NEC

Summary Funding Statement and important information

November 2013

NEC Staff Pension Scheme (UK)

Introduction

The most recent Summary Funding Statement of the NEC Staff Pension Scheme (UK) has been completed and we include the results in this communication. We have also included some important information regarding the Scheme, so please do take the time to read this newsletter carefully.

In addition to negotiating a new funding agreement with the company, as described in the Summary Funding Statement on pages 7-11, the Trustee Board has been engaged in a full range of monitoring and governance activities.

The Trustee Board, including elected member nominated trustees, has met six times during the last scheme year for the purposes of funding level monitoring, scheme administration and supervising the Scheme's investments.

Our discussions with the Scheme investment advisor (Mercer) have ensured our allocation of investment funds remains appropriate in the risk and return objectives of the portfolio. We have interviewed the Scheme's chosen investment managers by rotation and as issues arise to ensure that these managers are aware of our close scrutiny of their performance. Some under-performing managers and strategies have been changed.

Trustees are also required to continue to carefully monitor the businesses of, and any changes in, the NEC organisation, and to examine whether they affect the members or the strength of the covenant of the company and its ability to make the agreed payments into the Scheme and support it on an ongoing basis.

We are aware that inflation disproportionately affects pensioner cost of living. We therefore exercised our discretion to use some of the amount already reserved in the fund to make a small increase in the part of pensions in payment not covered by guaranteed statutory increases.

Change of address

Please note that the Trustees' Office has moved and our contact telephone numbers have changed. For all future communication and correspondence, please use the following address:

The Trustees' Office
Athene
Odyssey Business Park
West End Road
South Ruislip
Middlesex
HA4 6QE

For telephone communications please call: Switchboard: 020 8836 2000

Member Nominated Trustee - Vacancies

A Member Nominated Trustee ('MNT') is a trustee that has been voted into position by some or all of the Scheme's members. The Scheme has two constituencies from which MNTs may be elected; deferred member and pensioner member.

The terms of office for two of the current MNTs (deferred constituency), Mr David Lyons and Mr Finlay Black, will expire in January 2014, giving rise to two vacancies and activating the nomination procedure which will take place in November 2013.

Members will be invited in November 2013 to make nominations to fill the vacancies.

Further information will be sent out in due course.

Changes to pension increase provisions

In June 2010 the government announced changes to the way that it measures inflation for the purposes of both public and private sector pension schemes, such as the NEC Scheme. As part of the change, when setting certain increases, the government now uses the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). There are a number of differences between CPI and RPI including the way they are worked out. These changes by the government have been subject to a number of challenges; up to this point these have all been unsuccessful, so the Trustees now consider it appropriate to clarify the position to members.

Increases to deferred pension before pension comes into payment (applicable to deferred members of the Scheme only)

The Scheme is required to increase certain elements of deferred pension between the date the member leaves pensionable service and Normal Retirement Date; this is known as 'statutory revaluation'. Statutory revaluation is in line with the index specified by the government over the whole period up to a maximum of 5% p.a. compounded overthat period.

The Scheme rules specify that, for these elements of pension, increases must be in line with the statutory revaluation orders specified by the government, rather than in line with a particular index. The Trustees must at all times administer the Scheme in accordance with the Scheme Rules.

When the government changed the index it was using to set the orders with effectfrom 2010, the entitlement to future revaluations in the Scheme therefore automatically switched in line with this change i.e. to being based on CPI rather than RPI. This change was not subject to, and did not require, a decision from the Trustees or the Principal Employer.

Prior to the changes mentioned above and up to the Closure of the Scheme to new entrants in 2007, all deferred pension certificates issued under the Scheme referred to revaluations in line with RPI. Due to those changes and the requirement to calculate benefits according to the Scheme Rules, certain elements of pension entitlement under the Scheme are being revalued by CPI in line with the statutory revaluation order and not RPI.

Increases to pensions in payment (applicable to all members of the Scheme)

There are various elements of pension which are entitled to different increases.

