# AT&T ISTEL Pension Plan

# Report to members

2023

## From the Chair

**Welcome to the latest edition of our 'Report to members'.**

A key feature for this year's issue is the funding update. As you may recall, we did not include one last year because the Plan was undergoing its latest formal 'healthcheck' – the full valuation, which we carry out every three years. In between valuations, the Plan's actuary gives us a less formal report each year to help us keep a close eye on the Plan's progress.

Now that the valuation is complete, we can update you on the results, as well as the most recent yearly update.

### Still in surplus

The valuation results showed that the Plan had a 'surplus'. This means that the actuary estimates that at the valuation date – 31 March 2022 – the Plan would have more than enough funds to meet its outgoings.

Of course, since that date, economic conditions have remained uncertain – particularly following the 'gilt crisis' in late 2022. So we are encouraged to see from the latest update that, even though the Plan had a slightly lower funding level, it still had a significant surplus at 31 March 2023.

### A successful strategy

After weathering the 'gilt crisis', most pension schemes were able to recover, in some cases to a better situation than they were in before. (You may have read about schemes experiencing 'unexpected surpluses'.) However, our investment approach stood us in particularly good stead in the aftermath of the crisis. In our funding update and investment sections, you can read more detail about the background to the Plan's healthy funding position.

### And there's more...

As ever, you can find our regular summaries of the accounts and membership figures from the Plan's report and accounts.

We have also included a reminder about pension scams (along with a brief update following the 'cyber-attack' on Capita, our administrators), as well as a look at how we incorporate diversity and inclusion issues into our decision-making.

And there is plenty of wider pension news to cover, including a delay to the pension dashboard, and major changes to the HM Revenue & Customs tax allowances following the Spring Budget.

I hope you enjoy this year's issue.

**Judith Horton**
Chair of the Trustees

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## Inside

# Funding update

Last year's issue did not include a 'summary funding statement' because the valuation at 31 March 2022 was in progress. We then set out the valuation results in a stand-alone summary funding statement in September.

A full valuation takes place every three years, with the Plan actuary providing more informal annual updates for the years in between. In this statement, then, we report the results from our most recent update on the Plan's position at 31 March 2023 (with the valuation figures for comparison).

| | **31 March 2022 (latest valuation)** | **31 March 2023 (latest update)** |
|---|---|---|
| The value of the funding target was estimated as | £527.3 million | £392.2 million |
| The value of the assets was | £593.8 million | £433.6 million |
| The surplus was | £66.5 million | £41.4 million |
| This is equal to a funding level of | 113% | 111% |

A funding level below 100% would mean that the Plan had a shortfall to make up. However, we are pleased to see that, with a funding level of 111%, the Plan still had a healthy, if slightly smaller surplus.

## Changes since the 2022 valuation

As the figures show, the Plan's funding level has gone down slightly over the 12 months to 31 March 2023.

Both the Plan's assets and its liabilities – and, as a result, the funding target – have fallen since the valuation. However, the fall in the asset value had more impact, resulting in the reduction in surplus.

The main reason for the fall in asset and liability values is the increase in long-term interest rates.

## Company support

The Plan's actuary recommends the level of contributions the Company should pay following each valuation.

The Company does not have to make extra 'shortfall contributions' while the Plan remains in surplus. If, after a future valuation, the funding level goes down below 100%, we would agree a 'recovery plan' with the Company and actuary to make up the shortfall.

Whether or not it is paying shortfall contributions, the Company also meets all the Plan's running costs.

(On a legal note, we are also required to confirm that the Plan has not made any payments to the Company in the last 12 months.

## Solvency funding level

There is more than one way to measure a pension scheme's funding position, and in this statement, we are required to include two. The main figures at the start show the 'ongoing' funding level – in other words, it is worked out assuming the Plan will continue into the future.

We must also show the 'solvency' level, which estimates the position if the Plan 'wound up' on the same date. As you may recall, 'winding up' a scheme means closing it down and passing the benefits to an insurance company to manage. If an employer chooses to wind up their scheme, they must meet the cost of the insurer paying all the pensions members have built up. Because the insurance company must invest in more stable assets (and make their own profit), more money is needed upfront.

Accordingly, the solvency level is normally lower than the ongoing level. At 31 March 2023, it was 81%, higher than it was at the valuation date (77%).

Please note – the solvency measure is one of the required features of the statement. Including it does not mean the Company has any intention of winding up the Plan.

