



IMPERIAL TOBACCO  
PENSION FUND

# SUMMARY REPORT

2020

DEFINED BENEFIT



## WELCOME TO OUR NEW-LOOK REPORT, CONTAINING HIGHLIGHTS FROM THE DEFINED BENEFIT (DB) SECTION OF THE IMPERIAL TOBACCO PENSION FUND (THE FUND).

During this time of uncertainty due to the ongoing COVID-19 crisis, the Trustees have been working with their advisers and the Imperial Pension Fund Office to ensure business continuity plans are working effectively and pension payments continue to be processed.

Against this backdrop, it has been another busy year for the Fund. While the active membership of the DB section continues to decline slowly since it closed to new members in 2010, the Fund now pays pensions to nearly 15,500 pensioners and dependants and still has more than 31,000 individual members and beneficiaries.

The Trustees have also completed the important three-yearly actuarial valuation. I am pleased to report that, as at 1 April 2019, the funding position had improved with the shortfall reduced to £380 million (2016: £1,219 million) and the Trustees have now agreed a revised funding plan with Imperial. Further details are set out on page 3 of this report.

Considering the effects of COVID-19 at home and abroad, the Fund's investment portfolio weathered the turbulent markets, achieving a positive return of 1.8% in the year to 31 March 2020. The Trustees continue to seek out appropriate and secure investments consistent with our funding strategy. The overall size of the fund is now £4.1 billion.

*Helen Clatworthy*

**HELEN CLATWORTHY**  
Trustee Board chair

Fund  
VALUE  
£4.1 bn

Fund  
RETURN  
1.8%

Fund  
MEMBERSHIP  
31k

## FURTHER INFORMATION

The figures in this summary have been taken from the Fund's full report for the year to 31 March 2020, which contains an unqualified opinion on the Fund's financial statements from its independent auditors PricewaterhouseCoopers LLP.

A copy of the full report is available free of charge from the Pension Fund office to any member on request.

Also available are the actuary's report on the last triennial valuation (as at 31 March 2019) and the latest version of the Statement of Investment Principles.

### ● The trustees are keen to hear your views

If you'd like to tell us something about our service or give us suggestions to help us improve, please email the Pension Fund Office at [pension.enquiries@uk.imptob.com](mailto:pension.enquiries@uk.imptob.com)

## Triennial valuation completed

Every three years the Fund's actuary carries out a health check known as a formal valuation.

The Trustees are pleased to report that the 31 March 2019 valuation showed improvements to the funding level on all three of its objectives.

As well as the 31 March 2019 triennial valuation the actuary has completed an annual update for 2020. We summarised these valuations in our Summary Funding Statement sent recently.

In brief, since the 2016 valuation:

- The Fund's assets **increased** in value;
- Liabilities (the benefits the Fund expects to pay out over time) also **increased**, but to a lesser extent than the assets;
- The 2019 deficit calculated on the basis of the cost to buy-out benefits with an insurance

company has **reduced** and the Fund's deficit as at 31 March 2019 was £380m (92% of assets). As at 31 March 2020 the funding position had **improved** further with the deficit reducing to £251m (94% of assets).



Actuary Tim Panter

As part of the valuation the Trustees agreed with the Company the contributions it would pay to eliminate the deficit.

The Company will pay £65 million in the year to 31 March 2021 with the contribution level in future years depending on the funding levels.

In addition, the Company has continued to show its support to the Fund with contingent funding arrangements, such as a corporate guarantee and other surety guarantees.

## Reducing investment in equities

Continuing the risk reduction process started in recent years, the Trustees decided to disinvest from equities (company shares) and re-invest the proceeds in Liability Driven Investments (LDI). The aim was to select assets which give greater protection against movements in inflation and interest rates and reduce the risk of returning to a very large funding deficit.

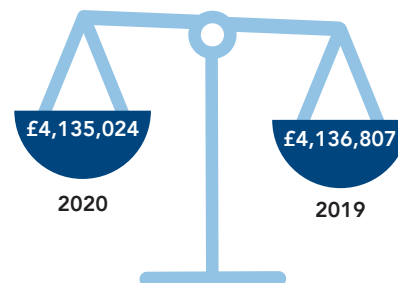
This means the Fund now holds UK gilts and corporate bonds covering the spectrum available, often very long dated with the expectation that this will better match the Fund's cash flows over time. The cashflow-driven alternatives cover investments such as property, ground leases, illiquid debt and multi-asset credit.

