

The newsletter of the E.ON UK Group of
the Electricity Supply Pension Scheme

In touch *e.on*



Welcome from the Chair



Welcome to the October 2020 edition of your In Touch newsletter, in which we bring you the latest news from the E.ON UK Group of the ESPS.

This edition includes the latest summary funding statement, which provides an update on the financial health of the scheme as at 31 March 2020. Also included is a summary of the financial statements for the year ended 31 March 2020 and an update on how the scheme's assets were invested.

Following the Coronavirus (COVID-19) outbreak earlier this year, the Trustees wrote to all members in April 2020 to provide reassurance on certain key operational aspects of the scheme such as the payment of pensions. The Trustees have continued to monitor the consequences of the pandemic and I would like to take this opportunity to provide members with further reassurance that it remains business as usual as far as the scheme is concerned. I would also remind members that the threat of pension fraud (or 'scams') remains at a high level and further information on the warning signs to look out for can be found on page 13.

We're currently developing a new pensions website for you. This will allow you to access a secure area where you'll be able to view details of your own pension and make updates such as address changes. This will make it easier for you to manage your pension whenever and wherever it's convenient for you. We'll send an update once the site is ready.

If you have any feedback or questions on the content of this newsletter please let us know using the contact details on the back page.

Martine Trouard-Riolle

Summary Funding Statement

This statement explains how the funding position of the scheme has developed since 31 March 2019 and the financial support provided by the Company.

The scheme Actuary carries out an actuarial valuation every three years. The purpose of this is to establish whether there is enough money in the scheme to pay out all the benefits when they fall due. After each valuation is completed, the Trustees and E.ON UK plc agree the level of contributions needed, and the Actuary updates the position each year. Set out below is the information on the scheme's financial health following completion of the annual actuarial report as at 31 March 2020.

The funding position shown by the latest annual actuarial report and how this compared with the position as at the date of the previous report, 31 March 2019, is as follows:

	2020	2019
	£ million	£ million
Assets (excluding Defined Contribution and Additional Voluntary Contribution assets)	4,763	4,607
Amount needed to provide benefits (technical provisions)	5,219	5,095
Shortfall	456	488
Funding level	91%	90%

If the assumptions used for the 2018 actuarial valuation had been borne out in practice, then, based on the agreed contributions, the shortfall would have been expected to have decreased to around £195 million at 31 March 2020. The deterioration in the scheme's funding position compared with that expected is due to the increase in the value of the liabilities caused by significant falls in UK Government bond yields not being fully offset by the investment return on the scheme's assets.

The funding deficit revealed by the last full actuarial valuation carried out as at 31 March 2018 was £502 million, based on assumptions agreed between the Trustees and the scheme's sponsoring employer, E.ON UK. The Trustees and the Company agreed that this funding deficit would be recovered through the following payments (in addition to a payment of £65 million made by the Company in January 2019):

- £233.8 million paid in August 2019
- Up to £91.5m in each of January 2022 and January 2023 (the actual amounts payable will depend on the estimated funding position as at 31 March 2021).

In addition, from 1 October 2019, E.ON UK has paid contributions of 39% of members' pensionable salaries for members of the final salary categories and 21% of members' pensionable salaries for members of the Retirement Balance Plan category towards the cost of building up future benefits and to meet the expenses of the scheme.

E.ON SE guarantees the deficit repair payments through the Parent Company Guarantee (PCG) implemented in 2016, which also guarantees the scheme's liabilities to pay pensions if E.ON UK plc were to become insolvent. A reminder of the key aspects of the PCG is provided on page 4.

The Pensions Regulator can issue instructions to modify benefit accruals under the scheme, give directions about working out its technical provisions or impose a schedule of contributions. The Trustee is pleased to confirm that the Regulator has not needed to use its powers for this scheme.

PARENT COMPANY GUARANTEE

E.ON SE, which is the German parent company of E.ON UK, continues to provide a parent company guarantee (PCG). It means that in the unlikely event of E.ON UK not being able to pay its agreed contributions to the scheme, then E.ON SE will be required to pay them.

The PCG also guarantees the scheme's liabilities to pay pensions if E.ON UK were to become insolvent. In the unlikely event of this happening, E.ON SE is required to fully fund the scheme on a basis which requires it to take minimal investment risk to meet its future obligations. The PCG will remain in place until this funding level is reached, which is likely to be many years into the future. In the meantime E.ON UK will continue to hold the obligation to make good any deficit which arises on future valuations.

