HEINEKEN

SCOTTISH & NEWCASTLE
PENSION PLAN

Here's to PENSIONS

THE NEWSLETTER FOR MEMBERS OF THE SCOTTISH & NEWCASTLE PENSION PLAN

SPRING 2022

CHAIRMAN'S

WELCOME

Welcome to the spring 2022 newsletter for members of the Scottish & Newcastle Pension Plan, which includes a number of articles that I hope will be of interest to you.

The Trustee is required to carry out a full actuarial valuation at least every three years. The most recent valuation, carried out as at 31 October 2021, showed that the Plan had a small deficit of £36m. This represents a major improvement from the previous valuation. The valuation results can be found on pages 4-6.

As usual in the spring issue, we provide a summary of the Plan's income, expenditure and membership figures. This report is as at 31 October 2021. These can be found on page 7.

The Trustee's priority will always be to ensure that benefits are paid in full and on time, not just today but into the future. We are continually looking for better ways to work efficiently and effectively as a Trustee board and we have reviewed the way our Trustee sub-committees work; these play an important role in helping us manage the Plan. You can read more about these changes on the Plan website, under 'About the Plan'.

Last year I announced that Jill Adamson had been appointed by a Selection Panel to replace Andy Ackermann on the Board following the end of his service.

You can find out more about Jill on page 11. I'm also sorry to announce that two of our Trustee Directors have recently left. Dee Mair, an independent Trustee Director, has stepped down having completed her full nine-year term of office and Naomi Harding, who has been a Company-appointed Director for the past five years, has recently left HEINEKEN. Both played a key role in updating the Plan's member communications through their participation in the Member Relations Committee (MRC).

Max Graesser has been appointed as Dee's replacement and John Hutchison has replaced Naomi as a Company Appointed Director. We will introduce both of the new Trustee Directors to you in future editions of this newsletter. I extend my thanks to both Dee and Naomi for their valuable contributions to the Trustee.

The Trustee is, of course, closely monitoring the dreadful situation in Ukraine. Our thoughts are with those whose lives have been affected. Our duty as Trustee is to focus on what this means for the security of member benefits – looking at the impact on member data and the Plan's investments (see page 10).

More generally, the importance of the Plan's investments on the world around us is rising rapidly up the pensions agenda because of a mix of changing law, regulatory guidance, and growing demand from pension savers and other stakeholders. The Trustee has been considering how environmental, social and governance factors might affect the Plan, and I expect to return to this topic in more detail in future editions of *Here's to Pensions*.

Jane Scriven
Chair of Trustee Board

INSIDE THIS ISSUE

VALUATION UPDATE

Every three years the actuary, an adviser to the Trustee, looks closely at the finances of the Plan. This is called a valuation.

The most recent valuation for the Scottish & Newcastle Pension Plan took place as at 31 October 2021. You can find the results on page 5.

In a valuation, the actuary compares the estimated cost of providing the benefits that have built up in the Plan (the 'liabilities') with the amount of money held by the Plan (its 'assets'). If the Plan has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities, it is said to have a 'surplus'.

While it's relatively easy to work out the assets, the actuary has to make a number of assumptions in order to calculate how much the Plan will need in the future to pay all the benefits promised to members – for example, how much the investments will grow by, inflation rates and how long members will live. The Trustee and HEINEKEN also need to agree with the actuary's assumptions. This is known as the funding basis.

Trustees are required to consider funding, investment strategy and covenant assessment as an integrated whole, recognising that the funding of pension schemes is a long-term process. This ensures that trustees have taken all relevant aspects into account when agreeing their funding plan with employers.

WHAT DID THE 2021 VALUATION SHOW?

	2021 valuation	2018 valuation
Funding level	99%	91%
Assets	£3,560m	£3,003m
Liabilities	£3,596m	£3,285m
Shortfall	£36m	£282m

The improvement in the funding level was largely due to the investment return on the Plan's assets being higher than assumed, and the contributions paid by HEINEKEN to remove the shortfall.

CORRECTING THE SHORTFALL

As you may remember from the 2018 valuation, the Trustee and HEINEKEN signed a long-term funding agreement that sets out the funding basis and investment assumptions to be used until 2030. Under the funding agreement, the deficit contributions payable by HEINEKEN are payable regardless of the results of the 2021 valuation:

- 2021: £3,692,000 per month
- 2022: £3,833,000 per month
- 2023 (until 31 May): £3,975,000 per month

The funding agreement allows for a gradual reduction in the amount of investment risk.

As a result of good asset performance and an overall improvement in the funding position, the Trustee and the Company agreed to bring forward the de-risking step planned for 2024 to the end of 2021. This means that the security of members' benefits has been improved more quickly than expected, and accelerates progress towards the ultimate objective of self-sufficiency (i.e. no reliance on financial support from the Company). We will continue to monitor the position and look for further opportunities as they arise.

