

March 2020

Dear Member,

## **HERMES GROUP PENSION SCHEME: SUMMARY FUNDING STATEMENT AS AT 30 JUNE 2019**

Here is your Summary Funding Statement for 2019. This Summary Funding Statement is based on the Annual Funding Update as at 30 June 2019.

### **Introduction**

Every year we send members information about the funding of the Hermes Group Pension Scheme (the 'Scheme'). The Scheme Actuary carries out a full valuation generally every three years. The most recent full valuation was carried out as at 31 December 2017. Between full triennial valuations, the Scheme Actuary updates the valuation annually on an approximate basis, this is called an Annual Funding Update, and the latest one was carried out as at 30 June 2019.

This year the Summary Funding Statement has been prepared as at 30 June rather than 31 December, and will be each year from now on, as the Scheme has changed its accounting year to end in June.

The actuarial valuation compares the value of the benefits earned up to the valuation date that the Scheme will have to pay in the future (the Scheme's liabilities) with the amount of money currently invested in the Scheme (the Scheme's assets).

Over time, the Scheme's 'funding position' (i.e. how its assets compare with its liabilities) will vary. In annual Summary Funding Statements, we will tell you about the Scheme's financial position and how it has changed since the previous year's statement.

The Trustee hopes that you will find these statements useful and reassuring. If you do have any queries, however, please contact Inside Pensions, the Scheme Secretary.

### **The last full actuarial valuation**

The most recent full triennial valuation of the Scheme showed that as at 31 December 2017 the funding position was as follows:

Assets	£234.5m
Estimated amount needed to provide benefits earned up to the valuation date (liabilities)	£215.3m
Surplus assets in excess of liabilities	£19.2m
Funding level (ratio of assets to liabilities)	109%

There are some important facts to bear in mind about the valuation:

- The funding valuation treated the Scheme as continuing, with the ongoing support of the Employer.
- The valuation used assumptions that were determined by the Trustee after considering actuarial advice and agreed by the Employer. The assumptions relate to future events, for example on investment returns or how long members will live in retirement, and the actual events will differ from those assumed.
- Since in practice assumptions are not borne out, there is a need to monitor the financial position regularly.

### **Employer contributions**

Following the 31 December 2017 valuation, as assets exceeded liabilities, there are no deficit reduction contributions payable, and a Recovery Plan is not required.

The Trustee holds a reserve within the value of the liabilities to meet anticipated expenses incurred in managing the Scheme over the 5 years following the 31 December 2017 valuation date, so there are no current contributions required in respect of these expenses.

The Employer pays any Pension Protection Fund levies.

### **Funding position as at 30 June 2019**

Assets	£251.7m
Estimated amount needed to provide benefits earned up to the valuation date (liabilities)	£228.6m
Surplus assets in excess of liabilities	£23.1m
Funding level (ratio of assets to liabilities)	110%

### **Change in funding position since the last update sent to members**

The funding position improved slightly over the first half of 2019, from 108% funded as estimated as at 31 December 2018, to 110% funded on a Technical Provisions basis as at 30 June 2019.

This is not a full actuarial valuation of the Scheme, but an approximate projection of the previous valuation results, allowing for changes in economic conditions and actual investment returns to 30 June 2019.

The variation in the numbers over time emphasises the fact that these are only snapshots at a particular date. In the kind of volatile investment markets experienced over the past few years, it is important to take a long-term perspective.

## **How is my pension funded?**

The Trustee ensures that the Scheme is sufficiently funded with enough assets so that when members retire the Scheme can pay the pensions due to members and pay all other benefits payable under the Scheme Rules.

The money to pay for members' pensions is held in a single fund separate from, and not controlled by, the Employer. It is not held in separate funds allocated to each individual member.

## **The importance of the Employer's support**

The Trustee's main objective is to have enough money in the Scheme to pay pensions now and in the future. This relies on the Employer's legal obligation to continue to support the Scheme because:

- the value of assets and liabilities can fluctuate, and when there is a funding shortfall, the Employer will need to put in more money; and
- the target funding level may turn out not to be enough so that the Employer will need to put in more money.

The Employer is BT Pension Scheme Trustees Limited, which is the trustee company for the BT Pension Scheme. The Employer is responsible for the funding of HGPS. The BT Pension Scheme continues to be one of the largest occupational pension schemes in the UK.

