



30 September 2019

Dear Member

### **Notice to members – Update to actuarial factors**

Following a note that was posted on the Arqiva Limited ('the Company') website and referenced in the pensions newsletter issued in August, the Trustees of the Arqiva Defined Benefit Pension Plan ('the Plan') have decided to write to members directly to make sure they are aware of the impending update to the Plan's actuarial factors. Much of this note repeats the information provided on the website, with the addition of some examples in the Appendix and further explanation to clarify some of the areas we have received questions on.

### **Background**

It is important for the Trustees to regularly consider the suitability of the actuarial factors that are used to adjust pension benefits under different retirement options. This is to make sure they are fair to all members of the Plan. Following the completion of the actuarial valuation, the Trustees took advice from the Scheme Actuary in this regard.

Specifically, the Trustees have taken advice regarding the following factors:

- Early retirement factors – used to determine the reduction to a member's pension for taking their benefits before their Normal Retirement Date (to reflect their pension being paid earlier and thus for a longer period than intended);
- Late retirement factors – used to determine the uplift to a member's pension for taking their benefits after their Normal Retirement Date (to reflect their pension being paid later and thus for a shorter period of time than intended);
- Commutation factors – used to calculate the amount of tax-free cash that a member receives in exchange for each £1 of annual pension given up at retirement (subject to HMRC limits).

It should be noted that early / late retirement and commutation are retirement options that members have a choice to select under the Rules of the Plan. The Rules stipulate that the Trustees and/or the Company (depending on the option and section of the Plan) have the power to set the factors, having taken advice from the Scheme Actuary.

### **Early and late retirement factors**

The review carried out by the Scheme Actuary assessed the current early and late retirement factors, with the aim of providing members with a fair value for the pension benefits that they are taking within the Plan. The intention is that neither the member nor the Plan should lose out as a result of an option the member has taken. The value of benefits takes into account the Plan's investment strategy, market conditions and life expectancy trends observed over recent years. A change in factors arises due to the need to maintain a fair balance in the relative value of benefits under different options – so no group of members is favoured at the expense of another.

Following this review, the Trustees have agreed with the Company to update the early and late retirement factors. In particular, the revised factors will provide members with a lower reduction to benefits taken early and a lower uplift to benefits taken late. As a result of these changes, the Trustees acknowledge that some members may receive a higher benefit and some may receive a lower benefit. However, the decision was made considering the best interests of the Plan membership as a whole.

In order to make sure that Plan members are well-informed and can make adequate plans for their retirement, the Trustees are communicating the changes to the actuarial factors in advance of their implementation. The new factors will come into force for all quotations with an effective retirement date on or after **1 December 2019**.

We have set out a summary of the current factors and the updated factors in the table below:

Section	Early retirement reduction factors (for each year that retirement is taken early)		Late retirement uplift factors (for each year that retirement is taken late)	
	Current	Updated from 1 December 2019	Current	Updated from 1 December 2019
Main Section (non-DTELS)	5.4%	4.3%	9.0%	7.0%
Main Section (DTELS)	3.4%	1.9%		
MPS Section	5.3%	4.0%		
BT A/B	5.0%	3.7%		
BT C	5.3%	4.0%		
NGW	4.5%	3.1%		
NGUK	5.0%	4.0%		
ESPS	4.5%	3.0%	n/a – no provision in the Plan Rules for late retirement	

*\*Note that factors are interpolated to the nearest month and are applied on a compounding basis*

Members will note that the early retirement factors are dependent on their category of membership. This reflects the fact that different sections of the Plan receive different increases before retirement. These differences do not impact the calculation of the late retirement factors, and so the Trustees are adopting a consistent approach for all sections of the Plan (as is the case currently).

For clarity, members who retire after their Normal Retirement Age ('NRA') currently receive a late retirement uplift of 9% of their pension for each year that retirement is taken late. From the implementation date of 1 December 2019, the uplift will reduce to 7% per annum, applicable for the whole period between a member's NRA and the date of retirement (irrespective of whether they have already reached their NRA by 1 December 2019).

A full breakdown of the early retirement factors for each section of the Plan at each year of early retirement can be found in the Appendix to this note. The Trustees have also included some illustrative examples within the Appendix to highlight the impact of the changes to Plan factors on members' pensions.

### Commutation factors

The Trustees also proposed an improvement to the commutation factors, to reflect an increase in the 'cost neutral' value placed upon pension benefits. However, the Company (who has the power to set these factors as stipulated by the Plan Rules) were not in a position to make any such changes at this time.

We recommend that members always consider carefully whether the current commutation terms provide them with adequate value for the pension exchanged for a lump sum at retirement.

## **Further guidance**

Members should consider the information provided above when planning for their retirement. If you are unsure about what option is best for you, we recommend that you seek independent financial advice.

Should you have any questions with regards to your retirement options within the Plan or the factors used, please raise these with KPMG, the Plan administrator, at the following address:

**Daniel Bell**  
**Senior Pensions Administrator**  
**KPMG LLP**  
**Arlington Business Park**  
**Theale**  
**Reading**  
**RG7 4SD**

Alternatively, please email [ukfmarqiva@kpmg.co.uk](mailto:ukfmarqiva@kpmg.co.uk)

## Appendix 1 - changes to Early Retirement Factors

The tables below show the full reduction factors applied to pension for each year that retirement is taken before the Plan's Normal Retirement Age (NRA).

