NSG GROUP

Reflections

Scheme's investment portfolio largely stable through 2015

says Chairman **Keith Greenfield**

AS 2015 DRAWS to a close I am writing this letter to you summarising another busy year for the Trustee and administration team at Pilkington Superannuation Scheme.

The triennial valuation had an effective date of 31 December 2014 so completing that was the major focus for the first half of 2015. A Committee of the Trustee was established to discuss and negotiate the issues associated with the valuation with the Company's representatives. The groundwork done during the 2011 valuation negotiations resulted in a strategy for the future which is still robust and appropriate and which enabled the parties to agree upon the assumptions, recovery plan and strategy for the future of the Scheme, in a relatively short time. The Trustee Board was able to approve the agreement, which had been reached with the Company, at its June meeting and the Company obtained its internal approvals in July. The outcome of the valuation is not really any surprise since the position is tracked monthly. However, certain assumptions were updated, for example more up-to-date mortality tables were used, and these feed into the final figures.

The results continue to disclose a deficit in the Scheme but the position is not as bad as in 2011. On an ongoing basis – so assuming the Company and Scheme continue to operate as now – the deficit at 31 December 2014 was £126 million. This deficit has been reduced from £289m at 31 December 2011 through a combination of cash contributions from the Company and better investment returns than were anticipated in 2011. However, whilst progress is clearly being made, £126m is still a significant sum of money and the efforts of the Trustee are directed towards reducing this negative number and ultimately to achieving a position whereby the Scheme is effectively self sufficient and will no longer have to rely on the Company for additional cash contributions.

This is also the stated aim of the Company and the efforts of the Company in meeting all its obligations towards the Scheme in full and on time during its recent very difficult trading position should be recognised and appreciated by the Trustee and the membership. The Trustee reviews the strength of the Company covenant, that is the Company's ability to meet its obligations to the Scheme, on a regular basis after the publication of the annual and half-year results. It retains a specialist firm, Gazelle Corporate Finance Limited, to perform this review and this firm was an integral part of the Trustee's team of advisers during the valuation negotiations. The Trustee Board has the benefit of a presentation of the annual and half year results by the Company together with the opportunity to question senior members of the Finance function and the Board is grateful to Mark Lyons, NSG Group CFO, who attends one meeting a year to give the Board his views on the financial position of the Company and the outlook.

There has been more to 2015 for the Scheme than the valuation. The new pensions legislation which has resulted in individuals having more choice about how to take their pension in certain circumstances has also led to more work for the administration team in order to make those affected aware of the new possibilities. In addition the administration team was asked by the Actuaries advising each of the Trustee and the Company to obtain information about the marital status and where appropriate the spouses or partners of the retired membership. This information will enable more accurate assumptions to be made in valuing the Scheme's ongoing liabilities and can also be used to assist an insurance company in the event that the Trustee decides to add to the existing longevity insurance or insure any portion of the liabilities. The Trustee thanks the membership for the very high level of response to this request for information.

The Scheme's investment portfolio has remained largely stable through 2015 although there have been some changes. The Valuation brings with it the revised cashflows for the Scheme and these were shared with Insight, the manager which ensures the Scheme is appropriately hedged against interest rate and inflation rate movement. Insight manages a large proportion of the portfolio and is reviewed regularly. The Trustee has decided to allow Insight a limited level of discretion to reduce the cost of creating the hedge or to achieve a slightly higher yield whilst ensuring that the overall level of the hedge is maintained at the specified level. This change took quite some time to process but has now been agreed and implemented.

The full Board of Directors of the Trustee meet the fund managers (apart from State Street Global Advisers and Legal & General

...continued on back page

OUR LOCATION

Group Pensions Department is now located on 2nd floor at Lathom. The full postal address and contact telephone numbers are below. If you have any queries about your pension please contact us at:-

Pilkington Group Pensions Department,
NSG European Technical Centre
Hall Lane, Lathom, Nr. Ormskirk,
Lancashire
L40 5UF

Tel: 01744 692596 Fax: 01744 737336
Email: pensions.administration@nsg.com

For queries about healthcare please contact BUPA Helpline on 0845 606 6715

For queries about Income Tax please contact HM Revenue & Customs on 0300 200 3300

Group Pensions Department **cannot** help with queries about BUPA or income tax.

MEMBERSHIP

	31 December 2013	31 December 2014
ACTIVE MEMBERS	1248	1073
DEFERRED	3160	3166
PENSIONERS /SPOUSES	11119	10868
TOTAL	15527	15107

YOUR LOCATION

Please remember to inform Group Pensions Department if you move house. We do our best to keep in touch with the membership and we do carry out tracing exercises for those with whom we have lost contact but it does make sense for the members to tell us of any changes so we can update records and contact you when necessary without delay.

