Summary Funding Statement 2019

NEC Staff Pension Scheme (UK)

Summary Funding Statement 2018

What is a summary funding statement and why is it needed?

The Trustees are required to send you an annual statement that provides a summary of the financial position of the NEC Staff Pension Scheme (UK) ('the Scheme').

In this document, Company means NEC Europe Ltd, as Principal Employer, and the other participating employers in the Scheme:

- NEC (UK) Ltd
- NEC Capital (UK) plc
- NEC Display Solutions UK Ltd
- Telecom Modus Ltd
- Renesas Electronics Europe (GMBH)

How is the Scheme's funding position measured?

The Scheme's funding position is measured by a complex actuarial valuation that is carried out at least every three years by the Scheme's appointed independent actuary. The last completed actuarial valuation took place as at 30 June 2015. The Scheme is currently undertaking the 30 June 2018 actuarial valuation.

The Scheme's funding position compares the estimate of the expected cost of providing the benefits built up by members of the Scheme, known as the Scheme's 'liabilities', against the Scheme's assets.

What is the Scheme's financial position?

The actuarial valuation as at 30 June 2015 showed that:

The value of the Scheme's liabilities was:	£185.0 million
The Scheme's assets were:	£166.2 million
The Scheme had a shortfall of:	£18.8 million

Between formal valuations, the actuary produces a shorter 'actuarial report' on the anniversary of the valuation date. In last year's funding statement, we reported that the latest actuarial report of the Scheme as at 30 June 2017 showed that:

The value of the Scheme's liabilities was:	£233.1 million
The Scheme's assets were:	£203.5 million
The Scheme had a shortfall of:	£29.6 million

To calculate the amount of the liabilities, assumptions have to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow. If the assumptions do not all turn out to be exactly in line with what happens in future, it may be necessary to change the level of contributions to the Scheme or the period over which the shortfall is paid off.

We are required to tell you whether the Pensions Regulator has used its legal powers to make any directions following a valuation as to:

- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan
- The contributions that should be paid under the schedule of contributions.

The last valuation was as at 30 June 2015. As part of that valuation, the Trustees and the Company agreed the method and assumptions to be adopted and the contributions to be paid. Therefore, the Regulator did not have to use these powers.

The results of the 30 June 2018 actuarial valuation are not available yet.

How has the Scheme's funding position changed since the last summary funding statement?

When we last sent you a summary funding statement, we reported that the Scheme was estimated to have a shortfall of £29.6 million as at 30 June 2017.

Since 30 June 2017, the Scheme's financial position (based on the assumptions agreed as part of the 30 June 2015 valuation) has improved. The improvement in the Scheme's financial position over the period is a result of the Company paying extra money into the Scheme as part of the plan to clear the shortfall, although this was offset to some extent by a fall in long-term interest rates.

We are required to inform you whether a payment has been made to the Employer, as permitted under the Pensions Act 1995, since we last sent you a summary funding statement. This typically arises when there is a recognised surplus within the pension scheme. We can confirm that no such payment has been made.

The Trustees and the Company are currently in discussions regarding the 30 June 2018 triennial actuarial valuation, whereby the assumptions that will be adopted to measure the Scheme's funding position will be agreed. Details regarding the 2018 valuation will be shared next year.

Is a funding shortfall unusual?

At present, the majority of pension schemes in the UK have a funding shortfall.

It is important to remember that pension schemes are long-term investments. Investment market conditions, which affect the value of both the Scheme's assets and its liabilities, change on a daily basis. Fluctuations in the Scheme's funding position from year to year are therefore common, in particular in the recent uncertain economic climate.

Although the Scheme currently has a funding shortfall, all members who have retired are still receiving the full amount of their pension.

As part of the 2015 valuation, the Trustees and the Company agreed a Recovery Plan to pay off the shortfall by November 2023. The details of this are set out below.

How is the shortfall going to be paid off?

The actuarial valuation as at 30 June 2015 revealed a shortfall in the assets, when measured against the Scheme's liabilities, of £18.8 million, as shown on page 3. At the two actuarial valuations prior to 30 June 2015, the Trustees and the Company had agreed to set the shortfall as at the one-year anniversary of the valuation, when agreeing the level of contributions to be paid. For the 30 June 2015 actuarial valuation, the Trustees and the Company decided to take into account post-valuation experience and base the Recovery Plan on the updated position as at 16 June 2016, when there was a shortfall of £38.4 million. The reason for using this date rather than the one-year anniversary was that both the Trustees and the Company acknowledged that, given the post-valuation deterioration in the Scheme's funding position, it was appropriate to allow for this in setting a Recovery Plan – but did not want to allow for the impact of the result of the Brexit referendum on 23 June 2016. As such, it was decided that the Recovery Plan should be based on the Scheme's financial position on 16 June 2016, one week prior to the referendum.

