ofgem

Defined Benefit Pension Scheme Questionnaire

1. Purpose

1.1. As part of our review of the adherence by licensees to the six Price Control Pension Principles, a completed questionnaire is required from each licensee for each Defined Benefit (DB) scheme in which a licensee is/has been a participating employer since 1990. Where different employee groups are dealt with separately, provide the information 9e.g. benefits, liabilities) for each employee group.

1.2. It would be helpful if colleagues would complete this questionnaire even if you have previously supplied any of this information so that we can collate it in the same format for all.

1.3. This data will be used to assess the uniqueness of each scheme and in particular to ascertain what actions have been taken to satisfy principle 1.

2. Instructions for completion

2.1. Complete the data in the text boxes underneath or by the side of each question.

2.2. The size of answer boxes/tables will expand to accommodate overflowing text.

3. Background

3.1. What is the name of the scheme?

Scotia Gas Networks Pension Scheme

3.2. In what year was the scheme established?

2005

3.3. What was the background to the establishment of the scheme? (For example, did it supersede a previous scheme which is now closed to new entrants? If so, a separate questionnaire should be provided for that scheme.)

Bulk transfer from Lattice Group on establishment of Scotia Gas Networks.

3.4. Is the scheme, or any of its members, subject to any protected rights conditions from the time of privatisation? If so, provide details.

No

3.5. Is the scheme closed to new entrants and/or future accruals? If so, when did it close, and what pension benefits are provided for subsequent entrants/accruals?

Effectively closed to new entrants from 2005. Group personal pension offered to new employees.

3.6. Have any of the scheme's liabilities been insured (or bought out with an insurer)? If so, provide details.

No

4. Scheme membership

4.1. Provide the number of scheme members as at the date of each of the last three triennial actuarial valuations and as at the most recent scheme accounts date. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.)

4.2. Provide equivalent tables to 4.1 separately for each regulated and unregulated business. [Insert tables as appropriate.]

Name of regulated business	Scotland Gas Networks Plc & Southern Gas Networks Plc			
Numbers of members	31/03/2008	dd/mm/yy	dd/mm/yy	dd/mm/yy
Members with protected rights from the time of privatisation				
Active members				
Deferred members				
Pensioner members				
Total				
Other members				
Active members	1674			
Deferred members	74			
Pensioner members	49			
Total	1797			

Name of unregulated business	SGN Connections Limited & SGN Contracting Limited			
Numbers of members	31/03/2008	dd/mm/yy	dd/mm/yy	dd/mm/yy
Members with protected rights from the time of privatisation				
Active members				
Deferred members				
Pensioner members				
Total				
Other members				
Active members	202			
Deferred members	2			
Pensioner members	5			
Total	209			

4.3. Which companies within your group currently participate in the scheme?

Scotland Gas Networks Limited, Southern Gas Networks Limited, SGN Connections Limited & SGN Contracting Limited

4.4. Which companies have previously been participating employers in the scheme?

None

5. Scheme benefits

5.1. Complete the following table, summarising the current scheme benefits. Where benefits are not the same for all members, provide a separate table for each group of members, and explain which employees are in each group. [Insert additional copies of the table as necessary]

Specify which group of members	
Type of benefits	*Final Salary*
Contracted in or out of S2P	*Contracted Out*
Normal retirement age (age when unreduced pension is payable)	*65 (pension can be paid unreduced from age 60)*
Definition of pensionable pay (specify any deductions in particular)	*Basic pay plus pensionable allowances. No deductions*
Member contributions	*3% of pensionable pay*
Accrual rate for member benefits	*1/60*
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	*By commutation, 19.10:1 at age 60, 16.60:1 at age 65*
Dependants' provision	*Legal spouse, Civil Partner or nominated partner*
Dependant's pension on death after retirement	*1/90th of member's final pensionable salary for each completed year of the member's pensionable service.*
Ill-health benefits	*Immediate unreduced pension. Service enhanced by half or full prospective service to NRA depending on illness.*
Lump sum benefit on death in service	*4 x pensionable pay*
Pension increases in retirement (for excess pension over GMP)	*RPI*
Pension increases in deferment (excess pension over GMP)	*RPI*

5.2. Do you have a salary sacrifice arrangement for any group of employees? If so:

When was it introduced?	N/A
To which groups of employees does it apply?	
What percentage of eligible members participates in the arrangement?	

How is the reduction in salary calculated?	
Is the saving in employer's National Insurance Contributions shared between the employer and employees? If so, how?	