EXISTENCE CHECKS

Just the usual reminder that these checks are now part of the annual cycle of administration exercises to comply with the obligation under the longevity insurance contract. The Scheme's administration team thank you for your continuing co-operation and assistance in this exercise.

THE TRUSTEE BOARD

The Pilkington Superannuation Scheme is operated and managed on behalf of the membership by a Corporate Trustee – PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED. This company is represented by its Board of Directors which comprises up to 14 Directors. There are currently 14 Directors with no vacancies.

As at 1 December 2014 the **Directors of the Trustee** were:-

Secretary: Miss J.P. Halligan
Pilkington Brothers Superannuation Trustee Limited,
Group Pensions Department, NSG European Technical Centre, Hall Lane, Lathom, Nr. Ormskirk, Lancashire L40 5UF
Tel. (01695) 50000 Fax. (01744) 737336

Note: 'E/ee' denotes the director is directly elected for a fixed term by the PSS members (where the abbreviation is 'E/ee P' by the pensioners)

* denotes the director is in receipt of a PSS pension.

ADVISERS

The Board of the Trustee has appointed the following advisers to support its work in administering and managing the PSS:-

Scheme Actuary:	Jane Curtis (FIA) of Aon Hewitt Limited
Investment Consultant:	Towers Watson Limited
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Hogan Lovells International LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisors Limited
	CBRE Global Collective Investors UK Limited
	Henderson Global Investors Limited
	Legal & General Assurance (Pensions Management) Limited
	Insight Investment Management (Global) Limited
	Nephila Capital Limited
Custodian:	JP Morgan Chase Bank

PERSONAL INFORMATION

Pensioners and recent retirees will be aware that the Trustee and Company have asked Group Pensions Department to collect and maintain information about dependants. These details were requested during 2015 and the response was excellent for which many thanks. This is simply a reminder, with several others in Reflections, to 'keep this information up-to-date'. Circumstances change and it would be greatly appreciated if you would advise us of any changes to the information provided this year.

TAXATION AND PENSION SAVING

Recent announcements mean that from April 2016 there are to be further changes to the Lifetime Allowance and the Annual Allowance. These allowances were introduced first in 2006 and set out the limits to the amount of tax efficient saving which an individual may make either during a career (lifetime allowance) or during a year (annual allowance).

From April 2016 the Annual Allowance ('AA') will reduce from £40,000 p.a. if an individual's adjusted income is more than £150K. The reduction is gradual in proportion to earnings above this level and ultimately reaches £10,000 p.a. if adjusted income is £210,000 or more. Transitional arrangements are in place meaning the AA works differently for 2015/16 tax year.

Anyone whose threshold income is £110,000 or less is excluded and the new rules don't apply – so what is threshold income? This is all taxable income (excluding pension contributions) BUT any employer contributions paid as a result of any new salary sacrifice arrangement introduced after 8 July 2015 will be included. All taxable income from employment e.g. salary, bonus, incentive payments, shift allowance etc. or investment or rental income, interest, dividends etc. must be included.

If (and only if) threshold income meets the £110,000 then adjusted income must be calculated. Adjusted income is all UK taxable income before any deductions for personal contributions to a pension, plus any employer contribution (including amounts paid via salary sacrifice) to a DC plan and any accrual for a DB plan.

If this adjusted income exceeds £150,000 p.a. then from April 2016, the £40,000 AA will be reduced by 50p for every £1 of adjusted income above £150,000 until it reaches £10,000 at adjusted income of £210,000 or over.

If you think you may be affected then you should ask for further information. Unused AA from the past three years is available to offset against excess pension saving above the AA which may solve the issue. The calculation of threshold income and adjusted income and whether the different limits are met can be very dependent upon for example whether the bonus plans pay out. It may be an issue one year but not the next.

If the AA is exceeded (after applying any previously unused AA carried forward from earlier years) then this must be declared on the Self Assessment Tax Return and income tax paid at an individual's highest marginal rate. If the tax charge exceeds £2,000 you can ask the Scheme to pay the tax on your behalf in return for a reduction to your pension.

There is a change to the Lifetime Allowance ('LTA') from April 2016. The LTA is the maximum value of total pension benefits which can be built up over a career without incurring a tax charge. Currently the LTA is £1.25m. From 6 April 2016 the LTA will be reduced to £1m. Savings in excess of the LTA will be subject to the LTA tax charge which is calculated at the time your pension is put into payment. There is a commitment from the Government to increase the LTA each year from 6 April 2018 in line with the Consumer Price Index.

