

This announcement is issued for UK Managers who were active members of Rolls-Royce UK Pension Fund (RRUKPF) on 31 December 2020

Dear member,

Following the closure of the defined benefit ('final salary') pension scheme on 31 December 2020 and consultation with Manager Representatives over the last 6 months, we can now confirm the final enhancements that have been agreed between the Company and the Trustee of the RRUKPF.

In brief

The detail of the enhancements is complex, but includes:

- Enhancements worth £20m for Managers
- Uplifts of 0.33% a year over the next three years (total 1% increase), subject to certain tests being satisfied
- Additional uplift of 0.25% a year for Managers with smaller pensions, subject to certain tests being satisfied
- Availability of share of fund transfer values (SOFTV) until at least 31 December 2024
- Protection for Managers transferred under TUPE

To help understand what this means for you, we have provided a Q&A with more detail at the bottom of this message.

What do I need to do?

You don't need to do anything. Our pension team is currently re-programming the pension administration system to give you more visibility of your transfer figures and these enhancements.

We'll contact you again in August when the new self-serve functionality is planned to be available on-line. We'll also produce a video and some guidance notes to help you navigate your figures and explain what quotes and support are available.

You can find out more information on the RRUKPF by logging into the pension website at <https://www.rolls-roycepensions.com/Homepage>

We respectfully ask that you do not contact the pension team for further details as we will be back in touch – the team needs to prioritise colleagues who will be leaving the business in the next few months, and other urgent cases.

Joel Griffin
People Director – Performance & Reward

Fiona Brown
Head of Pensions

Your questions answered

[UPLIFTS TO RRUKEPF PENSIONS](#)

[EARLY RETIREMENT](#)

[SHARE OF FUND TRANSFER VALUES](#)

[GENERAL](#)

Uplifts to RRUKEPF Pensions

Why are extra benefits being granted now?

These are final benefit improvements to recognise the impact of the closure of the RRUKEPF to future accrual on Managers who were active members of the RRUKEPF up to 31 December 2020. All of the improvements will be delivered from money held in the RRUKEPF and will not involve the payment of any cash by the Company. The Company remains liable to continue to support the RRUKEPF if it requires additional funding in the future. It has taken some time to ensure that all parties are confident that the RRUKEPF can deliver these benefits and to agree checks and balances on how they will be delivered in case the Company's or the RRUKEPF's financial position deteriorates.

When will the uplifts apply?

Uplifts totalling 1% will apply over 3 years as follows:

- 0.33% on 31 December 2021
- 0.33% on 31 December 2022
- 0.33% on 31 December 2023

The uplifts are dependent on some tests being met – see the explanation of the tests below.

Who will get the additional uplifts for smaller pensions?

For those Managers whose deferred pension on 31/12/20 was less than 40% of their uncapped annual salary at 31/12/20, each uplift of 0.33% referred to above will be topped up each time by 0.25% to 0.58%. This eligibility test will be performed once on 31/12/20; if you qualify as at this date the 0.25% will be paid on each of the three years shown above, subject to the tests being passed as explained below.

How will the uplifts be calculated?

All uplifts where relevant will be calculated by reference to your deferred pension as at 31 December 2020, which includes the adjustments previously agreed to be added to your pension on 1 March 2020, even if you have opted to spread that increase over more than one year.

What about the standard increases to my deferred pension?

The uplifts referred to above will be applied in addition to your entitlement to standard deferred increases (as detailed in the Closure Statement that was issued to you earlier this year). For example, if the standard deferred increase in one year is 2%, the total increase applied for that period will be 2.33%.

Why are the tests needed?

Because of the weakened strength of Rolls-Royce's finances. It has not been possible to guarantee the full uplifts now or deliver them in a single step. The whole package for Managers, Works and Staff members is worth around £140m. The only way in which £140m of enhancements has been possible is because they will be funded from the RRUKPF and spread over a period of time.

What tests will apply?

Before each uplift is granted, the funding of the RRUKPF and Rolls-Royce's liquidity position will need to exceed thresholds agreed between the Company and the Trustee. This is to ensure that the extra benefits can be delivered without risking the security of the existing benefits payable for all RRUKPF members and beneficiaries.

The tests for the uplifts are that the funding of the RRUKPF stays at least at 107% on an agreed basis, and that Rolls-Royce liquidity stays above £2.5bn. As at June 2021 both these tests are currently being met.

What if the tests aren't passed?

We are confident that these benefits will be delivered. However, if any of the tests are not met, we will review whether any missed uplifts can be applied retrospectively.

What is the eligibility for the final benefit enhancements?

- You must have been an active member of the RRUKPF on 31 December 2020, stayed in the same employment and not have been TUPE transferred, at each 31 December to receive the uplift for that year
- If you leave part way through the year you will not receive a pro-rata uplift
- If you are TUPE transferred to another employer before 1 January 2024, you will receive all of the uplifts granted for remaining employees as long as you stay with your new employer up to

that date. If you leave employment before 1 January 2024 you will keep any uplifts already granted to you.

If you leave employment before all the uplifts have been granted, you will keep the uplifts that have already been granted for you, but you will not receive any further full or partial uplifts. For example, if you leave before 31 December in a year, you will keep any uplifts granted up to and including 31 December of the previous year.

Early Retirement

How long will 'with consent' early retirement factors be available?

You will remain eligible (if you are of retirement age) for 'with consent' early retirement factors if you take your pension when leaving your Rolls-Royce employer who participated in the RRUKPF on 31 December 2020 at any time in the future.

What does 'with consent' mean?

