



Annual Employer Update

Chairman's update



Welcome to our 2019 Annual Update for the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Scheme).

We're sending this Update to you because you're on our records as the Scheme's contact for pension matters. If you're not the main contact in your company for pension and employee benefit matters, please forward this Update to the correct person and let us know, using the contact details on page 12, so we can update our records.

Scheme members will be sent a similar Update in the new year, together with their Annual Certificate of Pension Credit if they have not yet retired. Their certificates show the amount of pension they will receive each year in today's money if they retire on their 65th birthday. Members who stopped contributing

between 6 April and 30 June 2019 have been sent Leaving Service Statements instead of an Annual Certificate.

We wrote to you in July to tell you about the formal financial assessment, called an actuarial valuation, that we completed in May. Since then, the actuary has also carried out a quick check-up of the Scheme's funding position, which you can read about on page 5.

During the year, we reviewed the Scheme's investment strategy. Going forward, we plan to adopt a new low-risk investment strategy. You can find out more about this and see how the Scheme's assets are invested on page 8.

We take protecting member data very seriously. During the year we reviewed all our IT systems to ensure that the Scheme remains protected against common cyber threats. Further information can be found on page 11.

I would like to thank the Board and staff who have worked hard over the year to make sure members receive the benefits due to them. I would like to express particular thanks to Douglas Blackhall who stepped down from his role as the SNIPEF-nominated Trustee Director. Douglas was one of nine Trustee Directors on the Board. Two Trustee Directors are nominated by each of the employer trade associations (SNIPEF and APHC), three

are appointed by Unite the Union, and the remaining two Trustee Directors are non-voting independent pension trustees appointed by the Trustee Board.

I hope you find this Update helpful and relevant. If there is anything that you would like to see covered in a future issue, please let us know.

Alan Pickering CBE

Trustee Chairman
Plumbing Pensions (UK) Ltd

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Membership

The Scheme closed to future contributions on 30 June 2019 and all the active members became deferred members. Members who leave the Scheme but who do not retire immediately are called deferred members. The Scheme also provides benefits to many thousands of pensioners and their beneficiaries.

Number of members at 5 April

Active members

2019	2,876	2018	3,496
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Deferred members

2019	19,066	2018	19,485
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Pensioners

2019	12,740	2018	12,422
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Funding update

The Scheme has a formal financial assessment (called an actuarial valuation) at least once every three years. In the years between formal valuations, the actuary also reviews the Scheme's funding position, but these check-ups are less detailed.

We wrote to you in the summer with the results of the 2017 valuation and also the 2018 check-up, both of which were very positive. As a reminder, the Scheme actuary found that, as at 5 April 2017, the Scheme's assets were enough to cover 102% of the liabilities (by which we mean all the pensions that have been built up by members). By 5 April 2018, the position had improved so that the assets covered around 108% of the liabilities on an ongoing basis.

Over the year to 5 April 2019, the funding position remained broadly stable, so that when the actuary carried out the last annual check-up, the assets still covered 108% of the liabilities.

Since the 2018 actuarial report, the Scheme has adopted a less risky investment strategy (there are more details on page 9). As a result, the discount rate used to value the Scheme's liabilities will be carefully reviewed next year when the actuary carries out the 5 April 2020 valuation. The discount rate should reflect the lower risk, volatility and lower return from the new investment strategy.

Once the new investment strategy is fully implemented, this will significantly reduce the expected future return on the Scheme's assets, which will increase the value placed on the Scheme's liabilities and reduce the surplus. Based on an estimated lower expected investment return, the Scheme is

not expected to have a surplus at 5 April 2020. The Trustee is considering what might happen if there is a funding shortfall at the next formal valuation in April 2020. This might require the Trustee to ask employers to pay deficit reduction contributions to the Scheme.

As mentioned in the 5 April 2017 valuation report, the Trustee believes that it is desirable that the Scheme should provide a substantial degree of security for accrued benefits with limited reliance on support from the participating employers. The Trustee has therefore set a long-term objective to be fully funded on a 'self-sufficiency' basis over a reasonable period. Based on market conditions at

Funding update (continued)

5 April 2019, there was a shortfall on that basis of around £100 million (that is, a funding level of 96%).

The actuary also reported on the financial position of the Scheme in the hypothetical situation that it had discontinued at 5 April 2017 and had to secure benefits with an insurance company. This is the funding position on which Section 75 debts are based. On this 'solvency' basis, the assets were estimated to cover around 74% of the liabilities at that date. This is lower than the ongoing funding level described on page 5 because insurers are obliged to take a very cautious view of the future and need to make a profit. By contrast, the ongoing funding valuation assumes that the participating employers will continue to exist and support the Scheme, which can therefore continue to invest in shares and other return-seeking assets.