An individual therefore must consider whether the total combined value of all their pension savings may exceed the LTA at the time the benefits are taken. This includes both the defined contribution savings plus any defined benefit benefits. The value of DC benefits is the fund value. Defined benefit scheme benefits are valued by multiplying the value of the initial annual pension in payment multiplied by 20 plus any tax free lump sum and AVC account.

Anyone who at April 2016 exceeds £40,000 deferred PSS pension has been notified since this equates to £800K worth of saving against the LTA. If they have additional pension elsewhere and exceed the £1m new allowance limit, they may apply to protect the amount above £1m up to the existing £1.25m level.

FUND CASH FLOWS

(all figures in £ thousands)

FUND VALUE AT 31 DECEMBER 2013 = 1,408,949

Contributions from Employer
6,252 Normal

2,455 Additional

25,166 Deficit Funding

Contributions from Employee
2,957 Normal

116 AVCs

24,955 Investment Income

256,532 CIMV investments

-71,072 Pensions Paid

-5,931 Lump Sum at Retirement

-913 Death Benefits

-2,743 Leavers

-1,917 Investment Management Expense

FUND VALUE AT 31 DECEMBER 2014 = 1,644,806

The End of Contracting-Out

From 6 April 2016 the new single tier state pension will be introduced, meaning that the earnings-related element of the state pension will no longer accrue. All defined benefit (DB) arrangements will cease to have contracted-out status from this date. The immediate impact for employers, which sponsor a contracted-out DB scheme, is an increase in payroll costs because the reduced rate of National Insurance contributions, applicable to workers in contracted-out employment, will be removed. Members too will experience an increase in their National Insurance contributions.

Employers are permitted to offset this increase in costs by amending the rules of the scheme either by agreement with the Trustee and consultation with the members or by using a statutory override power to reduce accrual rates and/or increase member contributions.

NSG has chosen not to exercise this power and has introduced a salary exchange arrangement to mitigate to some extent this increase in National Insurance contributions for itself and the members. Consequently there is no intention to make any changes to the PSS despite the increase in the cost of accrual. And this comes in addition to the Company absorbing the higher cost of accrual already identified in the 2014 Valuation – it is now 16.9% of pensionable salary for lower accrual members and 21.5% for higher accrual members rather than the 12.5% and 16% respectively which has been the cost to the Company since 2008.

Protection for existing contracted-out rights is being maintained with some variations to reflect the abolition of DB contracted-out status. The PSS administration team has been working for some time now to reconcile the information held by it with that held by HMRC. This is an immense task and will continue beyond April 2016 but will have to be completed by December 2018 when HMRC has stated it will close its records. For members once the pension is in payment, the Scheme is required to increase annually that part of the pension which represents guaranteed minimum pension ('GMP') accrued between 6 April 1988 and 5 April 1997. Under current legislation increases to GMP accrued before this period, and any increases to post 1988 GMP in excess of 3%, are funded by the State via the State Pension. From 6 April 2016 the Scheme will continue to pay the same increases as it does currently but the new regime does not contain any mechanism for continuing the increases paid at present by the State for people with GMPs who reach State Pension Age on and after 6 April 2016.

...continued from front page

Investment Management who manage only index tracking funds for the Trustee) annually during a day of presentations by the managers who are asked about performance, procedures, governance and personnel as well as any new ideas they may be developing for future investing.

Towards the end of the year, after the valuation had been agreed, the investment portfolio composition was such that the expected return was slightly less than the assumption used in the valuation. It was therefore decided to increase the allocation to an infrastructure equity fund run by Legal & General to 5% and to look again at possibly awarding a mandate to a Secure Income Investment manager. At the time of writing no decision has been taken about this so I will report further next year.

The Board continues with a calendar of five meetings each year, both the Investment and the Audit & Risk Committees meet four times and the Ill Health Committee meets as required. The burden on the Trustee Directors does not get any lighter and there is constant change in the pensions environment whether legislative or governance with increasing regulation and guidance issued on a regular basis. The Directors work hard on behalf of the membership and are to be thanked and congratulated for their continuing diligence and application in keeping up-to-date with everything and attending the regular training provided for them.

Next year, 2016, will doubtless bring its own challenges and issues. There may be elections for two of the Member-Nominated Directors as the term for two, Darren Gilchrist and Kevin McKenna, finishes at the end of June. Each of Darren and Kevin is now an experienced Director and sits on committees of the Board. They have contributed fully to the operation of the Board for many years and are eligible for re-election should they choose to stand again.

