

## **Severn Trent Mirror Image Pension Scheme Buy-in Questions and Answers**

### **BACKGROUND**

**1. What action do I need to take?**

You don't need to take any action. Pensions will continue to be paid to members as usual and the Trustee's and Severn Trent's responsibilities to the Scheme are unchanged.

**2. What is a buy-in?**

A 'buy-in' is an insurance policy purchased by a pension scheme to cover the value of the insured members' benefits. Its purpose is to minimise the risk of a pension scheme having insufficient assets to provide member benefits, which could happen if future investment returns on the pension scheme's assets are lower than expected and/or its members live longer than expected. Under a buy-in, this risk is mitigated as the insurer will make a payment each month to exactly meet pensions due to Scheme members. The buy-in also provides additional layers of regulatory protection through the Prudential Regulation Authority (part of the Bank of England) and the Financial Conduct Authority. Unlike OFWAT, these regulators are specifically focussed on protecting your pension. There is more detail in question 12. Buy-in policies are an increasingly common investment decision by pension scheme trustees, with around 200 transactions each year.

The Trustee has purchased a buy-in policy with Just Retirement Limited ("JUST") to cover all of the Scheme's liabilities. The buy-in not only replicates all benefits required under the Scheme's trust deed and rules, but goes further by "baking in" benefits that were previously discretionary, most notably for unmarried partners – see question 7 below.

By reducing risk in this way the security of your benefits is increased, which is the Trustee's main priority.

**3. What happens next?**

JUST will make a payment to the Scheme each month, a few days before payments are made, as usual, from the Scheme to the members with pensions in payment. As annual pension increases are granted, or members come to retire, JUST's payments to the Scheme will incorporate these changes, ensuring the Scheme has sufficient funds to make the required payments to its members.

### **MEMBER BENEFITS**

**4. Will my pension benefit change?**

Your benefits under the Scheme will not change as a result of this insurance contract.

**5. Will my pension increase in future?**

Under the buy-in, pensions (both currently in payment and for members who have not yet retired who have an entitlement in the Scheme) will be increased each year by the change in the Consumer Price Index exactly as they are now. .

**6. If I am married or in a civil partnership will there still be an automatic widow(er)'s or civil partners pension if I die before my spouse?**

Yes – the benefits payable to your contingent spouse/civil partners will not change as a result of this insurance contract. For the avoidance of doubt where children's pensions are payable under the Scheme, these are also covered by the insurance policy and will be unchanged.

**7. What about if I am not married but have a long term partner?**

Under the Scheme Rules the Trustee has discretion to make payments, which are equivalent to a widow's pension, to a partner where, in practice, the relationship resembles marriage, such as where you and your partner are living together, jointly paying household bills etc and you can demonstrate that your partner is financially dependent on you. As part of the buy-in the Trustee this benefit has been "baked in" and is now insured with JUST and in such eventuality your

partner would receive a payment equivalent to that of a widow(er) subject to suitable evidence of a relationship for 6 months or longer.

**8. Will this affect how my benefits are paid?**

Your benefits will continue to be administered by the Trustee and paid by the Scheme's administrator, Capita. You will see not difference.

**9. Do I still have the same flexibilities as to how I take my pension?**

Yes, you do. If you are yet to retire under the Scheme and are eligible, you can continue to request a transfer value quotation and subsequently transfer your benefits to another pension arrangement, if you wish to (after receiving independent financial advice if your transfer value is greater than £30,000, in line with current legislation). If eligible, you will also continue to have the option of taking early retirement.

## **SECURITY OF YOUR PENSION**

**10. Who is JUST?**

JUST is a UK insurance company, focused on the UK retirement income market. The Group is a leading and established provider of retirement income products and services to individual and corporate clients. It invests in a low risk way to provide enough return to pay its liabilities, much like a pension scheme does. In return for a premium, JUST makes regular payments to policyholders and takes on the risk that investment markets do not perform as expected, and that individuals live longer than expected (and therefore require payment for longer).

