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Dear Mr Smith

IBM Pension Plan (the “Plan”) – C Plan Supplementary Pension

1. Background

Under the Rules of the Plan a bridging pension, referred to as the C Plan Supplementary Pension (the “Supplement”) applies in certain circumstances to C Plan members who joined the Plan before 6 October 1990. Historically, in practice the Supplement has been payable between age 63 (or actual date of retirement, if later) and age 65 to those members who start to receive their pension at age 60 or above.

As a consequence of Age Discrimination legislation, which became effective on 1 December 2006, it is necessary for the Supplement to be amended.

Pensionable Service prior to 6 November 2006

Supplements accrued in respect of pensionable service prior to 6 November 2006 remain unchanged and will continue to be paid between age 63 (or the actual date that a member starts to receive their pension, if later) and age 65 to those members who start to receive their pension at age 60 or above.

Pensionable Service from 6 November 2006 onwards

The Trustee and the Company have agreed that, with effect from **6 August 2008**, the Supplement is amended in respect of **future pensionable service from that date** as follows:-

- a) The Supplement becomes payable from the actual date a member starts to receive their pension, irrespective of age, to age 65;
- b) The Supplement accrues at the rate of 0.25% (previously 2%) of the Basic State Pension for each year of pensionable service; and
- c) If the member starts to receive their pension prior to age 60 a cost-neutral early retirement reduction factor is applied to the Supplement.

The Rules of the Plan have been amended to give effect to the above changes.

The amendment to the Plan Rules referred to above relates only to Supplements accrued in respect of pensionable service on or after **6 August 2008**. The Trustee concluded that these amendments could not be applied retrospectively. Consequently, there is a "window" of accrual of the Supplement between 6 November 2006 and 5 August 2008 that requires further consideration in order to ensure compliance with the Age Discrimination legislation.

Set out below is the Trustee's proposal regarding this matter.

2. Proposal

The Trustee's proposal in relation to the Supplement accrued for pensionable service from **6 November 2006 to 5 August 2008** is as follows:-

- a) Pay the Supplement to C Plan members (who joined the Plan before 6 October 1990) from the actual date they start to receive their pension, irrespective of age, to age 65;
- b) Maintain the same calculation basis as applied prior to 6 November 2006 i.e. 2% of the Basic State Pension multiplied by years and Pay Months of Pensionable Service; and
- c) Apply a cost-neutral actuarial reduction factor if the Supplement becomes payable before age 63.

To restructure the pension in this way will require changes to the Plan's Rules. This requires the consent of the Company, which has been obtained.

Also, the Trustee must comply with the requirements of Section 67 of the Pensions Act 1995. Section 67 provides that where changes are proposed which affect benefits that members have already built up in a scheme (as opposed to those benefits which may build up in the future) this can be achieved if the "actuarial equivalence requirements" are satisfied.

The Trustee intends that the actuarial equivalence requirements will apply to you in relation to this issue. Actuarial equivalence means that the capital value of a member's pension is maintained; that is, the capital value of benefits after the amendment must be no less than the capital value of the benefits before the amendment.

Having discussed the proposal with the Scheme Actuary, the Trustee is satisfied that the actuarial value of a member's benefits immediately after the proposed amendment (including allowance for the actuarial reduction referred to above on retirement before age 63 where appropriate) is no less than the actuarial value immediately before. The Scheme Actuary has confirmed that he will be able to provide the required actuarial equivalence statement to the Trustee.

Effect of the Modification on Members

The table and examples below illustrate the effect of the proposed modification on the Supplement accrued in respect of this period of pensionable service (i.e. between 6 November 2006 and 5 August 2008) payable in different circumstances.

The individual impact on members will depend on individual circumstances. However, as illustrated by these examples, the proposal affects only a relatively small proportion of your benefits under the Plan.

	Before proposed amendment	After proposed amendment
On retirement at or after age 60	Supplement payable from the later of retirement and age 63 until age 65.	Supplement payable from retirement until age 65. An actuarial reduction will be applied on retirement before age 63. Backpayments will be made to cover the period from your retirement to the date of amendment.

Below we show examples of how the amendment would work in practice. Please note that these are purely hypothetical examples. The effect of the amendment on your own benefits will depend on your own circumstances.

Please note that for illustrative purposes these examples are based on the basic State pension and the actuarial reduction that would apply on retirement from active service on 5 January 2009.

Pensionable service from 6 November 2006 to 5 August 2008 = 1 year 9 months

2% of the average Basic State pension over the 12 months prior to 5 January 2009 = £93.51

Accrued Supplement at retirement in respect of this period of service (before actuarial reduction) = $1\frac{9}{12}$ years x £93.51 = £163.64 (i.e. £13.64 payable monthly)

The cost neutral actuarial reduction factor for the Supplement in respect of this period of service would currently be 0.392 on retirement at age 60. No actuarial reduction would be applied on retirement at or after age 63.

If a member retires aged 60 or 63 the Supplement payable before and after the proposed amendment would be:

Age at retirement	Monthly Supplement before the proposed amendment	Monthly Supplement after the proposed amendment
60	£13.64 ⁽¹⁾ payable from age 63 to age 65	£13.64 x 0.392 = £5.35 payable from 60 to age 65 ⁽²⁾
63	£13.64 payable from age 63 to age 65	£13.64 payable from age 63 to age 65

⁽¹⁾ This amount would increase from 60 to 63 in line with RPI, subject to a maximum increase of 5% pa over the whole period.

⁽²⁾ Backpayments would be made to cover the period from retirement until the date of amendment

The Supplementary Pension in respect of this period of service will increase in payment in line with RPI subject to a maximum increase of 2.5% in any year.

3. Representations to the Trustee

If you wish to make any representations to the Trustee regarding the proposal set out in this letter or, if you have any general queries in relation to the proposal, you should address these in writing (by e-mail or letter) to:

Kevin Waller, Pensions Project Manager at kevin_waller@uk.ibm.com or the address at the top of this letter.

You have one month from the date of this letter to make any representations to the Trustee in connection with the issues set out in this letter. Therefore, you should ensure that any representations are received by the Trustee on or before 9 February 2009.

The Trustee will give proper consideration to any representations that are made and then determine whether to proceed with the original proposal or whether the proposal should be revised. You will be contacted again to inform you of the Trustee's decision.

Having reviewed the information contained in this letter you may wish to consider taking financial advice in relation to the possible implications on your benefits.

Yours sincerely



David Newman
Pensions Trust Manager