There are certain other limited circumstances in which the PCG can be replaced, such as on the sale of E.ON UK. In this instance the PCG promises that alternative appropriate security would be put in place. In exchange for the additional security provided by the PCG, the Trustees have agreed with the company to invest the scheme's assets to target a return of 2% p.a. above the return on government bonds for a minimum period of 10 years.

The PCG provides a valuable additional layer of security to protect members' benefits and is an important part of the long-term funding agreement reached with the company.

The importance of E.ON UK's support

The Trustees' objective is to have enough money in the scheme to pay pensions now and in the future. However, the success of the scheme relies on its continuing support from E.ON UK because:



E.ON UK **pays a substantial contribution** each month towards the future cost of the scheme;



The **funding level can fluctuate** and, when there is a funding shortfall, E.ON UK will usually need to put in more money; and



If the target funding level, which is assessed at each actuarial valuation, turns out not to be enough, E.ON UK will need to **put in more money**.

How the scheme works

E.ON UK plc pays contributions to the scheme so that the scheme can build up a fund to pay pensions and other benefits to scheme members when they retire. Current members also pay contributions to the scheme, which are either deducted from gross salary or paid through the salary sacrifice arrangement.

How is the amount the scheme needs worked out?

The Trustees have a funding plan (the Statement of Funding Principles), which is agreed with E.ON UK plc and aims to make sure there is enough money in the scheme to pay for pensions now and in the future. The amount of money paid in by E.ON UK and the other employers who participate in the scheme may go up or down following regular funding checks by the scheme Actuary (called actuarial valuations).

What would happen if the scheme started to wind up?

If the scheme had been discontinued at 31 March 2020, the deficit would have been £1,546 million, equal to a funding level of 76%. The Trustees are required to look at this situation to understand the scheme's financial health and the extent to which this relies on the continuing prosperity of E.ON UK plc. It does not mean that E.ON UK plc is thinking of winding up the scheme. The Trustees are satisfied that E.ON UK plc is committed to continuing its support for the scheme.

Under the provisions of the ESPS, the scheme could only be wound up in limited circumstances such as the insolvency of E.ON UK. If the scheme starts to wind up, then even if it is fully funded under our funding plan, you might not get the full amount of pension you had built up. In this situation, E.ON UK (or E.ON SE, to the extent required under the PCG) would be required to pay enough for the scheme to secure members' benefits with an insurance company, if it could. The Pension Protection Fund may provide some support for pension schemes that wind up with a shortfall.

Further information and guidance is available on the Pension Protection Fund's website at ppf.co.uk or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes that E.ON UK plc will continue in business and support the scheme.



Where can I get more information?

If you have any other questions, or would like any more information, please contact RPMI, the scheme administrator. Their contact details are on the back page.

You can also ask to see the scheme's formal documents, including our Statements of Funding and Investment Principles. The latest audited report and financial statements and actuarial report, as well as the Recovery Plan and Schedule of Contributions are also available.

If you are considering making any changes to your pension arrangements, such as opting out of the scheme, you should obtain as much information as you can and think about obtaining independent financial advice.

The Financial Conduct Authority website – [fca.org.uk](https://www.fca.org.uk) – has more information about finding a qualified financial adviser and you can find information about Independent Financial Advisers in your area at [unbiased.co.uk](https://www.unbiased.co.uk).

Financial summary

Highlights from the Report & Financial Statements for the year ended 31 March 2020

£4.78
billion

The total value of the scheme's net assets

£151 million

The increase in the value of the scheme's net assets since 31 March 2019

£282 million

The amount paid into the scheme by the Company during the year.

This includes a deficit repair payment of £234 million and £5.8 million of member contributions met by the Company under salary sacrifice arrangements.

