

PENSION UPDATE

The newsletter for members of the Northumbrian Water Pension Scheme

January 2024

NWG
living water





WELCOME

Welcome to the winter 2023 issue of *Pension update*, the member newsletter from the Trustee of the Northumbrian Water Pension Scheme (the Scheme). We hope this newsletter helps you find out what's going on in the Scheme and the wider world of pensions.

We have had a very busy year in 2023, having changed the Scheme administrator, significantly restructured the Scheme's assets and changed the company responsible for providing independent financial advice to members at retirement.

We also had the small matter of a three-yearly funding valuation to complete – you'll see a funding statement on pages 4 to 7. This tells you how the value of the benefits to be paid to members (the liabilities) compares with the value of Scheme assets. We're pleased the latest funding valuation shows a significant reduction in the shortfall – the difference between the Scheme's assets and its liabilities – of £43 million over the period since 31 December 2019.

At the same time, importantly, we've significantly strengthened our 'funding target', i.e., the amount of money being held to secure all of the benefits payable by the Scheme in future.

As we mentioned in our spring newsletter, we have appointed an outsourced chief investment officer (OCIO) to manage the Scheme's investments. You'll see an update from Cardano on page 11 about how the transition from our previous investment managers, which is very complex, is progressing and what their new investment objectives are.

We also mentioned the Scheme administrator, Hymans Robertson, had written to all members with details of their user-friendly web portal, PRISM, that gives you online access to a variety of pension services. There's a reminder of what you can do on PRISM and news of some improvements to the system on page 14.

Over the past few months, data and identity theft have been much in the news, with large organisations (including

pension funds) being targeted by cyber criminals. We have the security of your data under constant review, but we urge you to be vigilant, too. This is in addition to our continuing warning about pension scams (see page 13).

We've included a piece on the independent financial advice services Origen can provide to members as they come up to retirement. This is just one aspect of how we help you get more support when you need it. We have recently worked on a new communication strategy, which we'll tell you more about in our next newsletter.

If there is a particular topic you'd like to see us cover in a future update, or if you have any questions or queries, please get in touch using the contact details on the back page.

Naomi L'Estrange

Chair of Northumbrian Water Pension Trustees Ltd

INSIDE THIS ISSUE

Summary Funding Statement	page 4
Membership	page 8
Financial highlights	page 9
Investment update	page 10
Pensions news	page 13
Scheme noticeboard	page 14
For deferred members	page 15
For pensioners	page 18
Get in touch	page 20

SUMMARY FUNDING STATEMENT

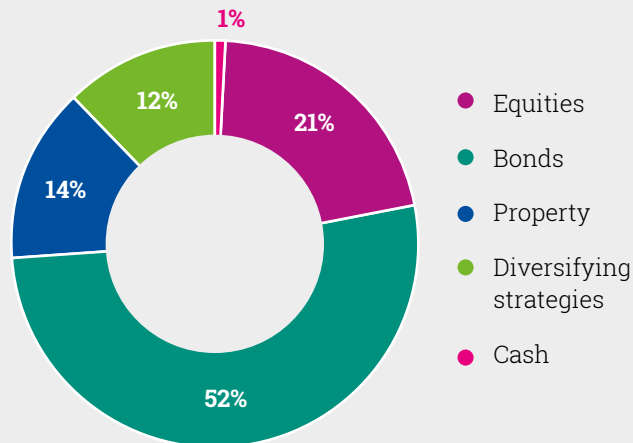
The Trustee is responsible for monitoring the Scheme's financial health and updating you each year. We hope that this statement will give you an understanding of how the Scheme is funded.

HOW DOES THE SCHEME WORK?

The Scheme provides what is known as a defined benefit pension – that is, a pension that is calculated based on your salary and your length of service. The Company and the members previously paid contributions to the Scheme, until the Scheme was closed to active members on 31 May 2022. These contributions are invested in assets which are expected to provide income and to increase in value. The combination of contributions, investment income and growth, which is all held in a common fund, is expected to meet the cost of providing members' benefits.

HOW ARE THE SCHEME'S ASSETS INVESTED?

The assets of the Scheme were invested as shown in the chart below, as at 31 December 2022.



WHAT IS THE SCHEME'S FUNDING TARGET?

