

August 2011

Your pension from age 65

Information for men about Income Tax,
GMP and pension increases



Now that you are approaching State Pension Age (65) there will be some changes to your IBM pension.

When you start to receive your State Pension:

- You may have more Income Tax deducted from your IBM pension,
- Your overall IBM pension may change depending on your Guaranteed Minimum Pension (GMP), and
- Your GMP will be shown separately on your payslip.

This leaflet explains the changes in more detail.

Income Tax and your State Pension

Once you start receiving your State Pension, you will probably notice an increase in the amount of Income Tax taken out of your IBM pension. This is because your State Pension is paid to you without being taxed and the Trustee is required to deduct tax and pay it on your behalf.

HM Revenue & Customs (HMRC) will adjust your tax code to take account of the additional income provided by your State Pension, but the tax you must pay has to come from your IBM pension.

What is Guaranteed Minimum Pension (GMP)?

While you were employed by IBM at any time after 6 April 1978, you were 'contracted out' of the additional State Pension (State Earnings Related Pension Scheme (SERPS) to 2002 and State Second Pension (S2P) from 2002). Because of this, both you and IBM paid a lower rate of National Insurance and your IBM pension plan is now responsible for paying a replacement pension benefit, from your State Pension Age, for that period of contracted-out service.

For your service from 6 April 1978 to 5 April 1997, IBM will pay you a GMP. This is calculated on part of your earnings while you were contracted out for this period. This is shown as a 'Contracted-Out Deduction' by HMRC on the information showing how your additional State Pension is calculated.

From 6 April 1997, the contracting out rules changed and, although you remain contracted out, it was no longer possible to earn any GMP. If you were a member of your IBM pension plan after this date, you will receive little or no additional State Pension for that period of service.

If your IBM pension commences **at State Pension Age**

We will make every effort to include the correct amount of GMP in your total IBM pension when we set it up. Sometimes details of the amount of your GMP are not available at retirement. In this situation, we will backdate any change in the amount of GMP to the 6th of the month following the date you reached age 65 once we have been advised of the amount of your GMP.

If your IBM pension commenced **before State Pension Age**

Your pension includes a provisional amount of GMP.

Normally the GMP is only paid when you reach age 65. At this time we must compare the amount of GMP you should be receiving, as confirmed by HMRC, against the provisional GMP you are receiving from your IBM pension plan.

- If HMRC confirms that you should be receiving **more** GMP in your IBM pension when you reach State Pension Age, we will increase your pension. The increase will be effective from the 6th of the month following your 65th birthday. If details of the GMP are not known at this time, the increase will be given as soon as the amount of the GMP is known and will be backdated.
- If HMRC confirms that you should be receiving **less** GMP than we have included in your IBM pension, current policy is that your pension will not decrease but will remain at the same level and any overpayment will be ignored.

Increases to your GMP

Any increases from the State will be payable when you reach State Pension Age and included with your additional State Pension, providing that it is higher than your total GMP. If there is a period when your GMP exceeds this figure you will not receive increases on your GMP from the State.

Increases to GMP earned before 6 April 1988 (Pre 1988 GMP)

Once you reach age 65, every April the State will increase any GMP that you earned before 6 April 1988. The increase will be in line with inflation (currently the Consumer Price Index (CPI)).

Increases to GMP earned on or after 6 April 1988 (Post 1988 GMP)

Once you reach age 65, any GMP that you earned on or after 6 April 1988 will be increased by your IBM pension plan in line with inflation up to a maximum of 3%. If inflation is more than 3%, the State will increase any GMP earned after 5 April 1988, over and above the 3% level, up to full inflation. This increase will be included in your State Pension.

Your
GMP earned
before and after
6 April 1988 will be
shown separately
on your payslip



Increases to your IBM pension – C and N Plan

If you are receiving a pension from the C or N Plan, your pension (excluding the GMP) will increase after State Pension Age as follows:

Increases to pension earned before 6 April 1997

Until 2020, increases will be paid every April at the rate of 50% of the increase in the Retail Price Index (RPI) with RPI capped at 5%.

After 2020, increases to pre April 1997 pension will be at the discretion of the Company, unless an agreement for further fixed increases is reached between the Company and the Trustee in the interim.

Increases to pension earned between 6 April 1997 and 5 April 2005

This pension receives Limited Price Indexation (LPI) increases every April, at the lower of the increase in the recorded CPI or 5%.

