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

# In touch

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# Welcome from the Chair

**Welcome to the September 2019 edition of your In Touch newsletter, in which we bring you the latest news from the E.ON UK Group of the ESPS.**

Every three years, a full actuarial valuation of the scheme is carried out to assess its financial health, and the Trustees' key focus over recent months has been the actuarial valuation due as at 31 March 2018. I am delighted to confirm that this valuation has been completed and in this edition we provide a summary of the results and the new funding plan that's been agreed with the Company to eliminate the remaining funding deficit.

We have arranged member meetings to provide more information about the scheme. These are being held on **15 October 2019** at Wherstead Park in Ipswich and on **17 October 2019** at the Holiday Inn hotel, Coventry. You'll find further details on page 7 including instructions on how to register your attendance. We look forward to seeing you there.

Your newsletter also includes a summary of the financial statements for the year ended 31 March 2019 and an update on how the scheme's assets are invested and how they've performed.

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

# Actuarial valuation 2018

**The Trustees are pleased to confirm that the actuarial valuation due as at 31 March 2018 has been completed and a new funding plan has been agreed.**

The funding deficit as at 31 March 2018 was £502 million, based on assumptions agreed between the Trustees and the scheme's sponsoring employer, E.ON UK. This compares with a funding deficit of £967 million at the previous valuation (31 March 2015). The improvement in the funding position in the intervening period is due to a combination of investment returns being higher than assumed, the payment of significant deficit repair contributions by the Company, a slow-down in expected improvements in life expectancy, and the changes introduced by the Company to the scheme's benefit structure.

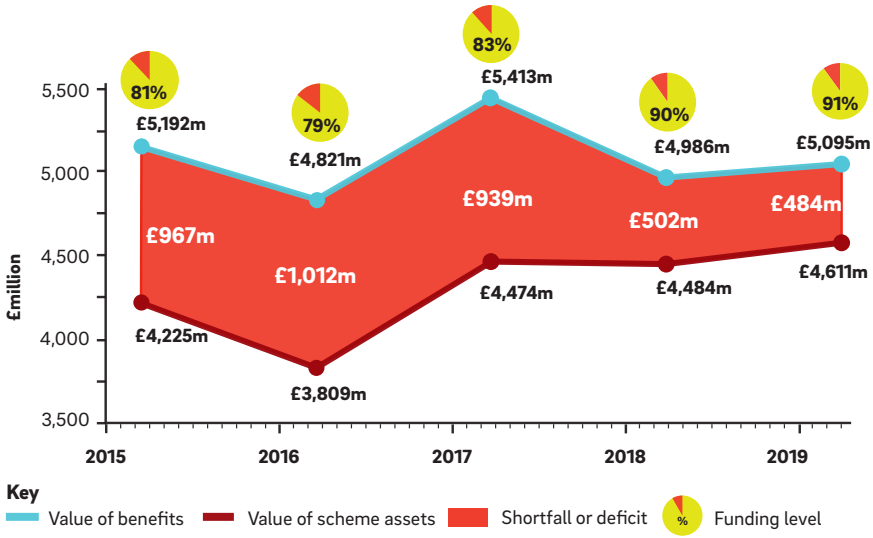
The Trustees and the Company have agreed that the funding deficit will be recovered through the following payments (in addition to a payment of £65 million made by the Company in January 2019):

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

The agreed payments represent in part an acceleration of the recovery plan agreed as part of the 2015 actuarial valuation. In addition to these payments and in light of the proposed sale of the Company's renewables business to RWE later this year, the Trustees have also reached an agreement with the Company regarding the minimum amount of financial assets to be retained on its balance sheet, subject to review at future actuarial valuations.

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 3.

Overall, the Trustees are confident that they have achieved an appropriate outcome from the valuation discussions with the Company, and that the security of members' benefits is significantly improved as a result.




# 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 from December 2016.

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.

# Summary Funding Statement

**This statement explains how the funding position of the scheme has developed since 31 March 2018 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 2019.

