Magnox
Electric Group
Trustees
Electricity Supply Pension Scheme

NNL Section
Autumn 2017

Pensions Update

For members of the Magnox Group of the Electricity Supply Pension Scheme (ESPS)

CHAIRMAN'S INTRODUCTION

As we reported in the last edition of our Pensions Update newsletter, the trustees were preparing to complete the actuarial valuation of the scheme. This is a formal process which must be completed periodically to monitor our ability to meet the benefits payable from the scheme. I am very pleased to report that this has now been completed, in consultation with NNL.

In common with many other company pension schemes, we have calculated that the scheme does not currently have sufficient funds available to meet all of the benefits payable. The scheme remains well funded compared to many other pension schemes the scheme and we have agreed a funding plan with NNL to restore the scheme to a fully funded position by March 2021; the trustees are pleased with this outcome. Details of the results of the actuarial valuation are shown on page 2.

In addition to completing the actuarial valuation, the trustees also spent a significant amount of time during the year on training, with particular focus on the ever changing world of investments. We also spent time looking at how we operate as a trustee board to help us work as effectively as possible going forward. As communicated in an earlier news update, after very careful consideration and in common with many pension schemes, we decided that future appointments would be made by a selection panel rather than an election process.

Martin Grafton who joined the trustee board in 2014 stood down as a trustee at 31st March 2017 following his decision to retire from employment. I would like to thank Martin for his service and the wisdom he brought to the trustee board and wish him well for the future. Martin has been replaced by Martin Veasey who is a professional independent trustee with a particular interest in investment matters. Martin is a welcome addition to the trustee board and we are all looking forward to working with him.

Susan Jee
Chairman of Trustees

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NNL SECTION ACTUARIAL VALUATION

At least once every three years the trustee is required to obtain an actuarial valuation of the scheme. An actuarial valuation is a series of calculations, which must be performed by a professionally qualified actuary, to establish the financial position of the scheme. It is a means to monitor that the scheme will have enough money to pay the benefits to which it is committed, including those for members who have left with a right to a deferred pension and those who have already retired.

The calculations are completed using certain assumptions, such as how long pensioners will live after retirement, what return will be achieved on the scheme's investments and how employees' benefits earned to date will be affected by salary increases. The trustee must consider these factors and, with the actuary, agree a range of suitable assumptions with the employer. The actuary then places an assumed value on the liabilities of the scheme, which are referred to as the technical provisions. He then compares this value against the value of the scheme's assets (investments). If the value of the scheme's assets is greater than the technical provisions then the scheme is said to be in surplus. If the reverse applies then it is said to be in deficit. It is important to realise however that the valuation calculations are simply a snapshot of the position at a fixed point in time. The true position will depend on how closely the trustee's assumptions are borne out in practice over the life of the pension scheme and will fluctuate over time.

The previous valuation of the section was completed at 31st March 2013 and at that time it was established that there was a deficit in the section of £1.0M. Following discussions with the employer, it was agreed that the deficit would be repaired by additional employer contributions of £200,000 per annum payable by each 1 April, from 1 April 2014 to 1 April 2019 inclusive. It was also agreed that the Company would increase its ongoing contribution towards the cost of benefits earned to 35.2% of pensionable salaries from 1 April 2014.

A further valuation of the section was due at 31st March 2016 and this has now been completed. The trustee was required to review the assumptions used for the calculations and, after consultation with the employer, decided that most of the assumptions used at the 2013 valuation should be retained but that some minor changes should be made. The assumptions relating to life expectancy were adjusted, but only to take account of the latest available research. In setting the valuation assumptions, the trustee was also required to consider the strength of the employer's covenant – this was considered to be strong as the Company is backed by the UK Government. After allowing for changes to the assumptions and changes in the market value of the section's investments a funding deficit of £800,000 was declared. Following discussions, it was agreed that the Company will repair the deficit by making additional contributions of £200,000 by each 31 March, from 31 March 2017 to 31 March 2020 inclusive followed by a payment of £80,000 by 31 March 2021. The actuarial valuation calculations also established that the employer's contribution to the section to meet the cost of benefits earned after the valuation date should increase. The Company agreed to pay the increased contribution rate of 44.9% of pensionable salaries from 1 April 2017.