WHEN IS THE NEXT VALUATION?

The next valuation is scheduled to take place as at 31 October 2024. However, the actuary also carries out less detailed but more regular 'annual check-ups' on the Plan. The next review will look at the position as at 31 October 2022, and we will share these results with you in the Spring 2023 *Here's to Pensions*.

VALUATION UPDATE CONTINUED

WHAT HAPPENS IF THE PLAN CLOSES?

As part of the valuation, the actuary also looks at the funding level if the Plan was wound up (that is, the Plan was closed and the Trust ended). HEINEKEN has confirmed that it currently has no intention of winding up the Plan; we are just giving this information to help you understand the security of your benefits.

If the Plan had wound up as at 31 October 2021 (the date of the last full valuation), the actuary estimated that the Trustee would have had to pay an insurance company £4,585 million to provide all the benefits in full. This would have left the Plan with a shortfall of around £1,025 million, and a funding level of 78%. The funding level on winding up is therefore estimated to have improved since the 2018 valuation, when it stood at 70%.

The Trustee aims to have enough money to pay pensions and other benefits to members as they fall due, rather than having to pay an insurance company to provide the benefits, which can be very expensive.

PENSION PROTECTION FUND

The Pension Protection Fund (PPF) was set up in 2005 to compensate members of eligible UK pension schemes which are wound up when the employer is insolvent and the scheme does not have enough assets to cover members' benefits. All eligible pension schemes are required to contribute to the PPF by paying a levy each year. HEINEKEN has agreed to pay this levy for the Plan. Further information is available at: **www.ppf.co.uk**

WHAT IS THE ROLE OF THE PENSIONS REGULATOR?

The Pensions Regulator has the power to intervene in the funding of a pension scheme. The Plan has not been modified by the Regulator, is not subject to any directions from the Regulator and it is not bound by a schedule of contributions imposed by the Regulator.

HAVE ANY PAYMENTS BEEN MADE TO HEINEKEN?

No. We can confirm there have been no payments made to HEINEKEN from the Plan over the last 12 months.

ON THE MONEY

The 2020/21 financial accounts of the Scottish & Newcastle Pension Plan are summarised here. The Plan's independent auditors, RSM (who replaced Ernst & Young in November 2021 following a review by the Trustee), have confirmed that the accounts give a true and fair reflection of the Plan's financial transactions during the year. You can view the full Annual Report & Accounts on the Plan website, **www.snpensions.com**.

THE BOTTOM LINE

On 1 November 2020 the Plan was worth		£3,212.7m
PLUS	net change in the market value of the investments	£299.7m
PLUS	payments in	£103.4m
LESS	payments out	£169.7m
On 31 October 2021 the Plan was worth		£3,446.1m*

Payments in	£'000
Employer contributions	46,620
Investment income	56,792
Total	**103,412**

Payments out	£'000
Pensions	121,626
Cash paid when members retire or die	16,887
Benefits for leavers	18,293
Professional and administrative fees	12,854
Total	**169,660**

CHANGE IN PLAN VALUE

2021
£3,446m

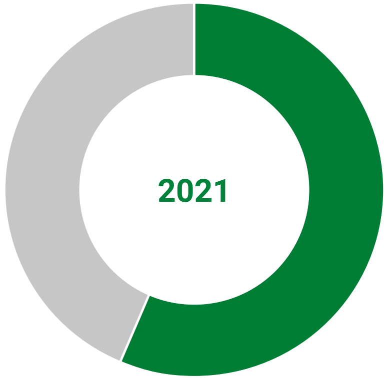
2020
£3,213m

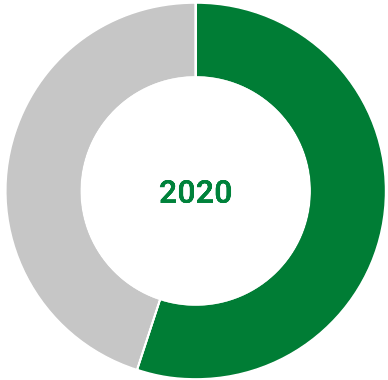
2019
£3,215m

* The asset value above differs from the value on page 5 as the treatment of certain assets in the accounts is different to that under the Plan valuation.

WHO’S IN THE PLAN?

At 31 October 2021 there were just under 33,500 members in the Plan, with overall numbers reducing by 831 over the year.





Pensioners	18,931
Deferred members	14,561
Total	**33,492**

Pensioners	18,914
Deferred members	15,409
Total	**34,323**

INVESTMENTS

The Trustee sets the investment strategy for the Plan, in consultation with its advisers, taking into account considerations such as the strength of the employer covenant, the long-term liabilities of the Plan and the funding agreed with HEINEKEN.

