

TrusteeNews 2024

ZCashBuilder and Final Salary Members Edition

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Funding Update –
Scheme Valuation Results

ZCashBuilder
Investment Changes

NEW 'At Retirement'
Support

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If you need a copy of this newsletter in large print or braille, please contact us using the details on the back page.

ZCashBuilder

#YourPensionYourFuture

Message from your Trustee Chair



David Sims
Trustee Chair

Welcome to the 2024 edition of TrusteeNews which I hope will keep you up to date with the key developments over the past year and help your understanding of the pension scheme and the role of the Trustee.

The Scheme is in good shape financially and in September 2023 we concluded the actuarial valuation as at 30 June 2022. Valuations take place every three years and in the intervening years we carry out a funding update to check the funding level of the Scheme. The valuation as at 30 June 2022 showed that the ZPen section was 102% funded with a surplus of £135m. Since then, the funding level has increased and as at 30 June 2023, the ZPen section was 109% funded with a surplus of £469m. The increase in funding level was mainly driven by the reduction in the value of the liabilities due to rising gilt yields.

The higher gilt yields presented an opportunity for us to adapt our investment strategy and increase our interest rate and inflation hedging to help safeguard the funding position of the Scheme and minimise the impact of market volatility. These changes were implemented during October and November 2023.

We also have a responsibility to regularly review the investment options within ZCashBuilder and a review was carried out in 2023. This review included a focus on responsible investment matters, including Environmental, Social and Governance (ESG) factors and climate change, and how best to incorporate these into the ZCashBuilder investment funds, and in particular the Cash Lifestyle which is the default option if you haven't made an investment choice. These changes will affect most people in ZCashBuilder, and you should have been notified that these changes are happening and that more information is available on the Scheme website.

Whilst investments are an important part of ZCashBuilder, so is deciding how to use your ZCashBuilder funds at retirement. We are aware that this can be a difficult decision for many and during 2023 we appointed WTW to provide you with support in the run up to retirement including individual guidance sessions and access to LifeSight, a master trust, as an option for those wanting to use drawdown in retirement.

In January 2024, we also published our latest report on how we identify and manage climate-related risks and opportunities in response to the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

You can read further detail on all these topics in this newsletter.

I hope you enjoy reading this edition of TrusteeNews and make a habit of visiting www.zpen.info regularly to keep up to date with the latest information about the Scheme.

David Sims
Trustee Chair

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Your Trustee Board

The Scheme is managed by a Trustee Company called Zurich Financial Services UK Pension Trustee Limited (the “Trustee”), which has a duty to run the Scheme in line with its trust deed and rules and pensions legislation. The Trustee Board is made up of ten directors, sometimes referred to as Trustee directors or trustees, and includes a mix of company-nominated directors, member-nominated directors and an independent director. The Trustee Board is also supported by Zurich’s in-house pensions team and a range of professional advisers.

What does the Trustee do?

As the Trustee of a Scheme with both final salary and defined contribution benefits, the Trustee is responsible for ensuring there is enough money in the Scheme to pay members’ final salary pensions, as and when they need to be paid, and supporting members with defined contribution benefits make informed decisions about the way they save and what they do with their pension savings when they take their benefits. The Trustee also oversees the running of the Scheme, including the governance and administration.

Changes to your Trustee Board

The Trustee board is made up of the following:

- Five company-nominated Trustee directors (“CND”)
- Four member-nominated Trustee directors (“MND”)
- One independent Trustee director

The Trustee has a formal process for the nomination and selection of MNDs. Each MND is typically in place for a three year term and in August 2023 the term for two MNDs expired. Following a successful nomination and selection process Donna Wayman was appointed as a new MND, replacing Paul Keaveney who stepped down at the end of his term. Tim Culling was also re-appointed for a further term. The Trustee can appoint reserve member Trustee directors (“RMDs”) who could be appointed as an MND if one of the current MNDs leaves mid-term. The current RMDs are Rod McKie and Anand Panchmatia.

In March 2024, Liz Ryan stepped down as a CND and the Company is considering a replacement for Liz.

You can find more information about the Trustee directors on the Scheme website **Your Trustees (zpen.info)**.



David

Christian

Donna

Huw

Lizzie

Neil

Sally

Sam

Tim



Martin Potter
Scheme Actuary

Scheme Funding Update – Final Salary Sections

One of the main responsibilities of the Trustee is to monitor the finances of the Scheme to make sure there's enough money to pay final salary benefits promised to members, both now and into the future.

