

April 2011

Lifestyle switching



Lifestyle switching

You are currently investing in a *Lifestyle* strategy within the IBM pension plans using Legal & General (L&G) funds. In two months time, your investments will start to be switched away from equities into less volatile investments as you approach your Target Retirement Age (TRA).

In order to optimise your investment strategy, it's important that you take the following actions before the switching starts:

- Review whether *Lifestyle* should still be your chosen investment strategy
- Review your TRA to ensure the age you have recorded fits in with your retirement goals
- Understand the impact on your investment if your TRA is not truly reflective of when you plan to retire.

What is Lifestyle?

Most investment experts suggest that pension investors should aim to obtain a good rate of return over the long-term and then protect their investment as they approach retirement.

Lifestyle is designed to do this for you. It is a process whereby your investment is initially in equities; once you reach a set period before your TRA, *Lifestyle* will gradually switch your existing fund and any new contributions into less volatile investments as you approach retirement.

Fact

About 87% of members in the M Plan are in a *Lifestyle* strategy; however, scrutiny of this data actually shows that the majority of these members have not actively elected *Lifestyle*, but have defaulted into *Lifestyle* with an associated default TRA of either 63 or 65; probably through lack of attention to all the available options.

Although *Lifestyle* is an automatic investment process, it is your responsibility to ensure the *Lifestyle* strategy is right for you.

You shouldn't underestimate the fact that your TRA is a key part of the success of your investment strategy.

Why have I been sent this leaflet?

Because of your recorded TRA, the switching process is due to start in two months. Depending on the *Lifestyle* strategy that you are invested in, any new contributions will initially be invested in less volatile funds and your total fund will be switched away from the higher-risk equities on a quarterly basis; however, if markets fall during the switching period, some units in the lower risk funds may be sold to buy equities in order to maintain the required percentages within the switching matrix. You will see the switching process detailed in your six-monthly Unit Statements.

You need to think about some of the factors that may influence your retirement plans and therefore the age you record for your TRA.

- When will your mortgage be cleared?
- Will you have children at university?
- Are you in good health?
- When will you be able to afford to retire – do you need to think about additional contributions?
- At what age will your State pension become payable?
- At what age will your spouse or partner be able to retire?



These are just a few factors to take into consideration, please review the age you have recorded and take the time to understand the implications of recording a TRA that doesn't fit in with your retirement goals. More details can be found in this leaflet.

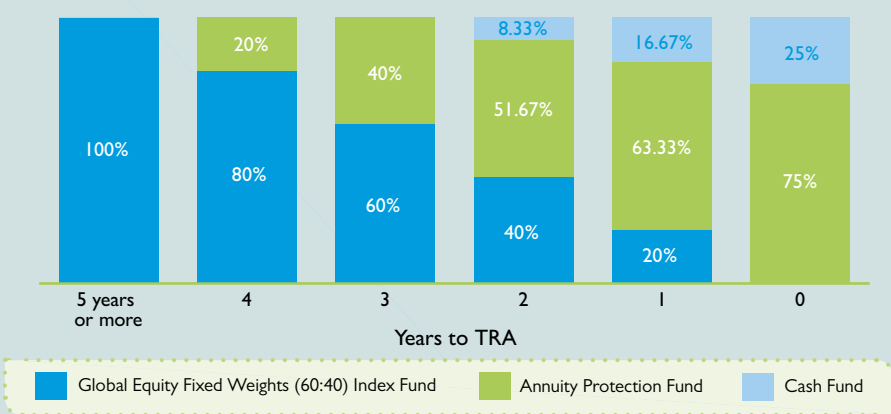
There are currently three *Lifestyle* strategies in place, the accompanying letter with this leaflet details which *Lifestyle* strategy you are in.

The characteristics of these three different strategies are detailed on pages 4 to 6. The Q & As that you will find from page 4 onwards apply to all of the *Lifestyle* strategies.

The three Lifestyle strategies

Strategy Lifestyle	Available to members in Defined Contribution (introduced in 2002)	Plan M	Switching period 5 years
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Switch of total fund (at the point of each switch)



Investment of any new contributions



Once switching has started, any new contributions will initially be invested in the lower risk funds as detailed; however, if markets fall during the switching period, some units in lower risk funds may be sold to buy equities in order to maintain the required percentages within the Lifestyle switching matrix.

Q. Is your TRA earlier than the age you plan to retire?

A. If your recorded TRA is earlier than you actually plan to retire, it will mean that some – or all – of your investment will have been switched from equities into the lower risk funds earlier than would be the case if your actual retirement age had been recorded. Any new contributions will also be invested in the lower-risk funds.

Equities have historically provided the best returns over the long-term compared to other types of investment. Switching into the lower-risk investments too soon will take you out of equity investment and this may not provide the best return for you.



