Scotia Gas Networks Pension Scheme

Summary funding statement 2020

An update from the trustees

Welcome to the 2020 summary funding statement for members of the Scotia Gas Networks Pension Scheme (the scheme).

What is a summary funding statement?

Every three years, the scheme's actuary carries out a financial review of the scheme – known as an actuarial valuation. The actuary also carries out annual updates in between each actuarial valuation, and these results are given to members in the form of a summary funding statement.

The scheme's most recent formal actuarial valuation was completed as at 31 March 2018 and the next one is due at 31 March 2021. In this summary funding statement, we look at the scheme's estimated financial position as at 31 March 2020, comparing this with the results of the latest actuarial valuation.

What were the results?

The trustees are pleased to report that the scheme's funding level has improved from 90% as at 31 March 2018 to 95% as at 31 March 2020. While funding levels are expected to fluctuate over time, the table below shows that the scheme's funding position has remained broadly stable over the past year.

Date	Assets	Liabilities	Funding level	Surplus/ (Deficit)
March 2018	£1,059m	£1,172m	90%	(£113m)
March 2019	£1,135m	£1,197m	95%	(£62m)
March 2020	£1,165m	£1,222m	95%	(£57m)

As you can see from the table above, the funding level has remained stable since the last review, which was carried out as at 31 March 2019, with the scheme's deficit reducing from £62m to £57m as at 31 March 2020. This is mainly due to better-than-expected investment returns and contributions received from the Company. Paying transfer values has also helped the funding position (see page 7 for further explanation).

What is an actuarial valuation?

These valuations test the scheme's ability to meet its commitments to members. They are carried out by the scheme's actuary who makes assumptions about expected investment returns, inflation and salary growth, as well as how long members are expected to live.

The actuary then estimates how much money the scheme might need to pay members' promised benefits (the scheme's liabilities) and compares this to the amount of money in the scheme (its assets). Any shortfall in assets is referred to as the deficit.

What is the funding level?

This is the headline figure produced by the actuarial valuation and is an indicator of the scheme's financial health at that time. If the scheme has exactly the same amount of assets and liabilities the funding level would be 100%.

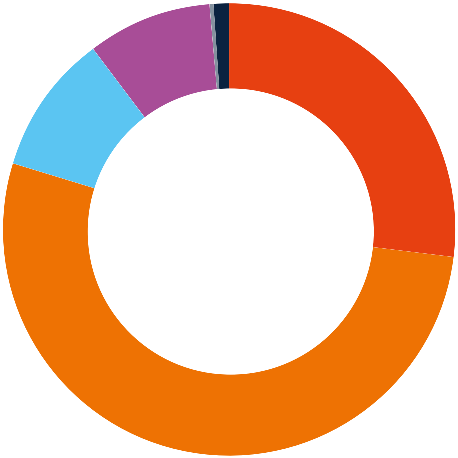
What does this mean for me?

Our scheme is a defined benefit scheme. The amount of pension you will receive at retirement will be based on how long you were paying into the scheme and your final pensionable pay.

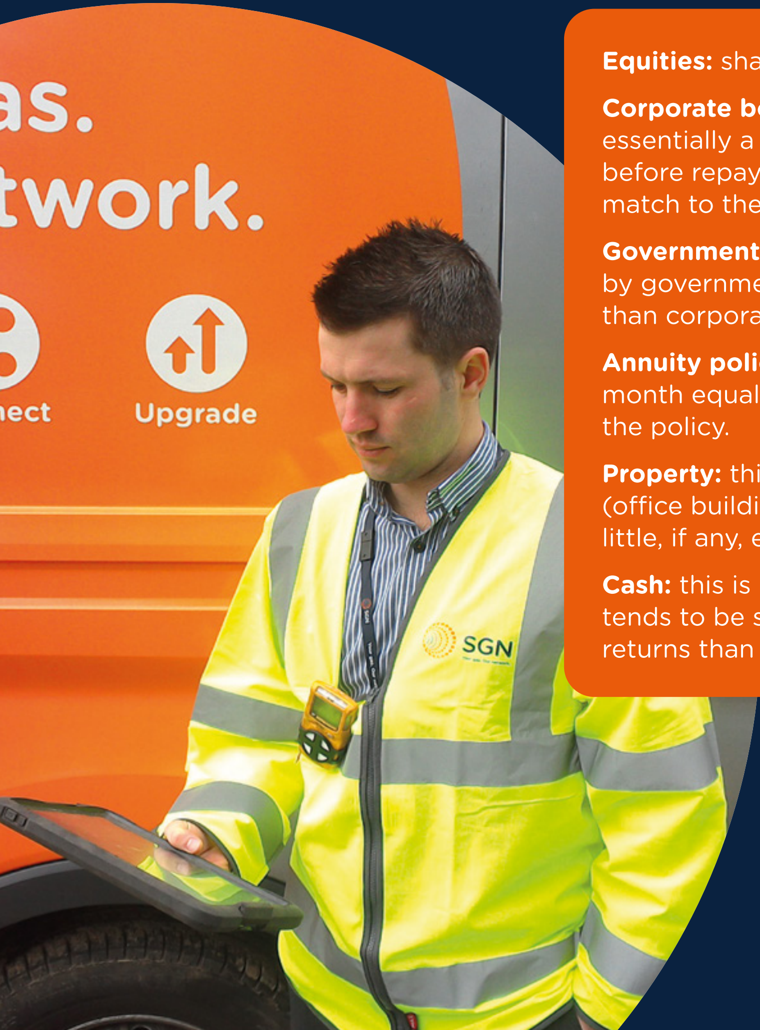
Active members and the Company pay contributions to the scheme. The scheme's investment managers invest the contributions into a fund, with the aim of increasing its value. The trustees then use the money in the fund to pay pensions for all members when they become due. This money is held in a common fund, not in separate funds for each member.

