

Changes to the GSK UK Defined Benefit pension arrangements

Consultation summary

Introduction

From 15 September to 13 December 2020, a 90-day consultation process took place with impacted employees on the proposal to close the GSK UK Defined Benefit (DB) pension arrangements to the future accrual of benefits.

We recognise and appreciate how much time and thought went into all the feedback we received throughout consultation, including over 500 counter proposals, and we want to thank you again for your engagement and commitment to the process. This document summarises the counter proposals from both employees and the UK Information & Consultation (I&C) Forum, how the Company considered this feedback – and how the counter proposals and feedback helped to inform the final decisions which were shared with impacted employees in the email dated 17 December 2020 and letter dated 18 January 2021.

We discussed the counter proposals and feedback with the I&C Forum employee representatives and subsequently decided how to move forward. Every suggestion was reviewed individually for its financial viability and alignment with what we're trying to achieve – long-term sustainability and consistency across all our pension arrangements – before the final decision was made to close the UK Defined Benefit (DB) Pension Plans.

Counter proposals overview

There was very active engagement throughout the consultation period with:

- Over 450 emails received and responded to by the consultation helpdesk
- 265 calls to the consultation helpline
- Extensive use of the consultation website which was regularly updated with FAQs
- 52 online consultation seminars attended by over 1,200 employees
- Around 300 individual clinics providing further support for understanding the proposal
- Over 1,000 employees attending the Let's talk sessions held in November

These channels were supported by a weekly review of engagement data, which included details of all the feedback and counter proposals submitted by employees and their representatives.

The first counter proposal was logged on 17 September (via the consultation website) and was followed by further proposals received across all channels throughout the next few weeks. This allowed us to identify the key themes emerging by the end of the first month of consultation and start to analyse and consider the counter proposals against the key aims of the proposals.

This weekly review continued in the second month of consultation, with counter proposals being received in various forms, ranging from summary statements through to extensive documents with supporting calculations. The Company analysis and consideration of these key themes were also shared with the I&C Forum.