Pension in payment in respect of service after 5 April 1997 will continue to increase each year using RPI (subject to a maximum increase of 5% in respect of service up to 5 April 2005 and 2.5% a year for service thereafter). This is because the Scheme Rules specify that this element of pension will increase in line with the RPI rather than a statutory order.

Pension in payment in respect of service before 6 April 1997 does not receive any guaranteed annual increase. The exception to this is any Guaranteed Minimum Pensions (GMP) that a member may have, as a result of contracting out of the state earnings related pension scheme after 5 April 1988. This only applies to members with service in the SPP, MPP, or SMPP sections, as the GPP section was not contracted-out. Increases to GMP in payment are in line with a statutory order as set by the government. As a result of the government's changes, this element of GMP will now be increased in line with CPI (subject to a maximum of 3% a year).

As a result, for members who have this element of GMP, the pension increases would be expected to be lower. However, it is worth noting that this change will not make a difference if CPI is above 3%(due to the 3% maximum increase applicable).

Pension liberation fraud

HM Revenue & Customs (HMRC), the Pensions Regulator and the Financial Conduct Authority are becoming increasingly concerned over transfers to pension liberation schemes. 'Pension loans' or cash incentives are being used alongside misleading information to entice savers to transfer their retirement benefits to such schemes. This activity is known as 'pension liberation fraud' and it's on the increase in the UK.

Pension liberation is a transfer of a scheme member's pension savings to an arrangement that will allow them to access their funds before the age of 55. In rare cases – such as terminal illness – it is possible to access funds before age 55 from a current pension scheme. However, for the majority, promises of early cash will be bogus and are likely to result in serious tax consequences.

An increasing number of companies are targeting savers claiming that they can help them take their pension cash early. Individuals may be targeted through websites, mass texting or through cold calls; please be very wary about giving out information in response to such an approach, and ensure you know who you are dealing with.

The Pensions Regulator has produced some resources for you to download from their website www.thepensionsregulator.gov.uk to help prevent you from becoming a victim.

Lifetime Allowance (LTA) changes

You can save as much as you like towards your retirement benefits but there is a limit on the amount of tax relief you can get. The lifetime allowance is the maximum value of the retirement benefits you can build up over your life that benefits from tax relief. This includes the value of benefits that you currently have or may have in the future in any other pension arrangements as well as those in the NEC UK Staff Pension Scheme (UK). If you build up retirement benefits worth more than the lifetime allowance you'll pay a tax charge on the excess.

The lifetime allowance is currently £1.5 million but this will go down to £1.25 million from 6 April 2014. Most people won't have pension savings worth more than the lifetime allowance, however if you think you may be affected by this change you should seek independent financial advice.

National Fraud Initiative

The Scheme will be participating in a data verification exercise operated by the Audit Commission. This exercise is intended to assist in the prevention and detection of fraud. For this initiative we will be providing details of pensioners and deferred members so that they can be compared to national government data. This will ensure, for example, that no pensions are being paid to persons who are deceased or no longer entitled to benefits from the Scheme. The processing of data by the Commission in a data verification exercise is carried out under its powers in Part 2A of the Audit Commission Act 1998. This does not require the consent of the individuals concerned. You therefore do not need to take any action in this respect.

Independent Financial Advice

Your pension savings are extremely valuable and you should certainly take the opportunity to check your position from time to time and not make any decisions without taking independent financial advice. This will be particularly important if you are nearing retirement or considering transferring your pension.

Summary Funding Statement 2013

How is the Scheme's financial security measured?

The estimated cost of providing the benefits you and other members have earned is known as the Scheme's "liabilities". This includes the benefits of members who have left the Company or retired. As these benefits will be paid many years into the future their cost has to be adjusted to a value at the current date using a discount rate which is determined by the market yield on long term gilts.