## The Guarantee

We have also agreed a Guarantee with AT&T Corp to give the Plan some extra security. If the Plan did wind up without enough assets to pay all the benefits due to members at the time, the Company would have to top up its funds accordingly. The Guarantee also allows the following:

- We can call on the parent company AT&T Corp to cover the cost of winding-up, if neither AT&T ISTEL nor AGNS UK could do so (plus an additional 10%);
- If AT&T Corp's assets were to fall significantly, we can ask it to make up the shortfall in the Plan's funding (if any).
- We can also ask for similar help through the Guarantee in the unlikely event that the Company could not pay its ongoing contributions to the Plan.

# Pension scams: staying safe online

As you will be aware, our administrators, Capita, fell victim to a 'cyber-attack' earlier this year and a number of our Plan members had some of their personal details stolen. We have taken a number of steps in response to this incident:

- We have written to every member affected with guidance for any action they should take.
- These members have been offered 12 months free Experian membership. Experian are data specialists who offer a monitoring service that will detect any fraudulent activity using the member's details on their behalf.
- We continue to work closely with Capita – and all our advisers – to make sure they are taking the necessary measures to prevent this kind of online scam, or 'cyber-crime', as far as possible.

## Steps you can take

In recent years – thanks to technical advances and, no doubt, the pandemic too – we can find it all too easy to spend a great deal of our time online. We can catch up 'virtually' with family and friends, watch films or TV. But many of us also carry out most of our financial dealings using the internet: banking, shopping, paying the bills or arranging our leisure and travel.

Scammers are constantly developing ways to steal your money or details online. The 'Cyber Aware' website run by the Government's National Cyber Security Centre recommends a number of steps for you to stay as secure as possible, including:

- **Protect your emails with a strong password**.
  It's particularly important to keep your emails as safe as possible, as a scammer who gets into your emails can use them to find other website accounts you might use. The site recommends a password using '3 random words', rather than a phrase, name or date that a hacker might be able to work out.
- **Save your passwords to your browser.**
  This will keep them stored securely for you.
- **Turn on two-factor / two-step authentication for your emails and accounts where you can.**
  This function will ask for extra information to prove your identity (such as sending a code to your smartphone) if there is any attempt to change your settings, or log in from a different device, for example.
- **Accept all the software updates on your devices.**
  These usually include any updated protection against scams or viruses.
- **Back up all your details in the cloud or on another device.**
  Then you can always get them back easily if your normal device is hacked or stolen.

Visit the Cyber Aware website for more details at **www.ncsc.gov.uk/cyberaware**.

# In the news

## Diversity, equity and inclusion

This area of our work is becoming increasingly important to trustee boards.

The Pensions Regulator has published guidance, which gives trustees a framework for identifying any gaps – not only in our procedures and ways of communicating with members, but in our own skills and awareness.

With this in mind, we are reviewing our activities to:

- Find ways to continually improve the information and guidance we send out so that the widest range of our members can read, understand and act on it.
- Make sure we actively consider a range of viewpoints, so we can take better decisions that safeguard all our members' interests.

If you need this newsletter in a different format, the following versions are available:

- LARGE PRINT (in a number of different type sizes);
- Braille;
- Electronic (for use with screen readers).

Just ask Capita and they will arrange for you to receive your preferred version.

**We will keep you updated on any diversity, equity and inclusion developments.**

# Pension dashboard: new deadline

As you may be aware, the Government has tasked the pensions industry with creating a 'pensions dashboard' portal, where scheme members will be able to see details of all their benefits in one secure online place.

The system is currently being built, but the work involved is lengthy and complicated. Previously, schemes were given a deadline to connect depending on their size, with an overall deadline of October 2025 to have every UK scheme on board.

The Government has now changed the approach slightly, and extended the timetable. There is now one fixed deadline of October 2026 – so, an overall delay of a year.

Schemes will still receive a joining date, but this is not compulsory – it is more of a guideline, so there is no last-minute overload of the system in the final few months. We are still waiting for these suggested dates.

To read more about the pensions dashboard, go to
**https://www.pensionsdashboardsprogramme.org.uk/**

## State pension age update

Currently, the State pension age is scheduled to increase as follows:

- from 66 to 67 between 2026 and 2028; and
- from 67 to 68 between 2044 and 2046.

From time to time, the Government reviews the planned increases to State pension age. Back in 2017, it announced proposals to bring the increase from 67 to 68 significantly forward, by seven years.

However, it has now dropped those plans, so the situation currently remains as above. Instead, there will be a further review within two years of the next Parliament.

Whatever future plans may take shape, the Government has also confirmed that it will always give at least 10 years' notice of any change to State pension age.

## Tax allowance changes

In the Spring Budget, the Chancellor introduced some sweeping changes to the tax allowances the HM Revenue & Customs apply to pension benefits.

