to assess changes in their cost. A key difference is that RPI includes the cost of housing (e.g mortgage interest cost and council tax) whereas CPI does not. This means that RPI will usually be higher than CPI.

Section 143 process

As communicated in August 2017, the ***Plan*** has been assessed to have sufficient funds to secure benefits outside the ***PPF*** which are at least equivalent to (and in many cases higher than) ***PPF Compensation***. The formal name for this process is the Section 143 process, as it is required under Section 143 of the Pensions Act 2004.

Share of the Funds

Whilst the assets in the ***Plan*** (following receipt of the recoveries from the insolvency proceedings) are greater than the amount required to secure benefits equal in value to ***PPF Compensation***, there are insufficient assets to secure ***Full Plan Benefits*** for all members. As a result, the Scheme Actuary is required to calculate each members' individual share of the assets which are available.

A member's Share of the Funds is their allocation of the ***Plan*** funds available to secure benefits to, and in respect of, a member, which are at least equal to their ***PPF Pension Value***.

For any member where their ***Plan Pension Value*** is greater than the ***PPF Pension Value***, the Share of the Funds will include an additional allocation based on a fixed proportion of the difference between their ***Plan Pension Value*** and their ***PPF Pension Value.*** This fixed proportion will be the same for all members and will be dependent on the total excess funds in the ***Plan*** after the cost of securing benefits equivalent in value to ***PPF Compensation*** for all members is taken into account.

In total, all the members' combined ***Share of the Funds*** will equal the total assets in the ***Plan*** (less an allowance for the expenses of completing the process of securing members' benefits and winding up the ***Plan***).

Tax-free cash lump sum

At the point of retirement, members who are not yet in receipt of a pension have an option to exchange some of their pension for a cash lump sum. This cash lump sum is currently payable tax-free. There are limits imposed by HMRC on the amount that can be taken as cash in this way.

This right will continue even after benefits that are not yet in payment are secured with an insurance company. Note that members only have the ability to do this once at the point of retirement.

Following a tax-free cash lump sum being taken, the pension that a member receives will be reduced.

Transfer Value

This is the sum, equal to their total ***Share of the Funds***, that a ***Deferred Member*** can opt to have transferred to a ***Authorised Provider*** of their choice. The amount of pension they will ultimately receive will depend on where they transfer their benefits to, the nature of that pension arrangement and when they choose to retire.

Pensioners and members over ***Normal Retirement Age*** are not eligible to take a Transfer Value.

If you are eligible for a Transfer Value, the factors you should be aware of in considering whether to take a Transfer Value are set out in the Transfer Value factsheet.

Trivial Commutation Lump Sum Death Benefit (TCLSDB)

Members already in receipt of dependant's benefits (i.e. where the original ***Plan*** member has died), can choose to receive a one-off cash lump sum in exchange for their entire pension benefit, as long as the value of the benefit being exchanged is less than £30,000 in total. This cash lump sum is known as a Trivial Commutation Lump Sum Death Benefit (TCLSDB).

Trustee

The ***Plan*** is a trust-based arrangement, run separately from its sponsor by a set of trustees with a responsibility to the members of the ***Plan***. The ***Trustee*** is Nortel Network UK Pension Trust Limited. The ***Trustee*** is responsible for the governance of the ***Plan*** and for looking after the interests of the beneficiaries in accordance with the law and the Trust Deed and Rules.

The full list of the directors of the ***Trustee*** board can be found on our website **www.nortelpensions.com**

Winding Up

This is the process of terminating an occupational pension scheme and using its assets to provide benefits, in accordance with the legal requirements. In the case of the ***Plan***, this involves taking steps to secure all members' entitlements outside the ***Plan*** (for example through transferring the obligation to an ***Insurer*** or other pension arrangement). Once all obligations have been fulfilled, the ***Plan*** (and the ***Trustee***) will be wound up and cease to exist.

Winding-Up Lump Sum (WULS)

Members in the ***Plan*** with pensions that are relatively low in value can receive a one-off cash lump sum in exchange for their entire pension benefit, as long as the value of the benefit being exchanged is less than £18,000 in total. This cash lump sum is known as a Winding-Up Lump Sum (WULS).

A WULS payment can only be made once and must be in respect of the member's entire benefit in the ***Plan***, including any continuing benefits that would be payable on their death. In other words, if a WULS is taken the member would have no further right to benefits from the ***Plan*** or our chosen ***Insurance Provider***.