

PENSION UPDATE

The newsletter for members of the Northumbrian Water Pension Scheme

October 2022



NWG
living water



WELCOME

I'm delighted to introduce this year's newsletter from the Trustee of the Northumbrian Water Pension Scheme. We received a lot of positive comments on the new design, and we hope you'll find this edition just as informative.

The Scheme has now closed to the future accrual of benefits, with effect from 31 May 2022. This means our active members have stopped building up pension in the Scheme and were offered membership of the Company's LifeSight pension scheme. Northumbrian Water employees can get more information about this change from the Pensions Hub on The Source, Northumbrian Water's intranet portal.

As I mentioned in my introduction last year, the Trustee had begun a review into the Scheme's administration as we were aware the service provided to members was falling short. As well as offering a high quality pension administration, accounting and payroll service, we wanted an administrator that could provide online retirement illustrations and transfer

value quotes reliably for members and enable people at retirement to get all the information they need to start their pension and take their lump sum (if required) through an automated process on a user-friendly web portal. After a thorough tender process, we appointed a company called Hymans Robertson to administer the Scheme in future.

Hymans are well-known and respected within the pensions industry and we're expecting them to go live before Christmas. They are going through a rigorous onboarding process, so at present their precise start date is not known. We will send out more details, including the login information for their website, as soon as this process is complete. For now, please refer all your questions and requests regarding the Scheme to the Pensions Manager, whose contact details can be found on the back cover.

Pages 4 and 5 provide the latest funding update, which shows that the Scheme's funding position has improved again, while a summary of the Scheme's key financial transactions over the year is given on pages 6 to 7.

You may well have seen some worrying statements in the press about pension schemes and their investments. Rest assured your Scheme is in a good position – we cover this in more detail on page 9.

Finally, I am pleased to say that the Trustee and its advisers are ready to launch an exciting new at-retirement option for non-pensioner members called the Level Pension Option. The Scheme noticeboard on page 13 gives you a broad overview but watch out for more detailed communications to come.

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, please email the Pensions Manager at Northumbrian Water. His contact details are given on the back cover.

Naomi L'Estrange
Chair of Northumbrian Water Pension Trustees Limited



INSIDE THIS ISSUE

Summary Funding Statement	4
Financial highlights	6
Membership	7
Investment update	8
Pensions news	12
Scheme noticeboard	13
Get in touch	16

SUMMARY FUNDING STATEMENT

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

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 for the Scheme was carried out with an effective date of 31 December 2019. In between the full valuations the actuary also carries out less detailed annual interim valuations of the Scheme's funding position, which provide a snapshot on a particular date. The actuary has carried out interim updates as at 31 December 2020 and 31 December 2021. The next full valuation is scheduled to start later this year. The results of the last three valuations are set out below:

	2021 update	2020 update	2019 valuation
Assets	£1,240m	£1,161m	£1,067m
Liabilities	£1,386m	£1,397m	£1,292m
Shortfall	£146m	£236m	£225m
Funding level	89%	83%	83%

From 31 December 2020 to 31 December 2021, the funding level improved from 83% to 89%. The rise in the asset value was due to strong investment performance and the deficit contributions paid by the Company. The small decrease in liabilities was caused by a rise in gilt yields, which was broadly offset by an increase in inflation expectations. Since 31 December 2021, gilt yields have risen further, which has reduced both assets and liabilities significantly. Transfer values payable from the Scheme have also reduced, in line with the fall in liabilities.

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. This plan includes significantly higher Company contributions than the previous plan, agreed after the 2016 valuation. In the latest plan the Company agreed to pay £20m before 31 March 2022, and from 1 April 2022, it has been paying £23.8m* a year. These contributions are intended to remove the shortfall by 31 August 2027.

The Company also agreed to pay contributions to meet the cost of providing future benefits being built up for members (which ended on 31 May 2022) and continues to pay the Scheme's running costs.

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

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 for an insurance policy to provide all the benefits in full. This would have left the Scheme with a shortfall of around £651m. 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 were to be wound up, the Company would have to pay the Scheme whatever is needed to enable the Trustee to buy the insurance policy for the Scheme. If the Company becomes insolvent (another unlikely event), there is a Government-backed 'lifeboat scheme' called the Pension Protection Fund (PPF) that might be able to step in and pay members' pensions. 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 update
- The Pensions Regulator has not intervened in the funding of the Scheme or the benefits provided by it.