The current valuation (as at 30 June 2022) was formally signed off by the Trustee, the Company and the Scheme Actuary in September 2023.

What are valuations?

Final salary pension schemes need to have enough money or 'assets' – from contributions and investments – to pay out pensions and other benefits as they fall due (the 'liabilities'). The Trustee appoints a Scheme Actuary (Martin Potter from Hymans Robertson - pictured) to conduct a check on each section of the Scheme at least every 3 years to assess whether this is the case. This check is known as a 'valuation'.

The valuation is a complex process which makes a number of assumptions about a range of future events, such as how long members will live, likely investment returns, future salary increases and price inflation. It also requires consultation, collaboration and eventual agreement between the Trustee and Company.

If the valuation determines that a section has more assets than liabilities, there is a 'surplus'. If the opposite is the case, there is a 'deficit'.

What are the results?

The latest formal valuation as at 30 June 2022, showed that the ZPen section was 102% funded with a surplus of £135m. This is an improvement in the funding position since the previous valuation as at 30 June 2019 where the ZPen section was 101% funded with a surplus of £63m.

For the ES Executives' Section, the funding level has increased from 110% at the last valuation to 117% at this valuation with an increase in the surplus from £17.9m to £25.1m.

The results are summarised in the following table:

£m	ZPen Section		ES Executives' Section	
	Previous valuation 30 June 2019	This valuation 30 June 2022	Previous valuation 30 June 2019	This valuation 30 June 2022
Assets	7,729	6,662	199.4	172.6
See the Trustee's Report and Accounts for further details				
Technical provisions liabilities				
An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee	7,666	6,527	181.5	147.5
Active liabilities	760	478	-	-
Deferred liabilities	3,451	2,657	8.9	-
Pensioner liabilities	3,455	3,392	172.6	147.5
Surplus/(deficit)	63	135	17.9	25.1
Funding level	101%	102%	110%	117%

As the valuation is only undertaken every three years, at 30 June in each intervening year the Scheme Actuary carries out a funding update to check the funding position of the Scheme. This check uses the assumptions from the last valuation updated to allow for changes in market conditions. Since the valuation as at 30 June 2022, the funding level as at 30 June 2023 for the ZPen Section has increased to 109% with a surplus of £469m. For the ES Executives' Section, the funding level as at 30 June 2023 has increased to 124% with a surplus of £28.6m.

ZPen Section

Technical provisions basis	30-Jun-21	30-Jun-22	30-Jun-23
	£m	£m	£m
Assets (excluding AVCs/APCs)	7,695	6,108	5,092
Amount needed to provide benefits	8,065	6,527	5,095
(Deficit)	(370)	(419)	(3)
Funding level excluding SLP	95%	94%	99%
Asset backed contribution (SLP)	760	554	472
Surplus incl. SLP	390	135	469
Funding level including SLP	105%	102%	109%

ES Executives' Section

Technical provisions basis	30-Jun-21	30-Jun-22	30-Jun-23
	£m	£m	£m
Assets	203.4	172.6	146.9
Amount needed to provide benefits	172.6	147.5	118.3
Surplus	30.8	25.1	28.6
Funding level	118%	117%	124%

The improvement in funding level from the 2019 valuation to the 2022 valuation for both sections was mainly driven by the impact of changes in market conditions, specifically the increase in gilt yields which reduced the liabilities. The further improvement from the 2022 valuation to the 2023 funding update was also due to rising gilt yields.

What happens if the Scheme winds up?

The Scheme is supported by a strong company but if the Scheme were to wind up the law requires the employers to make sure that there is enough money in the Scheme to enable the Trustee to secure members' benefits with an insurance policy.

There is a safety net set up to protect pension schemes where employers go out of business. First of all, the company itself has to try and pay the amount needed to top up the funds required to secure the benefits. If the company was insolvent and could not pay this debt, the government's Pension Protection Fund (PPF) may be able to take over the Scheme and pay benefits to members.

As part of the 2022 valuation, the Scheme Actuary estimated that, if the Scheme had wound up as at 30 June 2022, there would be enough money to secure 74% of members' benefits in ZPen and 117% in the ES Executives' section.

You can get the full picture by reading the full valuation report on the Scheme website, www.zpen.info.