The funding position shown by the latest annual actuarial report and how this compared with the position as at the date of the previous valuation, 31 March 2018, is as follows:

| | 2019<br>£ million | 2018<br>£ million |
|---|---|---|
| Assets | 4,611 | 4,484 |
| Amount needed to provide benefits (technical provisions) | 5,095 | 4,986 |
| Shortfall | 484 | 502 |
| 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 decrease to £433 million at 31 March 2019. 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 falling UK Government bond yields not being fully offset by the investment return on the scheme's assets.

As explained on page 2, the Trustees and E.ON UK have agreed a funding plan to repair the deficit following the 2018 actuarial valuation. In addition, from 1 October 2019, E.ON UK will be paying 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.

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 Trustees are pleased to confirm that the Regulator has not needed to use its powers for this scheme.

# 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 2018, the deficit would have been £1,709 million, equal to a funding level of 72%. 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 Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

## 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** – 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.**

# Member meetings

**You are invited to attend a member meeting of the E.ON UK Group of the Electricity Supply Pension Scheme. Two regional meetings are being held on the following dates:**

- **15 October 2019 -** Wherstead Park, Ipswich
- **17 October 2019 -** Holiday Inn, Coventry

Meetings will start at 10.30am and lunch will be served afterwards.
Please let us know if you would like to attend one of the meetings by emailing **enquiries@rpmi.co.uk** or by writing to RPMI at the following address:
**2, Rye Hill Office Park, Birmingham Road, Coventry, CV5 9AB.**

**Please include your full name and address when responding.** We will then confirm your place and send you a map of how to get to your chosen venue.

Please note that while there should be sufficient capacity at each venue for everyone that wishes to attend, there is a limit on places due to safety and fire regulations. Please also note that for security reasons, admittance to the meetings will only be permitted to those who have had their place confirmed.

# 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 25 November 2019 at the offices of **Eversheds Sutherland, One Wood Street, London EC2V 7WS**, starting at 1pm.

If you wish to attend, please contact RPMI for an agenda, location map and details of any resolutions.

# Financial summary

**Below is a summary of the money coming in and going out of the scheme over the year to 31 March 2019 and the impact this had on the net assets held by the scheme.**

| Money coming in | £ million |
|---|---|
| Contributions from members (including salary sacrifice and AVCs) | 8.2 |
| Contributions from Company - normal | 36.4 |
| Contributions from Company – deficit repair | 65.0 |
| Contributions from Company – early retirement and other | 17.9 |
| Investment and other income | 1.1 |
| **Total coming in** | **128.6** |

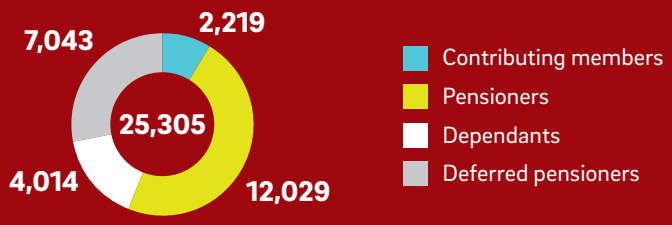
| Money paid out | £ million |
|---|---|
| Pensions | 178.6 |
| Lump sums on retirement | 20.0 |
| Lump sums on death | 0.3 |
| Purchase of pensions with AVC and DC funds | 0.4 |
| Transfers paid to other pension arrangements | 21.3 |
| Annual and Lifetime Allowance tax charges | 0.6 |
| Pension Protection Fund and other levies | 0.4 |
| Administration expenses | 2.2 |
| Investment management expenses | 4.0 |
| **Total paid out** | **227.8** |

| Change in value of the fund | £ million |
|---|---|
| Fund value at 31 March 2018 | 4,500.1 |
| Money coming in | 128.6 |
| Money paid out | 227.8 |
| Change in market value of investments | 227.5 |
| **Fund value at 31 March 2019** | **4,628.4** |

| Split of fund value | £ million |
|---|---|
| Defined Benefit investments | 4,606.4 |
| Defined Benefit working capital | 4.5 |
| Additional Voluntary Contributions | 6.1 |
| Defined Contribution investments | 11.4 |