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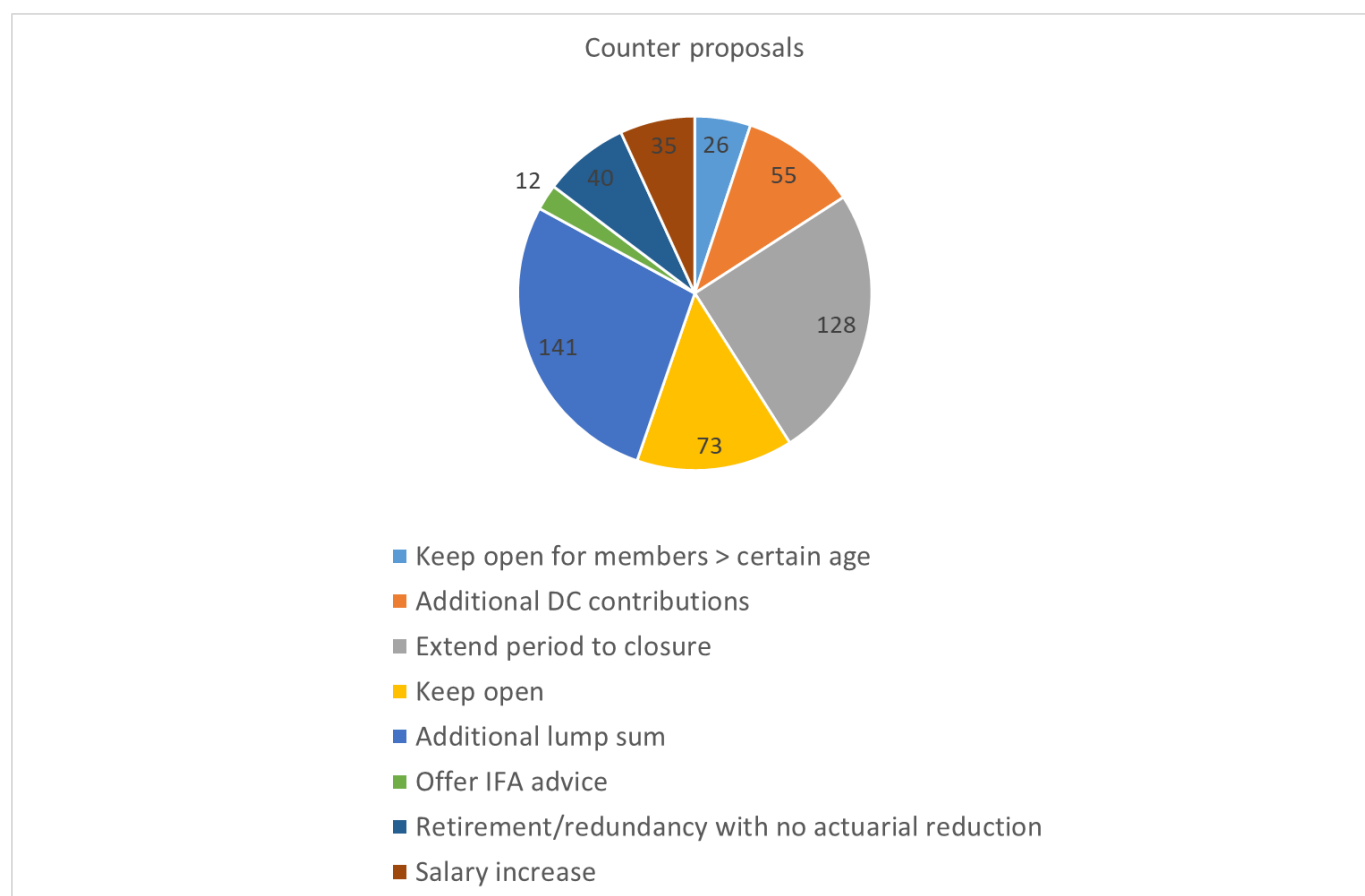
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In November, the Let's talk sessions prompted more employees to submit counter proposals which increased the breadth and depth of feedback for the Company to consider. In addition, the project team undertook a full review of all feedback received to make sure every counter proposal had been identified and included for consideration.

Counter proposals were received right up to the end of the consultation period and a daily reporting process was put in place (including over the final weekend of consultation) to ensure they were all reviewed as they came in and included in the Company considerations.

At the end of the consultation period, we'd received feedback from 303 employees, which contained 510 individual counter proposals:

- 227 of the 510 counter proposals (45%) were related to timing of the closure (e.g. keep the DB Plans open, keep them open for members above a certain age, extend the period to closure)
- 28% focused on some form of one-off payment
- a further 11% suggested additional Company payments into the Defined Contribution (DC) Plan



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Eight key themes emerged across the counter proposals which are explored in more detail below.

1. Retract the proposal and keep the DB Plans open
2. Delay the closure date for a period with the benefit structure unchanged
3. Delay the closure date for a period with a revised benefit structure
4. Make a one-off payment to impacted employees
5. Make changes to the ongoing GSK Pension Plan (i.e. DC plan) structure
6. Uplift the DB pension at point of closure
7. Retain/improve discretionary early retirement terms
8. Extend the financial guidance and other support provided to impacted employees

1. Retract the proposal and keep the DB Plans open

The final decision in relation to the closure of the UK Defined Benefit (DB) Pension Plans was made after very careful and lengthy consideration by the Company and many factors were considered as part of this, including consistency of reward offerings across the whole UK workforce, financial control and sustainability and market competitiveness.

As part of our thorough review of the counter proposals, we considered the viability of keeping the UK DB plans open – either in their current form or in a form providing a lower level of benefits. Ultimately, we felt this wouldn't meet our key objective of making sure we can offer a consistent basis for building future benefits, grade for grade, for every UK employee. However, in response to the feedback received, the Plans will close to the future build-up of benefit a year later than proposed, in 2022 to give impacted employees more time to plan for this change.

Sustainability was considered together with the consistency of our reward offerings across the UK, financial control and market competitiveness, rather than as a single determining factor. It was viewed in terms of the previous and ongoing funding commitments required for the DB Plans, when compared to the costs associated with the funding of the DC plan.

