NortelPensionsUK

Nortel Networks UK Pension Plan (‘the Plan’)

Pension Factsheet (for pensioners)

Currently, you receive a pension which is calculated by reference to the rules of the Pension Protection Fund (the ‘PPF’). This includes increases for any pension earned after 5 April 1997.

When the Plan exits PPF assessment, the Trustees will provide benefits for you outside the Plan. Unless another option applies to you, we will use your Share of the Funds to secure a pension for you with an insurer. In order to comply with legislative requirements, and unless you tell us otherwise, we will secure a pension which increases in payment in line with certain statutory requirements. This only applies to that part of your pension which was earned after 5 April 1997. These increases will be different from those that you currently receive.

This factsheet includes information about the pension that would be secured for you. It should be read in conjunction with your **Option Letter** and **Personal Statement** and the other enclosed factsheets.

Please refer to the **Glossary Factsheet** for an explanation of any terms used in this factsheet which are unfamiliar to you.

Contents

1. What is a pension?

A pension is an income payable for life. It would be secured with our chosen insurance provider once the Plan exits PPF assessment. Your pension would be taxed like any other earned income.

Please see your **Personal Statement** to see your estimated pension.

2. How would my pension increase?

If all of your pension was earned before 6 April 1997, it will not increase in payment. This is the same position as currently applies.

If some or all of your pension was earned after 5 April 1997 then in order to comply with legislative requirements, we must secure a pension which increases in a certain way in payment, depending on when your pension was earned, unless you choose otherwise.

- This means the pension we secure for you will increase in payment as follows:
  - Pension earned before 6 April 1997 will not increase;
  - Pension earned after 5 April 1997 and before 6 April 2005 will increase in line with the **Retail Prices Index** (‘**RPI**’) up to a maximum increase of **5%** a year; and
  - Pension earned after 5 April 2005 will increase in line with **RPI** up to a maximum increase of **2.5%** a year.
- Any increases due will be applied in January each year. The increase in RPI will be measured over the year to the previous September.
- These pension increases are expected to be higher than the increases you currently receive based on PPF rules. This is because the PPF uses the **Consumer Prices Index** (‘**CPI**’) instead of RPI and a cap of **2.5%** on all pension earned after 5 April 1997.
- The pension we secure with your Share of the Funds is therefore expected to increase at a faster rate than it would have done if the current PPF-based increases had continued to apply. This means that the initial amount of annual pension that we can secure for you with your Share of the Funds may be less than the annual pension you are currently receiving. Please check your **Option letter** and **Personal Statement** to see if this applies to you.

If you have any DC pension elements in payment (e.g. AVCs), please refer to your **Personal Statement** for details of the pension increases that apply to these elements.

3. What dependant’s pension would be secured?

If you are receiving a pension as a result of your previous employment with a Nortel company then on your death, a pension may be payable to an Eligible Dependant. For most members, this pension will be 50% of the pension you are receiving at the date of your death. Please see your **Personal Statement** for confirmation if this applies to you.

Please note that there would be a reduction to the dependant’s pension payable if your Eligible Dependant is more than 10 years younger than you.

If you are receiving your pension as a dependant of a former Nortel employee, then no further benefits would be payable upon your death.

4. What Children’s Allowances would be secured?

A pension may be payable to an Eligible Child on your death.

5. Lifetime Allowance

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

For some members, when the Plan exits PPF assessment their revised pension could use up part of their Lifetime Allowance. For many members, using up part of their Lifetime Allowance would not have any tax consequences, as it would not take them over the Lifetime Allowance limit. However, if you are currently receiving a combined pension from the Plan and any other pension scheme of £40,000 per year or more, it is more likely that an extra tax charge may be due.

If you retired on or before 13 January 2009:

HMRC apply a limit on the increase that can be applied to a pension in payment. Broadly, your pension is within this limit if:

- The increase in your pension, over the year to when the Plan exits PPF assessment, is less than the higher of 5%, £250 or the increase in RPI over the year

  or

- The increase in your pension, between retirement and when the Plan exits PPF assessment, is less than the higher of 5% a year or the increase in RPI over the whole period since retirement.

If your revised pension, when the Plan exits PPF assessment, is higher than the limit outlined above, then part of your Lifetime Allowance will be used up. We will provide confirmation of any amount of the Lifetime Allowance that your revised pension is estimated to use up closer to when the Plan exits PPF assessment. If this applies to you, we will also provide a Lifetime Allowance form for you to complete to confirm what, if any, Lifetime Allowance you have available. You will need to return this form before any increase in your pension can be put into payment. Please note that if your revised pension takes you above your Lifetime Allowance, an additional tax charge will be due.