Payments to the company

The Company settles all administration costs and invoices as the Trustee's agent and the Scheme reimburses the Company accordingly. No other payments have been made to the Company out of Scheme funds over the last year. The Scheme is not subject to any directions by the Pensions Regulator.

Investment Update – Final Salary

Changes to the investment strategy

During 2023, the Trustee implemented a significant increase in interest rate and inflation hedging to take advantage of the higher gilt yields. Gilt yields, or the returns on UK government bonds, provide an attractive investment avenue for the ZPen section of the Scheme and by increasing the exposure to these bonds, the Scheme can benefit from potentially higher returns and better protect against inflation.

The benefits of a long-term view

In addition to adjusting the Scheme's hedging targets, the Trustee has also shifted the basis on which hedging decisions are made. Previously, the hedging strategies were focused on the technical provisions basis, this is the basis that is agreed between the Trustee and the Company every three years when the valuation is completed. However, in response to changing market dynamics and future regulatory requirements, the Trustee has now transitioned to using a more long-term view of the liabilities to set the hedging basis.

By adopting a long-term perspective, the Trustee can better align the investments with the projected future obligations of the Scheme. This approach allows the Trustee to make more informed decisions to mitigate risks and maximise returns over the long run. It also provides a more stable and predictable investment environment.

The importance of hedging

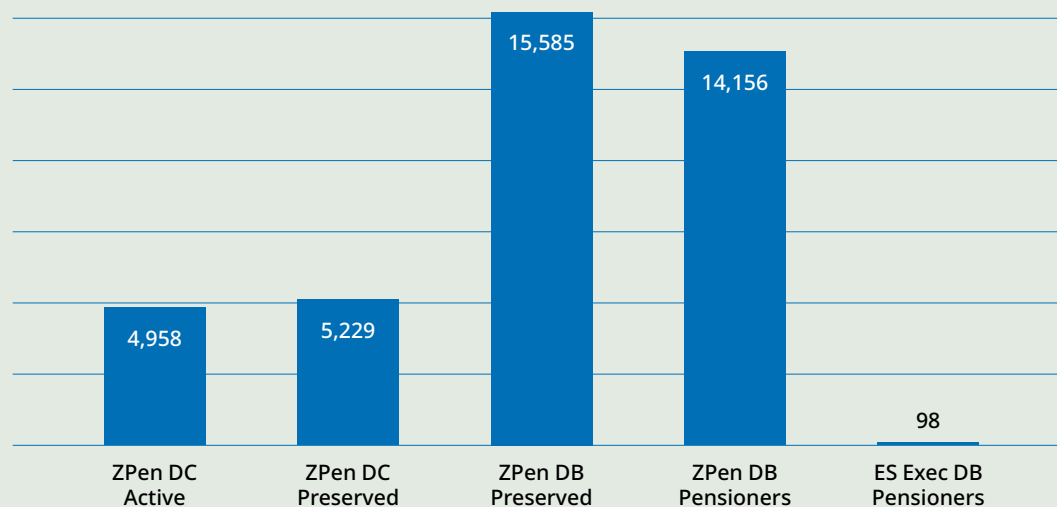
Hedging plays a crucial role in managing the risks associated with the Scheme. It involves utilising financial instruments, such as repurchase agreements, to offset potential losses that could arise from adverse market movements. By implementing an effective hedging strategy, the Trustee aims to safeguard the funding position of the Scheme and minimise the impact of market volatility.

The changes in the hedging approach reflect the Trustee's dedication to adapting to market conditions, while prioritising the long-term financial well-being of the members.

Annual Report and Financial Statements

The annual report and financial statements for the Scheme describes how the Trustee has managed the Scheme and any changes which have happened in the period. The period is for the twelve months to 30 June 2023 and you can read the full report on the Scheme website – **Report & accounts (zpen.info)**. You may be interested to know that the Scheme has final salary assets totalling £5.7bn, ZCashBuilder and other DC assets totalling £518.8m, and paid out benefits to members and beneficiaries totalling £221.4m in the period.

Scheme membership



Included within the ZPen DC Active members are 1,041 members who transferred from ZPen DB into ZPen DC on 1 January 2016 and have retained a link to final pensionable salary on their DB benefits.

