

Pensions UPDATE

Babcock Pensions Update - Autumn 2011

For members of the Magnox Group of the Electricity Supply Pension Scheme (ESPS) Babcock Section.

Welcome to the Autumn 2011 issue of Pensions Update. This includes the “Summary Funding Statement” which contains information that the trustee is required to communicate.

Actuarial Valuation

At least once every three years the trustee is required to obtain an actuarial valuation of the scheme. An actuarial valuation is a series of calculations, which must be performed by a professionally qualified actuary, to establish the financial position of the scheme. It is a means to monitor that the scheme will have enough money to pay the benefits to which it is committed, including those for members who have left with a right to a deferred pension and those who have already retired.

The calculations are completed using certain assumptions, such as how long pensioners will live after retirement, what return will be achieved on the scheme’s investments and how employees’ benefits earned to date will be affected by salary increases. The trustee must consider these factors and, with the actuary, agree a range of suitable assumptions with the employer. The actuary then places an assumed value on the liabilities of the scheme, which are referred to as the technical provisions. He then compares this value against the value of the scheme’s assets (investments). If the value of the scheme’s assets is greater than the technical provisions then the scheme is said to be in surplus. If the reverse applies then it is said to be in deficit. It is important to realise however that the valuation calculations are simply a snapshot of the position at a fixed point in time. The true position will depend on how closely the trustee’s assumptions are borne out in practice over the life of the pension scheme.

The last full valuation of the scheme was completed at 31st March 2007 and at that time it was established that there was a very small surplus in the scheme of £0.5M.

A further valuation of the section was due at 31st March 2010 and this has now been completed. The trustee was required to review the assumptions used for the calculations and, after consultation with the employer, decided on a range of assumptions which have resulted in a higher value being placed on the liabilities than at the previous valuation, including more conservative assumptions relating to life expectancy to reflect the fact that generally pensioners are living longer and pensions must therefore be paid for longer than previously assumed. These changes, together with changes in the market value of the scheme’s investments, resulted in a deficit being declared. Using the new assumptions, the deficit in the scheme at 31st March 2010 amounted to £1.8M. The actuarial valuation calculations also established that the employer’s contribution (to meet the cost of benefits earned after the valuation date) to the scheme should increase from 25.8% to 31.6% of pensionable salaries with effect from 1st April 2010.

The trustee agreed with the employer that the deficit shown above would be repaired by employer contributions of £0.38M each April, from 1 April 2011 to 1 April 2016 inclusive.

Investment performance over the last year has been better than anticipated, but financial markets have of course been particularly volatile in recent months. The trustee spends a great deal of time monitoring its investments, with the help of its professional advisers and in consultation with Babcock.



Funding Updates

The next full actuarial valuation is due to be completed at 31st March 2013, although the trustee will continue to monitor the financial position of the scheme by completing annual funding reviews. The first annual funding review has now been completed and details are given in the Summary Funding Statement in this newsletter.

DATES FOR YOUR DIARY

Magnox Group Annual Meeting

The Magnox Group Annual meeting will take place on **THURSDAY 24TH NOVEMBER 2011** at Hamfields Leisure (Sports and Social Club at Berkeley Centre), commencing at **2 p.m.** This meeting provides the opportunity for members to meet with the trustee and its advisers and ask questions. Tea and biscuits will be served.

Electricity Supply Pension Scheme Annual General Meeting

The Scheme's Annual Meeting will take place on **Wednesday 7 December 2011** at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London, EC2A 2HS starting at 12.00 noon (rather than at the customary time of 1.30 pm, to accommodate requests from members).

The purpose of this meeting is to receive the Scheme Annual Report and Financial Statements and the Auditor's Report, receive the report of the Scheme Trustee and conduct any general business including the consideration of any resolutions proposed by members. Details of the agenda, resolutions and notices may be obtained from mid-November 2011 by contacting the pensions department at Berkeley whose contact details are shown at the end of this newsletter.

Trustee Board

The trustee board comprises ten directors, four of whom have been appointed by Magnox Ltd, which is the Principal Employer to the scheme and six who have been elected by members of the Magnox Group of the ESPS.