The valuation at 31st March 2016 revealed a slight improvement in the funding position, due in particular to better than expected investment returns and the deficit contributions paid, although these had been offset by changes in market conditions which increased the value of the liabilities (cost of benefits)

Transfer Values

During the year we have seen a significant increase in the number of members requesting transfer value quotations. It is important to recognise that transfers are only payable in respect of members who have left the scheme and they are not payable where members are already receiving pension.

We are concerned to make sure that any member who is considering a transfer understands the implications of their decision and has received appropriate financial advice. In fact, there are now legal safeguards in place to help protect your pension benefits. If you are considering transferring to a defined contribution arrangement and your transfer value is more than £30,000 you will be required to get advice from a regulated adviser. You will have to pay for the advice and provide documentary evidence to the trustees that you have received advice.

We have included articles in previous newsletters about the existence of scams which defraud members of their pension benefits. These scam products still exist and we would encourage you to look at the Pension Advisory Service's website at **www.pensionsadvisoryservice.org.uk** to help understand the risks.

ANNUAL MEETINGS

Magnox Electric Group Trustee

The Magnox Group Annual Meeting will take place on Thursday 23rd November 2017 at Hamfields Leisure, Berkeley, commencing at 1.30 p.m.

This meeting provides the opportunity for members of all sections to meet with the Trustee Board and its advisers and ask questions. If you can't attend the meeting but would like to ask a question, please email it to **info@megtpensions.com** or call **01453 814881** and **select option 3**.

Electricity Supply Pension Scheme

The Scheme's Annual Meeting will take place on Wednesday 29 November 2017 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF starting at 1pm.

The purpose of this meeting is to receive the Scheme Annual Report and Financial Statements and the Auditors' Report, receive the report of the Scheme Trustee, and conduct any general business, including the consideration of any resolutions proposed by members.

Details of the agenda, resolutions and notices may be obtained from mid-November by contacting a member of Magnox group pensions the website at **www.megtpensions.com**

Annual Report And Accounts

Each year the trustee is required to produce a set of audited accounts which feature as part of an annual report. This is a formal and very detailed document which is available to any member of the scheme on request, or can be viewed on the pensions website at the following address **http://megtpensions.com/finance-reports/report/**

We have included a summary of the accounts for the year ending 31st March 2017 below:

Value of net assets at the start of the year	**£8.4M**	
Plus total contributions/ incoming payments during the year	£0.3M	
Less total benefits paid out during the year		£0.1M
Total	**£8.6M**	
Plus net return on investments	£1.4M	
Closing value of assets at 31st March 2017	**£10.0M**	

The above values include Additional Voluntary Contributions paid by members.