As you may remember, these allowances are designed to mostly affect high earners, but over the years, their values have changed significantly – up and down – making it easier for some individuals to be 'caught' by them unexpectedly. As it is your responsibility to manage your tax position, it is a good idea to keep track of where you are against the allowances.

The **lifetime allowance** was the level of pension benefits you can build up over your whole working life (from all your pension schemes, apart from the State) before paying a special tax charge on any excess. However, it no longer applies from 6 April 2023, with the effect that, if you retire with benefits over the lifetime allowance, you will pay your normal rate of income tax on the excess – not the heavier special charge.

The **annual allowance** is the amount your pension benefits can increase in any tax year before you pay an extra tax charge on them. You can no longer build up benefits in the AT&T ISTEL Pension Plan, so the annual allowance is only relevant to you if you are building up benefits in another pension arrangement.

From 6 April 2023, the standard annual allowance went up from £40,000 to £60,000. (If you are a significantly high earner – broadly, if you earn more than £200,000 a year – your annual allowance might be lower.)

There is an additional limit, called the **'money purchase annual allowance' (or 'MPAA')**. This only applies to any 'defined contribution' benefits you have (such as AVCs, or a personal pension) – if you have already used a flexible option to start receiving some retirement benefits. From 6 April 2023, the MPAA increased from £4,000 to £10,000.

If you are affected by any of the HMRC allowances, or think you might be, please consider taking independent financial advice.

## Guaranteed Minimum Pension update

In previous issues, we explained that we are currently carrying out two reviews involving GMPs.

**GMP rectification** is a process of checking our GMP records against those held by HM Revenue & Customs' (HMRC) to make sure they agree. We hope to have completed this exercise by the end of 2023 and will contact any members whose benefits need adjusting.

**GMP equalisation** involves looking at any pension you built up between 17 May 1990 (a date set by reference to a previous court ruling) and 5 April 1997 (when GMPs were discontinued) and comparing it with the amount a person of the opposite sex would have built up in the same circumstances. If that opposite sex pension is higher, then your pension would need to be increased to that level. Bear in mind that any increase is likely to be small (as GMP is not a large part of most members' benefits) however, no-one's benefits will go down as a result of this review. At this stage, we can't say when this exercise will be completed, but if we need to increase your benefits as a result of the unequal GMP, we will let you know.

# Headline figures

## Accounts summary

This table gives the main figures from the full audited accounts at 31 March 2023. (If you want to see a copy of the Plan's annual report and accounts, please contact Capita.)

| | 31 March 2023 £000 | 31 March 2022 £000 |
|---|---|---|
| **Outgoings** | | |
| Pensions | 13,155 | 12,236 |
| Cash sums on retirement | 2,658 | 1,956 |
| Lump sum death benefits | 208 | 1 |
| Transfers out | 549 | 5,159 |
| Administrative fees and other expenses | 1 | 15 |
| Investment management fees | 1,332 | 1,937 |
| **Total** | **17,903** | **21,304** |
| **Opening value of fund** | **598,767** | **622,567** |
| Take away what went out | -17,903 | -21,304 |
| Change in the value of the Plan's investments | -143,798 | -2,496 |
| **Closing value of fund** | **437,066** | **598,767** |

## Member numbers

There were **1,749** members in the Plan overall at 31 March 2023. As you are aware, the Plan is closed to future benefits, so the membership is made up of:

- pensioners - drawing a pension from the Plan (including the dependants of members who have died), and
- deferred members – who may or may not still be working for the Company, and have benefits in the Plan to take at retirement.

| | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Pensioners | 1,004 | 949 |
| Deferred members | 745 | 812 |
| **Total** | **1,749** | **1,761** |

# Plan update

### Investment markets

Investment market conditions during 2022 were challenging, for a number of reasons:

- poor performance of both bond and equity markets due to political tensions worldwide (in particular the war in Ukraine);
- the 'gilt crisis' following the UK Government's economic announcement (Liz Truss' "mini budget") in September 2022; and
- rising inflation.

These all contributed to a fall in the value of the assets over the year.

However, rising gilt yields following the 'gilt crisis' also meant that the Plan's liabilities also reduced significantly. So, as a result of the protection and diversification in place as part of our investment strategy, the Plan has fared well despite the challenging backdrop. The Plan's funding level has remained in a good position over the year to 31 March 2023.

### Investment strategy

As the Plan has no active members, it continues to 'mature' – that is, the money going out in benefits increasing outweighs money coming in from contributions and investments. This means we focus on protecting the assets the Plan already has, rather than aim for high growth and carry more risk.