The formal Summary Funding Statement for 2021 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 2021. The latest Accounts have been independently audited by Deloitte LLP.

You can download the full Report and Accounts from the pensions website, www.nwgpensions.co.uk, or ask the Pensions Manager for a copy (see back cover).

PAYMENTS IN

	£
Employer contributions*	32,628,111
Member contributions (not paid by salary sacrifice)	2,902,902
TOTAL	£35,531,013

* Includes £18.1m shortfall contributions and £2m of expense contributions.

The Scheme closed to future accrual on 31 May 2022, which means the 2022 Report and Accounts will only show five months' worth of contributions towards the cost of benefit accrual and thereafter none.



PAYMENTS OUT

	£
Pensions	(33,891,345)
Lump sums	(3,155,108)
Payments to leavers	(9,695,752)
Tax payments	(20,200)
Professional fees and expenses	(1,869,402)
TOTAL	(48,631,807)

THE BOTTOM LINE

Value of the money in the Scheme
on 1 January 2021

£1,160,972,733



Net change in the market value of
the investments **£92,001,085**



Payments in **£35,531,013**



Payments out **£48,631,807**



Value of the money in the Scheme
on 31 December 2021

£1,239,873,024

MEMBERSHIP

31 DECEMBER 2021

Active members



Deferred members



Pensioners



TOTAL 5,213

31 DECEMBER 2020

Active members



Deferred members



Pensioners



TOTAL 5,311

INVESTMENT UPDATE

The Scheme’s investment performance over the past one, three and five-year periods, compared with its benchmark, to 31 December 2021 is shown below:

One year (%)		Three years (% p.a.)		Five years (% p.a.)	
Scheme	Liability benchmark	Scheme	Liability benchmark	Scheme	Liability benchmark
10.6%	0.5%	11.9%	6.6%	7.8%	4.2%



THE WAR IN UKRAINE

The Trustee has monitored the impact of the Russia/Ukraine conflict on the value of Scheme assets. Due to the low level of investments held within these markets, the impact of this on the Scheme was low. The Trustee continues to assess any possible change to the wider economic situation that affect Scheme funding.

CHANCELLOR'S MINI-BUDGET

As has been widely reported in the media, the last week in September saw an adverse reaction in the investment markets to the Government's tax package announced in the Chancellor's mini-Budget on Friday 23 September.

This has led to a continuation of the widespread falls in the value of quoted UK company shares and UK government bonds (gilts), which make up some of the assets in which the Scheme invests. As the price of government bonds decreases, the 'yield' we receive for buying government bonds increases. For technical and regulatory reasons, the estimate of how much the Scheme needs to hold today, in order to be able to pay all pensions in the future, is based on government bond yields. The rise in gilt yields means that the estimate for how much the Scheme needs to hold today to pay pensions in the future has fallen (as it has for most schemes). This also means that the transfer values for any members currently looking to transfer their pension rights from the Scheme have

also decreased in value. This does not impact the value of the pension you would expect to receive if you drew it down normally, and the Scheme's funding position, which compares the value of the assets relative to liabilities, remains on track.

You may also have heard in the media that the falls in gilt prices have had an adverse effect on pension schemes that invest in 'liability driven investments' (LDI), to provide protection against their inflation and interest rate risks. The NWPS does invest in LDI, but had high levels of liquidity to support the programme and has therefore not suffered the challenges of some schemes reported in the media. The Trustee, alongside its investment consultant, is closely monitoring the position, to ensure the Scheme's assets continue to remain as robust as possible throughout this period of market uncertainty.



INVESTMENT UPDATE CONTINUED



INVESTMENT STRATEGY

The Scheme's investment strategy is set out 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 2021, also available on the pensions website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MATTERS

The Trustee of the Northumbrian Water Pension Scheme is increasingly focused on its approach to integrating sustainability into its investment decisions and the Environmental, Social and Governance (ESG) factors associated with those decisions.

The Trustee believes that ESG factors have the potential to impact financial outcomes for members (both in terms of the returns generated but also the risks carried) and, as a result, includes ESG matters as part of its workplan. In particular, the Trustee monitors its investment managers through annual sustainable investing reviews whereby it considers what they

are doing in this area and if there have been any changes in their policies or practices with respect to ESG.

