

*Kimberly-Clark

Transfer values

The impact of changes
in investment markets

A guide for members of the DB Section



Kimberly-Clark Pension Scheme

Understanding a transfer value

If you remain a member of the Scheme, when you retire, your pension will provide a guaranteed income for life. These pension payments are not affected by investment markets.

However, if you decide not to take your pension from the Scheme but choose instead to transfer your Scheme benefits to another pension arrangement before you retire, the Trustee will place a current value on your future pension. This is called a Cash Equivalent Transfer Value (CETV or transfer value) and, unlike the pension itself, a transfer value does depend on investment markets.

This guide provides more information about how transfer values are calculated, and how they can change over time.

Calculating a transfer value

To calculate a transfer value, the Trustee estimates how much money needs to be set aside to pay a member's pension for the rest of their life after retirement, as well as the pension to any eligible dependant(s) after their death.

To do this, the Trustee must make several assumptions about the future, including how long members are expected to live for and the rate of investment returns on the Scheme's assets.

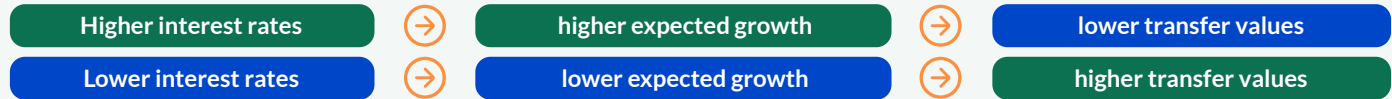
The Scheme's transfer-value assumptions are set by the Trustee, based on regulatory requirements and advice from the Scheme Actuary. The assumptions are intended to produce the best estimate of the amount needed to pay a member's benefits. The assumptions are updated monthly to reflect changes in investment market conditions. This means that if a transfer value is calculated today, it could be higher or lower than a previous transfer value, depending on how investment market conditions have changed since the previous calculation.

A transfer value is usually guaranteed for a three-month period. The details of any guarantee period will be included, if you request a transfer-value quote.

How do investment market changes affect transfer values?

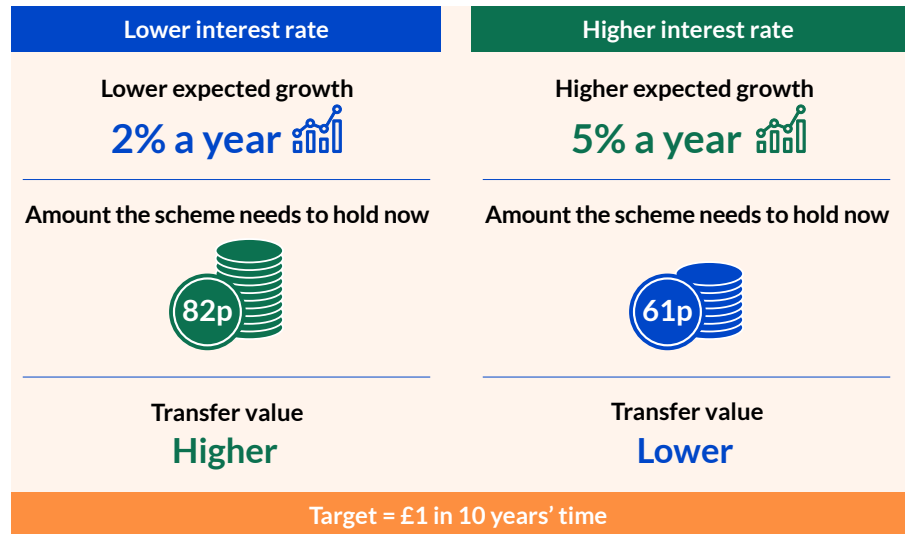
Government and corporate bonds are a major part of the Scheme's investments. This means that when long-term interest rates (bond yields) rise, the expected future investment returns on the Scheme's assets tend to rise as well. Similarly, when long-term interest rates fall, expected returns on the Scheme's assets also tend to fall.

In simple terms:



Example

To pay £1 of pension in 10 years' time, the Scheme doesn't need to hold that whole £1 right now. It holds enough money to be able to reach £1 with investment growth after 10 years. If the Scheme can earn 2% a year on its investments, the Trustee needs to put aside 82p now to meet that future pension payment (because 82p with investment returns of 2% a year for 10 years will grow to become £1). However, if the Scheme can earn 5% a year on its investments, the Trustee only needs to put aside 61p now to be able to pay that £1 in 10 years' time.



Looking ahead

Given that pensions are expected to be paid over many years, changes to long-term interest rates can have a significant effect on the estimated cost of providing Scheme benefits, and so they can have a significant effect on the size of transfer values.

For example:

- Interest rates were at historically low levels for several years before 2022, so transfer values over that period were relatively high.
- Then, during 2022, interest rates rose sharply and have since remained significantly above the levels seen in the previous decade. As a result, a transfer value calculated at the time of writing may be significantly lower than a previous quotation.

Although transfer values will continue to fluctuate over time, it's important to remember that the benefits you've built up in the DB Section will remain the same. It's that the estimated cost of providing those benefits can change over time.