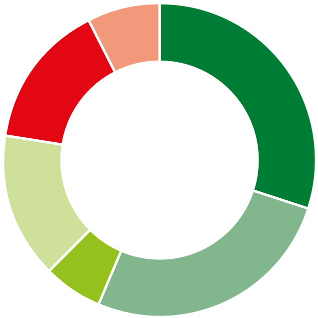
The investment strategy is set out in a document called the Statement of Investment Principles (SIP), which is available to download from the Plan website, **www.snpensions.com**. It's a public website so there's no need to register or sign in to view the document.

During the year, the Trustee updated the SIP to reflect a new strategic investment allocation aimed at further reducing risk. For example, the allocation to corporate bonds (lower but more stable returns) was increased from 12.5% to 26.5%, while the allocation to equities (higher returns but higher risk) was reduced from 20% to 6%. This de-risking was carried out ahead of schedule as a result of the funding level being ahead of target.

INVESTMENTS CONTINUED

BENCHMARK ASSET ALLOCATION

The new benchmark asset allocation is shown in the chart below:



Liability Driven Investments (which seek returns similar to our liabilities)	30%
Corporate Bonds	26.5%
Equities (including currency hedging)	6%
Higher Yielding Credit	15%
Private Markets	15%
Long Lease Property	7.5%

INVESTMENT PERFORMANCE

The Trustee sets a long-term performance target for the Plan, which is currently to outperform the growth in the Plan's liabilities by 2.45%. The Plan's performance against this target (called the 'benchmark') is set out in the table below.

	One year (%)	Three years (% p.a.)
Total Plan return	7.3	8.4
Benchmark	(0.4)	6.5

THE IMPACT OF THE WAR IN UKRAINE

The immediate effect of the invasion on investments has been volatility in global financial markets.
The Plan's investment strategy means that there is no direct exposure to Russian investments and, therefore, the impact on the crisis on the assets has been minimal.

RUNNING THE PLAN

5 MINUTES WITH… JILL ADAMSON

Jill, a deferred member of the Plan, was appointed a Member Nominated Trustee Director in September 2021, replacing Andy Ackerman who stepped down in February 2021.

What's your background?

I'm an accountant with a background in tax and financial reporting. I was international tax manager for Scottish & Newcastle (S&N), prior to the acquisition by HEINEKEN. I really enjoyed my time in the tax team at S&N and learned so much.

What attracted you to the Trustee role?

The Trustee role is attractive because it allows me to use those skills and challenges me to learn more. It's also a privilege to represent the members' interests.

What would you say the Plan does well?

From what I've learnt to date, the Plan is well funded and has a Board of Trustees who constantly strive to act in the best interests of the whole membership of the Plan.

And what could be improved?

Nothing stands still, particularly in the field of pension regulation and investments, so continual improvement is just one of the many roles of the Board of Trustees.

Is there anything about being a Trustee that you weren't expecting?

The sheer size of the Scheme. I was aware that I worked for a large organisation when I was at S&N, I just hadn't appreciated how large.

What's the one thing you'd like to do when you retire?

Live beside the sea and read lots of books.

What's your favourite HEINEKEN brand?

I'm really sorry, but despite repeated attempts by former colleagues, I still don't like beer or cider. Disgraceful, I know…

What do you like to do in your spare time?

Hill walking clears my mind like no other activity I've come across, particularly if there is a nice café with tea and cake at the end of the walk!

MEMBERS' CORNER

SPRING CLEAN YOUR PENSION

1 UPDATE YOUR EXPRESSION OF WISH

One of the most difficult issues for the Trustee is deciding how to pay any lump sum benefits that may be due if a member dies without completing an Expression of Wish form.

Your Plan membership provides valuable benefits for your loved ones, so it is important that we know your wishes, especially if your situation is complicated. Even if you think you have already completed one, it is a good idea to check regularly that it reflects your current circumstances.

You can update your nomination by completing an Expression of Wish online. Once you have registered for the online portal and logged in, please go to 'My Expression of Wish' tab and select 'add' or 'update'. This information will supersede any forms you have previously completed and will be viewable online.

Alternatively, you can print an Expression of Wish form to complete and return to Capita. Please note, if you've been in receipt of a pension from the Plan for more than five years, a lump sum is not normally payable on your death. Further details are shown on 'My Death Benefits' tab.

UNMARRIED BUT LIVING TOGETHER?

If you're married or in a civil partnership, and your Plan benefits under the Rules include a spouse's pension, then this would automatically become payable on your death.

However, if you're unmarried, then you need to nominate your partner to receive a benefit from your pension by completing an Unmarried Partner Declaration form. You can do this via the online portal (the Unmarried Partner Declaration is held on the same page as your Expression of Wish) or you can download a copy from the Plan website's library.

