PENSION UPDATE

The newsletter for members of the Northumbrian Water Pension Scheme

October 2021

WELCOME

Welcome to the 2021 issue of our annual newsletter. It's been designed to help you understand how your valuable pension benefits are managed, covers the key points from the Trustee's formal Annual Report and Accounts, and keeps you informed of the latest pension developments.

When we sent out the last issue in October 2020, we had hoped that life would be back to normal by the time the next newsletter rolled around! But unfortunately, the pandemic is still with us and the lockdown we had adopted, originally envisaged to be a short-term measure, remained in place for much of the year. When the UK first went into lockdown, the Trustee and its professional advisers moved quickly to address the impact of the pandemic on the Scheme and its members. We successfully transitioned to working from home and one of the key priorities was to ensure that pensions and other benefits continued to be paid on time.

When we wrote to you last year, the Scheme actuary was in the midst of the all-important triennial valuation, which looked at the funding position as at 31 December 2019. The results have been finalised, and we are delighted to report that the funding level improved over the three years since the last valuation, from 77% to 83%. The actuary carried out an update as at 31 December 2020, and we are very pleased that our investments proved resilient to the huge pressures caused by the pandemic in 2020, with the funding level remaining steady at 83%. You can read the details in the funding update on page 4.

We've been listening to comments from a large number of Scheme members about the quality of the administration service from Capita and have begun a major review. This is expected to complete towards the end of the year, and we'll let you know the outcome in due course.

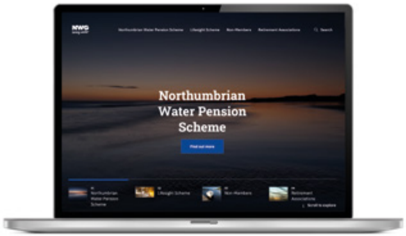
I hope you enjoy reading our member newsletter and find it useful and informative. If you have any comments or questions, or would like further information about any of the topics covered in this newsletter, please email the Pensions Manager at Northumbrian Water. His contact details are given on the back page.

Naomi LeStrange
Chair of Northumbrian Water Pension Trustees Limited

INSIDE THIS ISSUE

WE HAVE A WEBSITE!

NWG has set up a dedicated pensions website for its current and former employees, available at **www.nwgpensions.co.uk**



It's packed with useful information about your pension, including how to access free and impartial financial advice if you're thinking about retiring. If you have a question about your benefits, check out the FAQs section, which answers many common questions about the Scheme, or browse the Documents section if you want to drill into the detail.

Retired members can also download an application form to join their nearest Retirement Association, set up to help former employees keep in touch.
There is also some information about how retired members of the Scheme can Stay Connected with NWG as part of the Resilience Team. If you wish to do this, you should complete a Stay Connected form available from the HR Department. This form enables you to confirm whether you wish to:

- register as a 'reserve' to support the Company with certain critical activities (if so, you will be asked if you can commit to a week's annual training on basic skills/knowledge so you can assist with certain key operations)
- be emailed about volunteering opportunities
- join either the Northumbrian Water or the Essex and Suffolk Water Retirement Association.

FUNDING UPDATE

Every three years, the Trustee arranges a full actuarial valuation of the Scheme. The valuation by the Scheme actuary gives an up-to-date picture of the cost of providing the future benefits to be paid to members ('the liabilities') and how that compares with the value of the Scheme's assets.

If the Scheme's assets are lower than its liabilities, it's said to have a 'shortfall' (also known as a 'deficit'). A shortfall doesn't mean that the Scheme won't be able to pay members' benefits in full, as after each triennial valuation the Trustee and the Company are required to agree a funding plan to eliminate the shortfall by a specific date.

The latest full three-yearly valuation was carried out with an effective date of 31 December 2019. The actuary also carries out less detailed annual interim valuations of the Scheme's funding position, which is a snapshot on a particular date – in our case, 31 December 2020.

HOW HAS THE FUNDING POSITION CHANGED?

