NortelPensionsUK

Nortel Networks UK Pension Plan ('the Plan')

Pension Increases Factsheet (for pension increases in payment)

This factsheet is for non-pensioners with benefits earned after April 1997

You are currently entitled to receive a pension from the Plan when you decide to retire and put your pension into payment. This would usually be when you reach Normal Pension Age but you may be able to put your pension into payment earlier than this and accept a reduced pension.

When the Plan exits Pension Protection Fund (PPF) assessment, the Trustee will secure benefits for you outside the Plan.

To comply with legal requirements, and unless you choose otherwise, when the Trustee secures your benefit with our chosen insurance provider, it will secure a pension that increases in payment for pension that was earned after 5 April 1997. However, we recognise that an increasing pension may not best suit all members' needs. Therefore, you have the option to use your Share of the Funds to provide a pension that starts at a higher amount, but that does not increase in payment. Depending on the options in your **Personal Statement,** this applies to the **Deferred Pension With No Increases In Payment** and the **Early Retirement Pension With No Increases In Payment.**

This factsheet sets out some important information about pension increases to help you to decide whether a pension that increases or doesn't increase in payment is right for you. Please read this alongside the accompanying factsheets and your **Personal Statement,** which sets out illustrative figures for all the options available to you. We recommend that you consider taking independent financial advice before making any decisions – please see the 'Getting help or support' section for more information.

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

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We have also produced a short video about choosing a pension with no increases in payment; you can find it here:

http://www.nortelpensions.com/

1. What annual pension increases in payment will be secured for me by default?

As some or all of your pension entitlement was earned after 5 April 1997, to comply with legal requirements, we will secure a pension which increases in a certain way **when it is put into payment,** unless you choose otherwise.

On this basis, your pension will increase in different ways depending on when it was earned, as follows:

- Pension earned before 6 April 1997 will not increase in payment;
- Pension earned after 5 April 1997 and before 6 April 2005 will increase in payment 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 payment in line with RPI up to a maximum increase of **2.5%** a year.

Any increases due in payment would be applied in January each year. The increase in RPI would be measured over the year to the previous September. If RPI is negative (i.e. prices have fallen) then your pension will not reduce in payment.

2. What happens if I choose a pension with no increases in payment?

Choosing a pension with no increases in payment means that your Share of the Funds would be used to secure a higher initial pension that does not increase in payment. This applies to either the deferred pension or early retirement pension options.

Your pension would be paid by our chosen insurance provider for the rest of your life from your retirement date. Your Share of the Funds would be the same amount as a pension that increases in payment, it would simply be used in a different way.

3. What happens to my increases before retirement if I choose a pension with no increases in payment?

Regardless of whether or not you choose a pension with no increases in payment, your deferred pension would increase in the same way before retirement, as described in the **Deferred Pension Factsheet.**

4. Where can I find more detail on my pension options?

Please see your enclosed **Personal Statement** for an illustration of the different pension amounts under the options available to you which may be any or all of the following:

- **Deferred Pension With Annual Increases In Payment**
- **Deferred Pension With No Increases In Payment**
- **Early Retirement Pension With Annual Increases In Payment**
- **Early Retirement Pension With No Increases In Payment**

5. What is inflation and why is it important?

Inflation means the increase in the general 'cost of living'. When prices are increasing, you will need more money to pay for goods and services. The average cost of goods and services is nearly 3 times more than it was in 1987. This is why many pensions like yours increase over time, to provide some protection against increases in the cost of living. RPI and the Consumer Price Index (CPI) are both ways of measuring inflation but use different calculation methods and include different goods and services.

The inflation increases that you may receive from our chosen insurance provider on pension earned after 5 April 1997 would give some protection to the value of your pension in terms of what you can buy with it. If you choose to exchange your future annual increases for a pension that does not increase in payment you would be able to buy more with your initial pension but as prices rise, the amount you would be able to buy in the future would reduce.

Inflation is unpredictable, and no-one knows what it will be in the future. For example, if a loaf of bread costs £1 today and you have £100, you could buy 100 loaves of bread today. But how many loaves would you be able to buy with £100 in the future? The table below shows the number of loaves that £100 could buy in 10 or 20 years' time based on different rates of future inflation in the cost of bread. These are only examples and inflation could be higher or lower than the range shown.