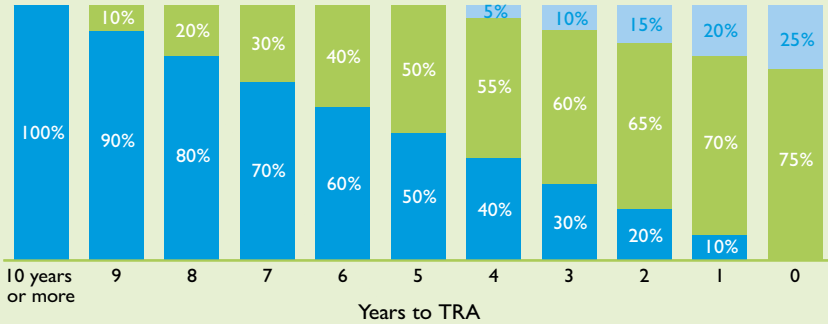
Strategy
Lifestyle1997

Available to members in
Defined Contribution
(closed to new members)

Plan
M

Switching period
10 years

Switch of total fund (at the point of each switch)



■ Global Equity (70:30) Index Fund
 ■ Over 15 Year Gilts Fund
 ■ Cash Fund

Investment of any new contributions



Once switching has started, any new contributions will initially be invested in the lower risk funds as detailed; however, if markets fall during the switching period, some units in lower risk funds may be sold to buy equities in order to maintain the required percentages within the *Lifestyle* switching matrix.

Q. What should you do if your TRA is too early?

A. You need to act quickly. If your TRA is too early, you should review whether *Lifestyle* is still the investment strategy for you and, if it is, record a new TRA.

Current employees should use the Pensions Lotus Notes online application, details can be found on the Pensions Trust website.

Deferred members should write or send an email to Pensions Services providing details of your new TRA.

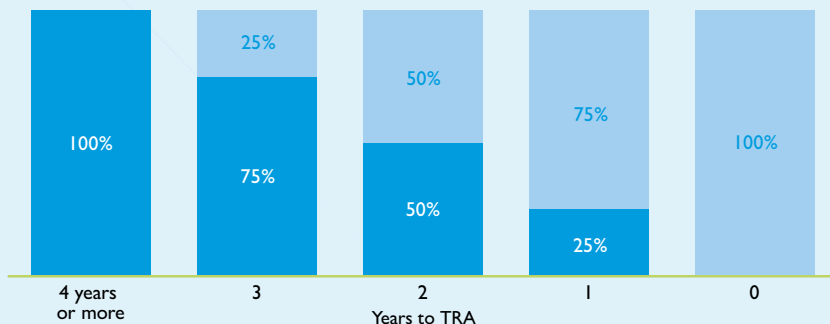
Strategy
Lifestyle

Available to members with
Defined Benefit (DB) entitlement
(ASCs/AVCs only)

Plan
C, I, N, DSL

Switching period
4 years

Switch of total fund (at the point of each switch)



■ Global Equity Fixed Weights (60:40) Index Fund

■ Cash Fund

Investment of any new contributions – Protected I Plan members only

Once you are within the four year switching period, all new ASCs/AVCs will initially be invested in the Cash fund. However, if markets fall during the switching period, some units in the Cash fund may be sold to buy equities in order to maintain the required percentages within the *Lifestyle* switching matrix.

C, N, DSL and non-protected I Plan members

No new contributions can be made to your DB ASC/AVC fund. You may wish to consider aligning your DB TRA with any TRA you have recorded for your M Plan Retirement Account or IBM UK PPP.

Important Information

In all three *Lifestyle* strategies, once switching has started it is possible that equities may still be purchased by selling units in the lower risk funds in order to maintain the required percentages within the *Lifestyle* switching matrix. This could happen, for instance, if markets fall during the switching period or if you elect *Lifestyle* shortly before the start of the switching period.

If you consider that purchasing equities when markets may be falling is unacceptable to you, you may wish to consider investing in an alternative *Freestyle* strategy.

Q. Is your TRA later than the age you plan to retire?

A. Your fund will not be given the opportunity to complete the switching process by the time you retire. This means that some – or all – of your fund and any new contributions will remain invested in equities and, whilst these have historically provided the best long-term returns, they can fluctuate in value in the short-term. This could affect your final fund value if, for example, there was a stock market crash shortly before your retirement.

Q. What should you do if your TRA is too late?

A. If your recorded TRA is too late, you may need to consider changing to a *Freestyle* investment strategy.

If you are an M Plan member in *Lifestyle1997*, you could change to the five year *Lifestyle* option and record a new TRA. If you decide to move to *Lifestyle*, your fund will be invested in different L&G funds, in particular, it will initially be in the Global Equity Fixed Weights (60:40) Index Fund not the Global Equity (70:30) Index Fund. You should review the funds that are appropriate to both *Lifestyle* strategies before switching.

Q. What happens if you change your TRA within the switching period?

A. If you change your TRA once the switching period has started, at the sixth of the following month, your Retirement Account will be re-balanced to the appropriate place within the switching matrix for the new TRA.

Q. What if *Lifestyle* is not for you?

A. You can *Freestyle* your investments by choosing any of the funds available from L&G or BlackRock. If you would like to change your investment instructions, you should take the following action:

Current employees – submit new investment instructions via the Pensions Lotus Notes online application. Details can be found on the Pensions Trust website.

Deferred employees – please complete the enclosed form and return in the envelope provided.



Need any help?

If you feel you need some help in making your decision, you should consult an Independent Financial Adviser (IFA). You can find the names and contact details of IFAs near you from the professional advice website: www.unbiased.co.uk. The Trustee and staff members of IBM Pensions Trust will provide you with as much factual information as you need but are not qualified to provide you with any financial or investment advice about your pension.

If you need to contact Pensions Services:

Internet	www.smartpensionsuk.co.uk
Email	pensions@uk.ibm.com
Mail Address	IBM UK Pensions Trust Limited Pensions Services Mail Point CIA PO Box 41 North Harbour Portsmouth PO6 3AU
Telephone	External: 023 9256 8164 Internal: 3725 8164
Secure Fax	023 9256 0962