Between the two valuations, the Scheme's funding position benefitted from extra payments made by the Company, better-than-expected investment growth and changes in long-term assumptions. The options that members chose as part of the pension increase exchange (PIE) exercise in 2018 also had the effect of slightly reducing the long-term liabilities. However, some of these gains were offset by changes in financial assumptions which increased the value placed on the liabilities. The net effect of these changes was that by 2019, the shortfall had reduced to £225m and the funding level had improved to 83%.

	2020 UPDATE (31 DECEMBER 2020)	2019 VALUATION (31 DECEMBER 2019)	2016 VALUATION (31 DECEMBER 2016)
Assets	£1,161m	£1,067m	£954m
Liabilities	£1,397m	£1,292m	£1,245m
Shortfall	£236m	£225m	£291m
Funding level	83%	83%	77%

Between December 2019 and December 2020, the assets and the liabilities both grew by around £100m so the funding level remained steady at 83%.

WHAT IS BEING DONE ABOUT THE SHORTFALL?

After the 2019 valuation, the Trustee and the Company agreed a new contribution plan to remove the shortfall by August 2027. This plan includes significantly higher Company contributions than the previous agreement after the 2016 valuation.
The Company has agreed to pay £20m before 31 March 2022, and from 1 April 2022, it will pay £23.8m* a year until 31 August 2027.

*to increase with inflation, measured by the Retail Price Index.

> ### LOOKING AHEAD
> The Pensions Regulator is encouraging (and may soon require) trustee boards to aim for a funding position which minimises any potential dependence on the sponsoring employer should the investment strategy go wrong.
> The Trustee has set a longer-term funding target of self-sufficiency on a 'gilts +0.5%' approach. This means the Trustee will minimise the dependence on returns from investments, as this always requires a degree of risk – and that is risk which must be underwritten by the Company.

SHORTFALL ON WINDING UP

As part of the valuation, the actuary also looks at the funding level if the Scheme was wound up. The Trustee is required by law to consider this scenario and share this information with members – it doesn't mean anyone is planning to wind up the Scheme.

If the Scheme had wound up on 31 December 2019, the actuary estimated that the Trustee would have had to pay an insurance company £1,718m to provide all the benefits in full. This would have left the Scheme with a shortfall of around £651m (2016: £824m). This is a secure but expensive way of providing benefits, as insurance companies are very risk averse and also need to make a profit. In the unlikely event that the Scheme was wound up, the Company would have to pay the Scheme whatever is needed to enable the Trustee to buy these policies for members. If the Company becomes insolvent, the Pension Protection Fund (PPF) might be able to step in and pay some compensation to members. More details about the PPF and the level of benefits it provides can be found at **www.ppf.co.uk**

We should also tell you that:

- There have not been any payments to the Company out of Scheme funds since the last funding statement
- The Pensions Regulator has not intervened in the funding of the Scheme or the benefits provided by it.

The formal Summary Funding Statement for 2020 is available on the Scheme website, at **www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/**.

FINANCIAL HIGHLIGHTS

The information on these pages is a summary of the Trustee's Annual Report and Accounts for the year to 31 December 2020. The latest Accounts have been independently audited by Deloitte LLP.

If you want to see the full Report and Accounts, you can download them from our new pensions website at **www.nwgpensions.co.uk** or you can ask Capita for a copy (see the back page).

PAYMENTS IN

	£
Employer contributions*	28,239,707
Member contributions (not paid by salary sacrifice)	3,072,036
Other income	-
TOTAL	£31,311,743

*Includes £14,776,451 shortfall contributions

PAYMENTS OUT

	£
Pensions	39,282,837
Lump sums	4,771,878
Payments to leavers	12,565,687
Tax payments	68,530
Professional fees and expenses	1,854,044
TOTAL	£58,542,976