Future inflation	1% a year	3% a year	5% a year
Number of loaves of bread you can buy with £100:			
Today	100	100	100
In 10 years' time	91	74	61
In 20 years' time	82	55	38

6. Does it matter how long I might live?

When looking at the impact of inflation on your benefits you should also consider how long you might live (your life expectancy).

Depending on how long you actually live for, if you choose to receive a higher initial pension which would not increase in the future, it is possible there will be a time when this pension would be lower than an increasing pension.

Similarly, there could be a point in the future when **the total pension payments** you have received since retirement under either choice would be the same. This means that if you live beyond this point then you would have received more pension payments in total from an increasing pension, but you would have received less pension at an earlier age.

If you have an Eligible Dependant, then your decision will affect any pension payable to them (see 7) and you should also bear in mind that they may outlive you. So your decision should also take into consideration their life expectancy. This is especially important if your Eligible Dependant may have little or no income except their State Pension entitlement.

None of us knows how long we will live. Your current state of health may also be an important consideration. The link below takes you to the Office of National Statistics' life expectancy calculator.

https://visual.ons.gov.uk/how-long-will-my-pension-need-to-last/

It is important to remember that the figures shown are averages, so some people will live beyond the ages shown and some will die before.

7. How will this affect any Eligible Dependant pensions payable?

If you choose a pension with no future increases in payment then any surviving Eligible Dependant would also receive a non-increasing pension on your death where payable. So the decision you make now will also affect the pension payable to an Eligible Dependant. Please see your **Personal Statement** if you are not sure whether a pension may be payable on your death.

If you have young children then it is worth remembering that if they are still in full-time education at the time of your death, they may be entitled to a Child's Allowance. Choosing a pension with no future increases will mean any Child's Allowance will also be non-increasing.

Therefore, you should discuss your options with your dependants. If you choose a pension with no increases in payment and you currently have a spouse or civil partner, you should also ask them to sign the relevant **Option Form.**

8. What are my future income and expenditure needs?

Whilst everyone's experience will be unique, typically we spend more money in the early years of retirement. This could be for a variety of reasons: settlement of debt, a dream holiday or just because we have more leisure time.

As we move into mid-retirement, we tend to settle into a routine where we spend less. In later years, spending may need to increase to cover any additional health and care costs. However, how much you will be able to spend on this will depend on how much your retirement income is and what assets (such as property) you may own.

The example in the graph below (known as the 'smile curve') is simply a typical example and may not be appropriate for your own personal circumstances. However, this may help you think about how you plan to spend your time and how that might affect your spending in retirement. These are important issues to consider as you decide which option may better suit your needs.

When you consider how you might spend your money in retirement, you should also think about other forms of income you are entitled to alongside this pension. This might include any State Pension, any additional pension benefits you have earned in other employment, investment income, property rental income etc.

Choosing a higher initial pension with no increases in payment would mean you receive more of your pension earlier, which may better suit your circumstances when combined with other forms of income. Apart from the tax considerations outlined below, you should consider the impact an increase in pension may have on any means tested benefits you may be entitled to when you receive your pension – for example, Pension Credit, Housing Benefit, Universal Credit or Council Tax Reduction. For the avoidance of doubt, an increased initial pension will not affect the amount of your State Pension.

9. What happens if I die after choosing a pension with no increases in payment but before my benefits are secured with the chosen insurance provider?

If you were to die after returning your **Option Form** but before your benefits are secured with our chosen insurance provider, then we would only give effect to your choice of a pension with no increases in payment when calculating any survivor benefits if your spouse/civil partner had also signed the relevant **Option Form.**

Note that benefits payable in any interim period before the Plan leaves the PPF assessment period would continue to be paid in accordance with PPF rules.

10. What happens to my Additional Voluntary Contributions (AVCs)?

If you have paid AVCs the options available to you in relation to your AVCs are set out in your **Personal Statement.**

11. Important information on tax

Income tax

When you put your pension into payment it will be taxed like any other earned income under the PAYE system. Therefore, in light of your own personal circumstances, you should consider the impact that the different options may have on the amount of pension you receive in retirement – for example, a higher initial pension with no increases in payment may result in you moving to a higher tax band.

Lifetime allowance tax

The Lifetime Allowance is the limit set by HMRC on the value of payments from all of your pension schemes (whether these are lump sums or retirement income) that can be made without triggering an extra tax charge. The current 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.