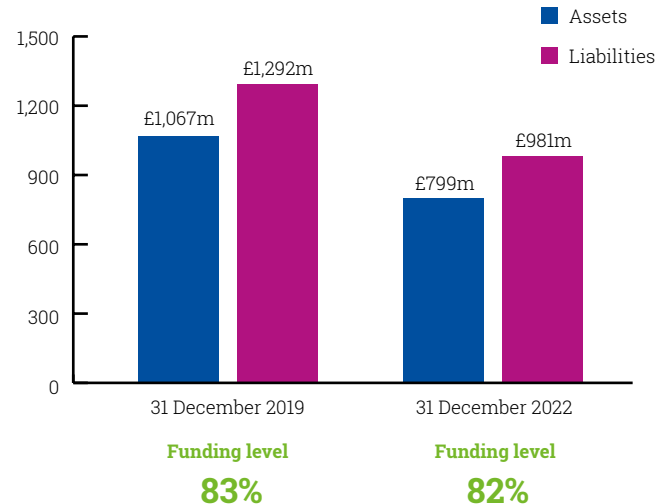
The funding target is to have enough money in the Scheme to pay for pensions, now and in the future. Every three years, the Scheme actuary carries out a detailed financial review of the Scheme, known as an actuarial valuation, to assess the extent to which the funding target is being met. This information allows the Trustee and the Company to discuss and agree the amount of contributions the Company will pay into the Scheme.

The most recent actuarial valuation was carried out as at 31 December 2022. As part of this valuation, it was agreed that the Scheme would now target a higher level of funding, but that the period over which this target would be met would be extended. The Company agreeing to target a higher level of funding is good news for the Scheme as it will provide improved security of members' benefits over the longer term.



WHAT IS THE SCHEME'S FUNDING POSITION?

The Scheme's funding position as at 31 December 2022 (i.e., the most recent actuarial valuation) and 31 December 2019 (i.e., the previous actuarial valuation) is shown in the chart below. The funding level is calculated as the assets divided by the liabilities. The shortfall, i.e., the difference between the assets and the liabilities, has reduced from £225m at 31 December 2019 to £182m at 31 December 2022, notwithstanding the move to a higher funding target. Changes in market conditions have led to the liabilities falling by more than the assets, and the contributions that the Company has paid have also reduced the shortfall.



REMOVAL OF THE SHORTFALL

The following plan has been agreed to remove the shortfall and to cover the cost of running expenses:

- contributions of £2.150m per month from 1 January 2023 to 31 March 2023; and
- contributions of £2.425m per month from 1 April 2023 to 31 October 2023.

From 1 November 2023 until 31 October 2038, payments of £0.625m per month, increasing each year in line with inflation, will also be payable. These payments will be made from what is known as an asset-backed funding arrangement. They will be funded via a 15-year loan note that has been issued by the Company to the asset-backed funding arrangement. This was agreed as part of the package of negotiations that included the change to a higher funding target.

Based on the contributions and payments set out above, together with expected asset performance, it is expected that the shortfall will be eliminated by 31 October 2038. While this is a longer period to full funding than before, the funding target is now higher.



WHAT WOULD HAPPEN IF NORTHUMBRIAN WATER DID NOT CONTINUE TO SUPPORT THE SCHEME?

The Company is committed to supporting the Scheme. However, the Trustee is also required to calculate the funding position if the Scheme was wound up.

If the Scheme was wound up, its assets would be used to purchase policies from an insurance company to pay pensions. As at 31 December 2022, the Scheme actuary estimated that it would cost £1,038m to secure all the benefits in this way. As this was more than the value of the Scheme's assets at that time (£799m), there would have been a shortfall of £239m. The reason there is a larger shortfall, compared to the position shown above, is that this cost is an estimate of buying policies from an insurance company and such policies are relatively expensive.

In the unexpected event that the Company were to become insolvent and unable to provide any further funding to the Scheme, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

The PPF aims to provide compensation to members of pension schemes if their employer becomes insolvent and the scheme does not have enough money to pay the benefits promised. The PPF does not provide full cover, but should a scheme get into difficulty, it aims to provide members with the majority of their pension. Further information and guidance is available on the PPF's website at **www.ppf.co.uk**. You can also contact the PPF by email at information@ppf.co.uk or by phone on 0345 600 2541.

PAYMENTS TO THE COMPANY

In accordance with legal requirements, we can also confirm 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 to date.

TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORTING

The Scheme is now subject to climate change governance and reporting requirements. The Trustee has therefore published a TCFD report online for the year ending 31 December 2022. To access this report, which includes more information on our identification, assessment and management of climate change risk, please visit **www.nwgpensions.co.uk/globalassets/pensions-pdfs/climate-related-financial-disclosure-report--year-ended-31-december-2022.pdf**. Hard copies of this report are available on request by writing to Hymans Robertson. Their details are on the back page. You should also contact Hymans Robertson if you need further information about the Scheme or have any questions about your benefits.