The Statement of Recommended Practice ('SORP') for the financial reports of pension schemes is changing and the PSS accounts at 31 December 2015 will be prepared in accordance with the new SORP. The preparation for this began mid-way through the year with the re-stating of last year's accounts and familiarisation with the new requirements. The Scheme's auditors, PricewaterhouseCoopers, gave training to the full Board on the difference from the previous practice and how the new regime will affect the accounts. It is important that the accounting team is well prepared as the custom now is to have the accounts approved and signed before the end of March – so within three months of the year end – in order that a new valuation on the Pension Protection Fund ('PPF') basis can be completed on the basis of the latest accounts and filed before 31 March. In recent years, the completion of this revised valuation has led to significant savings in the PPF levy which is a major cost associated with the PSS. In 2015 this work saved around £800,000 off the levy which was still around £1,000,000 – a substantial outlay for the Company.

The Trustee monitors the administration of the Scheme closely and has watched the levels of transfer requests, completed transfers, people opting out of the PSS and those taking trivial commutations for any change in behaviour. The new pensions freedoms were, and continue to be, widely covered in the press so it was unclear what the impact would be. In reality it has been relatively limited. There have been a number of people whose level of pension meant they could take it as **one** taxable cash sum who have done just that. The administrators contacted anyone who was likely to be able to do this but take-up has not been huge. Whilst the Government, in announcing the new measures acknowledged that most people in Defined Benefit Schemes may be well advised to remain there, it was still thought that there would be those who would transfer out to a Defined Contribution scheme to avail themselves of the new freedoms. In fact, very few, if any, have done so and despite many requests for transfer values, these requests are rarely progressed.

This brings me to my final comments which concern pension scams. The administration team make every effort to investigate the bone fides of the schemes into which people do request to transfer and that the financial adviser is appropriately authorised. However, if you are contemplating a transfer of a pension fund then I recommend that you visit the Pension Regulator's website and search for 'scams'. This will help you to recognise the warning signs which may suggest that all is not quite as it has been represented.

So it remains for me to thank the remaining Trustee Directors for their work and support during the past year and to look forward to 2016 with all it brings. May I also take this opportunity to wish you all a very Happy Christmas and a healthy New Year.

FINANCIAL ADVICE

Don't forget that no-one in Group Pensions Department nor any of the Trustee Directors is authorised or allowed to give financial advice. Please do NOT ask the administrators for advice; for their opinion; for what they would do if in your circumstances. The law prevents them from replying to you in such cases. Please address your request for advice to an independent financial adviser who is trained and authorised to advise you.

You should be aware that before any transfer of benefits from PSS may be made, the Trustee must have written confirmation from an independent financial adviser that the adviser is properly authorised by the Financial Conduct Authority to provide advice in relation to transfers from a defined benefit occupational pension scheme and that he/she has provided advice to the member about the transfer which is being contemplated. Thank you.

PENSION SCAMS – DON'T GET STUNG

This headline is from the Pensions Regulator's ('tPR') website and its pack for trustees and administrators to help them to protect their members from pension scams. Initially tPR referred to these as 'pension liberation' but has changed this terminology to pension scam as liberation was thought to imply that this is beneficial when quite the opposite is true.

Since the changes to the law enabling the taking of a defined contribution fund as cash (25% tax free and 75% taxable) the scammers have become more active, more sophisticated and consequently more plausible and convincing. There are certain warning signs which may indicate a scam rather than a legitimate scheme.

Some of the most common tactics used by scammers are:-

1. A cold call, text message, website pop-up or even someone coming to the door offering a 'free pension review' a 'one-off investment opportunity' or a 'legal loophole' or claiming to be from the Pensions Advisory Service; Pension Wise or other government endorsed body. Such contact would always be initiated by yourself not by any of these bodies.

2. Convincing marketing materials that promise returns of over 8% on your investment

3. Offering access to your pension before age 55 when you are not in ill health

4. Offering overseas transfer of funds often to property or green energy plantations

5. Paperwork delivered to your door by courier who requires immediate signature

6. A proposal to put all your money in a single investment – in most circumstances, financial advisers prefer to diversify investments into different assets.

These approaches will usually be to people with a defined contribution fund but they do also promise pensioners with defined benefit pensions that they can obtain cash for them. If you are the subject of one of these lines of approach, then have a look at tPR's website or contact the Pensions Advisory Service and/or Pension Wise. Seek professional financial advice from an adviser authorised by the Financial Conduct Authority (www.fca.org.uk/register). The FCA also keeps a list of known investment scams which can be checked at www.fca.org.uk/scamsmart.

A common sign that all may not be as it seems is for the person offering the 'opportunity' to be pushing you to make a decision and sign forms quickly with no time for reflection and proper consideration. This sort of behaviour should make you question why there is such a rush and whether the proposed scheme is genuine. The key is not to sign anything you don't understand and to take independent financial advice from an authorised adviser. It may be trite but it is usually correct that if something seems to be too good to be true, it generally is.