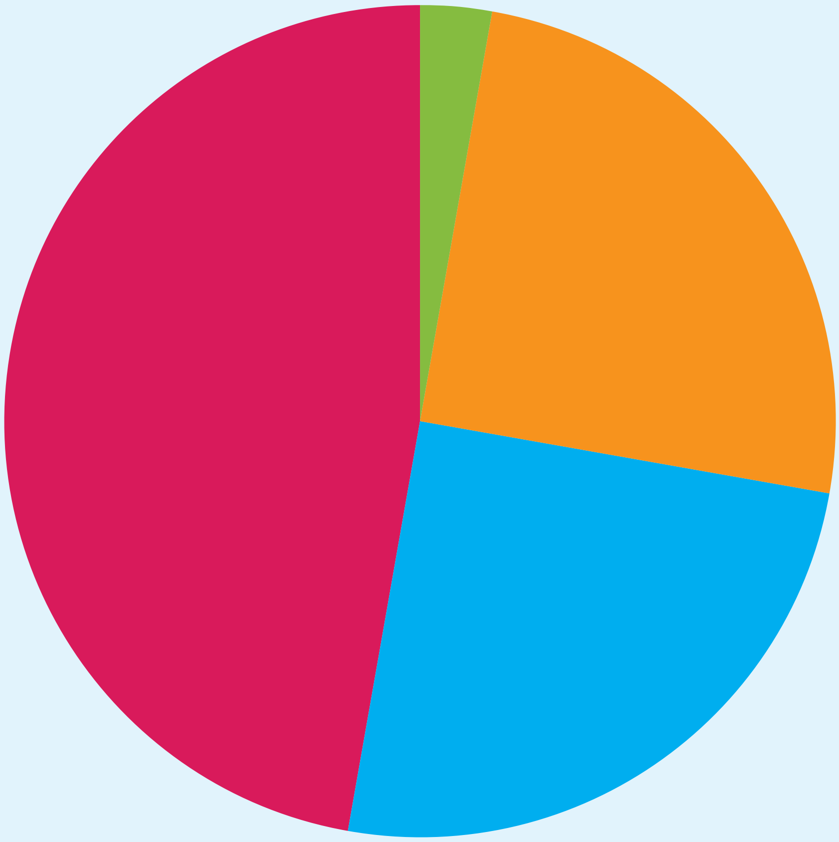
Investments

A summary of the investments is set out below:

NNL Section as at 31/3/2017

Percentage of Fund

BONDS	**47%**
MULTI-ASSET	**25%**
EQUITIES	**25%**
CASH	**3%**



NNL SECTION OF THE MAGNOX ELECTRIC GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME 2017 SUMMARY FUNDING STATEMENT

In order to comply with a legal requirement (Pensions Act 2004), the Trustee, who looks after the section, is required to provide you with an annual update on the section's funding position.

How The Scheme Operates

The section is a final salary scheme, or defined benefit scheme, which means that each member's retirement benefits are determined broadly by the amount of their pensionable salary and length of service as a member of the Group when they retire or leave. Contributions which are paid into the section are paid into one common fund which is used to pay for all members benefits. They are not paid into individual accounts which are earmarked to each member.

The trustee obtains regular valuations from an actuary. These calculations place a value on the benefits which the section is obliged to pay, which is then used to agree the rate of contribution needed with the employer.

Actuarial Valuation

An actuarial valuation of the scheme was completed as at 31st March 2016. The results of this valuation showed that (assuming that the section continues into the future) on that date, the funding position was as follows:

Assets of the NNL Section	£8.3M
Technical provisions (Amount needed to provide benefits)	£9.1M
Funding deficit	£0.8M
Funding Level	91%

The trustee agreed with the employer that the deficit shown above would be repaired by four employer contributions of £200,000 payable on 31 March each year from 31 March 2017 to 31 March 2020 inclusive and one instalment of £80,000 by 31March 2021. The asset value quoted above excludes Additional Voluntary Contributions (AVCs) paid by members.

The 2015 summary funding statement reported that the funding level was 89% as at 31 March 2015. The funding level has improved over the year to 31 March 2016 – this was mainly due to the payment of a deficit contribution and also due to making allowance for lower life expectancy in the 2016 valuation in line with latest research.

As part of the valuation calculations, the actuary also estimated what the position would have been if the trustee had wound the scheme up and secured all members', including pensioners' benefits at that time through individual policies with an insurance company. The calculations revealed that at 31st March 2016 there was a shortfall of £5.4M, which represents that 61% of the section's liabilities could have been secured in this way. Please note that it is a legal requirement to provide this information – the Company has no intentions of winding up the section. It is also worth noting that a solvent employer can only wind up a scheme if 100% of the benefits can be secured with an insurance company. In addition, further protection for members may be provided by legislation, including the Electricity Act 1989 and the Energy Act 2004.