FINANCIAL HIGHLIGHTS

Every year, we produce accounts showing how much money has gone into and out of the Scheme. The information provided on this page summarises the key figures from the accounts for the year to 31 December 2022.

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).

MEMBERSHIP

31 DECEMBER 2022

Active members

0



Deferred members

 1,922

Pensioners

 3,170

TOTAL 5,092

Last year's 991 active members became deferred members when the Scheme closed to the future build-up of pension on 31 May 2022.

31 DECEMBER 2021	
Active members	991
Deferred members	1,079
Pensioners	3,143
TOTAL	5,213



PAYMENTS IN

	£'000
Employer contributions	29,865
Member contributions	1,148
Other income	2
TOTAL	31,015

PAYMENTS OUT

	£'000
Pensions	34,722
Lump sums	4,956
Payments to leavers	13,703
Tax payments	132
Professional fees and expenses	2,025
TOTAL	55,538

THE BOTTOM LINE

Value of the money in the Scheme on 1 January 2022 **£1,239.9m**

—

Change in the market value of the investments* **(£421.6m)**

+

Payments in **£31m**

—

Payments out **(£55.5m)**

=

Value of the money in the Scheme on 31 December 2022 **£793.7m**

Note: some of these figures have been rounded so calculations may not add up exactly. Brackets denote a negative figure. The value of the Scheme at 31 December 2022 (£793.7m) differs slightly to that shown on page 4 (£799m). This is due to a c£5m reserve for additional liabilities which is deducted from the assets in the accounts, whereas the actuarial valuation on page 5 has this amount included within the total liabilities of £981m.

* The change in the market value of the investments is more than offset by the material reduction in the value that is placed on our liabilities (see page 10).

INVESTMENT UPDATE

The table below shows the Scheme’s investment performance over one, three and five-year periods to 31 December 2022 compared with its benchmark.

One year (%)		Three years (% p.a.)		Five years (% p.a.)	
Scheme	Benchmark	Scheme	Benchmark	Scheme	Benchmark
(36%)	(34.6%)	(8.1%)	(9.8%)	(3.1%)	(4.5%)

In common with most other UK pension schemes, the value of our investments fell significantly in 2022. This was due to the unprecedented rise in UK interest rates, which significantly reduced the value of our bond and gilt holdings. However, when considering the financial health of the Scheme and the security of members’ pensions, it is important to also look at how the liabilities change in value. Over the course of 2022, the rise in interest rates also led to a material reduction in the value that is placed on our liabilities – in fact, this value fell by more than our assets. This is highlighted by the results of the actuarial valuation that are summarised on page 5. It can be seen that both the assets and the liabilities are much lower at 31 December 2022 than they were at the previous valuation.



APPOINTMENT OF CARDANO

During 2023, Cardano Risk Management was appointed as the Scheme's outsourced chief investment officer (OCIO). In this capacity, Cardano will work closely with the Trustee's Funding and Investment Sub-Committee (FISC) and Willis Towers Watson to design and implement the Scheme's strategic asset allocation, investment portfolio and risk management in line with the Scheme's return target and journey plan.

During the second half of 2023, the Scheme's assets were transitioned to a newly agreed strategic asset allocation and investments recommended by Cardano.

That strategic asset allocation targets a return of 1.5% above UK government bonds over the long term. The investments are managed by Cardano and specialist managers across a wide range of assets and strategies, including:



Equity: shares expected to produce returns from economic growth and successful corporate strategy and management



Investment grade corporate bonds: high quality debt expected to produce income and predictable cashflows to help fund members' benefits as they fall due



Alternative credit: debt expected to produce returns and income



Active managers: specialist managers expected to produce returns using their skill in security selection or asset allocation



Secure income: less liquid investments expected to produce income and returns that keep up with inflation over a long period.

The portfolio also incorporates strategies expected to protect the value of the Scheme's assets and funding level. These include a bespoke Gilt-based liability driven investment (LDI) strategy intended to move in line with the value of the Scheme's liabilities.

Sustainability is incorporated throughout the portfolio. For example, the equity and investment grade corporate bond portfolios take account of companies' sustainability objectives, including fossil fuel use, water use, land use, organisational behaviour and integrity without compromising on expected returns. Cardano also votes in shareholder resolutions and engages with company management.