THE BOTTOM LINE

Value of the money in the Scheme
on 1 January 2020

£1,066,689,168

+

Net change in the market value
of the investments **£121,514,798**

+

Payments in **£31,311,743**

−

Payments out **(£58,542,976)**

=

Value of the money in the Scheme
on 31 December 2020

£1,160,972,733

MEMBERSHIP

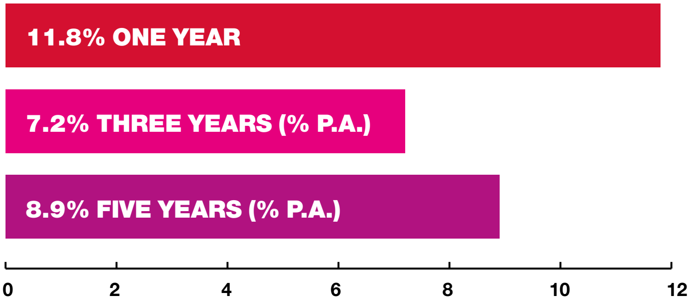
Membership of the Scheme reduced by 109 over the past financial year.

	31 DECEMBER 2020	31 DECEMBER 2019
Active members	1,056	1,133
Deferred members	1,083	1,096
Pensioners	3,172	3,191
TOTAL	5,311	5,420

INVESTMENT UPDATE

The Scheme's investment performance over the one, three and five-year periods to 31 December 2020 is shown below:

INVESTMENT PERFORMANCE



RESPONSIBLE INVESTMENT

You may have heard about 'responsible investment' and 'ESG'. ESG stands for 'environmental, social and governance' and is simply a term for investing in a way that considers how the environmental, social and governance considerations may affect an investment's performance or its impact on society.

The Trustee believes that the way a company manages its environmental and social risks, such as its approach to climate change or how it treats its workers, can affect the long-term financial returns that it will make for its investors. As such, the Trustee is currently developing its responsible investment policy as part of an overall investment strategy review, looking at regulations and developments within the pensions environment and the Company's goals in this area.

The Trustee already takes account of ESG factors in the following ways:

- As part of its review process, the Trustee considers the voting carried out on the Scheme's behalf by our investment managers
- The Scheme has an allocation to long-term investments that have very clear ESG benefits, including renewable energy, schools, homes for vulnerable people, and hospital beds
- When considering the ongoing suitability of existing investment managers or the selection of new investment managers and the Scheme's investment consultants.

The Trustee has been talking with the Company to understand its views and initiatives in this area, particularly environmental. It is an issue that the Trustee will continue to develop.

The Scheme's investment strategy is set in a document called the Statement of Investment Principles (SIP), which can be viewed on the NWG pensions website. The Trustee also has to produce an annual Implementation Statement which describes how the policies set out in the SIP have been implemented. This is included in the Trustee's Annual Report and Accounts for the year ended 31 December 2020, available on the pensions website.

SCHEME NOTICEBOARD

UPDATED COMPLAINTS PROCEDURE

We hope you never have to make a complaint about the Scheme, but if you do please contact the HR Pensions Team to request a copy of the Internal Dispute Resolution Procedure (IDRP). This is the official name of our complaints procedure, which was recently reviewed and updated by the Trustee.

The IDRP is a one-step process, in which you can set out in writing the nature of your complaint. A decision about your complaint will normally be made by the full Trustee Board, although it may, at its discretion, form a sub-committee to consider the complaint. You should be sent a decision under the IDRP within two months of receipt of your complaint. If a reply is not possible within that timescale, you'll be told why and when to expect a full reply. If your complaint is rejected, you will be advised that you have the right to appeal to the Pensions Ombudsman.

GETTING OUR DATA IN ORDER

It's hugely important that pension schemes keep accurate data about members and their benefits, because having incorrect data could mean that members don't get everything they're entitled to.

Last year the Trustee appointed a data specialist called ITM to review the data held by Capita and provide an independent view of the current quality of our data. They identified a few areas where we could improve our data, and these have been passed to Capita to implement. This will be especially important when the pensions dashboard project goes live, as the Government will expect pension schemes like ours to have clean data that can then be 'plugged into' the system so that members like you can access all your pension information in one place online.

PENSIONS NEWS

INFLATION REFORM AND FUTURE PENSION INCREASES

The Government has announced changes to the calculation of the Retail Prices Index (RPI). RPI is used by some pension schemes as the inflation measure to work out annual pension increases. From 2030, RPI will be aligned with the Consumer Prices Index that includes owner-occupiers' housing costs, known as CPIH. The way the two indices are calculated has meant RPI has been on average around 0.75% higher than CPIH over the past 10 years, although the actual difference varies year on year.