After a review of our investment strategy, we decided to reduce this risk further. This includes increasing our 'liability-driven investments', while reducing our investment in equities, which are more volatile. We are also switching our diversified growth investments to multi-asset credit, and selling our remaining property holdings.

As a result, the table showing the asset spread at 31 March 2023 gives you a snapshot of this activity. As we move funds between assets, there is a higher-than-normal amount held in cash investments (to keep the money secure in the short-term). The liability-driven investments were yet to increase, and only one multi-asset credit manager, M&G, was on board at the time (we have also appointed a second manager for this type of asset, Robeco).

| Manager | Type of investment | Actual split at 31 March 2023 |
|---|---|---|
| **Insight** | **Liability-driven**<br>Investments that change in value in the same way as the benefits the Plan must pay. | 50.4% |
| **Insight** | **Absolute return bond fund**<br>Fund that uses a mixture of credit investments such as company bonds to target a particular level of growth. | 4.7% |
| **AIL** | **Global unconstrained equities**<br>Investments in company shares around the world. The manager has the freedom to invest wherever they think they will get good returns. | 6.9% |
| **Blackrock Blackstone** | **Absolute return funds**<br>Funds that use a mixture of investments to target a particular level of growth. | 15.6% |
| **CBREGI** | **UK and European property funds**<br>Commercial property – shops, offices and warehouses – rather than homes. | 0.1% |
| **IRE** | **Property debt**<br>Investment in property loans with regular payments with interest. | 6.4% |
| **M&G** | **Multi-asset credit** | 3.5% |
| | **Cash** | 12.3% |

## Investment returns

The performance figures are again a snapshot – measured at 31 March 2023, they inevitably reflect the major economic upheaval from autumn 2022 and into this calendar year. However, it is important to remember that pension schemes are very long-term investments, and we would still expect markets to recover despite ups and downs, even when they are severe.

It is also worth noting that the 'benchmark' return is not simply a target – they are more of a measure of average performance across the market. (This explains why they are sometimes negative – as below.) So, it is interesting to see that over both the year and, on average, the three years up to 31 March 2023, the Plan's investments have still performed better than we might have expected.

| | Over **one** year to 31 March 2023 | Over **three** years to 31 March 2023 |
|---|---|---|
| Investment return | -26.8% | -9.3% a year |
| Benchmark | -30.9% | -11.0% a year |

# Inflation and discretionary increases update

While inflation affects your pension increases, they are based on the Plan rules and UK pension law – so they do not match inflation exactly. Different parts of your pension increase in different ways over time – you can find further details in the benefit statements (for deferred members) and pension increase letters (for pensioners) we send out each year.

Although inflation is now falling from the levels seen in 2022 and the beginning of 2023, it is still higher than it was for many years before then.

Deferred members generally receive pension increases close to – if not exactly in line with –inflation.

However, limits apply to increases for pensioners. So, when inflation is high, they are likely to receive increases each year in line with these maximum limits (for example 3% or 5%) on most elements of their pension, which can be lower than the actual level of inflation.

The Plan rules require us as Trustees to review the level of pension increases granted to pensioners each year. In some years, we may agree with the Company that we can grant an extra "discretionary" increase, on top of the one payable in line with the Rules.

We consider this carefully in light of the circumstances at the time and after consulting with the Plan's professional advisers.

As you are aware, we were able to provide a discretionary increase in 2023. However, please note:

- While we take inflation into account, it is not the only point we consider when deciding about discretionary increases. When inflation is high, we cannot promise to give discretionary increases automatically, or grant an increase fully in line with the inflation rate.
- We cannot promise to give a discretionary increase in future years because we have given one this year. If you are a pensioner, you will receive confirmation of your 1 April 2024 pension increase in March 2024.

If you have any questions or need guidance about your finances more generally, we urge you to explore MoneyHelper (see page 7) – it isn't just for pensions.

# Online support

You can find general information about the Plan at The Pensions Directory (**https://www.att-istelpension.co.uk/**), along with a link to the member website below.

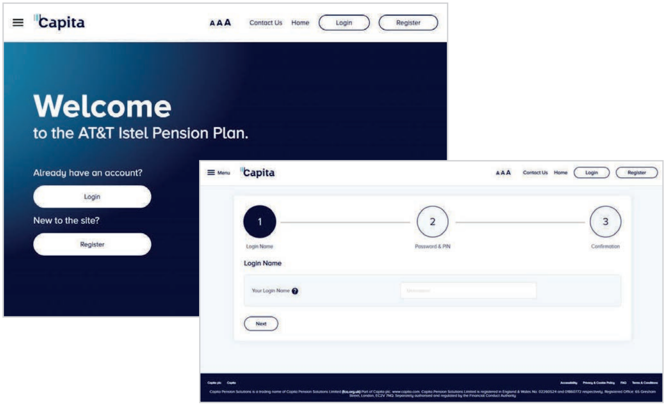
## Member website

Remember to visit the member website if you want to see any information about your benefits.