The Trustee, through its investment consultant, also receives training on sustainability-related regulations and has developed a set of Sustainable Investment (SI) beliefs that provide a framework for decision-making on ESG issues. The Trustee documents its policies with respect to ESG and engages with the Scheme's asset managers within the Scheme's latest Implementation Statement which can be found within the Trustee's 2021 Annual Report on the pensions website.

The Trustee has chosen a varied approach to reflecting sustainability issues within the Scheme's assets, ranging from the engagement and monitoring of its investment managers to investing in assets that have a clear impact. One investment where the Trustee looks to explicitly reflect ESG is through its investment in Secure Income Assets (SIAs) – these are investments in physical assets that have strong sustainability credentials, as well as providing the Scheme with contractual cashflows to pay member benefits. Through this allocation the Scheme invests in a range of opportunities, including renewable energy farms and social housing projects. To put into context the impact the Scheme's

investment is having, some of the projects the Scheme has helped fund over 2021 are summarised below:

- Housed 8,200 vulnerable people in specialist accommodation
- Provided 157,000 students with places at state-of-the-art schools
- Saved 2,500 Olympic-sized pools worth of water
- Provided 9,000 high quality hospital beds
- Avoided 2.6 million tonnes of CO2 emissions by investing in renewables.

Source: WTW, December 2021

Recently, much of the Trustee's focus has been on monitoring climate risk with the aim of reporting on its climate risks (including how much carbon emissions the Scheme's investments are generating) in 2023. The Trustee will monitor multiple climate-related metrics and will set a target to improve at least one of them as part of its regulatory requirements, with an aim of improving disclosure and reducing carbon emissions over time.

PENSIONS NEWS

STRONGER NUDGE RULES

The Government has finalised rules for a stronger nudge to guidance, and these came into force from 1 June 2022. In general, this means that if anyone wants to either transfer or receive their Additional Voluntary Contribution (AVC) benefits in the LifeSight scheme, the administrator will first need to signpost them to a Pension Wise guidance session so they can get impartial advice. AVC members won't be able to proceed with their application until the guidance has been taken or the member has opted out of the session.

LIFETIME ALLOWANCE

The Lifetime Allowance (LTA) is the maximum amount (or value for DB schemes) of pension savings you can have at retirement from all pension schemes without incurring an additional tax charge. The LTA remains frozen at £1,073,100 and is likely to remain at this level until April 2026.

BEWARE OF PENSION SCAMS

These days, more people may be tempted to access their retirement savings to help pay the bills – making them an ideal target for pension scammers.

If you are considering transferring your Scheme benefits to an alternative pension arrangement, the Trustee strongly

recommends that you seek independent financial advice and exercise extreme caution. Members of the Scheme who are ready to access their benefits at retirement can get such advice from Wren Sterling. Details of how members can get this advice are provided by the Scheme administrator in their retirement pack.

Make sure you're familiar with the common warning signs of a pension scam:

1. Cold calls – be wary of cold calls and any contact 'out of the blue' as these are nearly always scams. These types of calls have now been banned, so if you do get one, hang up and don't reply to emails or texts
2. Promises of 'high' or 'guaranteed' returns – these often include exotic-sounding investments such as hotels or overseas ventures
3. Offers of 'free pension reviews'
4. Claims that you can access your pension before age 55
5. Pressure to act quickly.

The Financial Conduct Authority (FCA) website has tips on how to avoid a pension scam (www.fca.org.uk/scamsmart) as well as information on important points to consider when obtaining financial advice: www.fca.org.uk/consumers/pension-transfer/advice-what-expect

SCHEME NOTICEBOARD

APPOINTMENT OF NEW ADMINISTRATOR

The Trustee has a duty to act in the best interests of all the Scheme's members and must ensure your benefits are administered efficiently and in line with legislation. We regularly review the service providers who help run the Scheme.

After a recent review, we decided to appoint Hymans Robertson to provide the Scheme's pension administration service. Later this year, the administration of the Scheme will move from the current administrators, Capita, to Hymans.

The change in administrator won't change your benefits in the Scheme or any choices you've made about your pension. If you're a pensioner, you will continue to receive your monthly payments in the same way.

For now, please continue to contact Capita with any queries about your Scheme pension.