How are the scheme's assets invested?

The scheme's investments are held in trust which is run by the trustees and separate from the Company. The trustees' policy is to invest in different types of investments – the allocation as at 31 March 2019 is shown in the chart.



Corporate bonds and loans	27%
Government bonds	53%
Equities	10%
Annuity policy	9%
Property	0.1%
Cash	0.9%



Equities: shares in a company.

Corporate bonds: issued by a company to raise money, which is essentially a loan to a company where the borrower pays interest before repaying the loan when it matures. Bonds provide a better match to the scheme's pension payments.

Government bonds: these are similar to corporate bonds but issued by governments. UK government bonds are called gilts and less risky than corporate bonds or equities.

Annuity policy: this policy pays an income into the scheme each month equal in value to the members' pensions that are covered by the policy.

Property: this type of investment is generally in commercial property (office buildings and shopping centres) and agricultural land with little, if any, exposure to residential property.

Cash: this is money held on deposit in a bank. A cash investment tends to be seen as a low risk but is also expected to offer lower returns than other investment types.

Investment strategy

The scheme needs to take some investment risk in order to deliver the benefits promised to members. The trustees actively monitor the scheme's investment strategy, supported by their investment advisers. As the scheme's funding level has continued to improve over time, the trustees have been able to reduce the amount of investment risk within the scheme. This is consistent with the trustees' objectives to manage risk in a controlled and measured way in order to reduce the volatility in the funding level and increase the security of members' benefits.

In November 2016, the trustees purchased a bulk annuity policy with Pensions Insurance Corporation (PIC). This transaction, often referred to as a 'buy-in', helps to protect the scheme as a whole against investment and other risks and, therefore, helps protect the security of your benefits. This buy-in does not give priority to any particular member's benefit and will not affect your benefit entitlement.

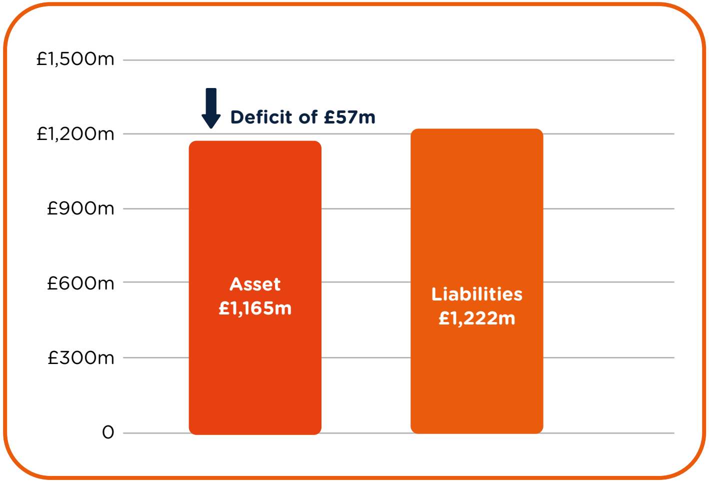
Transfers out of the scheme

Over the year, a number of the scheme's members have opted to take a transfer value (this involves members taking the value of their benefits in the scheme to another approved pension arrangement). As such, assets have been used to pay for these transfer values. Although transfer value activity has been lower than in previous years, this has still helped reduce the scheme's liabilities and the associated risk from paying members' benefits in the future.

If all members took transfer values, there would be surplus assets left over. Please note, only active and deferred members are eligible to transfer-out their benefits, and this option is not available to those members whose pension is in payment.

The position as at 31 March 2020

The scheme's assets were valued at £1,165 million as at 31 March 2020 and its liabilities at £1,222 million, leaving a deficit of £57 million.