Depending on which membership section you are in, your future pension increases may be affected by this change.

FIND YOUR OLD PENSIONS BEFORE THEY'RE GIVEN AWAY

A new Bill to expand the Dormant Assets Scheme to include pensions, insurance and investment assets has been introduced in the House of Lords, the first step in the process of making it law. The Dormant Assets Scheme currently redistributes money from dormant bank and building society accounts to social and environmental initiatives across the UK, in cases where the provider has been unable to contact the owner and the assets have lain unused for 15 years. The proposed expansion serves as a useful reminder to pension savers to track down any old pensions they may have. The Government has a free pension tracing service that helps people find their lost pensions. You can contact them by freephone number 0800 731 0193, or via the website: **www.gov.uk/find-pension-contact-details**

MINIMUM RETIREMENT AGE TO INCREASE

The Government has confirmed that the minimum retirement age (the earliest age at which you can draw your pension unless you are in ill health) is set to increase from age 55 to age 57 in 2028. The minimum retirement age tracks any changes to the State pension age (which is rising to age 67), at 10 years younger. The Trustee will review the Government's proposals once the details are finalised.

HOW MUCH WILL YOU NEED IN RETIREMENT?

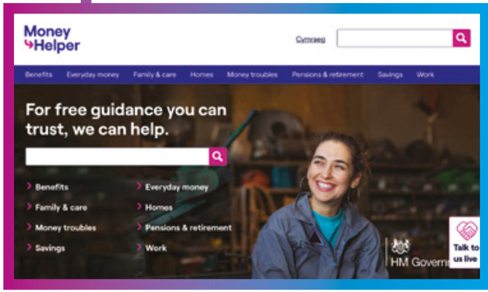
The Pensions and Lifetime Savings Association (PLSA) has launched 'Retirement Living Standards' to help people picture their future retirement and understand what they need to save to achieve that.

The PLSA's research shows that only 23% of people understand how much they need to save. As part of their research, they asked consumers for their views on how much they would need to live on in retirement. This suggested that a single person will need £10,000 each year as a minimum income, £20,000 for a moderate standard of living and £30,000 to be comfortable. For couples, the equivalent numbers are £15,000, £30,000 and £45,000 each year.

The PLSA's website lets you explore the different categories in more detail to picture what life in retirement could look like. Go to: **www.retirementlivingstandards.org.uk**

FROM MAPS TO MONEYHELPER

In 2018, the Government launched the Money and Pensions Service (MaPS), which brought together three financial guidance bodies: the Money Advice Service, the Pensions Advisory Service and Pension Wise. Until recently, these services have continued to appear as separate brands with individual websites, but this has now changed with the rollout of MoneyHelper. Launched in July, MoneyHelper combines all the services above under one name and in one place: **www.moneyhelper.org.uk**



GET IN TOUCH

If you have any general questions about the Scheme or your benefits, or if you would like to request a copy of the formal Scheme Report and Accounts, or the Summary Funding Statement, you can contact the Scheme's administrator, Capita:

Email: nwlpensions@capita.com

Telephone: 0114 289 3022

Write to:
Capita Employee Solutions
PO Box 555
Stead House
Darlington DL1 9YT

It is normally possible to get an illustration of your expected pension benefits at different retirement dates from the Hartlink Online website: **www.hartlinkonline.co.uk/nwps** or, if the online retirement illustrator isn't working, directly from Capita's administration team.

If you have any comments or questions for the Pensions Manager, please contact John Pengelly.

Email: john.pengelly@nwl.co.uk
Write to: Northumbrian Water Limited, Boldon House, Wheatlands Way, Durham DH1 5FA.

This newsletter has been prepared by the Trustee of the Northumbrian Water Pension Scheme. None of the information in it constitutes financial advice or guidance. You should consider seeking your own independent financial advice if you are in any doubt about the benefits and options available to you or your dependants.

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