You should bear in mind that a pension scheme is a long-term arrangement.

The Trustee is required by law to provide members with information about the solvency position; it does not imply that there is any intention to discontinue the Scheme. The funding shortfall mentioned above was a hypothetical situation at a specific date only.

The next formal actuarial valuation will be carried out as at 5 April 2020, and the Trustee is working with the actuary to make plans for this exercise. We will report the results to you in a future Update.

Rates of contributions

As part of the 2017 valuation, the actuary calculated that the contributions being paid by members and participating employers would need to increase significantly, to meet the cost of building up new benefits in the Scheme. This led to a consultation on future benefit provision, during which contributions carried on as normal. As mentioned in

the summer Update, this consultation led to the decision to close the Scheme to future contributions on 30 June 2019. This means that no contributions from employees or employers have been paid into the Scheme in relation to the future build-up of benefits from 1 July 2019.

Other information

As required by law, we confirm that no changes, directions, or Schedules of Contributions have been imposed on the Scheme by the Pensions Regulator, and that there have been no payments out of the Scheme's funds to any of the participating employers since the date of the last funding update.

Where can I get more information?

If you have any questions or would like any further information, please contact us using the details on page 12.

2019 Summary of Scheme accounts



The table below provides a summary of the Scheme's income and outgoings for the year ending 5 April 2019.

The total income includes member and employer contributions, as these were paid in before the Scheme closed to future contributions on 30 June 2019. If the actuary identifies a funding shortfall in a future valuation of the Scheme, the employers could be required to pay money into the Scheme to remove the shortfall. The Scheme also receives income from its investments, which includes a bulk annuity policy that covers most of the pensioner payroll.

The Scheme's outgoings include benefit payments of pensions, lump sums, death benefits, short-service refunds, transfers to other pension schemes and payments towards the Scheme's running costs.

	£m
Fund at 5 April 2018	2,005
+ Total income for the year	12
- Total outgoings for the year	55
+ Net returns on investment during the year	194
=	=
Fund at 5 April 2019	2,156



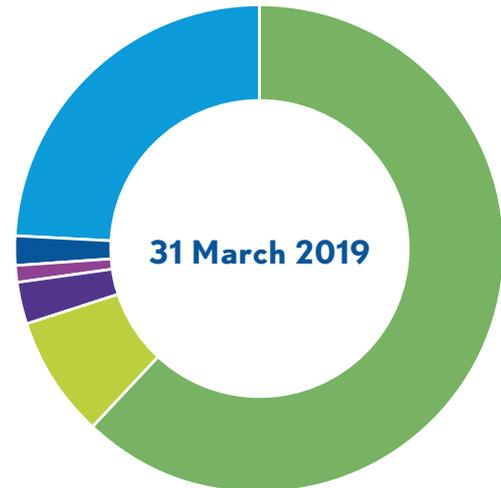
Investing the Scheme's assets

One of the Trustee's most important duties is to invest the Scheme's assets. The Trustee takes advice from a professional investment consultant, who helps it set a suitable investment strategy.

Over the year the Scheme's assets, excluding the bulk annuity insurance policy, achieved a return of 14.9%. This was 7% above the target set by the Trustee and its consultant, so an excellent result.

This chart shows how the Scheme's assets were split between different investment types at 31 March 2019, excluding AVCs which are held separately.

- Liability driven investment 62%
- Property 8%
- Global equities 3%
- Cash 1%
- Illiquid assets 2%
- Insurance 24%



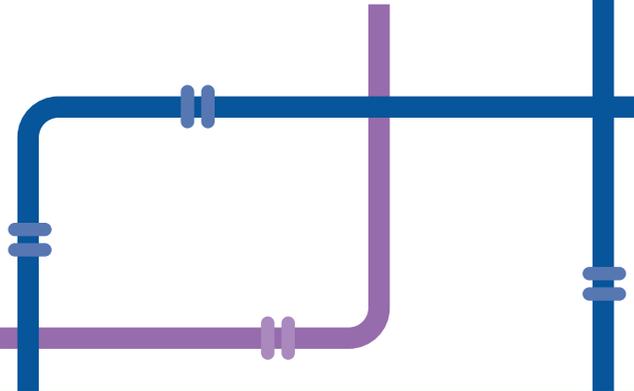
Changes to the investment strategy

In our summer Update, we told you the Trustee was reviewing the Scheme's investment strategy to switch the focus away from riskier return-seeking investments towards less risky asset classes.

