

2024 Newsletter



Hydraulics Research Pension Scheme

I am pleased to send you this copy of the 2024 Newsletter for the Hydraulics Research Pension Scheme (which we call below 'the Scheme' for short). We hope you find this newsletter both interesting and informative, but we are keen to hear your views on the future topics you would like us to cover.

Claire Teagle, Chair of Trustees

Highlights in this issue

Summary Funding Statement

Investment strategy

High Inflation and Interest Rates



The current Trustee board

There are currently three Trustees:

Two Trustees are Member Nominated:
Michael Keevil and Bob Godfrey

One Trustee is appointed by HR Wallingford: **Vidett Trust Corporation Ltd** (formerly known as PSGS Trust Corporation Ltd), represented by **Claire Teagle**.

You should inform us of any changes in your personal details, such as your name, address, marital status or any changes in your nominated dependents to receive benefits payable upon your death (which can be done through an Expression of Wish form, found on the HR Wallingford website noted below or via Isio's Pension Web service see the back page).

For quotations of your Scheme benefits, changes of personal details, general scheme information and queries, please contact Isio, the Scheme administrator, using the following contact details:

Contact us

Isio c/o SPS
PO Box 721
Salford
M5 0QT



Tel: 0333 014 5456

E: hrps@isio.com

W: <https://www.isiopensions.com>

Further information on your benefits

For further information on your retirement benefits, you can consult the Scheme booklet, which describes the benefits available to members of the Scheme and outlines some of the rules that govern the Scheme.

It is intended as a guide to help you gain a greater understanding of your retirement benefits. The latest version of the Scheme booklet was finalised in 2015. If you wish to obtain a copy of the booklet, please visit the HR Wallingford website (<https://www.hrwallingford.com/pensions>) or contact Isio.

A copy of this newsletter, as well as previous newsletters can also be found on the HR Wallingford website.



Q. Where can I obtain information/advice regarding pensions?

MoneyHelper is a free, independent service set up by the Government to give people clear, unbiased money advice. They produce clear information and guidance on how to find out more details in reference to your pensions questions: <https://www.moneyhelper.org.uk/en>

If you need to contact a financial advisor you can try looking on: www.unbiased.co.uk

You can check your State Pension entitlement at: www.gov.uk/check-state-pension

The Financial Conduct Authority and the Pensions Regulator have released lots of helpful material as part of their ScamSmart campaign: www.fca.org.uk/scamsmart. If you think you have been a victim of a scam, please report it to the FCA ON 0800 111 6768 or email consumer.queries@fca.org.uk

Summary funding statement

The Scheme is a defined benefit scheme. This means that it pays a pension equal to a specified monthly amount when you retire, based on your length of service and salary. The Scheme is closed to future benefit accrual, and so no further benefits are being built up by members. Contributions that have been paid to the Scheme are invested in one common fund for all members, which is used to provide retirement benefits when they fall due.

The Trustees regularly monitor the funding position of the Scheme to ensure that there are sufficient funds to meet all pension obligations for the lifetime of its members. Each year, we send you this Summary Funding Statement to provide you with updated information about the level of funding for the Scheme, as required by the Pensions Act 2004.

Actuarial valuation

A full valuation of the Scheme is carried out every three years. The most recent full valuation (with an effective date of 31 March 2022) was completed in August 2023 by Robert Watkin, the Scheme Actuary. The results of the valuation showed that the Scheme was around 99% funded with a deficit of £1.2 million (shown in the table opposite).

In order to remove this deficit, the Trustees and Company (HR Wallingford Group) agreed an updated 'Recovery Plan' to ensure the Scheme can meet its primary objective of being able to pay out all the future benefits when they are due. The Scheme Actuary estimated that the agreed contributions (shown below) would enable the Scheme to eliminate the remaining deficit after the payment made in March 2023.

The Company agreed to retain the planned contributions of 0.8m in 2026 and 2027. Whilst these contributions exceed what was deemed necessary to eliminate the funding deficit, they are intended to support the Scheme in reaching a lower risk long-term funding objective.

Schedule of Company contributions

£750,000 per annum paid in 2022 and 2023

£800,000 per annum between 2026 and 2027

There has been no intervention from the Pensions Regulator to use its powers to modify the Scheme or to impose a direction or schedule of contributions.

Definitions

Assets	The value of the pooled funds held to provide pension benefits to Scheme members.
Liabilities	The estimated total amount required today to provide members of the Scheme with their agreed benefits when they fall due.
Deficit	The amount by which the value of the liabilities exceeds the assets.
Funding level	The percentage of liabilities covered by the assets of the Scheme

Recent Actuarial updates

Approximate actuarial updates are carried out in each year where a full funding valuation has not been carried out. During the year an actuarial update was carried out as at 31 March 2023, with the results set out below.