Until 30 June 2009 the Scheme collected money ('contributions') from the Company and from members still employed by the Company, and invested this to help provide your benefits. It is held in a communal fund, not in separate funds for each individual. The amount of money we have invested is known as the Scheme's 'assets'. Since 30 June 2009, whilst members no longer pay contributions, the Company continues to make contributions to ensure that the Scheme has enough money to pay for the benefits it has promised.

To check the Scheme's financial security we look at its financial position and compare the value of its liabilities to its assets. If the Scheme has fewer assets than liabilities, it is said to have a "shortfall". If the assets are more than the liabilities there is said to be a "surplus".

An in-depth look at the Scheme's finances is carried out at least every three years. This is called an actuarial valuation. A qualified, independent professional, known as an Actuary, is employed to do this. The last completed actuarial valuation was at 30 June 2012. In addition, the financial security of the Scheme is checked at each intervening year. When this is done an Actuarial Report is received by the Scheme's Trustees summarising the Actuary's conclusions.

What is the Scheme's financial position and how has it changed since the last summary funding statement?

As at the actuarial valuation on 30 June 2012 the Scheme had a shortfall of £27.1 million and the assets were sufficient to cover 82% of the liabilities.

As a reminder, the 2011 funding notice included the results of the 30 June 2011 Actuarial Report. This showed an approximate shortfall of £10.2 million and that the assets were sufficient to cover 91% of the liabilities.

The deterioration in the Scheme's funding position up to 30 June 2012 was mainly due to the fall in gilt yields over the period, which increases the value placed on the liabilities. This has been offset to some extent by a reduction in the long term expected inflation rate (which decreases the value placed on the liabilities), the Company paying extra money into the Scheme is part of the plan to clear the valuation shortfall and the investment returns that have been achieved on the Scheme's assets.

Recently, the economic climate has been extremely volatile resulting in the investment markets and economic factors that drive asset values and liability calculations to move considerably. If sustained, the combined effect could have a material impact on the Scheme's funding level. In the current climate, the Trustees are remaining vigilant and continue to monitor the Scheme's funding level closely.

What has happened since the valuation?

Following the actuarial valuation as at 30 June 2012, the funding position improved so that as at 30 June 2013, the shortfall was estimated to have reduced from £27.1million to £14.2 million. This improvement was primarily due to strong investment performance over the year and the additional contributions paid by the Company that increase the value of the Scheme assets.

How is the shortfall going to be paid off?

The Trustees decided to take the improvement in the funding position since the actuarial valuation into account and base the Recovery Plan on the updated funding position as at 30 June 2013.The Company paid contributions totalling £4.5 million during the period 1 July to 30 June 2013. In addition, the Trustees and the Company have agreed that the Company will pay the following contributions which are expected to remove the shortfall in the Scheme by 31 March 2017:

- £741,000 was paid during the period 1 July 2013 to 30 September 2013
- £1,663,380 to be paid during the period 1 October 2013 to 31 March 2014
- £3,446,760 to be paid during the period 1 April 2014 to 31 March 2015
- £3,446,760 to be paid during the period 1 April 2015 to 31 March 2016
- £3,432,100 to be paid during the period 1 April 2016 to 31 March 2017

In formulating this plan, certain assumptions had to be made by the Trustees and Company about what would happen in the future, for example, how the Scheme assets would grow. If these assumptions do not turn out to occur in reality, then it may be necessary for additional contributions to be paid by the Company.

How do the Trustees know what contributions should be paid into the Scheme?

Following each actuarial valuation, the Actuary advises the Trustees on the appropriate level of contributions needed to be able to fund the Scheme. The Trustees then agree the contribution level with the Company and record this in a document called the Schedule of Contributions. This is reviewed and updated at least each time the Scheme has an actuarial valuation.

What types of assets does the Scheme invest in?