INVESTMENT STRATEGY

We're responsible for setting the investment strategy for the Scheme, which we do after taking advice from our investment adviser. The investment policy is formally set out in a document called the Statement of Investment Principles (SIP), which can be viewed on the NWG pensions website:

www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents

We also have to produce an annual Implementation Statement which describes how the policies set out in the SIP have been implemented. This is included in the annual Report and Accounts for the year ended 31 December 2022, also available on the pensions website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MATTERS

Accountability for ESG factors within the Scheme's investments is delegated to the Scheme's investment managers. In September 2022, we undertook a sustainable investment review to monitor whether the Scheme's managers are appropriately accounting for ESG risks and opportunities. Following this review, it was deemed no immediate action was required. We will continue to monitor the portfolio's investments with respect to ESG concerns.

Climate report

As a long-term investor, making sure the Scheme's assets are invested responsibly and sustainably is important to us. We want to invest in order to pay benefits in a way that takes into account broader social and environmental concerns. So, we've now published our first climate change risk assessment report, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). You can view the report at **www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents**

PENSIONS NEWS

PENSIONS DASHBOARD FACES DELAYS

The pensions dashboard aims to provide a single point of reference for members to view information about all their pension savings, as well as potentially offer a way of reuniting people with their lost pension pots. Despite hopes the pensions dashboard would be launched this year, the government has pushed the timetable back until 2026. This is to give the industry more time to resolve issues and develop more guidance for pension providers.

PROTECT YOURSELF – PENSION AND CYBER SCAM AWARENESS

With pension scams and cybercrime on the rise, we want to ensure you stay protected against fraudsters.

Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing. They design attractive offers to persuade you to hand over your personal details or even transfer your pension to them. Once in possession of your pension, it is then invested in unusual and high-risk investments, like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

Pension scam tactics include:

- contact out of the blue
- promises of high or guaranteed returns
- free pension reviews
- access to your pension before age 55
- pressure to act quickly.

To protect yourself even further, particularly from scammers who might approach you online, it's important you:

- use strong passwords for all your online accounts
- do not share your password with anyone
- install the latest security updates to your website browser and personal computing devices
- check links look correct before you click on them
- be suspicious of anyone who asks for your bank account or credit card details.

You can find more about pension scams and how to avoid them at **www.fca.org.uk/scamsmart**. If you think you've been a victim of fraud, report it to Action Fraud on 0300 123 2040.

SCHEME NOTICEBOARD







PRISM – YOUR PENSION ON DEMAND

Remember, you can now register to access information about your benefits online through our administrator's member portal, known as PRISM. It is operated by Hymans Robertson.

To register, visit **www.nwgpensionscheme.co.uk**

Once registered, you'll be able to amend your personal details and have access to current information about your pension.

At any time, you can:

-  view and update your personal information
-  tell us how you prefer us to contact you
-  update your address
-  get an idea of how much pension you're on track to receive
-  request a transfer value quotation
-  view and print your payslips and P60 (if you're receiving your Scheme pension).



Recent improvements include an update to enable people who have previously transferred benefits into the Scheme to view their transfer value. Hymans is planning to introduce a 'Retire Online' function so that deferred members who want to take their retirement benefits will be able to do so online.

FOR DEFERRED MEMBERS

PAID-FOR RETIREMENT ADVICE SERVICE

As you approach retirement and need to consider the many valuable options provided by the Scheme, it can be difficult to decide which one would be best for your personal circumstances:



What level of income do you need?



Should you maximise your tax-free cash?



Is there a better option for you outside the Scheme?

These important decisions can only be made once and cannot be reversed. It's therefore imperative you make the choices that are right for you.

To help you, we've appointed Origen Financial Services (Origen), who are authorised and regulated by the Financial Conduct Authority, to provide you with financial advice.

Origen's experienced advisers have been fully trained on the benefits that are available from the Northumbrian Water Pension Scheme.

We will pay for you to receive one full round of advice from Origen. You may choose to use the services of another adviser, but please note we won't pay for this and also the adviser you choose won't be trained on the specific details of our Scheme.

If you get in touch with Origen, their advisers will ask you a lot of questions about your objectives for the future and look at things like your income needs, tax position, outgoings, health and other pensions you may have. If you're married or in a long-term partnership, Origen will encourage you to involve your spouse or partner in these discussions, too.

You will then be provided with a personal recommendation report.

This will set out how, in the adviser's view, you should take your pension income to meet your short, medium and long-term financial objectives. The recommendation will include details of how much regular income and tax-free cash you should take. Origen will also help you to complete the necessary forms to put your plan into action.

While many of our members may think they know what they plan to do with their NWPS benefits, the paid-for advice from Origen gives you the opportunity to make sure that your choices are really the right ones for you.