Spring Budget 2023

Lifetime Allowance

The Lifetime Allowance is the limit on how much you can build up in a pension over your lifetime while still enjoying the full tax benefits. For most people this is £1,073,100 in the 2023/24 tax year. In previous tax years, you would have paid a Lifetime Allowance charge on any benefits you took over this amount. However, from 6 April 2023 this charge was removed and any benefits you take in excess of the Lifetime Allowance are subject to income tax at your marginal rate.

From 6 April 2024, the government is abolishing the Lifetime Allowance, however, the amount that can be taken in the form of a tax-free cash lump sum will be capped at £268,275.

If you currently have any HMRC pension protection in place (e.g. relating to previous reductions to the Lifetime Allowance), it is important to keep hold of any documents confirming this protection.

Annual Allowance

The Annual Allowance is the limit on the total amount that can be contributed to or built up in a pension each tax year with tax relief applying. From 6 April 2023 the Annual Allowance increased from £40,000 to £60,000.

For those high earners who are affected by the Tapered Annual Allowance, the adjusted income limit and the minimum tapered annual allowance have increased. Further information on these limits can be found on the Scheme website using the following link: **Pension Tax Limits**

Money Purchase Annual Allowance

If you have taken certain benefits from a Defined Contribution pension arrangement, the Annual Allowance above does not apply to you. Instead, the limit on the total amount that can be contributed to a pension is the Money Purchase Annual Allowance which is £10,000.

Consider taking financial advice

The taxation of pensions is complicated and if you think you may be affected by any of the pension tax limits, you are strongly recommended to seek help from a suitably qualified financial adviser. You can find general advice about pensions and appointing an Independent Financial Advisor at the websites below:

Money Helper – www.moneyhelper.org.uk –
0800 0113797

Financial Conduct Authority – www.fca.org.uk

Vouched For – www.vouchedfor.co.uk –
0203 111 0583

Responsible Investment – TCFD Report

From 1 October 2021, new regulations were introduced relating to reporting in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, which aim to promote the management of climate-related financial risk and opportunities.

The Scheme's annual TCFD report provides an overview of the Trustee's responsible investment activities during the year with the three key activities being:

- **Climate risk assessment** – the assessment for the Scheme's assets and liabilities highlights the potential impacts of climate change on the Scheme's financial performance. The assessment considers both physical risks, such as extreme weather events and rising sea levels, and transition risks, such as policy changes and technological advances.
- **Target setting and implementation** – the Trustee set a net zero ambition for 2050, which means it aims to hold investment assets that achieve a balance between the greenhouse gas emissions it produces and removes from the atmosphere that year. This target aligns with the global goal of a maximum temperature rise of 1.5°C above pre-industrial temperatures, taking into account the best available scientific knowledge. The Trustee continues to monitor its asset managers on the agreed short-term carbon reduction targets for its equities and corporate bond portfolios.
- **Manager engagement** – the Trustee recognises the importance of engaging with its asset managers to address climate-related risks and opportunities. The engagement is aimed at ensuring that the Scheme's investments are aligned with its climate-related objectives and that asset managers are effectively managing climate-related risks and opportunities.

The full report is available to read on the Scheme website – **TCFD Report 2023.pdf (zpen.info)**.

Responsible Investment - Stewardship (ZCashBuilder)

Responsible investing: Stewardship

Stewardship can be defined as “taking care of something” and in relation to taking care of your investments this can include engaging with the companies in which you are invested and voting at shareholder meetings. The Trustee has set the following priorities for stewardship of the ZCashBuilder assets:

- **Climate change:** this relates to the Trustee’s belief that climate change is a source of financial risk that could have a material impact on member outcomes over the short, medium and long term as a result of the impact on the physical and transition risk on markets and therefore investors.
- **Equality, Diversity and Inclusion:** this relates to the Trustee’s belief that companies that are diverse and inclusive deliver better financial performance due to their ability to make better decisions, identify risks and opportunities more effectively and their ability to appeal to a wider customer base.
- **Corporate Transparency:** this relates to how much a company provides open and accessible information about its activities and decision making process to its stakeholders, including shareholders, employees, customers, suppliers and the wider community.

The Trustee receives information from fund managers on how they engage with companies and on what issues and how they voted at shareholder meetings. Legal and General Investment Manager (LGIM) manages over £400m of ZCashBuilder assets and the stewardship and engagement activities it undertook for the year ending 30 June 2023 were largely in line with the stewardship priorities listed above.