Currently, the trustee board comprises the following:

Appointed Trustee Directors

Tony Cooper Non Executive Director Nuclear Decommissioning Authority Chairman of the Group Trustee	Michael Cogbill (Retired employee – not in receipt of pension from the scheme)
Philip Parker HR Director Magnox Projects Deputy Chairman of the Group Trustee	Sara Johnston Programme Director - Magnox & RSRL Nuclear Decommissioning Authority



Elected Trustee Directors

Jim Boyd (Current employee) Dungeness	Tony Harris (Retired employee- in receipt of pension from the Scheme)
Brian Hibdige * (Retired employee- in receipt of pension from the Scheme) Chairman of the Investment Sub-committee	Dyfrig Jones (Current employee) Wylfa
David Openshaw * (Retired employee- in receipt of pension from the Scheme)	Lee Ward * (Current employee) Babcock (formerly VT Nuclear Services and Project Services)

* Re-elected at 1st January 2010 to serve for a further four years

Trustee Election

Active and retired members of the Group will have received notification of an election for trustees. There are three vacancies; one for a retired member and two for active members. Once elected each trustee must act in the interests of all members and do not represent a particular group. The closing date for nominations has now passed and the results of the election will be known in early December. Tony Harris and Dyfrig Jones have both decided not to stand for re-election this time. Their fellow trustees would like to thank them both for the valuable contributions to the good governance of the scheme which they have made over a number of years and wish them well for the future.

Retirement Of Fergus Hall

Many of you will know Fergus Hall who has looked after the pensions department for many years. Fergus retired from the Company at the end of July and the trustees would like to take this opportunity to thank him for his support and guidance over the years and to wish him a very happy and healthy retirement.

Annual Report And Accounts

Every year the trustee must produce a report, including audited financial statements. This report is a formal and lengthy document, but for those who wish to read the full document, it is available from the pensions department at Berkeley. Contact details are shown later in this update.

Pensions Website

The trustee is currently working on a website which will be available shortly. We recognise that not all members of the scheme have access to the internet and will also continue to provide information in more traditional ways.



BABCOCK SECTION OF THE MAGNOX ELECTRIC GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME 2011 SUMMARY FUNDING STATEMENT

In order to comply with a legal requirement (Pensions Act 2004), the Trustee, who looks after the section, is required to provide you with an annual update on the section's funding position.

How The Scheme Operates

The section is a final salary scheme, which means that each member's retirement benefits are determined broadly by the amount of their pensionable salary and length of service as a member of the Group when they retire or leave. Contributions made into the section go into one common fund which is used to pay all members' benefits: they are not paid into individual accounts which are earmarked to each member.

The trustee obtains regular valuations from an actuary. These calculations place a value on the benefits which the section is obliged to pay, which is then used to agree the rate of contribution needed with the employer.

Actuarial Valuation

An actuarial valuation of the scheme was completed as at 31st March 2010. The results of this valuation showed that on that date, the funding position was as follows:

Assets of the SLC Section	£30.5M
Amount needed to provide benefits (Known as technical provisions)	£32.3M
Deficit	(£1.8M)
Funding level	94%

The trustee agreed with the employer that the deficit shown above would be repaired by employer contributions of £0.38M each April, from 1 April 2011 to 1 April 2016 inclusive.

In the last pensions update we reported that the funding deficit at 31 March 2009 calculated on a "like for like" basis with the 2007 valuation was estimated to be around £4M. The main reason for the change in the funding position over the year to 31 March 2010 is the strong investment returns over the period

The actuary recently provided the trustee with a report setting out details of an approximate update of the funding position as at 31st March 2011. The results of this update are as follows:

Assets	£33.7M
Technical Provisions	£33.8M
Funding surplus	£0.1M
Funding level (Assets/Liabilities)	100%



The figures in the report were calculated by rolling forward the results of the 31st March 2010 valuation and making allowances for changes in investment market conditions since the date of the valuation. This is not as thorough as a formal valuation – for example, it takes no account for things like changes to membership numbers – but it still gives a useful guide to changes in the funding level.

The funding ratio has improved since the valuation date. This is mainly due to the higher than expected investment returns over the year.

As part of the valuation calculations, the actuary also estimated what the position would have been if the trustee had wound the scheme up and secured all members', including pensioners' benefits, at that time through individual policies with an insurance company. Insurers are obliged to take a very cautious view of the future and need to make a profit. On this basis, the calculations revealed that at 31st March 2010, 78% of the section's liabilities could have been secured in this way. Please note that it is a legal requirement to provide this information – the Company has no intention of winding up the section. It is also worth noting that a solvent employer can only wind up a scheme if 100% of the benefits can be secured with an insurance company.