Funding Update

The actuary recently provided the trustee with a report setting out details of an approximate update of the funding position as at 31 March 2017. The results of the update are as follows:

Assets	£9.9M
Technical provisions	£11.3M
Funding deficit	£1.4M
Funding level	88%

The figures in the report were calculated by rolling forward the results of the 31 March 2016 valuation and making allowances for changes in investment market conditions since the date of the valuation. This is not as thorough as a formal valuation – for example, it takes no account for things like changes to membership numbers – but it still gives a useful guide to changes in the funding level.

Since the valuation datethe assets have increased largely as a result of positive investment returns and the payment of a deficit contribution. The liabilities have also increased, mainly because of the significant fall in index-linked gilt yields. This increase has more than offset the increase in the value of the assets and the net impact is that the funding level has fallen slightly.

What Is The Scheme Invested In

The trustee's policy is to invest in a broad range of assets which are designed to ensure that the investment objectives of the scheme are met. A summary of the asset allocation at 31st March 2017 is given below:

MANAGER	%
BlackRock Investment Management (UK) Limited	3.0
Legal & General Investment Management Limited	44.3
Lindsell Train Ltd	13.9
PIMCO Europe Ltd	13.4
Ruffer LLP	15.3
Schroder Investment Management Limited	10.1
Total	**100.0**

ADDITIONAL DOCUMENTS

Provided automatically:

- An annual benefit statement for current employees.
- The guide to the main provisions of the Magnox Group of the Electricity Supply Pension Scheme (provided on joining the scheme)
- Available on request:
- The Annual Report and Accounts of the Magnox Group of the Electricity Supply Pension Scheme, which provides details of the income and expenditure of the scheme over the year to 31st March 2017.
- The full report on the Actuarial Valuation which was completed at 31st March 2016.
- The Annual Actuarial Report which was completed at 31 March 2017.
- The Schedule of Contributions, which shows how much money, is being paid in to the scheme.
- The Statement of Investment Principles, which gives details of how the trustees invest the money which is paid in to the scheme.

PENSION PROTECTION FUND (PPF)

As has been described in the section headed “Actuarial Valuation”, if the scheme was to be wound up, there may not be enough money in the fund to secure all member’s benefits with an insurance company. It has also been explained that solvent employers cannot wind up schemes unless they ensure that enough money is paid to the insurer to provide 100% of all members’ benefits. If however the scheme was to be wound up because the employer had become insolvent the PPF, which has been established by the Government, may be able to take over the scheme and pay compensation to members. This compensation is subject to a cap.

Information on the PPF can be found on its website at **www.pensionprotectionfund.org.uk**. Alternatively you can write to the Pension Protection Fund, Knolly’s House, 17 Addiscombe Road, Croydon, Surrey, CRO 6SR.

Given that pension costs are met by Government it is extremely unlikely that the employer will ever become insolvent and the benefits subsequently transferred to the PPF. This information has been included it is a legal requirement to do so.

OTHER LEGAL REQUIREMENTS

The Pensions Act 2004 requires the trustee to provide members with the following information. This information would be of particular importance on schemes where The Pensions Regulator has intervened on the running of the scheme, which they might do if they have concerns about the security of members’ benefits. No such intervention has occurred under the Magnox Group of the Electricity Supply Pension Scheme.

- The Pensions Regulator has not acted to change the way benefits are earned in future.
- The Pensions Regulator has not given any directions as to how the amount needed to provide benefits (known as technical provisions) should be calculated, or the length of time over which the funding deficit must be repaired.
- The Pensions Regulator has not imposed a Schedule of Contributions
- There have not been any payments from the scheme to either Magnox Limited or any other participating employer of the scheme during the last twelve months.

FURTHER INFORMATION

If you would like details of, or have any queries concerning, your benefits, options or pension in payment please contact RPMI EPAL who deal with the administration of the scheme:

RPMI EPAL,

2 Rye Hill Office Park,
Birmingham Road,
Coventry,
CV5 9AB.

+44 (0) 24 7647 2582
enquiries@rpmi.co.uk

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