

Additional Questions & Answers – updated to 7th June 2019

Why is the value stated in the press higher than the value in the Trustee communication?

In between authorising the printing of around 75,000 letters to be issued to members, financial markets moved and gilt yields have fallen, meaning gilt prices have risen. As the Trustee's investment strategy is largely a matching strategy we see corresponding movements in the Fund's assets and liabilities. This means that the assets the Trustee had set aside to pay the premium to L&G have increased and the Trustee has not had to use more assets to pay the premium. Therefore this has not impacted on the funding level for members who are remaining in the Fund.

What is the significance of the cut-off date of 31st March 2018?

The cut-off date of 31 March 2018 was agreed between the Trustee and Legal & General for practical purposes. In such a transaction it is necessary to determine the full value of the pensions to be insured at an early stage to allow the insurer to accurately calculate the premium required from the Trustee and for the Trustee to assess the impact on the fund.

I'm a pensioner but not being transferred why aren't my contingent increases being guaranteed?

The provision of increases on pre1997 pension for former RRPf members is dependent on the funding level remaining at or above 105%. At the last valuation it was possible for the Trustees to guarantee increases until 2023, after which time it will be reviewed. Whilst the current transaction with Legal & General will not provide members that are left in the RRUkPf with guaranteed Pre1997 increases at this time, the Trustee has satisfied itself that the probability of annual increases being regularly awarded in the future will improve following the Legal & General transaction. Rolls-Royce has also committed that it will not propose any future pension risk transfers without fully guaranteeing increases to pre1997 benefits of all former RRPf members.

I'm still an active member with pre 1997 service is it the intention to have future 'insurance buy outs' of pensions in payment for previous Fund members to guarantee the contingent increases?

Rolls-Royce and the Trustee have been keen to work together to secure permanent guaranteed increases on former Rolls-Royce Pension Fund benefits earned before 1997. Due to the funding level and the current insurance market, it was deemed possible at this time to insure a large proportion of the pensions that are currently in payment to resolve this issue for those members. The Company and the Trustee will continue to work together to secure guaranteed Pre1997 increases for all remaining members. This may be in the form of a further buy-out or within the Fund. The Company and the Trustee will continue to monitor this and when a suitable opportunity arises will act accordingly but any such action must not be detrimental to the overall fund membership. Rolls-Royce has also committed that it will not propose any future pension risk transfers without fully guaranteeing increases to pre1997 benefits of all former RRPf members.

Why are only former members of the previous RR Fund being transferred and not previous Rolls-Royce Group Pension Scheme (RRGPS) or Rolls-Royce Engine Control Systems Pension Scheme (RRECSPS) members; is it the intention to do this at a later date for previous members?

Benefits earned before April 1997 for former members of the Rolls-Royce Pension Fund prior to the merger in 2016 do not currently attract permanently guaranteed increases in payment, however, Pre1997 increases are guaranteed for former RRGPS and RRECSPS members.

The Company and the Trustees will continue to work together in identifying opportunities to further improve the security of members benefits and, whilst it is acknowledged that the natural journey for trustees to aspire to is to buy-out benefits, especially for mature well-funded pension schemes, the cost of this can be prohibitive and there may be other more appropriate methods to achieve this. Additionally, it is fair to say that the emphasis in the near term of the Trustees and the Company will be to secure the guaranteed Pre1997 increases for the remaining RRPf members.

I'm still an active member is this 'insurance buy-out' a forerunner to start closing the Fund to future accrual of benefits for existing members?

The Trustee role is to safeguard benefits which have already been built up in the Fund. The transaction with Legal & General is part of that responsibility. The provision of future accrual is a matter for the Company, its employees and their representatives (e.g. the CNC) to discuss and is outside the remit of the Trustee.

The current position, that was included in the 2018 Total Reward agreement, is not impacted. This is that future accrual will continue until at least 1 January 2024 for employees covered by that agreement. Any proposal to fully close the Fund would be subject to consultation.

I'm a pensioner being transferred to L&G if there is another financial crisis how secure is my 'pot' with L&G what protections are in place to secure my money?

The Legal & General Group, established in 1836, is one of the largest and most highly rated insurance companies in the world, with particular experience and expertise in insuring and administering pensions. They pay benefits to over 750,000 pensioners each month. As a fully regulated insurance company, Legal & General must comply with far more stringent financial requirements than a company sponsored pension fund. In addition, Legal & General is required to maintain a very strong level of solvency at all times.

Legal & General's annuity business is fully regulated by both the Financial Conduct Authority and the Prudential Regulatory Authority, and, in the highly unlikely scenario of Legal & General becoming insolvent, benefits would be protected in full by the Financial Services Compensation Scheme.

Once I'm transferred to L&G what protections and guarantees are in place if my pension was to be transferred to another insurance provider can it be transferred to a third party?

Legal & General is one of the largest and most highly regarded insurance companies in the world and is fully committed to the annuity business. This is one of the main reasons why Legal & General was selected as the preferred insurer for this transaction. Whilst unlikely, the business could be transferred to another regulated insurance company in the future, but any such regulated Company would also be required to comply with the necessary financial and regulatory requirements.

I'm an active member age 40; will I see retirement with a RR final salary scheme or an insurance policy?

The agreement with Legal & General only impacts the pensions of former members of the Rolls-Royce Pension Fund who started to receive their pensions and were in payment on or before 31 March 2018. Former pensioner members of the Rolls-Royce Group Pension Scheme, Rolls-Royce Engine Controls Systems Pension Scheme, and all deferred and active members will continue to have their benefits paid from the Fund. The remaining Fund will be just as well funded as before the transaction with Legal & General but will be smaller with less risk for the Trustee and Rolls-Royce to manage in the future.