Regardless of whether you're married or not, you should also complete an Expression of Wish form in respect of any lump sum payments from the Plan (see left).

2 REGISTER FOR ONLINE ACCESS

The online portal is a secure website where you can review and update your personal details, including your bank account (if you're receiving a pension) and address, request a pensions quotation or transfer value (if you're a deferred member).

It only takes a few minutes to register. Just go to **www.snpensions.com** and click on 'Manage your pension'…then follow the instructions. You'll be asked to provide a few personal details that verify you are a member of the Scottish & Newcastle Pension Plan.

3 CHECK YOUR STATE PENSION AGE – MIND THE GAP!

Your normal retirement age from the Plan, which could be anything between 60 and 65 depending on your section, is different from your State pension age – which could be 66, 67 or 68, depending on when you were born. When planning your retirement, you might need to consider the income gap between taking your Plan pension and claiming your State pension. For example, you might decide to use your AVCs, if you have them, to fund this period of your retirement. You can easily check your State pension age online at **www.gov.uk/state-pension-age**

4 GET A STATE PENSION FORECAST

For many people, the State pension will account for a significant portion of their retirement income. Do you know how much you're on track to receive? You need at least 10 years of National Insurance credits to get anything under the new State pension rules, and 35 to get the full amount. If you have taken time off work to look after children, you can get National Insurance credits towards your State pension – even if you or your partner earn too much for Child Benefit. You can get a State pension forecast at **www.gov.uk/check-state-pension**

5 UPDATE YOUR ADDRESS

Around 270 Plan pensioners have suspended pensions. This means that payment of their pension has been stopped until we can trace them. We also have nearly 1,000 deferred members who are eligible to start receiving a pension but because we haven't heard from them and don't have an up-to-date address, we can't pay them. If you move home, please remember to update your details so that the Plan can keep in touch with you. If you change address, please remember to update your details so we can pay your pension.

PENSIONS NEWS

TRANSFERS & PROTECTING MEMBERS FROM SCAMS

The Pensions Regulator has introduced new procedures for processing pension transfers, giving powers to pension scheme trustees to intervene, where a transaction looks suspicious. While not all scams can be prevented, these procedures will help the Trustee and Capita to identify high-risk transfers or stop potential scams.

The new regulations include checks to see if transfers meet the following conditions:

- the receiving scheme is either a public service pension scheme, an authorised master trust or an authorised collective defined contribution (CDC) scheme
- if the receiving scheme is not one of the above mentioned, additional checks must be carried out to assess the level of risk and for the presence of red and amber flags.

If there are red flags, there's no statutory right to transfer, and the Trustee can stop the transfer. If there are amber flags, the member must get guidance from MoneyHelper before the transfer can go ahead.

PENSION AGE CHANGES

The State pension age is going up to age 67 in 2028, with a further increase planned to age 68 between 2037 and 2039. There's a 10-year gap between the State pension age and the minimum pension age, which is the earliest you can take your benefits from a workplace or personal pension plan – so when the State pension age rises, so does the minimum pension age. The government has confirmed that the planned increase to the minimum age from age 55 to age 57 will go ahead in April 2028. This may affect you if you have plans to retire early and you're in your mid to late forties. You can easily check your State pension age online at **www.gov.uk/state-pension-age**

PLSA UPDATES RETIREMENT LIVING STANDARDS

The Pensions and Lifetime Savings Association (PLSA) launched 'Retirement Living Standards' two years ago to help people understand how much they need to save into a pension to achieve different living standards – minimum, moderate or comfortable. The PLSA recently published updated figures, to ensure they remain in line with changes in spending habits and price increases. For a single person the minimum target now is £10,900 (an increase of £700), £20,800 (moderate) and £33,600 (comfortable). Find out more at **www.retirementlivingstandards.org.uk**

GMP EQUALISATION

Behind-the-scenes work to adjust members' Guaranteed Minimum Pensions (GMPs) so that men and women receive equivalent benefits, as reported in last year's newsletter, continues. We will be in touch with you if you are affected by this, so you don't need to take any action.

REPLACING RPI WITH CPI

In November 2020, the UK Statistics Authority and the Chancellor of the Exchequer announced their intention to replace the Retail Prices Index (RPI) with another measure of inflation, the Consumer Prices Index + owner occupiers' housing costs (CPIH), from 2030.

Due to differences in the way RPI and CPIH are calculated, CPIH tends to be about 1% lower than RPI. If RPI was to be effectively replaced with CPIH, this would mean that lower annual increases would be applied to pensions in payment and there would be an impact on the value of certain investments which are held by the Plan.

In April last year, the trustee boards of several large UK pension schemes announced that they were seeking a judicial review of this decision. The review was granted and the court case is expected to take place later this year.

We will keep you updated on developments.

CONTACT US

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