



Transfer values: FAQs

Hewlett-Packard Limited Retirement Benefits Plan: November 2022

This note is intended to address some common questions in connection with transfer values specific to circumstances in 2022. The information provided is a guide only and does not constitute advice.

Why has my transfer value reduced this year?

A transfer value reflects the expected cost of providing your pension benefits through the Plan. The calculation of transfer values therefore involves making assumptions about the future.

The most significant assumption that influences transfer values is long-term interest rate expectations, which are driven by the current economic climate. The higher long-term interest rates are expected to be, the lower your transfer value will be. Transfer value calculations are updated every three months to reflect the latest long-term interest rate expectations. Given the current economic climate, long-term interest rate expectations have increased significantly since the start of 2022 leading to a reduction in transfer values.

Why do interest rate expectations impact transfer values?

As explained above, a transfer value reflects the expected cost of providing your benefits through the Plan. This cost is linked to investment returns expected in the future on the assets of the Plan: if the expected future investment returns are higher, less money is needed now to pay for those benefits, as that money will be expected to grow faster.

A key driver of investment return expectations are interest rates, and in particular, the interest rates on UK government debt (known as “gilt yields”). Gilt yields have increased substantially this year, as shown by the chart on the next page, meaning the expected future investment return on the assets in the Plan have increased. This has acted to reduce transfer values.

What other assumptions impact transfer values?

The other key assumptions that impact the level of transfer values are:

- Long-term inflation expectations
- Life expectancy

Pensions provided by the Plan are linked to inflation, both before they come into payment and once in payment. Transfer values therefore typically increase if long-term inflation expectations increase.

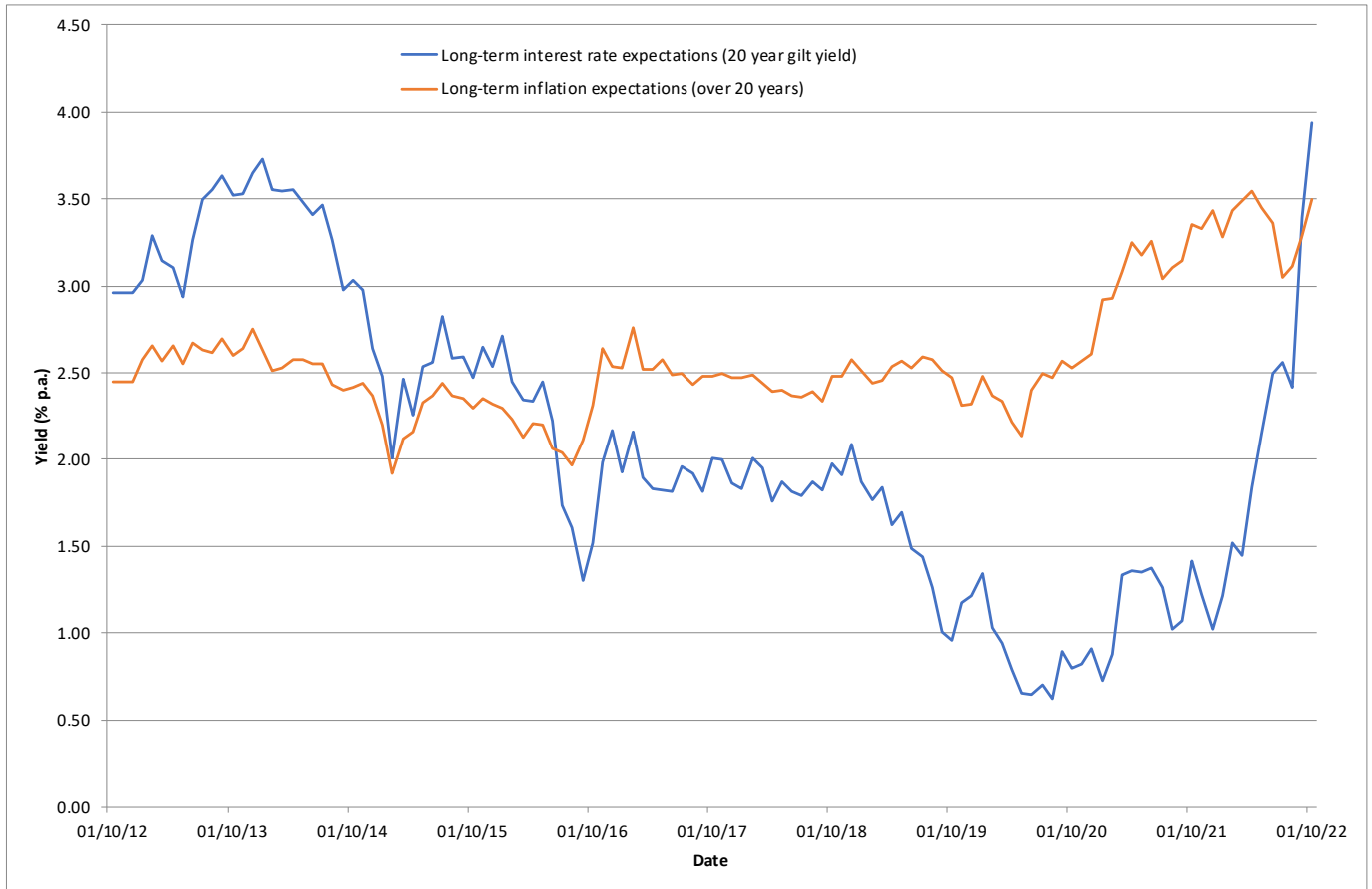
With life expectancy, the longer people are expected to live, the higher transfer values will be.

How have long-term inflation expectations impacted my transfer value?

All else being equal, an increase in inflation expectations acts to increase your transfer value. However, it is important to note that the relevant measure is inflationary expectations over the long-term (for example over the next 20 years), rather than inflationary expectations over just the next year. As with interest rate expectations, transfer value calculations are updated quarterly to reflect the latest long-term inflation expectations.

Whilst inflationary expectations over the next year have risen substantially, over the longer term they have not changed as significantly (as shown by the chart below). The impact of inflationary expectations on transfer values has therefore been smaller than you might otherwise expect.

Long-term interest rate and inflation expectations between October 2012 and October 2022



How have transfer values changed over the longer term?

Over the last ten years, the main driver of changes in transfer values has been a substantial reduction in long-term interest rate expectations. This is shown by the blue line in the chart above and led to substantial increases in transfer values between 2012 and 2021.

During 2022 long-term interest rate expectations have increased sharply, reversing the previous falls. This has led to a significant reduction in transfer values.

The market's long-term expectations of inflation, shown by the orange line, has been more stable over the period. Long-term inflation expectations have increased over the past couple of years, but not by as much as long-term interest rate expectations, so the overall impact is that transfer values have seen an overall reduction in 2022.

How often are transfer value assumptions reviewed?

Transfer value assumptions which are not updated quarterly, such as life expectancy, are typically reviewed once every three years following completion of an actuarial valuation. Transfer value assumptions may also be reviewed and updated if there is a change to the investment strategy of the Plan.

A summary of the assumptions used to calculate transfer values is available upon request.

When is the next review of transfer value assumptions due to take place?

The actuarial valuation carried out as at 31 October 2021 was recently completed so the transfer value assumptions would ordinarily be reviewed before the end of 2022. However, due to recent market volatility a review of the Plan's investments is also taking place so the review is now expected to be completed in the first quarter of 2023.