Under current tax rules, when you start receiving benefits from a pension scheme, these benefits are tested against your available Lifetime Allowance at that time. If you have used up your Lifetime Allowance, then significant additional tax charges can apply to the value of any pension benefits payable to you which are in excess of the Lifetime Allowance.

The Lifetime Allowance is usually assessed at the point you begin taking your pension, therefore you should consider the impact of any decision which results in an increase to your initial retirement pension. The amount of Lifetime Allowance that would be used if you opt for a pension with no increases in payment will be higher than a pension with annual increases. This is because the Lifetime Allowance test looks at the initial rate of pension payable to you at the point your benefits come into payment.

If you are likely to exceed your Lifetime Allowance by taking a pension with annual increases, then significant additional tax charges could apply, and this may not therefore be the right option for you.

The rules around this are very complex, therefore if you would like to discuss your individual circumstances, you should contact LEBC or another financial adviser of your choice (further details can be found in section 12).

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

12. Getting help and support

We recognise that you may need some support to help you make a decision about which future pension option is right for your own personal circumstances.

- Accordingly, if you would like to have an initial conversation with someone regarding this option and what it means, then we have arranged for a company of FCA-registered financial advisers, called LEBC (**www.lebc-group.com**), to provide a member helpline, which gives general (non-personalised) information about these options at no cost to you.

If you are interested in taking a higher initial pension with no increases in payment you should also consider taking more detailed impartial financial advice before choosing this option. We have entered into an arrangement with LEBC, who are able to provide you with tailored impartial financial advice at a reduced fixed fee rate. Please note you would need to pay the cost of this financial advice which is £714, (i.e. £595 plus VAT), prior to starting the advice process. However, you are not obliged to take advice or from LEBC (or any other financial adviser) before making a decision on future increases.

LEBC is a national firm of financial advisers who are experienced in assisting people with pension issues and choices. They also have detailed knowledge of the Plan and the benefits it provides to you. They therefore understand the issues that you need to consider when making a decision. If you opt for financial advice, LEBC will also make a recommendation as to which option you should choose. The Trustee chose LEBC following a selection process which was based on a number of criteria, including experience, expertise and professionalism.

LEBC will be able to talk you through your options so you can make an informed decision as to which option you wish to take. You can have any trusted party join you when speaking to LEBC, for example, a trusted adviser or other family members. Speaking to LEBC will not commit you in any way to taking up any particular option and you do not have to follow the advice that they give you.

However, you should think carefully if you are considering taking a higher initial pension with no increases in payment if you are advised that it is not in your interests to do so. Please discuss this with your financial adviser to ensure you understand the risks of not following their advice.

If you have previously notified the Plan Administrator that you do not want your information to be shared with LEBC, you will not be able to access this support, including the helpline. However, if you now want advice from LEBC, you can seek it privately; but you will not be able to access the preferential terms described above. If you would like to receive independent financial advice separately, please see the *Impartial financial advisers* section below.

You can contact LEBC on

- Freephone: **0800 9177652**
- Landline (in case of mobile or overseas):
  0113 8231339
  from Monday to Friday (except public holidays) between 9am and 5pm, or by email to nortel@lebc-tra.com to arrange a call back.

What if I live outside the European Economic Area (EEA)?

LEBC are not able to provide financial advice for members living outside the EEA. If you live outside the EEA, you will need to find your own financial adviser if you wish to take advice.

Other sources of information and support

If you wish to use alternative sources of information the following are also available to you:

- **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**

If you do not wish to use LEBC you are entitled to appoint your own impartial financial adviser. A list of advisers can be found at

www.vouchedfor.co.uk, **www.unbiased.co.uk** or **https://directory.moneyadviceservice.org.uk**

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

Always make sure that anyone giving you financial advice is approved and registered with the Financial Conduct Authority (FCA). You can check online at

fca.org.uk/register.

13. How to choose a pension with no increases in payment

Please complete and return the relevant **Option Form** (**Deferred Pension With No Increases In Payment** or **Early Retirement Pension With No Increases In Payment (if applicable)**) enclosed with your **Personal Statement** if you decide that a pension that does not increase in payment is your preferred option.

14. What if I change my mind?

You have two weeks from the date you sign your **Option Form** to change your mind. If you change your mind, you need to write to (or email) the Plan Administrator within this two week period. Please include your name, member reference and contact details (phone number/email). You should also state that the reason for writing is to confirm that you have changed your mind and you wish to accept the default option as detailed in your **Option Letter**, instead.