SCHEME UPDATES

MARKET VOLATILITY

ANNUAL ALLOWANCE AND LIFETIME ALLOWANCE

WHO RUNS THE SCHEME?

THE EE PENSION SCHEME UNFOLDED

Defined Benefit Section news
December 2015

WELCOME

This newsletter provides an update relating to the Defined Benefit (DB) section of the EE Pension Scheme.

Scheme updates

Section 251 of the Pensions Act 2004

In order to satisfy a legal requirement, the Trustees are obliged to notify Scheme members of their decision to exercise powers under section 251(3) of the Pensions Act 2004 to take effect from 1st April 2016. You aren't required to take any action as a result of this.

This notice is to let you know that the Trustees have been considering a specific technical issue concerning payments to the employers. Under the Scheme rules and legislation there are limited circumstances in which such payments can be made, if the Trustees feel it is appropriate to do so. Also, if the assets in the Scheme were ultimately to exceed all benefits payable, then once benefits had been secured in full (including any increases payable to members), any remaining assets would be payable to the employers.

Because of a change in the law relating to payments to employers, the existing powers in the Scheme would fall away in April 2016, unless the Trustee pass a resolution before then to retain the powers. The Trustees have taken legal advice and having considered this issue are satisfied that it is in members' interests to retain its existing powers and pass a resolution to achieve this. Please note that no new power is being introduced. The DB section is currently in deficit and the Trustee would like to reassure you that there is no current intention to make any payments to the Employer.

Investment accounts in the DC section cannot be refunded to the Employer.

Use of personal data

In providing actuarial services to the Trustee, the Trustee, its adviser Aon Hewitt and the Scheme Actuary, require access to personal data about members and their dependants. The Data Protection Act governs how the Trustee, Aon Hewitt and the Scheme Actuary use and store personal data. Members can find out more information about how their personal information is used in the provision of actuarial services at **www.aonhewitt.co.uk/privacy-statement**. If you have further questions regarding the processing of your personal information, please contact the EE HR Reward team in the first instance. General guidance is also available from **www.ico.org.uk**

Recent market volatility

This section provides some context on the performance of the DB Scheme assets during the recent period of market volatility.

China-led market volatility

All regions suffered significant losses in recent months, as concerns over a global growth slowdown and an uncertainty in China dominated equity markets. The concern has been over Chinese growth following weak economic data and also worries that the small Chinese currency (renminbi) devaluation in August implied that the Chinese authorities had concerns about their economy. With equity markets in the US and UK reaching record highs earlier in the year, despite mixed economic performance and earnings results, investors have been particularly wary of potential bad news for global markets, not least that coming from the world's second largest economy. The result has been the volatility seen in global equity markets since August.

Global equities fell by 5.9% in sterling terms over the third quarter of this year. The US and Europe ex-UK were the strongest performing regions for UK investors. Closer to home, in the UK, concerns over a lack of demand from China affected returns as global commodity stocks (which hold significant weight in the FTSE index) were most hard hit. At its lowest point in the third week of August, the FTSE All Share was down c.9% from its end of June close.

Emerging Markets were affected both from weak Chinese demand for exports and the weak global growth outlook (with less developed internal economies they are inextricably tied into the global growth outlook). They were the worst performing category, falling by 14.6% in Q3.

European Crisis?

European equity markets were dominated by the Greek debt crisis. An air of normality temporarily appeared to return to European markets when Greece reached a deal with its creditors in July. However, this relative calm was short lived as the Greek Prime Minister resigned in August and then won elections in September. The new government has agreed to push through creditors' reforms. Although the turmoil in European markets seems to have abated for now, the landscape is not without risks. Recent elections in Spain highlighted further political fragility, inflation remains low, and there are still structural problems within the Eurozone that have not been properly dealt with.

US

Despite strong US GDP growth figures and low unemployment figures the Federal Reserve didn't raise rates in September from its current level (0.25% p.a.), where it has remained since 2009. This inaction is despite continuing gains in the US job market, declining unemployment, and upward revisions to growth forecasts. These positive developments were offset by inflation, which has continued to run below the Fed's longer term objective, reflecting declines in energy (oil) and non-energy commodity imports. The Fed indicated it would raise rates when it sees further indications of inflation pressures and improvements in the labour market, although it did not specify what measures it was referring to with regards to labour.

Yields fall back providing a boost for bond investors

Yields have moved down as renewed pessimism about global growth and the speculation of interest rate increases drove sentiment. The increase in risk aversion drove strong returns on the FTSE All Gilts Index (3.1%) which was more pronounced for longer dated Gilts.

Impact on Scheme assets

The recent market volatility impacted the Scheme's ongoing funding level, which fell by around 2% over the three months to 30th September 2015 to approximately 72%.

The funding level is monitored by the Trustee. There are currently no concerns. A full review will be carried out as part of the next triennial Actuarial Valuation due as at 31st December 2015.

Annual and Lifetime Allowances

The following is provided for information only as it's a members responsibility to ensure that they take the necessary action for any allowance changes made by the Government. If you think you might be impacted by the AA or LA changes, you should contact an independent financial adviser. You can visit **www.unbiased.co.uk** for details of financial advisers you could contact.

Annual Allowance (AA)

This is the amount of retirement savings you can pay into a pension arrangement tax efficiently each year across all your registered pension schemes. The limit is currently £40k pa. If you have started accessing any of your taxable retirement savings on a flexible basis you will have a lower AA of £10k pa.

As part of the Summer Budget 2015, the Government announced changes to the AA from April 2016 which will apply to you if you are not already subject to the £10k limit (as previously mentioned).

- If your taxable income* (including pension contributions) is less than £150k, the AA will remain at £40k for the tax year.
- If your taxable income* (including pension contributions) is more than £210k, the AA will be £10k for the tax year.
- If your taxable income* (including pension contributions) is more than £150k but less than £210k, there's going to be a tapered approach. The AA will be scaled to be between £10k and £40k with a reduction rate of £1 for every £2 that income exceeds £150k.

There's also a 'Threshold Income' in that if your taxable income (excluding pension contributions) is less than £110k, the AA will be £40k for the tax year.

You can find more information on the AA, including the tapered approach, on the **gov.uk** website.

Lifetime Allowance (LA)

The Government will reduce the LA for pension savings (i.e. the maximum amount of pension you can build up in pension arrangements without incurring a tax charge) from £1.25 million to £1 million from 6th April 2016.

Transitional protection for pension rights already over £1 million will be introduced alongside this reduction to ensure the change is not retrospective.

See the **HMRC Pension Scheme Newsletter 73** for more information on how the new protections will work.

Who runs the Scheme?

The EE Pension Scheme assets are held on trust and are completely separate from the assets of EE. The trust is operated by EE Pension Trustee Ltd.

Your current Trustee directors are:

Contacts.

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Produced by the EE Pensions Team.

Thirteen 3642 December 2015.