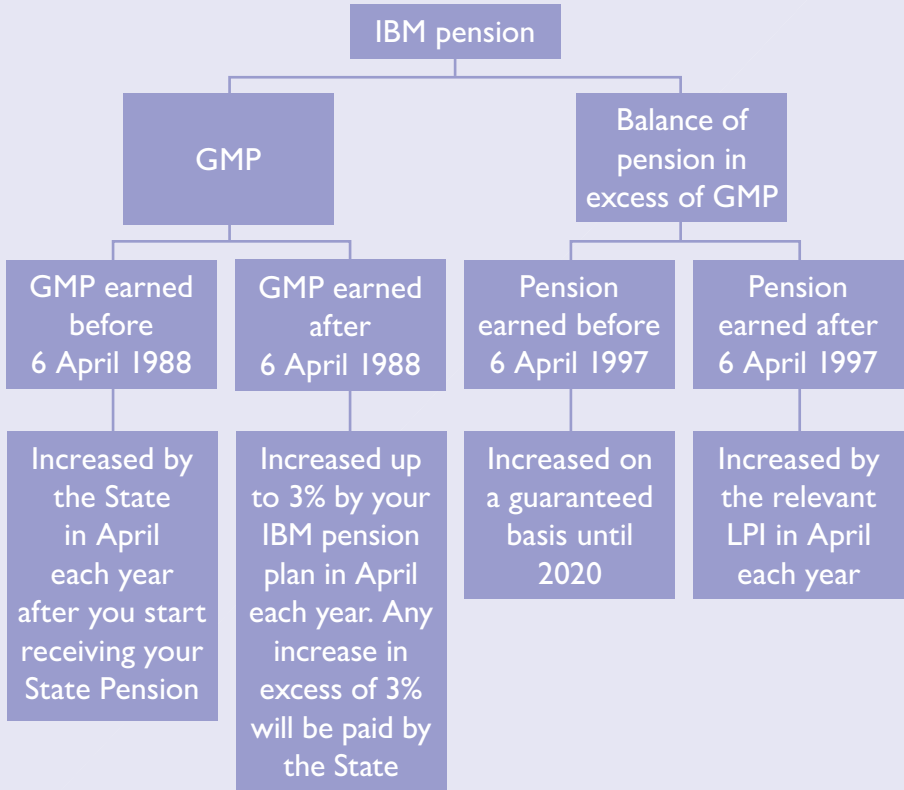
Increases to pension earned on or after 6 April 2005

This pension receives LPI increases every April, at the lower of the increase in the CPI or 2.5%.



Increases to your IBM pension – C and N Plan (continued)

This is how your C or N Plan pension will be made up after State Pension Age:



Levels of pension increases shown are correct at the date of printing.

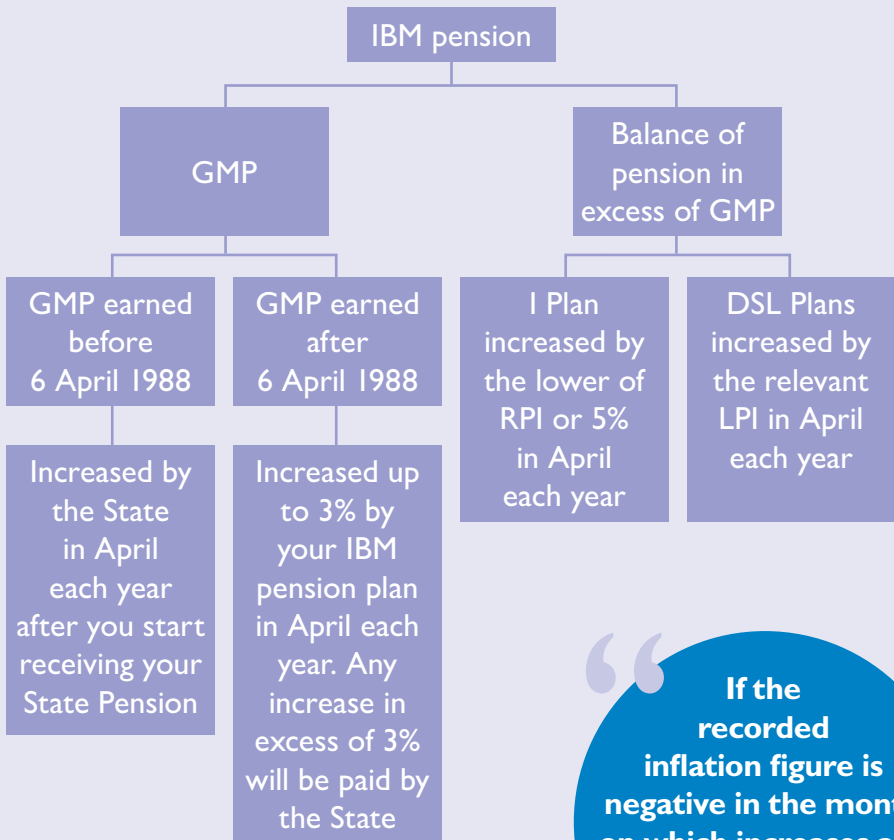
Increases to your IBM pension – I Plan

Your pension, in excess of the GMP, will receive increases every April. These increases are currently at the lower of the increase in the Retail Price Index (RPI) or 5%.

Increases to your IBM pension – DSL Pension Plans

Your pension, in excess of the GMP, will receive Limited Price Indexation (LPI) increases. For pension earned before 6 August 2005, this will be the lower of the increase in the Retail Price Index (RPI) or 5%. Pension earned on or after 6 August 2005 will receive LPI increases at the lower of the increase in the RPI or 2.5%.

This is how your I Plan or DSL pension will be made up after State Pension Age:



Levels of pension increases shown are correct at the date of printing.

If the recorded inflation figure is negative in the month on which increases are based, an increase may not be awarded



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