Electrocomponents
Group Pension Scheme

Summary Funding Statement 2020

This Summary Funding Statement gives you an annual update on the funding position of the Defined Benefit section of the Electrocomponents Group Pension Scheme (the Scheme). This statement is provided for information only; you do not need to take any action.

The Scheme is overseen by a Board of six Trustees who are responsible for ensuring that the pension scheme is run properly, and that members' benefits are secure, which includes monitoring the funding position. We send you a statement like this on their behalf each time new funding information becomes available to keep you up to date, help you understand more about the funding of the Scheme and comply with pension legislation.

Please take a few minutes to read the statement as it provides important information about the financial health of the Scheme.

This statement refers only to the financial strength of the Defined Benefit section. Defined Contribution members, who have not yet retired, receive individual statements showing the value of their funds on an annual basis.

What do we mean by funding position?

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's liabilities. The Scheme's assets are the funds which have built up from contributions paid by the members and the Company and which have increased in value through investment returns over time.

To check the Scheme's funding position, the Scheme's actuary (a qualified professional), compares the value of its liabilities to its assets.

- If the value of the Scheme assets is less than the value of the Scheme's liabilities, it is said to be in deficit
- If the value of the Scheme's assets is more than the value of the Scheme's liabilities there is said to be a surplus

We carry out an in-depth look at the Scheme's funding position at least once every three years through an actuarial valuation. The funding position of the Scheme is also checked regularly in between the actuarial valuations and an annual actuarial report is provided to the Trustees.

The Scheme's funding position as at 31 March 2020

The most recent actuarial valuation was carried out as at 31 March 2019 and the results were communicated in the previous Summary Funding Statement in February 2020. This chart shows the results from the 2019 actuarial valuation and the 2020 funding update.

	31 March 2020	31 March 2019
Liabilities	598 (£m)	568.6 (£m)
Assets	534 (£m)	523.9 (£m)
Deficit	64 (£m)	44.7 (£m)
Funding level	89%	92%

In our last Summary Funding Statement, we showed that the funding level (ratio of assets to liabilities) improved from 89% at 31 March 2018 to 92% at 31 March 2019. The latest funding update shows that the funding level has decreased to 89% at 31 March 2020.

As you can see from the chart, the Scheme's assets and liabilities both increased significantly over the year to 31 March 2020. However, as the liabilities increased by more than the assets the deficit increased as well. It is normal for a pension scheme's funding level to fluctuate due to factors such as a fall or rise in interest rates or inflation and this is why we keep the funding position under review.

The Scheme's liabilities increased as a result of a sustained fall in long-term interest rates. Low interest rates make the Scheme's liabilities higher. This is because the expected investment returns on the Scheme's assets is linked to long-term interest rates. The lower these are, the more money is needed now to provide the benefits payable in future, as future investment returns on that money are expected to be lower.

The deterioration in the funding level due to falling interest rates was offset by deficit funding contributions of £10 million paid by the Company between 1 April 2019 and 31 March 2020.

What 'deficit' contributions will the Company pay into the Scheme in the future?

Using the results of the most recent actuarial valuation, the Scheme actuary advises us what contributions should be paid into the Scheme so that we can continue to pay members' pensions, these are known as deficit contributions.

The Company has agreed to pay additional contributions of £25 million by 31 March 2022, and to pay a further £10 million a year, plus inflation in future years, until the deficit has been removed.

Given the current funding position, the Trustees current expectation is that the annual deficit contributions of £10 million plus inflation will continue until 2026.

What other contributions will the Company pay into the Scheme in the future?

The Company's payroll costs for funding future benefits and Scheme expenses are, on average, 36.4% of Defined Benefit Pensionable Salaries.

Other information

The Trustees can confirm that there have not been any surplus payments to the Company out of Scheme funds since the previous Summary Funding Statement.

The Pensions Regulator can, in certain circumstances, make orders relating to the benefits provided by a pension scheme. The Regulator has not made any orders in relation to the Scheme.

How well-funded is the Scheme on a 'buy-out' basis?

As part of the Summary Funding Statement, all schemes need to tell members what the funding level would be if the supporting employer's circumstances were to change and a scheme had to be wound up. We are required to provide members with this information by law and it does not imply that Electrocomponents or the Trustees are thinking about winding up the Scheme. In fact, the winding up of the Scheme in the near future is very unlikely given the size and cash flow of the sponsoring employer and its ongoing commitment to the Scheme.

If a pension scheme had to be wound up, it might be necessary to 'buy out' its members' benefits from an insurance company. A 'buy-out' valuation for a scheme tells you how much of the scheme's benefits it could afford to buy out from an insurance company if these circumstances occurred, and assuming no extra money was available from the sponsoring employer. If the Scheme had wound up on 31 March 2019, i.e. the date of the last actuarial valuation, the estimated buy-out cover for the benefits built up would have been in the region of 64%.

What would happen if the Scheme started to wind up and there was not enough money?

If the Scheme was wound up in the future and the Company did not have enough money to cover the cost of buying all members' benefits with an insurance company, the Trustees would seek to transfer the Scheme into the Pension Protection Fund (PPF). Further details on the PPF can be found at **www.ppf.co.uk/who-we-protect**

Where can I get further information?

If you have any questions about this statement or would like more information or Scheme documents, please contact the Scheme Administrator, Capita, or go to our Scheme website at **www.rspensions.co.uk**

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Issued on behalf of the Trustee of the Electrocomponents Group Pension Scheme October 2020