Assets: amount available in the scheme to pay benefits.

Liabilities: estimated cost of providing benefits for scheme members.

How is the remaining deficit removed?

The trustees have agreed a strategy with the Company, known as a recovery plan, which aims to eliminate the deficit by 31 March 2027.

In addition to the contributions the Company pays to meet the Scheme's ongoing commitments, it has agreed to pay £23.5 million a year, less 2.7% of salary roll, until 31 March 2020 followed by £12.5 million a year from 1 April 2020 to 31 March 2027. This is documented in the scheme's schedule of contributions, a copy of which is available on request.

Protecting your benefits

The Company remains committed to supporting the scheme so that members' pensions are paid in full. This includes paying the contributions outlined on page 7. However, if the Company was no longer able to support the Scheme, your benefits would be protected in a number of ways.

The Scheme could continue without the Company's support

No more benefits would build up, and no new contributions would be paid, but pensions could continue to be paid.

The scheme could be wound up

When a scheme is wound up, its assets are sold, and the money is used to buy policies from an insurance company which will pay members' pensions in the future. Securing members' benefits in this way is expensive as insurance companies have to accept a one-off payment to pay pensions for life. On this basis, had the scheme wound up on 31 March 2018, there would have been a deficit of around £153 million. While this is a very large sum of money, it's a theoretical figure since there are no plans to wind up the scheme, and it is consistent with other UK schemes.

The Pension Protection Fund (PPF) could take over

The PPF aims to provide compensation to members of final salary schemes if their employer goes out of business and the pension scheme does not have enough money to pay the benefits promised. You can find out more about the PPF on their website at **www.ppf.co.uk**

We are required to provide this information in the interests of openness and transparency. The trustees have no reason to believe that the Company will find itself in a position where it can no longer support the scheme.

Payments to the company from the scheme

There have been no payments to the Company from the scheme in the last year.

Post 31 March 2020 update

Over 2020, the trustees continued to look at ways to further reduce risk within the scheme to help ensure the long-term security of your benefits. In December 2020, the scheme purchased another bulk annuity policy with Just Retirement Limited (Just), and this will be reflected in next year's summary funding statement. Similar to the buy-in policy with PIC, this buy-in does not give priority to any particular member's benefit and will not affect your benefit entitlement.

In order to make the payments to the scheme, Just requires certain information about scheme members covered by the policy. As such, a copy of Just's privacy notice providing more details on the personal information that they hold on those members and how they will use this data can be found on our website.

Looking for financial advice?

Pensions can be complex and neither the trustees nor their advisers can give you advice. If you need financial advice, you should consult a financial adviser. You can find an adviser in your area at **www.unbiased.co.uk**

If you are thinking of leaving the scheme, you should talk to a professional adviser before you do so. If you do consult a financial adviser there may be a charge, which you will be responsible for paying.

The Pensions Regulator

The Pensions Regulator aims to help protect members' benefits by acting as a watchdog, ensuring that employers and trustees are fulfilling their responsibilities and that schemes are being run effectively. The Pensions Regulator has powers to intervene in the running of schemes if necessary. You can find their website at **www.thepensionsregulator.gov.uk**

GOV.UK

The government's website has plenty of information about workplace and State pensions. You can work out your State pension age and see how much State pension you are likely to receive. Go to **www.gov.uk** and click on the 'Working, jobs and pensions' link.

Want to know more?

The following documents are available on request from the pensions department:

The statement of funding principles – which sets out the scheme's funding plan.

The statement of investment principles – stating the trustees' investment strategy.

The recovery plan – explaining how the funding deficit is being made up.

The schedule of contributions – which shows how much money is being paid into the scheme.

The annual report and accounts – which gives details of the scheme's income and expenditure over the scheme year.

Governance statement – which sets out the scheme's compliance with the Pensions Regulator's required features in relation to money purchase AVC benefits.

The actuary's full report on the actuarial valuation of the scheme – as at 31 March 2018.

Member booklet – you will have been given a copy on joining the scheme, but you can request another.

An annual benefit statement – If you are still paying into the scheme, you will automatically receive a benefit statement every year. If you have not received a statement, it could be that you have moved and forgotten to tell us. If this is the case, please let us know your new address so we can update our records.

You can request a statement from the pensions department if you have not received one in the last 12 months, or you are no longer paying into the Scheme but have not retired.

Please keep in touch

It is important that we have your most up-to-date details so that we can make sure your benefits are paid on time. If your contact details change, please contact the pensions department.

Call us:
0345 071 9622

Email us:
pensions-se@sse.com

Is your nomination form up to date?

Please ensure that you have told us who you would like your benefits to be paid to in the event of your death. A beneficiary nomination form can be obtained from the pensions department.

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