If you retired on or after 14 January 2009:

HMRC will apply a limit to the increase in your existing pension in payment. If this limit is exceeded, part of your Lifetime Allowance will be used up.

If your benefits were restricted in accordance with PPF rules, when the Plan exits PPF assessment, you may become entitled to an additional amount of pension that the Plan is able to provide in excess of your PPF Plan Value benefits. In practical terms, this is treated as if it is a new pension. This additional element of pension will also need to be tested against the Lifetime Allowance.

We will provide confirmation of any amount of the Lifetime Allowance that your revised pension is estimated to use up closer to when the Plan exits PPF assessment. If this applies to you, we will also provide a Lifetime Allowance form for you to complete to confirm what, if any, Lifetime Allowance you have available. You will need to return this form before the increase in your pension can be put into payment. Please note that if your revised pension takes you above your Lifetime Allowance, an additional tax charge will be due.

The rules for working out how much Lifetime Allowance you have available at any point depend on when you started to receive your pension benefits. Broadly:

- Any pension or lump sum benefits that started to be paid after 5 April 2006 will have used up a proportion of your Lifetime Allowance. You can find out what proportion of the Lifetime Allowance has been used up by referring to the information given to you by the relevant pension scheme at the time these benefits first came into payment.

- If you are receiving a pension that started before 6 April 2006, then your pension scheme will not have given you this information. Instead you have to work out what proportion of your Lifetime Allowance has been used up by these pensions. You can work this out by multiplying by 25 the gross amount of pension (i.e. before tax) you expect to be receiving from each relevant scheme immediately before your revised pension comes into payment. This amount, as a proportion of £1.03 million, is the proportion of the Lifetime Allowance that will have been used up by these schemes.

Examples of how to check how much Lifetime Allowance you have used can be found on the Pensions Advisory Service website.

https://www.pensionsadvisoryservice.org.uk/about-pensions/saving-into-a-pension/pensions-and-tax/the-lifetime-allowance

More information can be found on the Money Advice Service website at **https://www.moneyadviceservice.org.uk/en/articles/the-lifetime-allowance-for-pension-savings**

Other HMRC limits

If you are receiving a spouse's or dependant's pension, HMRC apply a limit on survivor's pensions.

This limit only applies if :

- your pension commenced before 8 April 2015, your former spouse/partner retired after 5 April 2006 and subsequently died after their 75th birthday, or

- your pension commenced after 7 April 2015, your former spouse/partner retired after 5 April 2006 and subsequently died after their 75th birthday, and your pension when the Plan exits PPF assessment is above a specified amount (expected to be £27,700 in 2018/19).

If this is the case, the amount of your pension cannot exceed your partner's pension at the date of their death, with certain adjustments. If the limit applies and your revised pension, when the Plan exits PPF assessment, is higher than this limit there is a risk of incurring an additional tax charge. If you think this could apply to you, please contact the Plan Administrator.

6. What is happening to Guaranteed Minimum Pensions?

Part of your Plan benefit may currently include an element known as a ‘Guaranteed Minimum’ or ‘GMP’. A GMP is the part of your pension in the Plan (if any) which was earned as a result of you (or your late spouse) being contracted out of the State Earnings Related Pension Scheme (SERPS) before 6 April 1997 whilst a member of the Plan.

To simplify the process for providing benefits to you, and to provide more flexibility as to how your Share of the Funds can be applied, the Trustee will, as permitted by legislation, convert members’ benefits so that they no longer include a specific GMP component. This conversion process will be carried out before any benefits are secured outside the Plan. It will not affect the overall value of your benefits nor the calculation of your Share of the Funds.

The effect of this conversion process will be that any GMP component will be converted into normal Plan benefit. Your benefits, and the pension we secure for you with our chosen insurance provider, will no longer include any GMP element. The effect of this conversion process will be that any GMP component will be converted into normal Plan benefit. Your benefits, and the pension we secure for you with our chosen insurer provided, will no longer include any GMP element.

7. Help and support

We understand you may want to seek further help and support before making any decisions. Therefore we recommend you read any other factsheets included in your pack.

You may also want to refer to the following services:

- **The Money Advice Service guide**

The Money Advice Service has a section dedicated to pensions and retirement found here:

https://www.moneyadviceservice.org.uk/en/categories/pensions-and-retirement.

There are also free guides you can download here: **https://moneyadviceservice.org.uk/en/articles/free-printed-guides**

- **Impartial financial advisers**

A list of advisers can be found at either **www.unbiased.co.uk** or **https://directory.moneyadviceservice.org.uk** or **www.vouchedfor.co.uk**

Please note, the Trustee will not make any payment towards the cost of any financial advice or guidance.