- If you are a **pensioner**, you can view and download your monthly pension payslips, and P60 history.
- If you are a **deferred member**, you can view your latest pension value.

If you have any queries for the administrator, just use the contact page. If you go back and forth over several messages, you'll be able to follow the entire history of the exchange in this part of the site.

**https://portal.hartlinkonline.co.uk/atandtistel**




## Keep us up to date

Please tell Capita if you need to update any of your personal information. In particular, please let us know as soon as possible if you change any of your contact details, so there is no delay if we need to contact you about your benefits.

It is also important to tell us if you:

- marry or divorce, or start or end a civil partnership;
- become a parent; or
- suffer a bereavement.

If we have the wrong information for any of the above, it could affect any benefits payable from the Plan after your death. With that in mind, please remember that if you do go through any of the life changes above, you may want to update your 'expression of wish' form (where you state who you would want to receive these benefits).

Please contact Capita if you need to fill in a new form. Bear in mind that you need a separate form for each AT&T pension scheme you are due benefits from (for example, the 2001 Plan).

## MoneyHelper

MoneyHelper is the consumer website run by the Money and Pension Service (or 'MaPS').

Created from several former services, MoneyHelper aims to contain most of the financial guidance you might need in one place, covering:

- saving and budgeting;
- mortgages, loans and debt management;
- insurance; and
- pensions and retirement planning.

**https://www.moneyhelper.org.uk/**

## Retirement Living Standards

One of the difficulties when trying to plan for retirement is knowing how much income you will need. Then you can work out if you're on track to build up enough pension, or if you could do with saving more, if possible.

The 'Retirement Living Standards' website aims to make this simpler by 'bringing to life' three potential lifestyles in retirement, based on a 'minimum', 'moderate' or 'comfortable' income. It uses research to put actual income figures on each of the three lifestyles, then breaks those figures down into recognisable costs – how much you would have towards your weekly shop, what kind or car you could run, or when and where you could go on holiday.

It then uses examples to show how you could plan to 'move up' to the next lifestyle level, and the amounts you might need to save.

It is worth visiting the website regularly as the figures are updated from time to time.

**https://www.retirementlivingstandards.org.uk**

## 'Your pension'

If you want to read about any of the wide range of State benefits available, you can explore the full Government website, **https://www.gov.uk/**.

However, the Government have set up a smaller website, 'Your pension', which draws together links to some of the key information about pensions and retirement planning.

It also includes some useful tools and checklists, including the 'Midlife MOT' which focuses on steps you might need to take as you enter the mid-to-late stage of your working life.

**https://www.yourpension.gov.uk**

# Managing the Plan

## The Trustee board

Our line-up has not changed since the last issue, so the board at 31 March 2023 remains as follows:

| Company-appointed | Member-nominated |
|---|---|
| Judith Horton (Chair) | Dave Lyons |
| Paul Brazier | Allan Macfarlane |
| Maurice Gale | Shirley Young |
| Roger Paul | |
| Gary Pugh | |

## Our advisers

While we have overall responsibility for running the Plan in members' best interests – and maintaining a broad and up-to-date knowledge of pensions and investment issues to do so – we appoint a number of specialist experts to act on our behalf in certain areas. Our adviser panel at 31 March 2023 was:

| | |
|---|---|
| Actuary | John Sydenham, Aon |
| Auditors | PricewaterhouseCoopers LLP |
| AVC providers | Utmost Life and Pensions<br>Zurich Assurance Limited |
| Bankers | National Westminster Bank PLC |
| Custodian | Northern Trust |
| Investment adviser | Aon |
| Investment managers | Aon Investments Limited<br>BlackRock Alternative Advisers<br>BlackRock Investment Management (UK) Limited<br>Blackstone Partners Offshore Sterling Fund Limited<br>CBRE Global Investors Limited<br>Invesco Real Estate (IRE)<br>Insight Investment Management Limited<br>M&G Investments |
| Legal advisers | Burges Salmon LLP |

## Plan administrators

If you have a question about the Plan or your benefits, or you need to update us on a change to your personal details, please contact Capita:

Email: **ATTISTELPension@capita.co.uk**

Telephone: **01227 774621**

Or, write to:

**Capita Pensions Solutions**
**PO Box 555**
**Stead House**
**Darlington**
**DL1 9YT**



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