What Is The Scheme Invested In

The trustee's policy is to invest in a broad range of assets which are designed to ensure that the investment objectives of the scheme are met. A summary of the asset allocation at 31st March 2011 is given below:

Manager	Portfolio	£m	%
Legal & General Investment Management Limited	UK Equity	3.3	9.8
Lindsell Train Ltd	UK Equity	6.8	20.2
PIMCO Europe Ltd	Bonds	4.0	12.1
PIMCO Europe Ltd	Index Linked Gilts	7.4	22.2
Goldman Sachs Asset Management	Currency	0.7	2.1
Schroder Investment Management Limited	Diversified Growth	6.5	19.3
JP Morgan Asset Management Ltd	Fund of Hedge Funds	2.8	8.3
EPTL Unitised Fund	UK Property	1.4	4.3
BlackRock Investment Management (UK) Limited	Cash	0.6	1.7
Total		33.5	100.0



Additional Documents

Provided automatically:

- An annual benefit statement for current employees.
- The guide to the main provisions of the Magnox Group of the Electricity Supply Pension Scheme (provided on joining the scheme).

Available on request:

- The Annual Report and Accounts of the Magnox Group of the Electricity Supply Pension Scheme, which provides details of the income and expenditure of the scheme over the year to 31st March 2011.
- The full report on the Actuarial Valuation which was completed at 31st March 2010.
- The Annual Actuarial Report which was completed at 31st March 2011.
- The Schedule of Contributions, which shows how much money is being paid into the scheme.
- The Statement of Investment Principles, which gives details of how the trustee invests the money which is paid in to the scheme.

Pension Protection Fund (PPF)

As has been described in the section headed "Actuarial Valuation", if the scheme was to be wound up, there may not be enough money in the fund to secure all member's benefits with an insurance company. It has also been explained that solvent employers cannot wind up schemes unless they ensure that enough money is paid to the insurer to provide 100% of all members' benefits. If however the scheme was to be wound up because the employer had become insolvent, the PPF, which has been established by the Government, may be able to take over the scheme and pay compensation to members. This compensation is subject to a cap.

Information on the PPF can be found on its website at www.pensionprotectionfund.org.uk. Alternatively you can write to the Pension Protection Fund, Knolly's House, 17 Addiscombe Road, Croydon, Surrey, CRO 6SR.

Given the strength of the employer sponsorship underpinning the section, there is no expectation of the pension benefits promised to members being transferred to the Pension Protection Fund (PPF). This information has been included as it is a legal requirement to do so.



Other Legal Requirements

The Pensions Act 2004 requires the trustee to provide members with the following information. This information would be of particular importance for schemes where The Pensions Regulator has intervened due to concerns about the security of members' benefits. No such intervention has occurred under the Magnox Group of the Electricity Supply Pension Scheme.

- The Pensions Regulator has not acted to change the way benefits are earned in future.
- The Pensions Regulator has not given any directions as to how the amount needed to provide benefits (known as technical provisions) should be calculated, or the length of time over which the funding deficit must be repaired.
- The Pensions Regulator has not imposed a Schedule of Contributions.
- There have not been any payments from the scheme to any participating employers of the scheme during the last twelve months.



Further Information

If you would like details of, or have any queries concerning, your benefits, options or pension in payment please contact EPAL who deal with the administration of the scheme at the address below:

EPAL, West Oak House, Westwood Way, Westwood Business Park, Coventry CV4 8HS.

Telephone 02476 472582

You can also send your enquiries by email to enquiries@epal.uk.com

EPAL also operates a website from which information is available:

www.epal.uk.com

Information about the Magnox Scheme can be accessed from the EPAL homepage in the following way:

Select **Members** from the options at the top of the page

Select **Magnox** from the list of companies shown

Select **Other Magnox Information – password required**

Enter the user name **Download** and password **Mag952**

You should then have access to Magnox information

Contact details for the pensions department at Berkeley are

Rachel Hewlett	rachel.l.hewlett@magnoxsites.com	Tel. 01453 813115
Jan Wilson	janet.wilson@magnoxsites.com	Tel. 01453 813139
Angie Valentine	angie.m.valentine@magnoxsites.com	Tel. 01453 812769

Please let us know if you would like a larger print version of this document by telephoning 01453 813115

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Magnox Electric Group Trustees
Electricity Supply Pension Scheme