You may notice that there has been a substantial fall in both the assets and liabilities since the 2022 valuation. This is a result of the significant increase in interest rates seen in the UK (also seen globally). The value of the Scheme's liabilities is calculated with reference to long-term UK interest rates and when these rise, the value of the liabilities fall. Part of the Trustees' risk strategy is to invest in funds (named 'Liability Driven Investment' on the next page) which move in line with how the Scheme's liabilities move in changing market conditions, such that the net funding position is not unduly impacted.

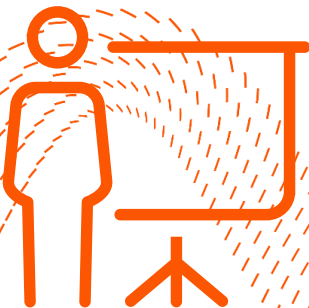
The Trustees would like to reassure that you this strategy has been effective during the recent market volatility. This can be seen in the table below, where the funding level has remained relatively stable, with the deficit decreasing over the 12 months since the 31 March 2022 valuation, helped by Company contributions received.

Results	2022 Valuation	2023 Update
Assets	£109.3m	£80.4m
Liabilities	£110.6m	£80.8m
Funding deficit*	£1.2m	£0.3m
Funding Level	99%	100%

**Some figures may not sum due to rounding.*

The Actuarial Valuation Report and the Actuarial Updates are available on request. Please contact Isio (details on the front page) for more information.

The Trustees continue to regularly monitor the funding position and the Company's ability to make the contributions it has committed to pay and take any actions they deem appropriate after taking professional advice.



Wind-up (solvency) estimate

The valuation results assumed that the Scheme continues to operate in its current state for the foreseeable future.

If the Trustees and the Company decide to wind up the Scheme, the Company would need to contribute to the Scheme so that all members' benefits can be secured in full with an insurance company. This is known as paying 'full solvency benefits'. As at the 31 March 2022 actuarial valuation, this amount was estimated to be £42.1 million.

Should the Scheme wind up without enough money to secure all the benefits with an insurance company, the Pension Protection Fund (PPF) might be able to take over the Scheme's obligations and pay compensation to members. Further information and guidance is available on the PPF's website (www.ppf.co.uk), or you can write to the PPF at: PO Box 254, Wymondham, NR18 8DN.

Neither the Trustees nor the Company have any plans to wind up the Scheme but we are required by legislation to let you know the Scheme's financial position if this event were to happen.

Investment strategy

The Scheme's investment strategy is reviewed regularly by the Trustees in conjunction with qualified investment advisors, and is intended to mirror to a large extent the movements in the value placed on the liabilities, whilst still generating some investment return through its holding in growth assets. This is to ensure that the funds will be available to meet member benefits as they fall due.

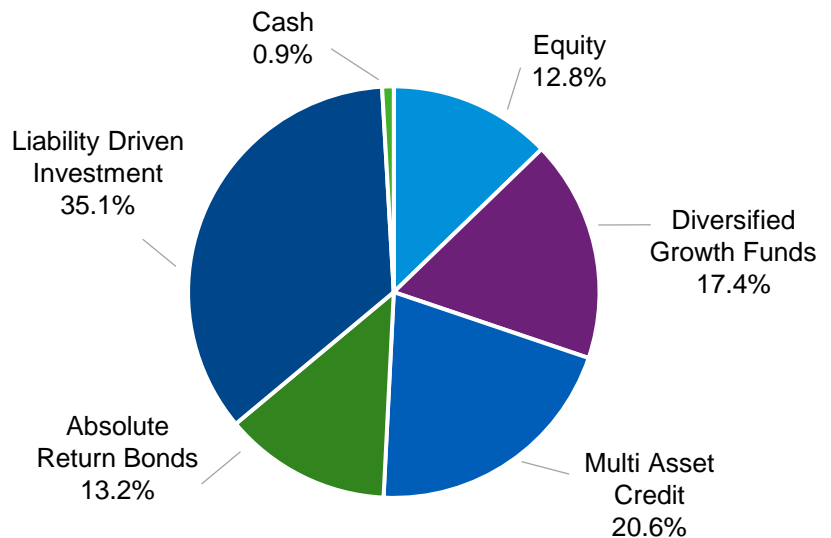
The Scheme's current investment policy is set out in the Statement of Investment Principles (SIP), a copy of which is available on the HR Wallingford website (details on first page).

The Trustees take into account Environmental, Social and Governance (ESG) factors when setting the investment strategy, such as climate change, community relations and responsible investment. Further information on the Scheme's ESG policies can be found in the Implementation Report, available on the website.

No payments have been made from the Scheme to the Company over the last year.

As at 31 December 2023, the Scheme's assets were broadly allocated as shown in the pie chart. The total value of the assets was £78.1m.