## **Payments to the Employer**

There has not been any payment to the Employer out of the Scheme in the period since the 31 December 2017 valuation, or at any other time.

## **The Pensions Regulator**

The Pensions Regulator has not modified the Scheme, given it directions, or imposed a schedule of contributions upon it.

## **What is the Scheme invested in?**

The underlying policy is to invest in a broad range of assets. The last full valuation of the Scheme as at 31 December 2017 was agreed between the Trustee and the Employer with the valuation documents signed in November 2018. This full valuation showed a surplus. The Trustee then met with representatives of the Employer in December 2018 to discuss investment and funding strategy, with a revised asset allocation agreed in principle. Following that meeting, in 2019 the Trustee has agreed with the Employer a revised asset allocation for the Scheme assets. The Scheme underwent a number of trades in 2019 to move to the revised target asset allocation.

The actual and target positions as at 30 June 2019 are shown below.

	Actual Asset Allocation as at 30/06/2019	Strategic Asset Allocation as at 30/06/2019
Global equity	9.7%	10.0%
Property	8.8%	10.0%
Diversified Credit	14.9%	15.0%
Buy & Maintain bonds	14.2%	15.0%
Liability Hedging	50.9%	50.0%
Cash at bank	1.5%	-

The actual proportion invested in any particular class of assets at any time may differ from the targets due to market fluctuations. Cash at bank as at 30 June 2019 was higher than usual anticipating large benefit payments of tax-free cash at retirement and transfers out.

### The position on 'winding up'

The funding position reported in this communication assumes that the Scheme will continue in operation in the future. However, sometimes pension schemes are wound up, which means that the accrued benefits for all members are bought out with an insurance company.

If the Scheme had started winding up on 31 December 2017 (the date of the last formal valuation), the estimated amount needed to ensure that all members' benefits could have been secured in full with an insurance company would have been about £317.8m. As the assets at that date were £234.5m there would have been a deficit on this basis of about £83.3m. Inclusion of this information does not imply that the Employer is thinking of winding up the Scheme.

It is important to note that, whilst the Scheme continues, regardless of the changing funding position, benefits continue to be paid in full. If the Scheme were to start to wind up, the Employer is required to pay enough into the Scheme to enable the members' benefits to be secured in full with an insurance company. It may be that it is not possible for this full amount to be paid, but this is very unlikely as the BT Pension Scheme is very large. In the unlikely event that there is a shortfall, the Pension Protection Fund may take over the Scheme and pay certain benefits to members. There are limits on the amounts paid by the Pension Protection Fund and this would not give exactly the same benefits as those provided by the Scheme.

Further information and guidance is available on the Pension Protection Fund's website: [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk). Alternatively, you can write to the Pension Protection Fund at: 12 Dingwall Road, Croydon, CR0 2NA.

## **Why does the Scheme not call for full winding up solvency at all times?**

The full winding up 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 scheme assumes that the Employer will continue to support the Scheme.

## **Additional documents available on request**

The following documents are available to members. Many are available on the member website, but if you want us to send you any of these documents please let the Scheme Secretary know.

*Actuarial Valuation.* The full report as at 31 December 2017.

*Statement of Funding Principles.* This sets out the policy of the Trustee in relation to scheme funding and other related matters.

*Schedule of Contributions.* This shows what money is paid into the Scheme.

*Statement of Investment Principles.* This explains how the Trustee invests the money paid into the Scheme.

*Annual Report and Accounts.* The report shows the Scheme's income and expenditure in the half year to 30 June 2019.

*Annual Benefit Statement* – This statement will provide you with an illustration of your likely pension. The Scheme Administrator routinely provides Annual Benefit Statements. Alternatively, if you are an active or deferred member, you are able to request one for a particular date.

## **Where can I get more information?**

If you have any other questions, or would like any more information, please contact Inside Pensions, the Scheme Secretary. The HGPS member website also contains helpful information about the Scheme.

Please also help us to keep in touch with you by telling the administrators if you change your address.

*Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.*

## **The Trustee of the Hermes Group Pension Scheme**

## Contact Details

Should you need any details on your pension benefits or have changed your personal circumstances, please contact XPS Administration, the Scheme Administrators:



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If you have any further queries with regard to this communication or the management of the Scheme, please contact Inside Pensions, the Scheme Secretary:



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