If you are unfamiliar with the term 'with consent' this is the terminology in the pension rules and aligns broadly with being a 'good leaver' from the business.

Do I have to take my pension or transfer value when I leave?

No – you can take your pension or a transfer value at a later date, but different terms may apply to the early retirement factors (if you retire early) or transfer value calculation and you should check that out before you make any final decisions.

Share of fund transfer values

How long will SOFTV be available?

The SOFTV will remain available until at least 31 December 2024 if you remain in Rolls-Royce employment and are 55 or over when you leave.

Will the availability of SOFTV be extended further?

At time of writing, we anticipate that this option will continue in some form for a further 3-years until 31 December 2027, but we can't guarantee that now. An extension will be considered during the second half of 2023 in the next formal three-year funding valuation. If you are TUPE transferred to another employer before 31 December 2023 you will be eligible for a SOFTV until 31 December 2023 as long as you remain with your new employer up to the time you ask to take a SOFTV, or 31 December 2023 if later.

Why can't we guarantee SOFTV eligibility permanently?

Paying transfer payments for certain members that are more than the statutory Cash Equivalent Transfer Value that they are entitled to means that more funds are removed from the RRUKPF than would ordinarily be the case and could potentially reduce the security of other members' benefits. We always need to test that SOFTVs do not reduce the security of other members' pensions and that they continue to be appropriate. We also need to be mindful of the legal and regulatory framework around defined benefit pension transfers which is continuing to develop.

Are the uplifts in the SOFTV (share of fund transfer value) calculation?

Yes. From 1 January 2022 the SOFTVs will include full allowance for the new uplifts.

Will the SOFTV basis be the same as it is now?

No, but the changes will be minimal in the vast majority of cases. The Company and the Trustee have reviewed the terms that will apply for the SOFTV calculation from 1 January 2022, to ensure those terms are fair for eligible members across all sections of the RRUKPF as well as ensuring the RRUKPF remains adequately funded for members who don't transfer but draw their pension when they retire.

For the vast majority of members, the new basis will provide values that are very similar to the values provided on the current basis; depending on age and service the values may be slightly higher or slightly lower but the difference will be within the range seen currently when applying the normal monthly market adjustment changes. It is possible that for a very small group of eligible members, the new transfer basis will provide a SOFTV that could be around 10% lower than the current value. We stress that this will affect a very small number of members. The pensions team plan to analyse who is affected by the changes over the summer and will write to the small number of people who will see a material reduction to their SOFTV on the new basis that is applicable from 1 January 2022. In addition, the team is working to re-programme the pension system so that all eligible members will be able to model their own SOFTVs on the new basis from sometime during August onwards.

General

How are the extra benefits affordable given the financial circumstances of the Group?

Assuming the funding and liquidity tests are met, the additional benefits will be funded from the RRUKPF and will not require any cash from Rolls-Royce. The tests for the uplifts are that the funding of the RRUKPF stays at least at 107% on an agreed basis, and that Rolls-Royce liquidity stays above £2.5bn. As at June 2021 both these tests are currently being met.

Why has this process taken so long?

This whole package has involved a wide range of stakeholder groups. Last year we committed to treat Managers equitably with Staff & Works members. The various discussions with the CNC (which represents Staff & Works employees) have taken longer than any party expected.

Are Works & Staff members receiving the same enhancements as Managers?

No. The Works & Staff uplifts are higher as both groups were starting from different positions. The average total uplift for Managers will be 1.4% if granted in full (the 1% for all Managers plus the additional uplift for Managers with lower pensions). Works & Staff members will receive an extra 2.6% to reflect the fact that Managers received a 5% uplift last year, whilst Works & Staff members received a 2.4% pay rise. Works & Staff members will also become eligible for with consent early retirement factors, but subject to ongoing affordability tests. These tests won't apply to Managers as early retirement factors were guaranteed following the benefit changes implemented for Managers last year.

Do the Manager Representatives endorse these enhancements?

We've had an open dialogue with both the Manager Representatives and the CNC throughout this whole process and both sets of representatives helped to shape the final proposals that were subsequently agreed between the Company and the Trustee.

We are grateful for the time and input given by the Manager Representatives and will capture the experience gained from this process to ensure that future TotalReward reviews have effective consultative input from Management Representatives.

Are these improvements subject to a CNC Pensions Ballot?

No. They are already agreed.

Will there be more pension enhancements in future?

This is exceptionally unlikely. We expect the future priority for the RRUKPF will be to increase security of members' existing pension benefits rather than adding to them. Going forward we intend to focus on the benefit and reward packages for all our employees as we re-build our business together.

Will you review the TotalReward package in future?

Yes - of course. We will always keep our TotalReward arrangements under regular review to ensure that our TotalReward is competitive to allow us to attract, retain and reward our people. We will continue to work with employee representatives to ensure the transparency of any reviews. However, many of our benefits are already in the upper quartile versus the wider market whilst as a Group we are continuing to lose more cash than we generate. Consequently, please do not anticipate any further benefit improvements to be implemented in the near term.

What happens to the enhancements if I am TUPE transferred?

If you are TUPE transferred to another employer before 31 December 2023, the following enhancements will continue to apply:

- SOFTV will apply until 31 December 2023 for eligible members as long as you remain with your new employer up to the time you ask to take a SOFTV.
- 'With consent' early retirement factors will apply if you take your pension when leaving your new employer before 31 December 2023.
- You will receive all of the uplifts granted for remaining employees as long as you stay with your new employer up to 31 December 2023. If you leave employment before 1 January 2024 you will keep any uplifts already granted to you.