The Fund's return of 1.8% was behind its benchmark return of 5.9% in 2019-20. This performance should be seen in the

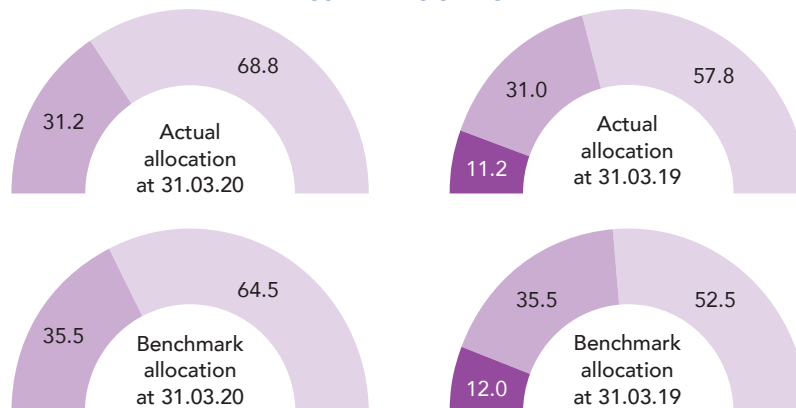
context of market indices returns which were negative over the year and the recent investment in certain cashflow driven alternative mandates which have a natural delay in returns over the life of the investments.

The Fund's investment return over the past 5 years was 6.4% pa, close to its benchmark of 6.5% pa.

ASSETS (£000s)



ASSET ALLOCATION



■ Growth assets (equities) (%) ■ Cash-flow driven alternatives (%)  
 ■ Bond-like assets (including LDI) (%)

## OUR DB MEMBERS (last year's membership in brackets) 2020



Active (employees): **301** (337)



Deferred: **15,302** (15,947)



Pensioners, including dependants: **15,495** (15,951)

## SUMMARY OF MONEY PAID INTO AND OUT OF THE DB SECTION OF THE FUND (£000s)

MONEY PAID IN		MONEY PAID OUT	
Employer and member contributions	85,734	Pension payments	138,643
Investment income	70,117	Lump sums on retirement	6,151
		Lump-sum death benefits	423
		Transfers out and other payments	14,952
		Administration and investment expenses	7,376
<b>Total income</b>	<b>155,851</b>	<b>Total outgoings</b>	<b>167,555</b>

(The Fund's investments are used to cover any shortfall in outgoings.)

## EMPLOYEE MEMBER PENSION TAXATION CHANGES

### What is the Annual Allowance?

The Annual Allowance (AA) is the most you can save in your pension schemes each year with the benefit of tax relief.

### What has changed?

At the 2020 Budget, the Government announced increases to the threshold income and adjusted income limits used to work out whether you have a tapered or reduced AA.

For the 2020/21 tax year the AA is £40,000, but if you have a high income it may be lower.

From 6 April 2020, the adjusted income limit used to assess whether individuals will have a tapered AA will rise to £240,000 (from £150,000) and the threshold income limit will rise to £200,000 (from £110,000). The AA is reduced to £4,000 when your income is £312,000 or more.

● A summary of these changes can be found at: <https://bit.ly/2GIwBt8>



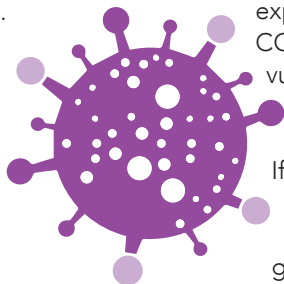
# Staying alert to Coronavirus

● You will be aware of the growing impact of Coronavirus (or COVID-19) and the disruption it has caused to businesses and on global financial markets. As a result, **the Trustees are keeping a close eye on the funding position.**

● Although most of the Pension Fund Office team are now working from home in line with Government and Imperial's advice, **we are continuing to perform all necessary administration tasks for running the Fund.** Due to the current working situation, however, if you contact us there may be a short delay in replying to you.