£281 million

The value of benefits paid out to members during the year

£82 million

The value of transfers out during the year

24,530

The number of members across the scheme



Membership statistics at 31 March 2020:

1,830

Contributing members

3,951

Dependants

11,931

Pensioners

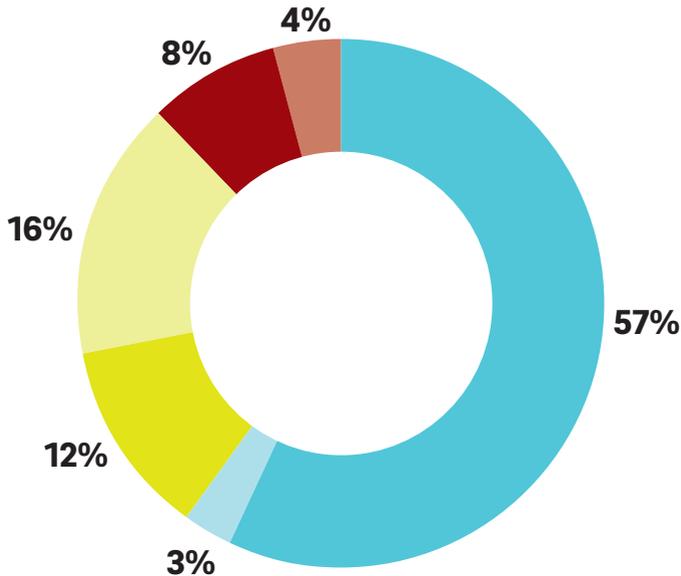
6,818

Deferred pensioners

The scheme's financial statements have been audited by PricewaterhouseCoopers LLP, who have confirmed that they show a true and fair view of the financial transactions during the 12 months to 31 March 2020, and that contributions were paid to the scheme as set out in the Schedule of Contributions in force during the period.

Scheme Assets

The scheme's investment strategy is to hold a diversified range of asset classes aiming to achieve steady growth at relatively low risk. As at 31 March 2020, the scheme's assets were comprised of the following:



■ Liability hedging assets – 57%
■ Credit (Bonds) – 3%
■ Equities – 12%
■ Multi-strategy & Macro-oriented – 16%

■ Diversified Growth – 8%
■ Niche assets/Private Equity – 4%

Year ended 31 March 2020

Asset Class	£ million
Matching assets	
Liability-Driven Investments Assets	2,695.8
Return seeking assets	
Credit (Bonds)	145.0
Equities	595.2
Property	0.9
Multi-Strategy & Macro-Oriented	741.1
Diversified Growth	385.7
Niche Assets/Private Equity	176.0
Other Hedging Assets	(9.5)
Other*	34.2
Total**	4,764.4

* Liquidity fund holding, Additional Voluntary Contributions assets, cash balances and accruals.

** Total excludes DC investments and DB working capital.

The Trustees

There are 10 Trustees: five are appointed by E.ON UK plc and five are nominated by the members.

Appointed



Martine
Trouard-Riolle
– Chair*



Keith
Plowman
– Deputy Chair**



Stefan
Brenk



Sara
Leavesley



Graeme
Thompson

John Harding left the Company and Trustee Board with effect from 30 June 2020 and was replaced as an Appointed Trustee by Sara Leavesley. The Trustees would like to thank John for his significant contribution to the Board since his appointment in 2009 and would also like to welcome Sara to the Board.

Member-Nominated



Mike
Andrews**



Chris
Brown**



Ant
Donaldson



Derek
Evans**



Adrian
Harris**

* The Company has appointed Capital Cranfield Trustees Limited represented by Martine Trouard-Riolle as independent Chair of the Trustee Board.

** Pensioner member of the E.ON UK Group of the ESPS.

Trustee sub-committees

The Trustee Board is ultimately responsible for all decisions made but has delegated some of its work to committees.

- The **Investment Committee** gives detailed consideration to certain investment matters and has delegated authority to make investment decisions within risk parameters defined by the Trustee Board. The members of the Committee are Martine Trouard-Riolle (Chair), Mike Andrews, Stefan Brenk, Ant Donaldson and Keith Plowman. Manpreet Rattan (E.ON SE Portfolio Management team) is also a member of the Committee by invitation of the Trustees. Keith Plowman has replaced Graeme Thompson, who is now Chair of the Audit Committee. The Trustees would like to thank Graeme for his significant contribution to the Investment Committee.
- The **Audit Committee** is responsible for oversight of the scheme's internal controls, risk management, accounting processes and the preparation of the annual report and financial statements. The members of the Committee are Graeme Thompson and Adrian Harris. Gary Burmiston (Head of International Audit, E.ON) is also a member of the Committee by invitation of the Trustees.
- The **Determinations Committee** is responsible for determining the recipients of benefits payable under discretionary trust and for considering and responding to complaints under the Internal Dispute Resolution Procedure. The members of the Committee are Adrian Harris (Chair), Chris Brown, Derek Evans and Sara Leavesley.