The Trustee consulted the employers about its plan to adopt a 'slow and steady' low-risk investment strategy to protect the Scheme's assets. Employer feedback supported the Trustee's proposal. Over the coming year, the Trustee will implement the new investment strategy.

You can find out more about the new investment strategy in the Statement of Investment Principles, available on our website or by calling us using the details on page 12.

At the time of writing, there remains uncertainty around Brexit and the UK's future relationship with the EU. The Trustee has of course discussed this with its professional advisers to better understand the impact on the Scheme's funding position. It's important to remember that the Scheme invests for the long term because it expects to pay pensions for many years to come. The new low-risk investment strategy will help to protect the Scheme against short-term volatility.



Scheme news

Section 75 employer debts

After a lengthy period of consultation with employers, during 2019 the Trustee has begun to issue section 75 employer debt notices to employers that have had a trigger event. Section 75 employer debt legislation is complex and the sums involved can be significant. The Trustee has no choice and must still issue employer exit charges. This is because the law says it must do so. Member benefits could be put at risk if the Trustee does not do so, and the Government has said it cannot change the law to help the Scheme.

You may need independent professional advice to help you understand how the legislation affects your business. Plumbing Pensions cannot advise employers, but we can talk to you about the options that may be available.

The employer trade associations, APHC and SNIPEF, have agreed to help employers who want to connect with other employers affected by section 75 debts. To find out more and to opt in, contact pensions@aphc.co.uk or ceo@snipef.org

Employer lock-in rule

During the summer, we asked employers for feedback on whether to extend the employer lock-in rule beyond the end of 2019 or allow it to stop. You can find further information about the consultation on our website (details on page 12). Fifty-seven employers responded to the consultation and the overwhelming majority were in favour of extending the lock-in rule. The Trustee and the Constituent Organisations have therefore decided to extend the lock-in rule to the end of 2020. During 2020, we also plan to review the current governance arrangements. We will keep you updated.

Employer portal

We're developing a new online portal to make it easier to share information about the pension scheme with employers. We will keep you updated on progress.

Scheme closure

The Scheme closed to new benefit accrual on 30 June 2019. This means employees will not earn any more pension in the Scheme, employers will not build up any further pension liability and all regular contributions to the Scheme stopped on 30 June 2019.

The Scheme will continue to send VAT invoices to VAT-registered employers. Employers will also need to complete a simple Scheme return twice a year. Employers have a legal duty to tell the Scheme and the Pensions Regulator about significant changes to their business, such as a decision to sell the company or to cease trading.

GMP equalisation

Between 1978 and 1997, members earned a minimum level of pension known as the Guaranteed Minimum Pension (GMP) which is payable from age 65 for men and age 60 for women. Because State Pension ages for men and women were not the same in the past, GMPs for men and women were unequal.

Last autumn, the High Court said pension schemes must equalise GMPs. This is a complex project and there remains uncertainty on how pension schemes should do this. We will keep you informed of progress. No-one will be worse off, but some members may see a change to their pension.

Looking after our data

We hold personal data about the Scheme's members to make sure we pay them the correct benefits. We take our data protection duties seriously. You can find further information about this in our Privacy Notice on our website.

The Scheme has recently been awarded IASME accreditation. This demonstrates that we have taken steps to improve our cyber security and protect our members' data.

Contact details

Please contact us if you have any questions about the Scheme or would like a copy of any Scheme documents:

Through our website: www.plumbingpensions.co.uk

By telephone: 03457 65 65 65

By email: employersupport@plumbingpensions.co.uk

Or by post: Plumbing Pensions (UK) Limited, Bellevue House
22 Hopetoun Street, Edinburgh EH7 4GH

Scheme documents

You can ask for a copy of key Scheme documents including the Report & Accounts, the Statements of Funding and Investment Principles, the Schedule of Contributions and the annual Scheme funding reports.



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