The Trustees have agreed with the Company a plan to clear the 16 June 2016 shortfall by 30 November 2023. As at 30 November 2018, the Company had paid £18.1 million in contributions since 16 June 2016, and is committed to pay another £13.0 million between now and 31 March 2020, the majority of which is held in a secure account. It is anticipated that the balance of the shortfall will be made up by additional investment returns over the period to November 2023.

The Trustees are therefore confident that the Scheme will be fully funded by 2023, or soon thereafter, on an ongoing basis.

What type of assets does the Scheme invest in?

The Scheme's assets are held entirely separately from the Company.

The Trustees' investment strategy is to proportion the Scheme's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets.

The Strategic Asset Class Allocation as at the 30 June 2015 actuarial valuation was:

Equities (Developed and Emerging)	29.2%
Gilts (including LDI*)	25.5%
Corporate bonds and other credit	23.9%
Property	6.4%
Other**	15.0%

- *LDI: Liability-driven investment ('LDI') strategies are used so as to broadly match the interest rate and inflation sensitivities of the Scheme's liabilities with the Scheme's assets, with the aim of reducing the volatility of the Scheme's funding level.
- **Other: The Scheme's 'Other' allocation is made up of an investment in a diversified growth fund that targets an absolute return above cash. This aims to provide 'equity-like' returns over the longer term but with lower volatility.

As part of ongoing efforts to improve the security of benefits within the Scheme, the Trustees and the Company are in the process of revising the current investment strategy. The change in investment strategy will likely result in reduced exposure to 'growth' assets, such as equities, and increased exposure to assets which match the Scheme's liabilities. The aim of changing the investment strategy is to reduce risk by reducing the volatility of the assets relative to the liabilities, and hence protect the longer-term funding level.

What would happen if the Company's support of the Scheme or ability to meet any shortfall in the Scheme suddenly stopped?

Our 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, details of which are set out above.

If the Company goes out of business or decides to withdraw support for the Scheme, it is expected to pay the Scheme enough money to secure all the benefits built up by members with an insurance company.
The comparison of the Scheme's assets to the cost of buying the benefits with an insurance company is known as the 'solvency position'.

The actuarial valuation as at 30 June 2015 looked at the solvency position of the Scheme. At 30 June 2015, the Scheme's assets would have been sufficient to secure, on average, 59% of members' benefits with an insurance company. This situation is typical of the majority of UK pension schemes. The Trustees are required by regulation to disclose this information to you.

If the Scheme winds up without enough money to buy all the members' benefits with an insurance company, then the Company is required to make up the difference; in this context NEC Corporation may also be required to contribute. If the Company is unable 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). The PPF pays a legally defined level of benefits to members of eligible UK pension schemes in certain situations where the scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurance company and the company is insolvent and so cannot provide extra finance.

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

The fact that we have shown the solvency position does not mean that the Company is thinking of winding up the Scheme or is in financial difficulty. It is just another piece of information we are required by law to provide and which we hope will help you understand the financial security of your benefits. NEC Corporation, NEC Europe and the participating Employers are committed to ongoing support for the Scheme and meeting their commitments to members. We currently consider it unlikely that the Scheme will be discontinued.

For further information and guidance, visit the PPF website at **www.pensionprotectionfund.org.uk**. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.

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

Your pension benefits may be left in the Scheme to be paid at retirement or transferred to another pension arrangement prior to retirement.

If you are thinking of transferring your benefits out of the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action. If your transfer value is above £30,000 and you wish to proceed with transferring your benefits outside of the Scheme, you are now required by law to demonstrate that you have taken financial advice.

The law prevents us (and the Scheme administrators) from providing you with financial advice.

On the following pages, you will find additional information regarding pension scams and the different types of financial advisers. Please read this information if you are considering transferring your benefits out of the Scheme.

Where can I get more information?

If you want to know more about the information in this summary funding statement, 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.

Death of former Chairman and Trustee, Ian Toombs

It is with deep sadness that we announce the death of Ian Toombs. Ian joined NEC in 1980 as head of HR in NEC UK. He was responsible, amongst many other matters, for the introduction of the NEC Staff Pension Scheme (UK) in 1982, at which point he became the Chairman of the Board of Trustees. This scheme was adopted as their main pension scheme by other NEC companies in the UK. He remained as Chairman until his retirement in 2000 but continued as a Trustee until his death in December 2018. He had a wealth of experience and knowledge which will be missed by us all. The Trustees would like to express on behalf of the Scheme their gratitude for his leadership, dedication, commitment and service.

