

ANNUAL REPORT AND FINANCIAL
STATEMENTS – SUMMARY

SUMMARY FUNDING STATEMENT

TRUSTEE UPDATE



THE EE
PENSION
SCHEME
UNFOLDED

Defined Benefit Section news
August 2019

WELCOME

This newsletter provides an update of the financial position of the Defined Benefit Section of the EE Pension Scheme ('the Scheme'). Note that this is a one-off update as new information is available that the Trustee wanted to share with you.

The annual newsletter, which contains among other items a summary of the Annual Report and Financial Statements, will follow later this year as usual.

In this section of your newsletter, we give you a brief summary of the Annual Report and Financial Statements for the period ended 31 December 2018.

	2018 £'000	2017 £'000
Contributions and benefits		
Contributions	21,875	20,000
Total	21,875	20,000
Benefits	(6,100)	(7,165)
Payments to and on account of leavers	(13,241)	(10,535)
Total	(19,341)	(17,734)
Net additions for dealings with members	2,534	2,266
Return on investments		
Investment income	23,381	3,325
Change in market value of investments	(46,707)	54,218
Investment management expenses	(1,172)	
Net returns on investments	(24,498)	56,264
Net change in Scheme during during the year	(21,964)	58,530
Net assets of the Scheme at start of year	792,919	734,389
Net assets of the Scheme at end of year	770,955	792,919

Membership.

If you look at the chart below you can see how the Scheme's membership has changed.

	31 Dec 2018	31 Dec 2017
	7,729	7,851
	889	835
Total	8,618	8,686

Deferred members
 Pensioners

Current employees can see a full copy of the Annual Report and Financial Statements which can be found on the EE intranet > HR Rewards > Pensions

Deferred members can see a copy at scottishwidows.co.uk/save/ee

Investments and Scheme changes.

EE Pension Trustee Ltd (The Trustee) measures the performance of the Scheme's investment funds by comparing them to a target or 'benchmark'. The performance of the funds for each of the last five years compared with the benchmark returns to 31 December 2018 are shown in the table below:

	2014 %	2015 %	2016 %	2017 %	2018 %	3 year %	5 year %
Scheme return	19.7	4.8	25.6	7.9	-2.5	9.7	10.6
Benchmark return	20.1	6.2	29.5	5.9	-2.1	10.3	11.4
Liability benchmark	35.4	2.6	36.9	4.4	-0.8	12.4	13.0

Investment managers

The Trustee invests funds with investment managers employed to manage the assets for its defined benefits section.

The Managers appointed to manage the assets which are intended to produce long-term returns in excess of liabilities:

- UBS Asset Management
- Standard Life Investments Inc
- Pacific Investment Management Company
- Natixis Global Asset Management on behalf of Harris Associates LP
- Epoch Investment Partners Inc
- Sands Capital Management
- Aviva REaLM Multi Sector Trust
- Hayfin Direct Lending

The Managers appointed to manage assets intended to broadly match liabilities are:

- Insight Investment Management (Global) Ltd

Summary Funding Statement.

Each year the Trustee is required by law to provide you with a Summary Funding Statement, which describes the level of funding that supports your pension. The Trustee works closely with the Company to ensure your benefits are adequately funded, secured and governed.

The Scheme Actuary carries out a formal actuarial valuation of the Scheme at least once every three years. This is an in-depth look at the Scheme’s finances where the value of all members’ benefits built up under the Scheme (liabilities) is compared to the value of the funds (assets). In addition, the Scheme Actuary provides the Trustee with interim valuations – which are annual updates of the Scheme’s financial position. Interim valuations are not as detailed as the formal actuarial valuation, but give a reasonable assessment of the latest position.

Scheme funding update

31 December 2017 interim valuation

The most recent interim valuation, at 31 December 2016, has recently been completed and showed a funding position of 74%, meaning that the Scheme’s assets covered 74% of its liabilities. This is compared to the funding position as at 31 December 2015 (the date of the previous interim valuation) shown in the following table.

	2015 interim valuation	2016 previous interim valuation
Funding Level (%)	80%	74%
Shortfall (£ million)	£140.6m	£256.8m
Liabilities	£712.4m	£980.9m
Assets	£571.8m	£724.1m

It can be seen that the funding position of the Scheme has worsened over the year to 31 December 2016. The reason for this is mainly due to a decrease in the yields available on long-term government bonds and, to a lesser extent, an increase in the expected future rate of inflation, both of which increased the value of the liabilities. However, this increase in the liabilities was offset to a degree by increases in the assets due to better than expected investment returns and the Company paying contributions.

What has been done to address the shortfall?

As part of the process to completing the 2015 valuation, the Trustee agreed with the Company certain revisions to the existing recovery plan.

The key features of the revised plan are deficit contributions from the Company as follows:

- 20 million per annum, starting on 1 January 2016 for a period of 2 year and 3 months; plus
- 22.5 million per annum, starting on 1 April 2018 for a period of 2 years and 8 months.

The Trustee expects these additional contributions, together with the expected investment returns, to be sufficient to clear the shortfall as at the 2015 formal valuation by 30 November 2020.

The law required us to confirm that there have been no payments to the Company out of the Scheme since the date of the last Summary Funding Statement.

In certain circumstances, the Pensions Regulator has powers to intervene in a scheme’s funding plan, by changing the future accrual of benefits, setting the level of the funding target, setting the terms of the recovery plan and/or imposing a schedule of contributions. The Pensions Regulator has not used any of these powers in relation to the Scheme.

Summary Funding Statement. continued

What protection is there for members?

The Trustee is required to provide you with an indication of what the funding position would be if the Scheme had terminated and was wound up as at the date of the last valuation. The information is purely for legislative purposes – the Company has no plans to wind up the Scheme.

If the Scheme had wound up on 31 December 2015 (the date of the last formal valuation), its assets of £571.8 million would have covered around 35% of the estimated cost of securing the Scheme's benefits. In the unlikely event of the Scheme winding up, the Company would be legally required to finance the shortfall and pay enough into the Scheme to enable benefits to be completely secured by an insurance company.

In the even more unlikely event that the Company becomes insolvent, the Pensions Protection Fund (PPF) may be able to take over responsibility for payments if the benefits that could be provided by the Scheme fall below PPF levels of compensation (which are lower than the standard benefits payable from the Scheme).

Visit the PPF website for further details at www.pensionprotectionfund.org.uk



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NOTES

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Who runs the scheme?

Contacts.

The EE Pension Scheme assets are held in one common trust and are completely separate from the assets of EE. The trust is operated by EE Pension Trustee Ltd.

Your current Trustee directors are:

Company appointed Directors:
Jonathan Clarke (independent chairman)
Roger Waymouth
Donna Breach
Roger Eyre

Member Nominated Directors:
Carmel Codd
Tony Gara

The EE Pensions team:

Capita
Erskine House
145 Morrison Street
Edinburgh
EH3 8FJ

Telephone:
0800 169 2085
Email: ee.help@capita.co.uk

Expression of Wish

Please remember to keep your Expression of Wish form up to date. This is important to ensure that the Trustee and HR are aware of your dependants in the event of your death.

If you work for EE, you can update the form on

Your Rewards

If you no longer work for EE you can contact the administrator Capita.

Address

Please let Capita know if you change your address (if you also have DC benefits Scottish Widows will need to be advised).