GMP Equalisation Update

You will probably be aware of a landmark legal ruling in the Lloyds Bank case that requires pension schemes to equalise benefits for the effect of unequal Guaranteed Minimum Pensions (GMPs) for men and women. A GMP is the minimum level of pension that an individual is entitled to receive if they were a member of a contracted-out salary-related pension scheme and the legal ruling is concerned with GMPs built up between 17 May 1990 and 5 April 1997. GMPs are unequal for men and women because, by law, they are calculated differently and are also payable from different ages.

GMP equalisation is a significant project, particularly for a scheme the size of Zurich’s. There are a number of steps, including reconciling scheme records with HMRC records, obtaining detailed actuarial and legal advice, considering complex tax issues, engaging with the sponsoring employer on the methodology for the equalisation, and reprogramming calculation routines on the Scheme’s administration system. Progress continues to be made in a number of these areas, most notably in connection with preparing the scheme date for equalisation and agreeing the equalisation methodology. The Trustee has also appointed a professional services firm, Aon, to act as specialist GMP equalisation adviser to support the project and calculation work.

It is the Trustee’s intention to complete the project as soon as feasibly possible. However, GMP equalisation is proving to be a complex and time consuming project for the whole pensions industry and the administration system changes and calculation work are substantive and expected to take some time yet.

Further updates will be provided via the Scheme website.

ZCashBuilder Investment Changes

Following the Trustee's triennial review of the ZCashBuilder investment choices, there will be some changes to the ZCashBuilder investments. These changes:

- will affect you if you are invested in any of the three lifestyle strategies (Drawdown, Cash and Annuity) or if you have chosen Z Growth Fund or Z Cautious Growth fund from the self-select fund range. This means that the majority of ZCashBuilder members will be affected.
- are expected to take place during May.

These changes will be happening automatically so you don't have to do anything, but you can read further detail about the changes, including how they may affect you on the Scheme website

www.zpen.info.

- If you want to know whether you are affected by the changes, you can check where you are invested by logging into the Scheme website.
- If you want to make an investment switch before the ZCashBuilder changes take place this needs to be requested online by **Friday 19th April**.

Value For Members (VFM) Statement

Each year the Trustee is required to assess the extent to which the charges you pay in ZCashBuilder and the legacy AVC arrangements represent good value for money. The Pensions Regulator has no set definition of good value but the Trustee considers the combination of costs and the quality of what is provided in return for those costs, and whether these are appropriate for the Scheme membership as a whole. The assessment is then reviewed by the Trustee's advisers, who have knowledge and experience of a wide range of schemes. For the year to 30 June 2023, the Trustee's advisers believe that the balance of services provided to you relative to the costs you pay mean you received good value for money. There were a number of reasons for this including:

- Good Scheme governance with a strong Trustee board, the support of a professional in-house pensions team and a DC Committee focussed on ZCashBuilder.
- A Scheme website with modelling tools, Newsflashes, Hot Topics and other information. Webinars run by the in-house pensions team include new joiner and pre-retirement courses alongside investment for beginners and responsible investment.
- ZCashBuilder administration services that have continued to perform well against agreed targets with core financial transactions* taking place accurately and promptly. (*core financial transactions include investing monthly contributions, disinvestment to pay out benefits and investment switches).

Taking account of all the factors considered, the Trustee believes that the Scheme's DC arrangements continue to provide good value for members and are expected to deliver good outcomes for members at retirement. The Trustee continues to look for ways to improve the value for members including planning a suite of communication materials and developing a new Scheme website.

ZPen – Supporting you at retirement (NEW in 2023)



We know that for many of you retirement is years away but for those of you who are a bit closer to retirement trying to understand all of your options and decide how to use your ZCashBuilder benefits can be confusing. For that reason, the Trustee has appointed WTW's Financial Planning Group, a group of financial advisers regulated by the Financial Conduct Authority (FCA), who can help you understand your options and decide which one is right for you.

WTW are an FCA-registered financial adviser, who can provide you with tailored, impartial financial guidance on your Scheme savings. WTW understand how the Scheme works and so can explain your retirement options and help you with your decision.

There is more information available on the Scheme website under the Support Tab (no need to log in) on the following:

- the options available to you and some of the things you might need to think about as you approach retirement (**Retiring (zpen.info)**).
- the individual guidance sessions offered by WTW. These can cover all your retirement benefits, not just final salary or ZCashBuilder. They will help you understand all the options available to you and the most suitable option for you. This is not financial advice and the adviser will not make a specific recommendation to you (**WTW Pension Guidance (zpen.info)**). The cost of receiving guidance in respect of your Scheme savings is £500 inclusive of VAT.
- Access to the LifeSight master trust for those who want to drawdown their ZCashBuilder benefits over a number of years.