2. Delay the closure date for a period with the benefit structure unchanged

In coming to a final decision, we recognised the immediacy of the proposed timing was a significant concern for many impacted employees.

A number of counter proposals suggested a delay of at least 3 years. The Company carefully considered what an appropriate period of delay to the closure would be and ultimately felt that a delay of that scale wouldn't support the rationale for the closure – long-term sustainability and consistency across our pension arrangements.

The Company therefore decided to defer the closure by 12 months, to give everyone more time to plan and prepare for this significant change whilst acknowledging there's an inconsistency in pension provision which the Company does ultimately believe should be remedied.

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3. Delay the closure date for a period with a revised benefit structure

Within this theme, proposals around different periods of delay to the closure also included a combination of benefit structure suggestions, including: increased employee contribution rates; reduced future accrual rates; and a reduction in the current cap on pensionable salary increases.

This alternative to counter proposal theme 2 (above) was also considered in detail by the Company, recognising that a longer delay in addressing the inconsistency in pension provision would be mitigated to some extent by a reduction in DB benefit build-up and/or an increase in employee contributions during that time and could be considered as a step towards achieving the Company's aims.

However, it was recognised that the adjustment necessary to either employee contribution rates or future accrual rates would have to be significant in order to have any meaningful impact on the current inconsistency in pension provision.

Also, for a number of employees, this reduced benefit/increased contribution option wouldn't necessarily be to their advantage when compared to keeping the DB Plans open for a shorter period of time on the existing benefit basis. This, together with the implementation complexities associated with a revised benefit structure, in what's already a complex benefit basis, resulted in the Company deciding that proposals of this type were not appropriate to take forward.

4. Make a one-off payment to impacted employees

This theme featured in a number of counter proposals – the concept of the Company contributing a share of expected savings to impacted employees' DC accounts, with suggestions that the amount could be linked to pay or service or at a flat rate.

While the Company understood and appreciated the rationale for these counter proposals, there was concern around the resulting impact on our key aim to offer competitive and consistent pension arrangements for all our UK employees – particularly when we consider employees who are currently members of the DC arrangements, who wouldn't benefit from these contributions.

But in response to the counter proposals received, the Company gave careful consideration to the possibility of balancing its objective of moving to grade for grade consistency of pension structure with the idea of a one-off Company contribution to support all current DB Plan members of varying ages and grades in making a positive start to their DC Plan savings post the DB plans closure.

Recognising this was a significant element across many counter proposals and feedback, the Company concluded that a monetary contribution would be appropriate.

As a result, every active DB Plan member who joins the GSK Pension Plan on 1 April 2022 will receive a £10,000 lump sum contribution into their GSK Pension Plan retirement account (with a corresponding £10,000 taxable lump sum for active members of the GSK top-up arrangements at the time of closure who do not join the GSK Pension Plan).

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5. Make changes to the ongoing GSK Pension Plan (GSKPP) structure

Counter proposals in this area predominantly involved suggestions around the Company increasing matching contributions into the GSKPP by varying amounts, with some ideas that the increase should vary by grade and should only apply to impacted employees, rather than all members of the GSKPP.

As always, the drive for consistency of pension provision across the UK workforce was an important factor in our considerations, together with a key focus on continuing to make sure the GSKPP meets the needs of every UK employee member.

The Company considered this carefully in conjunction with other factors such as market competitiveness and determined that the GSKPP currently represents a market competitive DC offering for the whole UK workforce. However we want to reassure you that we remain fully committed to continuing to actively review the strategy and design of the GSKPP – not only in relation to contribution rates but also factors such as default investment funds and progressive investment options.

6. Uplift the DB pension at the point of closure

This key theme was primarily around the proposal to remove the salary cap introduced in 2013 to pensionable salary – which would mean the DB benefits accrued at the point of closure would be based on actual salary.

When the salary cap was introduced in 2013, this was to support the sustainability of the DB Plans for a period not less than 5 years from the implementation of that change. By the time of closure, the DB Plans will have been maintained on this basis for 9 years. As this change has supported the maintenance of the UK DB Plans for a significant period of time, the Company felt it wouldn't be appropriate to remove this retrospectively.