**11. What due diligence did the Trustee undertake before entering into the buy-in?**

The Trustee and the Company went through a robust process to appoint JUST (Just Retirement Limited) as the provider for this buy-in policy. As part of this selection process the Trustees received advice from a number of professional advisers including a specialist adviser on buy-in transactions, the Scheme Actuary to the Scheme, the Scheme's legal adviser, the Scheme's investment adviser and a specialist adviser on the financial security of JUST and Severn Trent, as well as meeting with a shortlist of insurers. The selection process included a detailed review of the commercial and legal terms offered under the buy-in, the financial strength of the insurer, operational considerations, the pricing received and the security of the members' benefits following any transaction. The Trustee also spoke with other trustees in relation to their experience of working with JUST. Having taken extensive professional advice the Trustee and Company were satisfied that JUST are a suitable counterparty for the buy-in investment.

**12. What additional security is provided? What would happen if JUST faced financial difficulties?**

As JUST is regulated by the Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA"), the Scheme will have the security of a policy that is subject to the strict regulatory regime that governs insurance companies in the UK. In particular, to protect your pension, UK insurance companies are required to hold capital significantly above the value of their liabilities. The minimum prescribed level of this capital is such that the insurer should have sufficient assets to meet payments to policyholders in a 1 in 200 year event. In practice JUST holds significantly more than this amount.

In addition to the PRA and FCA regulation, there is also a "safety net" underlying UK regulated insurers, known as the Financial Services Compensation Scheme, which is designed to provide 100% compensation in the unlikely event that an insurer is unable to pay benefits.

**13. Does the buy-in affect the Scheme's relationship with Severn Trent Plc?**

No. Severn Trent remains ultimately responsible for the Scheme.

## **OTHER AND IMPORTANT CONTACTS**

**14. Should I have been consulted on the buy-in?**

The buy-in is an investment decision that lies with the Trustee. It reduces the level of risk within the Scheme's investments. It is not usual to consult on investment decisions and there is also no

legal requirement to do so. The Trustees has proceeded with the transaction because it increases the security of your pension and is in the interests of the membership as a whole.

**15. Does the buy-in infringe the commitment made by Lord Belstead at the time of privatisation of the Water Industry?**

No. The commitment made by Lord Belstead was that, after privatisation, employees would be able to remain in a scheme with the same benefits, and requiring the same contributions, as the Local Government Superannuation Scheme. This commitment to employees has been honoured. In addition, as described above, the buy-in makes no difference to the Trustee's and Severn Trent's responsibilities to the Scheme.

**16. Are my benefits being bought out now?**

No. As described above, the Trustee has bought a buy-in policy, which is a Scheme investment. This is different from a buyout, where you would hold an individual insurance policy instead of receiving benefits from the Scheme. If in future your benefits came to be bought out, we would write to you separately in advance.

**17. Are there any independent bodies I can contact if I have further queries?**

The organisations below can help with any queries or complaints you may have:

**The Pensions Regulator**

This is the statutory body that regulates occupational pension schemes and can be contacted at:-

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton, BN1 4DW

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

**Money and Pensions Service**

Any questions about the Scheme should be referred to David Carr (David.carr@severntrent.co.uk) who will try to resolve them as quickly as possible. However, you can also discuss these developments with the Money and Pensions Service which can be contacted at:-

Email: [contact@singlefinancialguidancebody.org.uk](mailto:contact@singlefinancialguidancebody.org.uk)  
Telephone: 01159 659570  
Website: [www.moneyandpensionsservice.org.uk](http://www.moneyandpensionsservice.org.uk)

**The Pensions Ombudsman**

The Pensions Ombudsman investigates complaints about how pension schemes are run. The Pensions Ombudsman can be contacted at:-

The Office of the Pensions Ombudsman  
10 South Colonnade  
Canary Wharf, E14 4PU  
Telephone: 0800 917 4487  
Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)