5.3. Are Additional Voluntary Contribution (AVC) facilities available to members? If so:

Is this on a defined contribution basis, by buying added years, or both?	Both
Does the employer contribute to members' AVCs?	No

5.4. Does the scheme accept transfers in?

If no, when did the scheme cease to accept transfers in?	No – September 2006
If yes, has ceasing to accept transfers in been considered?	

6. Changes to scheme benefits

6.1. Provide details of any changes to scheme benefits and/or member contributions since 1990. For each change: [Insert additional tables as necessary]

Describe the change.	None
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	N/A
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	N/A
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	N/A
Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	N/A
For decreases in member contribution rates, state whether the decrease was directly met by an equivalent increase in employer contribution rates at the same time.	N/A

6.2. Have member contribution rates been reduced, and currently remain, below the maximum level allowed under the Electricity and Gas Acts for members covered by protected rights? If so, why?

N/A

6.3. Have you ever restricted any new (or existing) elements of salaries to make them non-pensionable, or restricted salaries for pension scheme members relative to non-members? If so, provide details.

N/A

6.4. Have you ever offered cash, or other benefits, in return for employees giving up their protected rights? Have there been any other modifications to protected rights terms? If so, please provide details, including the percentage of eligible employees who accepted.

N/A

6.5. Where redundancy benefits were provided by the scheme, have such benefits been removed or reduced for any employees? If so provide details, including savings.

No

6.6. Quantify the overall saving achieved in pension costs due to changes in scheme benefits or member contributions since 1990.

N/A

7. Actuarial valuation results

7.1. Provide the following information as at the date of each of the last three triennial actuarial valuations. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.) Results should be taken from ongoing actuarial funding valuations, unless stated otherwise. If appropriate, provide additional information on recommended employer contributions.

	31/03/2006	dd/mm/yy	dd/mm/yy
Under Pensions Act 2004? (yes/no)	No		
Funding method (for example, Projected Unit)	Projected Unit		

Market value of assets	£317m		
Actuarial value of assets, if not at market value	£317m		
Actuarial value of liabilities	£410m		
Ongoing funding level (%)	77%		
Deficit recovery period (years)	10		
Employer contribution rate for future accruals (%) of pensionable pay	37.3%		
Employer contribution rate after surplus/deficit (%)of pensionable pay	37.3%		
Solvency (or buy-out) funding level (%)	62%		

7.2. Describe the basis on which the employer contribution rate has been set.

Market related basis to calculate the cost of accruing benefits with allowances made for salary improvements up to retirement, leaving or death in conjunction with the Scheme Rules and associated legislation. The contribution rate is calculated by the Actuary and agreed by the trustees.

7.3. Have actual employer contributions been in line with the rates in 7.1? If not, provide details of actual contributions, and explain why they differ to the rates in 7.1.

Yes

7.4. Provide details of the basis on which the deficit recovery period was set at each triennial valuation, including the factors that were taken into account when setting the recovery period, and whether there were any discussions with The Pensions Regulator.

Given that the Scheme is relatively immature, the trustees take a long term view. The aim is to have the Scheme fully funded on a technical provisions basis and any deficit recovery period is agreed with the Company with advice from the Scheme Actuary.

7.5. On what basis do you identify/attribute deficits and pension costs to each regulated and non-regulated business in the scheme?

For the non-regulated business (SGN Connections Limited & SGN Contracting Limited) members were transferred to the Scheme for future service only i.e. without any past service deficit.

8. Actuarial assumptions

8.1. Provide the following information on the assumptions underlying ongoing actuarial funding valuations as at the date of each of the last three triennial actuarial valuations. (If full actuarial valuations have been carried out more frequently than triennially, include all full actuarial valuations in the last ten years.)

	31/03/2006	dd/mm/yy	dd/mm/yy
Pre-retirement nominal rate of return	5.2		
Pre-retirement real return above price inflation	2.2		
Pre-retirement real return above salaries	2.5		
Promotional salary scale (if not in salary assumption)	N/A		
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	4.7		
Post-retirement real return above price inflation	2.7		
Post-retirement real return above pension increases	3.0		
Proportion of pension commuted at retirement			
Mortality table used to value current pensioners*	PMA/PFA92 U = 2006		
Expectation of life at 60 for male pensioner	25.9		
Expectation of life at 60 for female pensioner	28.9		
Mortality table used to value future pensioners*	AM/AF92-5		
Expectation of life for male who will be aged 60 in 20 years	26.8		
Expectation of life for female who will be aged 60 in 20 years	29.7		

** Specify the mortality table used, including any age ratings: e.g. PMA/PFA92 U=2004 x-1 with medium cohort improvement factors subject to a 1% underpin.*

8.2. Summarise the basis on which the discount rates were determined.

The yield on over 15 year fixed interest gilts at the valuation date plus an allowance for the Scheme holding assets with a higher risk profile, of 1% pre retirement and 0.5% post retirement p.a.