Asset Allocation as at 31 December 2023



Source: Scheme Investment managers, Isio

Asset classes

Equity	Owning shares in companies (which is done via owning units in a pooled equity fund). Equity is a growth asset with high expected return although subject to volatility
Diversified Growth Funds	Multi-asset funds (typically containing equities, bonds, property, cash) which seek to achieve long term equity-type returns, but with about half to two thirds the volatility.
Multi Asset Credit / Absolute Return Bonds	Aims to take advantage of diversified opportunities in public and private credit markets, including, but not limited to, investment grade and high yield corporate bonds.
Liability Driven Investment	Strategy which invests in assets which move in a similar way to the Scheme's liabilities. Designed to help schemes reduce the volatility of their funding level by addressing (or hedging) interest rate and inflation risks.

News and FAQs

High Inflation and volatility in financial markets

Since 2022, inflation has been at its highest levels since the 1970s, which has significantly impacted the UK economy. Subsequently in 2023, owing to soaring energy and food prices, inflation remained high at 6.7% (over the year to September 2023), although this is a reduction from the preceding year's rate of 10.1%. The Bank of England has intervened by increasing interest rates which aim to reduce the level of inflation. Whilst inflation remains at elevated levels at the current time, it is forecasted that inflation will continue to fall, with a target of around 2% to be achieved by the end of 2025.

Whilst inflation is high, benefits in the Scheme are reasonably well protected through inflationary increases (linked to the Consumer Prices Index or 'CPI'), applied each year to the majority of the benefits. Additionally, the assets of the Scheme have been structured in a way that means the Scheme has good funding protection against this high level of inflation.

As a result of the changes in financial markets, the early retirement factors and cash commutation terms have been updated. This follows the agreed process with the Company and is after receiving actuarial advice. Details are available upon request to Isio (details on front page).

Pension Increases

Pensions in payment are increased annually on 1 April each year and the increase is linked to the increase in the Consumer Prices Index ('CPI'). This year, members' pensions in the Scheme were increased on 1 April 2023 by 10.1%.

Please note that if you built up benefits before April 1997, some of your pension may not receive the full CPI increases; these increases will be incorporated into your State pension benefits.

There were no discretionary increases granted during the year.

Increase to the minimum pension age

Last year, the government reaffirmed its intention to go ahead with plans to increase normal minimum pension age from 55 to 57 with effect from 6 April 2028. The Trustees will be taking legal advice to determine how this proposed change may impact Scheme members.

GMP equalisation

A High Court judgment in the Lloyds Banking Group case was announced on 26 October 2018, which may have an impact on your benefits from the Scheme. As outlined in previous newsletters, the Trustees have put in place a plan of action regarding the equalisation of benefits for the HRPS and work to achieve this is currently ongoing.

Pensions Fraud

It is important to know the warning signs when it comes to pension scams. Often scammers will try to persuade pension savers to transfer their entire pension savings, or to release funds from your savings, by offering incentives such as higher returns or releasing cash before age 55.

What to look out for:

- Calls, texts or emails from unknown numbers or email addresses
- Phrases such as "free pension review", "pension liberation", "loan", "cashback"
- Guarantees that they can get you better returns on your pension savings
- Help to release cash from a pension before the age of 55, with no mention of the tax implications
- Complicated or unusual, high-risk investments
- Requesting personal information

If you think you are being targeted by a scam or have any concerns about the legitimacy of a correspondence, please immediately contact the Scheme administrators (details on the front page).

Further information about pensions scams and how to avoid them can be found here:

<https://www.thepensionsregulator.gov.uk/pension-scams>

Isio Pension Web service

Last year, the administrators of the Scheme, Isio, launched their Pension Web service. Through this secure online portal, members can view details of their pension benefits within the Scheme. It will also enable members to request benefit quotations and updates to address and beneficiary information.

If you haven't done so already, please register for this service by logging onto <https://www.isiopensions.com> and enter your personal details and username (this is the unique reference number quoted on Isio correspondence and can be found at the bottom of the address label for this newsletter).

Changes to pensions tax thresholds

In the March 2023 Budget, the Chancellor confirmed that the lifetime allowance charge will be abolished from April 2023 and the lifetime allowance itself will be abolished from April 2024. Furthermore, he announced that the Annual Allowance will increase from £40,000 to £60,000 from April 2023.

He also confirmed that the maximum tax-free pension commencement lump sum will be frozen at 25% of the current standard lifetime allowance (i.e. £268,275) or a member's protected lifetime allowance, where applicable.



Q. Does the Scheme hold an Internal Dispute Resolution Procedure?

Trustees of all Occupational Pension Schemes are required to establish and operate a procedure attempting to resolve any complaint or dispute which may arise in relation to the Scheme. If you wish to see a copy of the Scheme's Internal Dispute Resolution Procedure, please contact Isio (details on the front page).