Hymans will write to you shortly before they take on the Scheme administration, to share their contact details and explain what happens next. They will also tell you about their member self-service portal, called Prism, which will replace Capita's Hartlink site.

Once the Scheme's member data has transferred to Hymans, you will be able to contact them with any questions you have about your pension or requests for retirement or transfer quotations.

The pensions website (www.nwgpensions.co.uk) will also be updated with the new administrator's contact details.



SCHEME NOTICEBOARD CONTINUED

A NEW RETIREMENT OPTION FOR DEFERRED MEMBERS

The Trustee is introducing a new retirement option for deferred members called the Level Pension Option (LPO).

People who wish to retire before their State pension age may wish to fill the gap in income between when their Scheme pension starts and when they can claim their State pension. The Level Pension Option gives the opportunity to take a higher Scheme pension from the date of retirement up until the date when the State pension is payable. When the State pension comes into payment, the Scheme pension drops back down – so the overall effect is that members have a smoother total pension income during retirement.

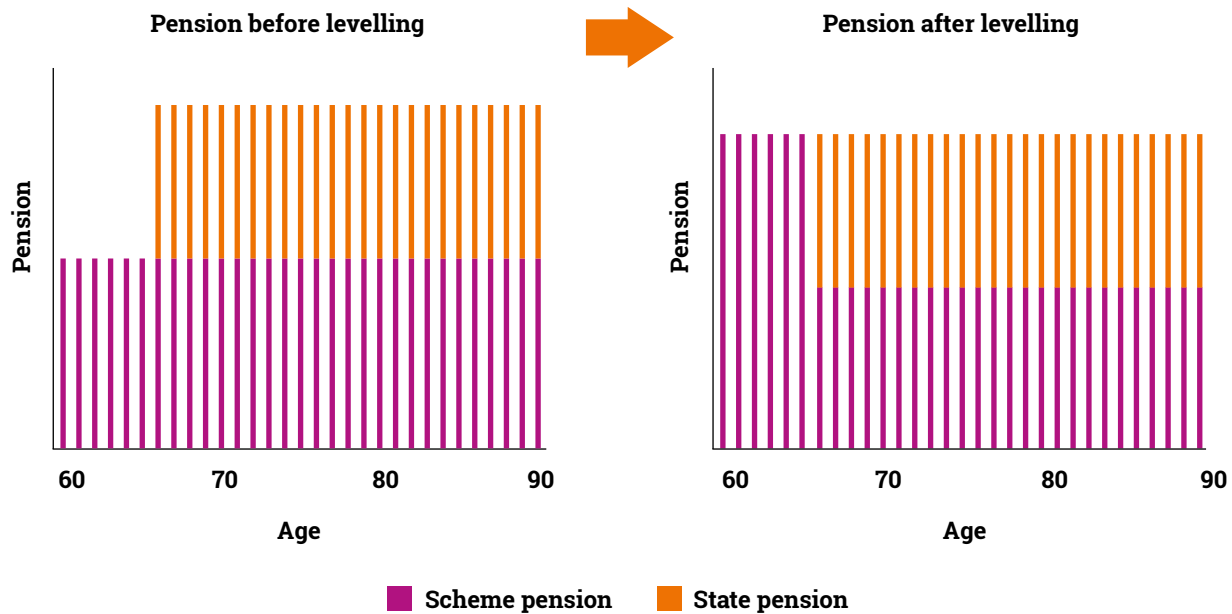
If you are eligible for this option, you will receive full details in the run-up to your retirement.

You will automatically receive a retirement pack as you approach your Normal Retirement Age (65 for most members). If you want a pack before 1 December, then please contact the outgoing Scheme administrator, Capita. From 1 December, please contact the new Scheme administrator, Hymans Robertson, who will be writing to all members of the NWPS to provide contact details and information about how to register for their website.

You can check your State pension online at: **www.gov.uk/check-state-pension**. This website will also tell you when you can start to claim your State pension.



The graphic shows how your Scheme pension increases at first under the Level Pension Option but then drops back down when you reach State pension age, to leave your total income more or less stable throughout your retirement. The size of the reduction will depend on your age when you retire, the pension increases that apply to your pension, and wider financial conditions and life-expectancy assumptions.



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 Company's Pensions Manager, John Pengelly:

Email: yourpension@nwl.co.uk

Tel: 07894 330501

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