8.3. Summarise the basis on which the salary increase assumptions were set, including consistency with the employer's long-term plans or pay policies.

The salary increase assumption was set using actual membership data for the Scheme containing salary information, consultation with the Company and looking at past trends in salary growth in general.

8.4. Summarise the method and assumptions used to calculate the actuarial value of the assets, if different to market value.

Market value has been used.

8.5. To what extent do the actuarial assumptions reflect the employer's covenant, in particular the employer's position as a regulated utility company and the extent of any unregulated business.

Whilst the employer's covenant is taken into consideration, the actuarial assumptions are set with reference to the scheme rules, regulatory and statutory guidance and the membership/maturity profile. The actuarial assumptions used by the Scheme trustees and actuaries are not impacted by the employer's covenant and as far as the trustees are concerned, the existence of regulated and unregulated activities of the employer are not relevant when setting actuarial assumptions.

9. Merged schemes

9.1. Where schemes have been merged or demerged, with assets and liabilities being transferred from or to other schemes, provide the following information (for each merger/transfer):

Date of merger/transfer.	N/A
Background to the merger/transfer and name of other pension scheme(s).	
Number of active, deferred and pensioner members involved in the merger/transfer, and total number of active, deferred and pensioner members in the pension scheme at the merger/transfer date, separately for each regulated and unregulated business.	
The amount of the transfer value and the principles/basis underlying its calculation.	
The extent to which the transfer value was scaled back to reflect underfunding.	
Quantify the amount of the scheme's current surplus or deficit relating to the transferred	

members.	

10. Investment strategy

10.1. Summarise the approach to risk underlying the scheme's investment strategy, indicating how (and why) this has changed in the last ten years.

Investment policy is decided by the trustees after consultation with advisers and the investment managers. The object is to invest in assets which will produce a level of returns which, having proper regard to security, will ensure that the Scheme is able to meet the cost of current and future benefit liabilities when they fall. Funding triggers (see 10.6) have been put in place to help reduce risk at the appropriate time.

10.2. To what extent does the scheme's investment strategy reflect the employer's covenant, in particular the employer's position as a regulated utility company and the extent of any unregulated business?

The Trustees assess the strength of the covenant in setting the investment and contribution strategy, and on a regular basis.

10.3. Provide details of the scheme's asset allocation as at each of the last 9 years' scheme accounts dates (percentage).

Asset class	2007	2008	Date	Date	Date	Date	Date	Date	Date
UK equities	34.0	30.2							
Overseas equities	36.0	37.6							
UK property		7.5							
Overseas property									
Hedge funds									
UK fixed-interest gilts	20.0	8.2							
UK index-linked gilts	9.0	8.2							
UK corporate bonds		8.3							
Overseas bonds									
Cash	1.0								
Other (give details)									
Other (give details)									

10.4. If materially different to the above, provide the intended asset allocation:

Asset class	Date	Date	Date	Date	Date	Date	Date	Date	Date

UK equities									
Overseas equities									
UK property									
Overseas property									
Hedge funds									
UK fixed-interest gilts									
UK index-linked gilts									
UK corporate bonds									
Overseas bonds									
Cash									
Other (give details)									
Other (give details)									

10.5. Summarise the scheme's current target investment strategy if different to that as at the most recent scheme accounts date in 10.3 or 10.4.

As per 2008 Accounts.

10.6. Provide details of any expected future changes to the scheme's investment strategy.

Funding triggers have been put in place with the aim of reducing risk at the appropriate time (85% funded – consider 10% reduction in equity assets with frequent monitoring of markets and 90% funded reduce equity assets by 10%).

10.7. What is the long-term annual expected rate of return on the scheme's assets, based on its current target investment strategy?

Approximately 5% p.a. (based on a weighted average of longer term asset return assumptions, weighted by benchmark allocation)

10.8. Explain the background to any significant changes in investment strategy over this period, and their effects on expected rates of return.

None

10.9. Provide the scheme's actual investment returns for each of the last 9 years:

	2008	Year	Year	Year	Year	Year	Year	Year	Year
Investment return (%)	-3.0								

[redacted]