● **Transferring out of a DB pension scheme into a different type of pension arrangement is unlikely to be in a member's best long-term interests.** A DB scheme promises a pre-determined level of

benefits that is underwritten by an employer, usually with an additional layer of protection offered by the Pension Protection Fund.



Unscrupulous criminals are exploiting fear about COVID-19 to prey on vulnerable people, especially if isolated from family and friends. If anyone approaches you directly to offer transfer advice, be on your guard. The Government has banned cold calling for pensions, so if anyone calls you out of the blue about yours, just hang up – it could be a scam.

You can also visit the ScamSmart website at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart) to check the firm you are dealing with is regulated and to see whether what you're being offered is a known scam or has the signs of a scam.

## STAYING IN TOUCH

If you change your contact details, please remember to let the Pension Fund Office (PFO) know your new address and, if applicable, email address. Without up-to-date details, we can't update you with Fund news and there may be delays in paying your benefits on retirement or – if you are already in receipt of a pension – it may result in your payments being temporarily suspended.

The PFO has, through external company ITM, endeavoured to trace addresses for a large number of Fund members who have left employment and not yet claimed their benefits. The PFO writes to traced members asking them to confirm their details as we can't update our membership records without your confirmation.

If you are aware of any former colleagues who may have lost touch with the Fund, please do suggest they contact the PFO (details on page 8).

# Update on Guaranteed Minimum Pension

Last year we reported on the court case judgement in 2018 (the Lloyds judgement) about Guaranteed Minimum Pension (GMP) equalisation. Here is the latest position:

## What is GMP equalisation?

There used to be two state pensions, paid for by National Insurance (NI) contributions – the main one and an additional one. You might see references to the additional one as:

- State Earnings-Related Pension Scheme, or 'SERPS'
- State Second Pension, or 'S2P'

People who had a workplace pension could be 'contracted out' of this additional state pension, paying lower NI contributions but also building up less additional state pension.

Instead, the contracted-out workplace pension had to meet certain requirements. For employment before 6 April 1997,

the requirement was that the Fund would pay at least a certain level of pension income, known as GMP.

Because GMPs were intended to substitute part of the additional state pension, they reflected the fact that the state pension was calculated differently for men and women and paid from different ages. Most benefits in workplace pensions were made equal for men and women with effect from a court judgement in 1990. It was unclear whether this judgement applied to GMPs, but the Lloyds judgement in October 2018 made it clear it did.

'GMP equalisation' is the name we give to the process of reviewing the benefits people built up when they were 'contracted out' between 17 May 1990 and 6 April 1997 and correcting them where necessary so men and women are treated the same.

## Does it apply to me?

GMP equalisation is a technical

pensions matter. If you are affected by it, we will write to you in due course. It can only apply if you built up GMP in a contracted-out pension scheme between 17 May 1990 and 5 April 1997. Even if you fall into this category, you may not be affected.

## Why are you updating me now?

We are moving towards being able to implement GMP equalisation so we want to provide an update.

In common with many schemes, we have been waiting for guidance to become available before taking final decisions. This process will take some time but if you are impacted by it we will write to you once further guidance has been issued and the Trustees have decided on the equalisation basis. Equalisation will result in a small improvement in benefits for impacted members.



There were no changes to the Trustee board during the year, but Julian Banks' term of office ends in 2021 and the nomination process is underway to seek a replacement as he has decided not to stand for a third term. We are extremely grateful to Julian for his contribution to the Board and the operation of the Fund over the past six years.

Imperial Tobacco Pension Trustees  
Limited board of directors:

*Nominated by Imperial Tobacco:*  
Helen Clatworthy (chair)  
David Fripp (independent trustee director)  
Darren Lees (head of UK finance and IT)  
Tom Tildesley (Group financial controller)  
Nick Welby (director of business services)

*Nominated by pensioners and deferred members:*  
Julian Banks  
Ken Hill



The Trustee Board, clockwise from far left: David Fripp, Nick Welby, Tom Tildesley, Ken Hill, Darren Lees, Julian Banks and chair Helen Clatworthy; inset, Sam Miller

*Nominated by employees:*  
Sam Miller

### **Pension Fund Office**

Jan Killick (pensions manager and secretary)  
Leigh Callaghan (deputy pensions manager)

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