Our advisers

To assist them in their work, the Trustees have appointed a team of professional advisers. We have formal agreements with all our advisers and also have a rolling programme to review them. The scheme Custodian is centrally appointed by the ESPS Trustee.

Actuary:	David Eteen of Aon Solutions UK Limited
Investment Adviser (Defined Benefit):	Cardano Risk Management B.V.
Investment Adviser (Defined Contribution and AVC):	Aon Solutions UK Limited
Principal Legal Adviser:	DLA Piper UK LLP
Independent Auditor:	PricewaterhouseCoopers LLP
Sponsor Covenant Assessor:	Lincoln Pensions
Administrator:	RPMI (formerly known as RPMI EPAL)
Scheme Custodian:	The Bank of New York Mellon

GMP equalisation

Last year we reported on the High Court's ruling that Guaranteed Minimum Pensions (GMPs) must be equalised between men and women.

This is a complex area and we're continuing to work closely with our advisers to assess if and how members may be affected (only members who were active members in one of the scheme's final salary categories between 1990 and 1997 may be affected). **It is not necessary for members to take any action at this point.** Members who are affected will be

contacted with more information when possible, but please note that given the complex nature of this issue, GMP equalisation may take a considerable period of time to complete.

Although some members may require an increase to their benefits as a result of GMP equalisation, such increases are likely to be small and many members will not be impacted at all. No members will have their benefits reduced.



Beware of pension scams

Members are reminded of what to look out for to avoid becoming a victim of a pension scam:

- Did you get cold called or an email out of the blue offering a free pension review?
- Is the firm or individual FCA registered? And are they authorised to give advice on pensions? Check at [fca.org.uk/register](https://www.fca.org.uk/register)
- Have there been complaints about the adviser, firm or investment? Is their address a PO Box or a serviced office? Can you contact the business at their registered office? Is the contact number a mobile number? Do a thorough internet search and check on forums and social media for mentions of the firm and the suggested investment.

Check at [fca.org.uk/scamsmart](https://www.fca.org.uk/scamsmart) for lists of known scams. Don't be rushed into anything as you could end up losing your pension savings and also get a huge tax bill.

You can call the Pensions Advisory Service on **0800 011 3797** if you have any doubts.

Electricity Supply Pension Scheme - AGM

The ESPS holds an Annual General Meeting (AGM) for members, which relates to the scheme as a whole and does not cover any business specific to the individual Groups of the ESPS.

The purpose of the AGM is to receive the Annual Report and Financial Statements and the Auditors' Report, receive the report of the ESPS Trustee, and conduct any general business. This year's AGM will be held on Monday 23 November 2020, starting at 1pm.

Originally, the AGM was to be held at the offices of Eversheds Sutherland, One Wood Street, London, EC2V 7WS. However, due to the Covid-19 situation, the decision has been made that members will instead be given the option of attending 'virtually' using electronic meeting software, and this may well be the only option for member attendance. Further clarification on the meeting arrangements will be available from RPMI nearer to the date of the meeting.

Please also contact RPMI for an agenda and details of any resolutions.

Retirement Planning and the State Pension

The Government has launched a new website to bring together a number of activities around retirement and financial wellbeing, and which links directly to useful tools such as the Government's State Pension forecaster and the Money Advice Service's pension calculator. You can also get your own retirement checklist by answering a few simple questions.

To find out more, go to www.yourpension.gov.uk

Find out more

If you want specific information about your pension, you will need to get in touch with our pension scheme administrator RPMI, which calculates and pays the benefits on behalf of the Trustees, and holds all the individual member records.

RPMI's contact details are:

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

Email: **enquiries@rpm.co.uk**

Telephone: **0247 6472 541**

If you have a question for the Trustees, you can email **pensions.feedback@eon-uk.com**. If you don't have access to email, please write to RPMI and your letter will be passed on. You can also ask to see the scheme's formal documents, including our Statement of Funding and Statement of Investment Principles.

If you are considering making any changes to your pension arrangements, such as opting out of the scheme, you should obtain as much information as you can and think about obtaining independent financial advice. The Financial Conduct Authority website – **fca.org.uk** – has more information about finding a qualified Financial Adviser. You can also find information about Independent Financial Advisers in your area at **unbiased.co.uk**.