You can arrange an appointment with WTW by calling them on **0800 901 2540** (lines are open 8am – 5pm, Monday to Friday) or by emailing **zurichguidance@wtwco.com**.

Updates to ZCashBuilder Planner

The ZCashBuilder planner is available on the website and provides an illustration of what your fund value might be in the future and what likely pension this could provide. The planner is just a projection tool and various assumptions are made to do these calculations. It is not an exact science and the figures quoted are not a guarantee but they could help you with your retirement planning, for example, you can use the planner to see how your projected fund value and pension might change if:

- you change your planned retirement age
- you change your contributions (if you are still employed by Zurich)
- you choose to take some of your fund as tax free cash

If you regularly use the planner you may have noticed that your projected fund value has changed. The planner which projects your fund value at retirement takes account of a number of factors including investment returns, contributions, salary increases and inflation. The underlying calculation methodology and the investment returns assumptions have to comply with requirements set out by the Financial Reporting Council in their Actuarial Standards Technical Memorandum, and new requirements came into force on 1 October 2023.

You can find out more information, including some of the assumptions made, by logging into the site, and clicking on ZCashBuilder planner.

Mid Life MOT

The Department of Work and Pensions has launched a new website to support people aged 45-65 with planning for their future.

The site includes useful tools and guidance around the key areas that people aged 45-65 should be considering, including work, health and money.

Visit the website today to make sure you're prepared for later life.

Pension Awareness Week

Every September, Pension Awareness Week helps to raise awareness of the importance of pensions for people across the UK.

In 2023, Pension Awareness Week took place from 11 to 15 September and included a range of 'live shows' covering a broad range of subjects relating to pensions. You can view a recording of these external shows by visiting the Pension Awareness website - pensionawarenessday.com.

During Pension Awareness Week, the ZPen team also ran a series of online sessions covering the flexibility around taking benefits, saving in the early years and pension considerations in a cost of living crisis.

Beware of Pension Scams

Don't let a scammer enjoy your pension – If you are not sure about something, take your time and seek help

Pension scams are on the rise and it's more important than ever that you know the warning signs of a scam. Below are some of the things to look out for:

- Cold calling or unexpected contact
- Free pensions review
- Guarantees of better returns on pension savings
- Early access to your pension
- Promises of limited time offers on the 'best deal'

If you're suspicious, contact Action Fraud at actionfraud.police.uk or call **0300 123 2040**.

Also, beware of scams to your bank. Stop Scams UK have launched a service to enable you to easily report a suspected bank scam. If you receive a call from a suspected scammer, who claims to be calling from your bank all you need to do is:

**STOP
HANG UP
CALL 159**

The 159 service works much the same way as the 101 service for the police or 111 for the NHS and will link you through directly to someone at each bank that has signed up to the service. You can then report the suspected scammer. For more information on this service, visit the **Stop Scams UK website**

Make sure your nominations are up-to-date



Nominating beneficiaries is one of the most important things you can do to ensure that you and those closest to you get the most out of your pension.

No one enjoys thinking about death, but by making a nomination, this will let the Trustee know who you'd like any lump sum death benefit to be paid to. This could potentially help speed up the decision-making process, and spare extra stress and financial hardship for those you care about when you die.

Who can I nominate?

A nominee can be any person e.g. a family member or friend, or a charity, society, association or company. You can also nominate more than one nominee.

How do I make a nomination?

Nominating is easy. Simply log in to your ZPen account (www.zpen.info), select 'Account details' and then 'Lump Sum Nomination Form' and follow the steps.

Here to Help

Ways to contact us:

The Zurich Team
Railpen
PO Box 377
Darlington
DL3 6XY

Email: zpenteam@uk.zurich.com

Tel: 0800 232 1915 – choose option 3

You should consider taking independent advice on your options in relation to your benefits under the Scheme. Neither the Scheme Trustee (Zurich Financial Services UK Pension Trustee Limited) nor any member of the Zurich Group (i.e. Zurich Insurance Group Ltd (registered in Switzerland with number CH-020.3.023.086-6) and its direct subsidiaries) are able to provide you with financial advice or accept any liability for any decision you make with regard to your retirement options.