### Main Section (non-DTELS)

Early retirement reduction factors		
Number of years before NRA that retirement is taken	Main Section (non-DTELS)	
	Current	Updated from 1 December 2019
1	5.4%	4.3%
2	10.5%	8.4%
3	15.2%	12.4%
4	19.6%	16.1%
5	23.7%	19.7%

### Main Section (DTELS)

Early retirement reduction factors		
Number of years before NRA that retirement is taken	Main Section DTELS	
	Current	Updated from 1 December 2019
1	3.4%	1.9%
2	6.6%	3.8%
3	9.7%	5.6%
4	12.5%	7.4%
5	15.3%	9.1%

### MPS Section

Early retirement reduction factors		
Number of years before NRA that retirement is taken	MPS	
	Current	Updated from 1 December 2019
1	5.3%	4.0%
2	10.2%	7.8%
3	14.8%	11.5%
4	19.1%	15.1%
5	23.1%	18.5%

BT Section A/B

Early retirement reduction factors		
Number of years before NRA that retirement is taken	BT A/B	
	Current	Updated from 1 December 2019
1	5.0%	3.7%
2	9.6%	7.3%
3	14.0%	10.7%
4	18.1%	14.0%
5	22.0%	17.2%

BT Section C

Early retirement reduction factors		
Number of years before NRA that retirement is taken	BT C	
	Current	Updated from 1 December 2019
1	5.3%	4.0%
2	10.2%	7.8%
3	14.8%	11.5%
4	19.1%	15.1%
5	23.1%	18.5%

NGW

Early retirement reduction factors		
Number of years before NRA that retirement is taken	NGW Section	
	Current	Updated from 1 December 2019
1	4.5%	3.1%
2	8.7%	6.1%
3	12.6%	9.0%
4	16.3%	11.8%
5	19.8%	14.6%

## NGUK

Early retirement reduction factors		
Number of years before NRA that retirement is taken	NGUK	
	Current	Updated from 1 December 2019
1	5.0%	4.0%
2	9.8%	7.8%
3	14.2%	11.5%
4	18.3%	15.1%
5	22.2%	18.5%

## ESPS

Early retirement reduction factors		
Number of years before NRA that retirement is taken	ESPS	
	Current	Updated from 1 December 2019
1	4.5%	3.0%
2	8.7%	5.9%
3	12.7%	8.7%
4	16.4%	11.5%
5	19.9%	14.1%

## Appendix 2 – illustrative examples

### 1) a) Impact of change to Early Retirement Factors on an example Main Section member

#### Assumptions:

- Membership category: Main Section (Non-DTELS)
- Normal Retirement Age: 60
- Current Age: 55
- Current pension: £10,000 p.a.

If the member wishes to receive their pension benefits now (i.e. at age 55) then a 5 year early retirement reduction factor will apply. The impact of this reduction under the current and updated factors is shown in the table below.

	Current Factors	Updated Factors
Current pension	£10,000 p.a.	£10,000 p.a.
5 year early retirement factor*	23.7%	19.7%
Early retirement reduction	£2,370 (i.e. 23.7% of £10,000)	£1,970 (i.e. 19.7% of £10,000)
Early retirement pension at age 55	£7,630 p.a. (£10,000 less £2,370)	£8,030 p.a. (£10,000 less £1,970)

\*The factors are different depending on which membership category you are in. The factors used in this example have come from the tables in Appendix 1

### 1 b) Impact of change to Early Retirement Factors on an example NGW member

#### Assumptions:

- Membership category: NGW
- Normal Retirement Age: 60
- Current Age: 55
- Current pension: £10,000 p.a.

If the member wishes to receive their pension benefits now (i.e. at age 55) then a 5 year early retirement reduction factor will apply. The impact of this reduction under the current and updated factors is shown in the table below.

	Current Factors	Updated Factors
Current pension	£10,000 p.a.	£10,000 p.a.
5 year early retirement factor*	19.8%	14.6%
Early retirement reduction	£1,980 (i.e. 19.8% of £10,000)	£1,460 (i.e. 14.6% of £10,000)
Early retirement pension at age 55	£8,020 p.a. (£10,000 less £1,980)	£8,540 p.a. (£10,000 less £1,460)

\*The factors are different depending on which membership category you are in. The factors used in this example have come from the tables in Appendix 1

## 2 Impact of change to Late Retirement Factors on an example Plan member

Assumptions:

- Membership category: Any (excluding ESPS)
- Normal Retirement Age: 60
- Current Age: 65
- Pension at Normal Retirement Age: £10,000 p.a.

If the member wishes to receive their pension benefits now (i.e. at age 65) then a 5 year late retirement uplift factor will apply. The impact of this uplift under the current and updated factors is shown in the table below. Note that the late retirement factors are the same for all categories of membership.

	<b>Current Factors</b>	<b>Updated Factors</b>
Pension at Normal Retirement Age	£10,000 p.a.	£10,000 p.a.
5 year late retirement factor	53.9% (i.e. $(1+9\%)^5$ )	40.3% (i.e. $(1+7\%)^5$ )
Late retirement uplift	£5,390 (i.e. 53.9% of £10,000)	£4,030 (i.e. 40.3% of £10,000)
Late retirement pension at age 65	£15,390 p.a. (£10,000 plus £5,390)	£14,030 p.a. (£10,000 plus £4,030)

*This document is for illustrative purposes only, to allow a comparison to be made between the current and updated factors.*

*Whilst every effort has been made to ensure the accuracy of the figures shown, the examples shown do not confer any rights to benefits, nor is it a promise or guarantee that a pension will be paid at the rate shown.*

*Members' pension benefits in the Plan are governed by the Plan's Trust Deed and Rules (as amended from time to time). In the event of any discrepancy between the information in this document and the Trust Deed and Rules, the Trust Deed and Rules will prevail.*