Magnox Electric Group
Trustees
Electricity Supply Pension Scheme

Pensions UPDATE

Babcock Section - Spring/Summer 2014

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

This is a special edition of the Pensions Update to provide information to members on the results of the recently completed valuation.

Babcock Section 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 and will fluctuate over time.

The last valuation of the section was completed at 31st March 2010 and at that time it was established that there was a deficit in the section of £1.8M. Following discussions with the employer, it was agreed that the deficit would be repaired by additional employer contributions of £0.38M each 1 April, from 1 April 2011 to 1 April 2016 inclusive. It was also agreed that the Company would increase its ongoing contribution towards the cost of benefits earned to 31.6% of pensionable salaries after the valuation date.

A further valuation of the section was due at 31st March 2013 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 that some changes should be made. This included making allowance for the material reduction in government bond yields at the valuation date and for lower salary increase expectations. The trustee also agreed that more conservative assumptions relating to life expectancy should be used to reflect the fact that generally pensioners are living longer and pensions must be paid for longer than previously assumed. In setting these assumptions the trustee was also required to consider the strength of the employer's covenant – this was considered to be adequate. After allowing for changes to the assumptions and changes in the market value of the section's investments a funding deficit of £2.2M was declared. Following discussions, it was agreed that the Company will repair the deficit through a combination of additional contributions and investment returns of 1.3% p.a. above the return (over the period to 1 April 2016) used to value the liabilities in the Section. The additional contributions payable amount to £0.38M by each 1 April, from 1 April 2014 to 1 April 2016 inclusive. These contributions also include an amount to cover the difference between the increased cost of new benefits and the contribution rate of 31.6% of Salaries currently being paid by the Company, which enables the Company to continue to pay 31.6% of Salaries to meet the cost of benefits earned after the valuation date.

Funding Update

The next full actuarial valuation is due to be completed at 31st March 2016, although the trustee will continue to monitor the financial position of the section by completing annual funding reviews. The trustee will also be monitoring the developing employer covenant.

Trustee Board

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

Company Appointed Directors	
Tony Cooper	Chairman of the Group Trustee. Member of the Investment Committee
Professor Andrew Clare	Independent Trustee. Chairman of the Investment Committee
Don Nightingale	Retired employee - in receipt of pension from the Energy*Solutions* Section of the Group
Susan Jee	Magnox, Non-Executive Director
Peter Roach	Deputy Chairman of the Trustees. Energy*Solutions*, Strategic Programmes Director
Member Appointed Directors	
Jim Boyd	Magnox employee, Dungeness A Site. Active member of the SLC Section of the Group. Member of the Investment Committee
John Jones	Magnox employee, Wylfa Site. Active member of the SLC Section of the Group
David Openshaw	Retired employee - in receipt of pension from the SLC Section of the Group
Brian Hibdige	Retired employee - in receipt of pension from the SLC Section of the Group. Deputy Chairman of the Investment Committee
Fergus Hall	Retired employee - in receipt of pension from the SLC Section of the Group
Ceri Davies	Magnox employee, Berkeley Centre. Active member of the SLC Section of the Group

Trustee Election

Elections were held during the year as 3 of the member appointed Directors' terms of office were due to expire on 31 December 2013. The new Trustees were appointed with effect 1 January 2014. Lee Ward decided not to seek re-election and will be replaced by Ceri Davies, who is a Magnox employee at Berkeley Centre. Brian Hibdige and David Openshaw were re-elected. The remainder of the trustee board would like to thank Lee for his valuable contribution over the last six years and welcome Ceri to the board.

Pension Increases

The rules of the Scheme provide for all pensions to increase from 1 April each year in line with the increase in the Retail Price Index (RPI) in the 12 months ended on the preceding 30 September. The increase payable from 1 April 2014 was 3.2%.

Babcock Section of the Magnox Electric Group of the Electricity Supply Pension Scheme 2013 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, or defined benefit 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 which are paid into the section are paid into one common fund which is used to pay for 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 2013. The results of this valuation showed that (assuming that the section continues into the future) on that date, the funding position was as follows:

Assets of the Babcock Section	£45.5M
Technical provisions (Amount needed to provide benefits)	£47.7M
Deficit	£2.2M
Funding level	95%

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. The calculations revealed that at 31st March 2013, 75% 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 intentions 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. Further, those members who joined the scheme prior to 1st September 1991 are protected by a "no detriment" rule.

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 2013 is given below:

Manager	£m	%
Legal & General Investment Management Ltd	3.8	8.5
Lindsell Train Ltd	5.1	11.3
PIMCO Europe Ltd	15.4	34.2
Schroder Investment Management Ltd	3.3	7.3
J P Morgan Asset Management Ltd	3.0	6.7
BlackRock Investment Management (UK) Ltd	14.4	32.0
Total	**45.0**	**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 2013.
- The full report on the Actuarial Valuation which was completed at 31st March 2013.
- The Schedule of Contributions, which shows how much money is being paid in to the scheme.
- The Statement of Investment Principles, which gives details of how the trustees invest the money which is paid in to the scheme.

Pension Protection Fund (PPF)

As has been described in the section headed "Summary Funding Statement" if the section 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 section 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 section 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.

Other Legal Requirements

The Pensions Act 2004 requires the trustee to provide members with the following information. This information would be of particular importance on schemes where The Pensions Regulator has intervened on the running of the scheme, which they might do if they have 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 either Magnox Limited or any other participating employer 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 RPMI EPAL in the first instance.

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Magnox Group Pensions

If you would like further information regarding your pension benefits, contact a member of Group Pensions on **01453 814881** or **group.pensions@magnoxsites.com**

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