We invest contributions in a broad range of assets. At 30 June 2013 the fund's asset allocation was:

	2013	2012
UK company shares	**13%**	11%
Global company shares	**17%**	16%
'Cash Plus' funds	**17%**	16%
Fixed interest gilts	**0%**	7%
Corporate bonds	**18%**	23%
Flexible LDI RPI Enhanced funds	**10%**	6%
Matching plus LDI funds	**14%**	14%
Commercial property	**6%**	7%
Emerging market debts	**5%**	0%

The "Cash Plus" funds are targeted (but not guaranteed) to make a long-term rate of return higher than government bonds without increasing risk. The "Flexible LDI RPI Enhanced" and "Matching Plus LDI" funds invest in bond funds that have a duration similar to the liabilities of the scheme, and are targeted (but not guaranteed) to reduce funding volatility arising from investment and money market fluctuations.

Is my pension guaranteed?

The aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme.

If the Company goes out of business or decides to stop paying for the Scheme, it is expected to pay the Scheme enough money to buy all the benefits built up by members from an insurance company. This is known as the Scheme being "wound-up".

The comparison of the Scheme's assets to the cost of buying the benefits from an insurance company is known as the "solvency position".

Is there enough money in the Scheme to provide my full benefits if the Scheme was wound-up?

If the Company were to start winding up the Scheme, it would be required to pay enough into the Scheme to enable all members' benefits to be fully secured with an insurance company.

The actuarial valuation at 30 June 2012 showed that the estimated amount required by an insurance company to take over the liabilities would have been £203.4 million. On this basis the shortfall would have been £82.2 million.

The shortfall is significantly higher than the ongoing basis and so if the Scheme were to wind-up, the Company would have to pay further money into the Scheme to secure members' benefits with an insurance company if it can.

What happens if the Scheme is wound-up and there is not enough money to pay for all my benefits?

If the Scheme winds up without enough money to buy all the benefits with an insurer then, unless the Company can afford to pay the difference, you are unlikely to receive the full benefits you were expecting. To help members in this situation, the Government set up the Pension Protection Fund (PPF) which came into effect on 6 April 2005.

The PPF pays a legally defined level of benefits to members of eligible UK pension schemes which are wound-up when the scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurer and the company is insolvent and so cannot provide extra finance.

If the Scheme were to be wound up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Scheme, depending on your age and when your benefits were earned.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Can I leave the Scheme before I am due to retire?

All members who have not yet taken their retirement benefits are deferred members. deferred members can, if they wish, transfer their benefits to another pension arrangement prior to retirement.

Your membership of the Scheme is a valuable and important benefit for you and your family. If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action. The law prevents us from providing you with financial advice.

Where can I get more information?

If you have any other questions, or would like any more information, please contact either Mercer (the Scheme Administrators) Westgate House, 52 Westgate, Chichester, West Sussex, PO19 3HF or the Trustees Office, Athene, Odyssey Business Park, West End Road, South Ruislip, HA4 6QE.

A list of documents which provide further information can be found opposite. If you want us to send you a copy of any these documents please let us know.

Please help us to keep in touch with you by telling the Trustee Office if you change address.

Additional documents available on request

The Statement of Funding Principles

This explains how the Trustees plan to manage the Scheme with the aim of being able to continue to provide the benefits that members have built up.

The Statement of Investment Principles

This explains how the Trustees invest the money paid into the Scheme.

The Annual Report and Accounts of the NEC Staff Pension Scheme (UK)

This shows the Scheme's income and expenditure during the year.

The Formal Actuarial Valuation Report as at 30 June 2012

This contains the details of the Actuary's check of the Scheme's situation as at 30 June 2012.

The NEC Staff Pension Scheme (UK) Information Booklet

Following the Pensions Act 2005 and other legislative changes, the Trustees and the Company made certain changes to the Rules of the Scheme to ensure compliance with the new legislation. As a result, the members' handbook issued to you may have become out of date. Further rule changes may be required. You are advised to check with the Trustees Office before taking any action that relies on the information contained in the handbook.

Trustees Office, Athene, Odyssey Business Park, West End Road,
South Ruislip, Middlesex HA4 6QE.