The Company and the Trustee will continue to work together in identifying opportunities to further improve the security of members benefits. However, there are no plans at this time to buy-out the benefits of active members, but it is plausible that at some point in the future the Trustee may seek to insure further members' benefits.

As an active member considering retirement is my Enhanced Transfer Value that includes Share of Fund the same as before or affected by the transaction?

The share of fund transfer value is not affected by the transaction as the funding level before and after the transaction remains the same.

If the RR Scheme was closed and transferred to an insurance company will my accrued benefits be guaranteed and what other future provision would be provided by RR?

If the RRUKEPF was closed to future accrual, the Fund would remain and the Trustee would continue to be responsible for providing the benefits accrued up to the point of closure. Rolls-Royce would also be responsible for making up any shortfall in benefits should the Fund fall into deficit in the future.

To initiate a transfer to an insurance company, the Trustee would need to ensure that the Fund was fully funded on a 'buy-out' basis, which basically means there would have to be enough money in the Fund to 'buy' the same level of benefits provided by the Fund with an insurance company.

In the event the Fund were closed to future accrual, the responsibility for the future provision of benefits would be a matter for negotiation between the Company and the CNC. However, the current position, that was reflected in the 2018 Total Reward Agreement, is that future accrual will continue until at least 1 January 2024 for employees covered by that agreement.

With transferring £4.4bn of the financial liabilities off the company balance sheet is this to prepare the company to be sold on or make it ripe for a takeover?

The transaction with Legal & General was designed with the intention of improving the security of benefits for members by securing permanent guaranteed increases on former Rolls-Royce Pension Fund benefits earned before 1997. Whilst the reduction in the pension liabilities is welcomed by the Company, there is no link to this being part of any preparation for the Company to be sold or made ripe for a takeover.

I believe that RR has broken its pension promise - to whom can I complain to?

The Company and the Trustee has worked together in securing the transaction with Legal & General but the ultimate decision to transfer the liabilities is the Trustee's. In making the decision, the Trustee received independent legal and actuarial advice to satisfy itself that insuring benefits with Legal & General is an appropriate step for it to take, and that the interests of the members remaining in the Fund have been protected. Benefits for the remaining members of the Fund will continue without any change and as such no benefit promises made by the Company have been broken. If you still wish to complain please contact the pension department on [HYPERLINK "mailto:pensions.web@rolls-royce.com"](mailto:pensions.web@rolls-royce.com) } and you will be guided through the complaints process.

Has an independent body for example the pension ombudsman reviewed and approved such a transfer?

The Trustee received independent legal and actuarial advice to satisfy itself that insuring benefits with Legal & General is an appropriate step for it to take, and that the interests of the members remaining in the Fund have been protected. Legal & General also consulted with their own advisers in completing the transaction. There are strict regulatory guidelines to follow in a transaction of this type but it is not necessary to obtain formal independent approval. However, the Trustee will be required to report the transaction to The Pension Regulator (tPR) in accordance with tPR's regulatory requirements.

Questions added 07/06/2019

You have stated that when my pension is transferred to Legal & General my pre 1997 excess pension will receive guaranteed 2% increases but those remaining in the RRUKPF will still be subject to contingent increases. I understand this gives certainty to those of us transferring but if CPI was to rise above 2% then we could potentially lose out as Legal & General will pay 2% fixed but the RRUKPF Trustees might apply a discretionary increase higher than 2%.

There is no legal requirement to increase pensions that accrued before April 1997. The rules for former Rolls-Royce Pension Fund members only provide for 2% a year increases to be applied when the funding position exceeds 105%. Any further increases would need to be agreed by the Company and funded for. The Trustee could not award extra increases unilaterally. It has been a priority of the Trustees and the Company for some time to get to a position to provide a guarantee on pre 1997 pension increases, rather than them being "contingent". The aim of the deal with Legal & General is to provide guaranteed pension increases of 2% fixed for all former RRPf pensioners. The Legal & General transaction has realised this aim for a big proportion of members and the Trustee will continue to work hard to provide the same level of increases to those remaining in the fund.

Can I have a lump sum benefit instead of a monthly pension?

No. The transaction with Legal & General provides benefits on the same terms as currently payable from the RRUKPF but with 2% fixed guaranteed increase on pre 1997 excess pension.

I note that my Pre 1997 excess pension will increase by a fixed 2% with Legal & General but what about my other elements of pensions?

Your other elements of pension already receive guaranteed increases and these will remain exactly as they are now. For information, pension earned between 6 April 1997 and 5 April 2005 will increase in line with CPI capped at 5% whilst pension earned after 6 April 2005 will receive increases in line with CPI capped at 2.5%.

In the event of my death do Legal & General pay my Spouse a pension?

The Legal & General transaction includes all liabilities for the pensioners included. This therefore means that any prospective Spouse's entitlement will become payable from Legal & General.

Questions added 10/06/2019

What would happen in the case of L&G insolvency and how does that differ, if at all, from Rolls-Royce becoming unable to meet its pension obligations?

Under the Rolls-Royce UK Pension Fund members are covered by the Pension Protection Fund (PPF) in the event of insolvency. On transfer to L&G policyholders will be covered by the Financial Services Compensation Scheme (FSCS). Under the PPF compensation depends on a member's age at the point of employer insolvency, broadly; (i) if above a scheme's normal retirement age, 100% compensation; (ii) if below a scheme's normal retirement age, 90% compensation subject to an upper cap (currently, 1/4/19 - £40,020 at age 65 with a sliding scale by reference to age to determine the relevant cap for each member.) Whereas under FSCS compensation is paid at **100%** of the value of the claim, without any upper limit or reference to age.