Plan your next move

The Pension Increase Exchange (PIE) option

What is PIE?
It is an option to give up some future increases on your pension, in exchange for lower (or no) increases, but a higher immediate pension.

When your pension starts to be paid, it has to receive a legal minimum level of increases, and these increases depend on when you earned the pension i.e. the period of service for which you were employed and a member of a Defined Benefit (DB) section of the Babcock International Group Pension Scheme (the Scheme), or one of its predecessor schemes that have transferred in.

Many schemes, including our Scheme, provide increases above this legal minimum.

Some of the pension you may have earned before April 1997 has no legal requirement to receive increases. However, the Scheme provides increases in line with inflation up to a certain level for some members, and fixed increases for other members (please refer to your retirement pack for more information on the increases your pension will receive in payment). The PIE offer gives you the option to exchange the increases on this part of your pension.

Here is how this works:

- The Scheme actuary works out the estimated value of the increases you could give up.
- Part of this value is used to provide an immediate increase to your pension, which would not then increase in future.
  
  **Note** – you won’t receive the full value of the increases you give up.

The following basis will be used for this calculation:

- Approximately 80% of the value is used to provide you with a higher starting pension.
- The Scheme retains the remaining 20% to help manage the risk of the assumptions underlying the funding of the Scheme not being borne out in future.

How does it work?
PIE is a bit like a maths question with two big unknowns: your life expectancy and future inflation.

Which would you rather have?

- A pension of £10,000 a year, which will increase in line with inflation each year in the future; or
- A pension of £13,000 a year, with lower increases in the future.

At retirement, if a member chooses the PIE option, his pension will be higher in the first year than it would have been if he had retained the increases. But what about future years?

The lower initial pension will eventually increase to the point where it would overtake the PIE pension.

By age 84, the total value (in today’s money) of the pension a member may receive over the whole period would be the same whether he took the PIE option or not. This is called the breakeven age.

Therefore if this member lived beyond age 84, the total value of the pension received would be higher if he did not take the PIE option.
What does it look like?

This graph illustrates how your income in retirement might look like with a Pensions Increase Exchange. It suggests that your DB pension will:

- offer more flexibility to fund initial retirement activities in the first few years of retirement via your tax-free cash lump sum and savings. Alternatively, you may reinvest this money to supplement your retirement income in later years.
- be greater in the early years of retirement than the conventional DB option, however, this amount will remain at the same amount throughout your retirement and will not attract any increases to keep pace with inflation. **You will not receive the full value of the increases you give up.**
- be supplemented by your State pension.

You can use the retirement profiler, plan your next move, to vary the period over which you would use your lump sum and any savings (if appropriate) on your results page. Depending on your initial responses it may also illustrate additional benefits built up outside of the Babcock Scheme.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Normal Scheme Option</th>
<th>Pension Increase Exchange Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility</td>
<td>You can decide whether or not to choose a tax-free lump sum, but the level of dependant’s pension and how the pension increases is determined by the Scheme Rules.</td>
<td>This can give you a larger tax-free lump sum (look at your retirement quote for specific details) and more pension in the early years of your retirement. You will receive lower increases in future. Spouse’s and dependants’ pensions payable on your death will be unaffected if you take this option.</td>
</tr>
<tr>
<td>Annual Increases</td>
<td>Your pension will increase in line with the Scheme Rules and will continue to increase as time goes on. You therefore know that as prices increase, you’ll have an element of protection against this.</td>
<td>The cost of living in retirement does not necessarily increase with inflation, as the level of activity can reduce with age. Some members prefer the highest income when they are most active, rather than as they get older.</td>
</tr>
<tr>
<td>Other Payments</td>
<td>If you die within 5 years of your pension commencing, a lump sum equal to the remaining payments in the first 5 years will be paid out.</td>
<td>If you die within 5 years of your pension commencing, a lump sum equal to the remaining payments in the first 5 years will be paid out. Therefore if you choose the PIE option, this will usually lead to a higher payment on death within the first 5 years.</td>
</tr>
<tr>
<td>Value</td>
<td>The pension set out is your normal entitlement under the Scheme Rules and effectively what has been funded over the course of your membership.</td>
<td>You won’t receive the full value of the increases you give up. <strong>The Scheme will retain 20% of the value of the pension increases.</strong> Depending on your health you may value more pension while you are younger rather than receiving higher amounts as you get older.</td>
</tr>
<tr>
<td>Other sources of income</td>
<td></td>
<td>If you have other pensions that increase each year, then you may not need the same level of protection offered by the Normal Scheme Option.</td>
</tr>
</tbody>
</table>

More information/Next steps

Before making a decision you should take impartial financial advice.

- If you have any questions about your pension, you can speak to the administration team.
- Visit the state pension website [www.gov.uk](https://www.gov.uk) to find out more about state pensions.