Additional information from the Trustees

Independent financial advice

Your pension savings are extremely valuable and you should certainly take time 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.

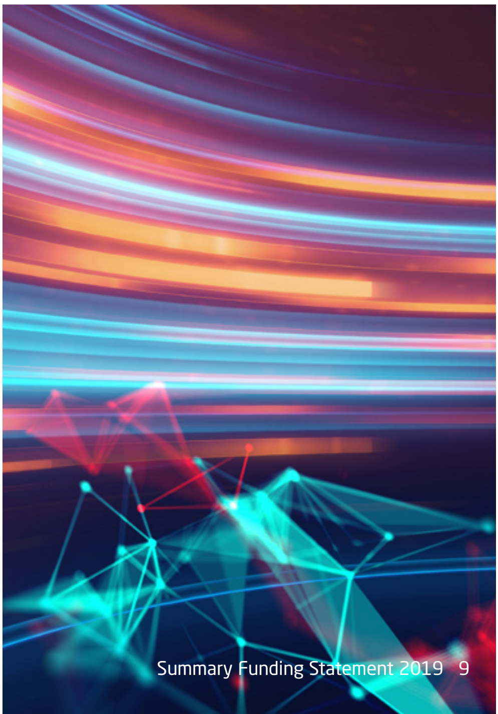
All members who have a transfer value above £30,000 are required to take financial advice from an adviser who is regulated by the Financial Conduct Authority (FCA), if they wish to proceed with a transfer value.

In the UK, there are two kinds of professional investment adviser who are FCA-regulated and therefore are able to provide advice in relation to pension transfers:

- independent financial advisers (or IFAs) have to consider all the financial products and services in the market
- restricted' advisers may be tied to a particular company and are not obliged to consider all the options in the market.

All FCA-regulated financial advisers are required to clearly explain to their clients whether they offer 'independent' or 'restricted' advice. Independent advisers have an obligation to make recommendations 'based on a comprehensive and fair analysis of the market' – however, there is no similar obligation for providers of restricted advice.

The Trustees cannot offer an opinion on the type of advice that will be in your best interests. You should therefore make sure that you understand whether the advice you are being provided with is from an independent adviser or a restricted adviser, to ensure that you make an educated decision before transferring out of the Scheme.



What is a pension scam?

Pension scams can be given a number of labels, including -

- Pension loans
- Early pension release
- Pension selling
- Cashing in your pension
- Pension liberation

A pension scam is when you agree to transfer your pension savings to an arrangement that will allow you to access your funds before you reach the age of 55, or as cash in larger quantities than are currently allowed under the law.

In rare cases – such as terminal illness – it is possible to access your pension pot before the age of 55. However, for most people, promises of early cash are false and members will probably lose most, if not all, of their savings.

You can find out more about this on Scheme website:
http://necstaffpensionschemeuk.info

Lifetime Allowance (LTA)

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 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 £1,033,000 (2018/19 tax year).

The Lifetime Allowance currently increases in line with the Consumer Prices Index each April, so it is expected that it will increase to £1,055,000 from April 2019.

Annual Allowance

The Annual Allowance is a limit on the total amount of contributions that can be paid into defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year, for tax relief purposes.

The Annual Allowance is currently capped at £40,000, although a lower limit of £10,000 may apply if your earnings are in excess of £150,000 p.a. The Annual Allowance applies across all of the schemes you belong to – it's not a 'per scheme' limit. It includes all of the contributions that you or your employer pay or anyone else who pays on your behalf.
In addition, there is a Money Purchase Annual Allowance of £4,000 (introduced in April 2017) which may apply if you have accessed any defined contribution pension savings through a drawdown arrangement.

If you believe that you may be impacted by a reduced Annual Allowance, it is recommended that you take financial advice to understand your personal circumstance.

If you exceed the Annual Allowance in a year, you won't receive tax relief on any contributions you paid that exceed the limit and you will be faced with an Annual Allowance tax charge.

National Fraud Initiative

The Scheme participates in a data verification exercise operated by the Audit Commission. This exercise is intended to assist in the prevention and detection of fraud.

We will provide details of pensioners and deferred members to the Commission, 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 our 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.

General Data Protection Regulation

The Trustees hold and process personal data about Scheme members and beneficiaries in order to run the Scheme. In doing so, we comply with relevant data protection legislation.

Website

The Scheme has a website for all deferred and pensioner members, at:
http://necstaffpensionschemeuk.info

The website can be used to find out information about the Scheme, general pensions news and Scheme contact details.

Please note that this website does not hold any personal information about Scheme members and their individual benefits.

Designed and produced by Wordshop
Our environmental and data protection policies can be seen online.
www.wordshop.co.uk

901277