Contact Origen

Email:

NWPS@Origenfs.co.uk

Tel:

0800 107 4437



Watch our transfer video

We'll soon make a
video available on
www.nwgpensions.co.uk
that will explain how
transfer values
are calculated.

TRANSFERRING YOUR PENSION OUT OF THE SCHEME

You can, if you wish, transfer your NWG pension to another registered pension scheme, provided certain statutory conditions are met. A transfer value is the value (or 'cash equivalent') of the benefits you're entitled to receive when you leave the Scheme. You'll often see it referred to as a 'cash equivalent transfer value' or CETV.

You might be considering transferring your pension so you can access more flexible pension options. It's important to understand transfer values tend to fall as interest rates rise, so the recent rise in interest rates from the previous low levels since 2022 has led to substantial falls in transfer values.

Working out your CETV is a complex process that involves many factors. We take advice from the Scheme actuary to calculate the transfer amount, and this figure will vary from time to time because of changes in market conditions.

You can request a transfer value once every 12 months, and the figure you're offered will stay the same over this period. If your pension is valued at over £30,000, you must seek financial advice from Origen or another regulated independent financial adviser (IFA) before the transfer can go ahead.

HELP AND SUPPORT

If you're ready to access your benefits at retirement, you can get advice from Origen. Details of how you can get this advice are provided by the Scheme administrator in your retirement pack. If you're considering transferring out of the Scheme, you can get an indicative transfer quotation through PRISM or otherwise contact Hymans Robertson for a guaranteed quote.

Alternatively, you can access free support through MoneyHelper, which is the government's financial information and guidance service. It's the easy way to get free, trusted help for your money and pension choices. MoneyHelper is available online and over the phone. It provides clear money and pensions guidance as well as pointers to trusted services if you need more support. Go to **www.moneyhelper.org.uk**

MEMBER GUIDES

Last year we updated our Scheme guides following the closure of the Scheme. Members can no longer build up a pension with the NWG Pension Scheme, but they still hold benefits with us as deferred members. Our new interactive guides are designed to explain all aspects of your deferred pension, including your options at retirement, what to do if you're thinking of transferring your benefits, what happens to your pension when you die and much more.

You can find these guides in the 'Documents' section of the Scheme website, **www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents**



Scan me!



FOR PENSIONERS

NORTHUMBRIAN WATER GROUP PENSIONERS' ASSOCIATION

The Northumbrian Water Group Pensioners' Association is open to all past employees of Northumbrian Water Group in the North of England.

The Association provides a social calendar of activities and events to generally further the interests and well-being of members and their spouses or partners.

The Association offers a great opportunity for members to make new friends and catch up with old colleagues. As the Association covers such a huge area, it's split into two social divisions: 'Tyne' and 'Wear and Tees'. During the year, various subsidised events are organised within each division, including day trips, lunches and walks. There is also a Christmas lunch and the AGM, attended by both divisions.

It costs just £7 a year to join. If you'd like to know more or want to join, please email the membership secretary, Hilary Nelson, at: hilarynelson35@aol.co.uk





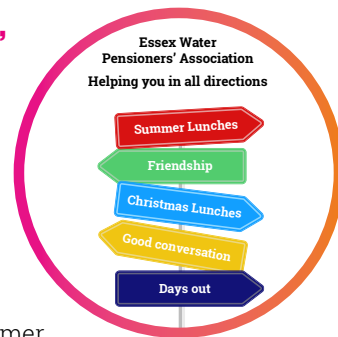
JOIN US NOW!

ESSEX WATER PENSIONERS' ASSOCIATION

The Essex Water Pensioners' Association exists for those employees who previously worked in the Essex area of NWL.

The Association provides subsidised events, including outings to places of interest, a summer lunch and a Christmas lunch. The Association is always looking out for new members, and they'd love to hear from you.

Membership is only £3 a year, deducted by Hymans Robertson from your pension at the rate of 25p per month. Our membership secretary, Steve Bardrick, can be contacted via email: steve.bardrick@outlook.com. Steve will send out the application to those interested in joining or help with any questions you might have.




GET IN TOUCH


If you have any general questions about the Scheme or your benefits, or if you'd like to request a copy of the formal Scheme Report and Accounts or Summary Funding Statement, you can contact the Company's Pensions Manager, John Pengelly:

 Email: yourpension@nwl.co.uk

HYMANS ROBERTSON

 Email: nwps@hymans.co.uk

 Telephone: 0141 227 9800

 Write to:
Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

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.