7. Retain/improve discretionary early retirement terms

This was an issue for many impacted employees and featured in many of the questions raised and feedback received during the consultation.

As previously shared during consultation (including in the updated FAQs) we can confirm there's currently no intention to change the early retirement terms for those impacted employees retiring between age 55-60 and from age 60, which have been in place for many years, although they do remain subject to Company discretion and policy from time to time.

In response to the concerns raised and to give some more assurance in this key area, the Company additionally made a specific commitment not to revisit the discretionary policy – as it relates to members who are leaving GSK employment by reason of retirement with the Company's agreement at or after the age of 60 – and the Company has confirmed that it will not revisit this policy of allowing pensions to be paid unreduced in these circumstances for 3 years following closure.

This commitment isn't intended to suggest that a change would be made at the end of that period, although the policy would once again become, as now, subject to periodic Company review.

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8. Extend the financial guidance and other support provided to impacted employees

We received various suggestions in this area – and what the Company can do to support impacted employees throughout the next 18 months will continue to be a top priority.

Extending the number of one-to-one financial guidance sessions funded by GSK was a recurring theme and the Company agreed to increase the number of sessions from two to four, and also to make them available for 6 months post-closure.

Additionally, the Company will provide up to three transfer value quotations across 2021 and 2022 free of charge, if requested, to help support impacted employees who would benefit from having this information readily available as they consider their options and plan for their retirement.

Consultation outcome

In conclusion, to help make sure GSK is a sustainable business for the long-term and that we can offer competitive and equitable benefit schemes for every employee across our UK workforce, the Company has decided to go ahead with the proposals, but with a number of important changes in response to the feedback and counter proposals received:

- We're deferring the closure of the DB pension arrangements by one year to 31 March 2022, recognising the points made about giving colleagues more time to plan and prepare for this change. Benefits continue to build up as normal until this date
- We'll give every active DB Plan member who joins the GSK Pension Plan (GSKPP) on 1 April 2022 a £10,000 lump sum contribution into their GSKPP retirement account (with a corresponding £10,000 taxable lump sum for members of the GSK Top-Up Plans at the time of closure who do not join the GSKPP)
- We've committed to retaining the existing discretionary terms for those retiring early from GSK employment on or after age 60 for a minimum of three years post-closure – for all employees who are active members of the DB and Top-Up Plans as at 31 March 2022
- We're also increasing the number of one-to-one financial guidance sessions from two to four and will provide an aggregate of up to three transfer value quotations across 2021 and 2022 free of charge, if requested

Ongoing engagement and support

We'll be in regular contact with you over the next few months to share updates and further information. Here's a reminder too of the key contact details:

- We're keeping the WEALTH at work helpdesk open:
 - Call – 0800 954 0759 (9am-7pm Monday-Thursday, 9am-5pm on Friday, 10am-1pm on Saturday)
 - Email – gsk@wealthatwork.co.uk

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- You can start booking your one-to-one financial guidance sessions now – simply select which firm you would like to use and contact them as follows:

Origen

Email: gsk@origenfs.co.uk

Tel: 0800 470 0524

Chase de Vere

Email: gsk@chasedevere.co.uk

Tel: 0345 609 2008

- If you'd like to request a retirement or transfer value quotation, please contact the pensions administrators, Willis Towers Watson, at GSKpensions@willistowerswatson.com or on 01737 227563.
- Everyone's health and wellbeing continues to be a top priority and there's a range of tools and support available – including the 24/7 Employee Assistance Programme. To access the new Healthy Life platform, please search 'health and wellbeing' on Connect GSK.

Important legal note: This document and accompanying communications are only about the changes to your pension arrangements on which we have recently concluded consultation. They do not guarantee your benefits. Entitlement to any benefit under any GSK pension or salary supplement arrangement arises only in accordance with and subject to the Rules of the arrangement, which are subject to change from time to time. GSK reserves the right to amend or withdraw any of its pension or salary supplement arrangements at any time and for any reason.