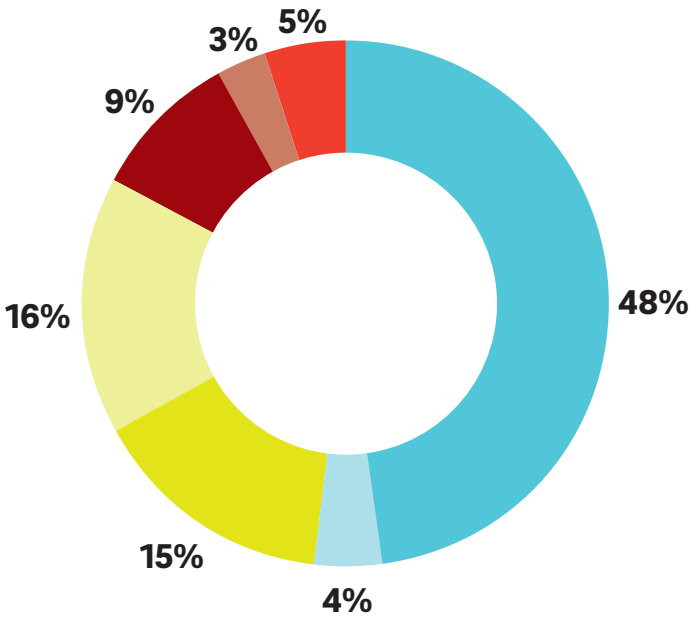
The scheme's financial statements have been audited by PricewaterhouseCoopers LLP, who have confirmed that they show a true and fair view of the financial transactions during the 12 months to 31 March 2019, and that contributions were paid to the scheme as set out in the Schedule of Contributions in force during the period.

**Membership statistics at 31 March 2019**



# 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 2019, the scheme's assets were comprised of the following:**




- Liability hedging assets – 48%
- Credit (Bonds) – 4%
- Equities – 15%
- Multi-strategy & Macro-oriented – 16%
- Diversified Growth – 9%
- Niche assets/Private Equity – 3%
- Other* - 5%

*Includes property, other hedging assets, liquidity fund holdings, Additional Voluntary Contributions assets, cash balances and accruals.

**Year ended 31 March 2019**

| Asset Class | £ million |
|---|---|
| **Matching assets** | |
| Liability-Driven Investments Assets | 2,228.2 |
| **Return seeking assets** | |
| Credit (Bonds) | 167.4 |
| Equities | 693.8 |
| Property | 1.3 |
| Multi-Strategy & Macro-Oriented | 747.3 |
| Diversified Growth | 400.0 |
| Niche Assets/Private Equity | 142.2 |
| Other Hedging Assets | 1.2 |
| Other* | 231.1 |
| **Total**** | **4,612.5** |

* Liquidity fund holding, Additional Voluntary Contributions assets, cash balances and accruals.
** Total excludes DC investments and DB working capital.

The overall return on the scheme's assets for the year ended 31 March 2019 was 5.1%. The average annual return over the last three scheme years was 7.2%. The biggest determinant of the scheme's investment performance is the matching assets portfolio, managed by Insight Investment. This portfolio is designed to change in value in the same way as the scheme's liabilities by investing in Government bonds (or similar assets).

# 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

John Harding

Graeme Thompson

## 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 Graeme Thompson. Björn Siggemann (E.ON SE Pension Finance & Asset Strategy team) is also a member of the Committee by invitation of the Trustees.

- 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 John Harding (Chair) 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 John Harding.

# 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 Hewitt Limited |
| **Investment Adviser (Defined Benefit):** | Cardano Risk Management B.V. |
| **Investment Adviser (Defined Contribution and AVC):** | Aon Hewitt Limited |
| **Principal Legal Adviser:** | DLA Piper 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

You may have seen press coverage earlier in the year about 'GMP equalisation'. Guaranteed Minimum Pension (GMP) is the minimum pension that a workplace pension scheme must provide to its members who were contracted out of the State Second Pension between 6 April 1978 and 5 April 1997.

GMPs are different for men and women, but the High Court ruled that GMPs should be equalised. Although the judgment related to the Lloyds Banking Group, it creates a precedent for other pension schemes. The ruling addresses a long-standing area of uncertainty, but the issue is complex and the detail is yet to be fully clarified.

The Trustees are currently working with their 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**
- 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** 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.

# 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@rpmi.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.**