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?

United Utilities Pension Scheme

3.2. In what year was the scheme established?

1991 – known then as the Water Pension Scheme.

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.)

This scheme is the main pension arrangement for United Utilities Group PLC and includes sections from previous water pension arrangements. Non Protected Electricity Regulated employees were members of this arrangement until the sale of the United Utilities Electricity in December 2007. At that time all regulated employees left the scheme and were invited to join the ENW Group of ESPS on mirror image benefits to those that they received in this scheme. There were 315 employees with defined benefit provision who left the scheme on 18 December 2007 and joined the ENW Group on 19 December 1997. As there are no further liabilities linked to the electricity distribution business the information is provided for historical purposes.

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?

The scheme is closed to new entrants for the defined benefit section. It closed the defined benefit sections on 1 October 2006.

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				
Numbers of members	31/03/2008	31/03/2007	31/03/2004	31/03/2001
Total Members in the Scheme are provided. It has not been possible to split this by regulated/non regulated employees. Please see question 3.3 which explains the number of employees in this scheme at the date of sale of the network by United Utilities PLC.				
Active members	4579	6061	8619	6506
Deferred members	4530	4263	2908	1809
Pensioner members	4380	4281	3663	3155
Total	13,489	14605	15190	11469

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

All companies ceased to participate in 1 December 2007.

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

United Utilities Electricity and United Utilities Electricity Services Limited

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	Former members of the United Utilities Pension Scheme - ex water pension section members
Type of benefits	Defined Benefit
Contracted in or out of S2P	Out
Normal retirement age (age when unreduced pension is payable)	65 for all members. However, members can retire from 60 if the members age and service adds up to at least 85 at age 60. If it does not then they can retire from the earliest age at which their age and service adds up to at least 85.
Definition of pensionable pay (specify any deductions in particular)	Basic Pay (including contractual overtime) plus contractual not discretionary bonus if member joined before 1 January 1996.
Member contributions	6% of pensionable pay
Accrual rate for member benefits	1/60
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	
Dependants' provision	50% of ill health retirement pension.
Dependant's pension on death after retirement	50% of members pension.
Ill-health benefits	Accrued pension plus half potential service to age 65 (subject to a maximum of twice accrued service)
Lump sum benefit on death in service	4 times pensionable salary
Pension increases in retirement (for excess pension over GMP)	RPI increases. Any increase above 5% is subject to the Scheme actuary confirming that the scheme has sufficient resources to pay the full increase. This is known as "best endeavours" principle.
Pension increases in deferment (excess pension over GMP)	RPI increases. Any increase above 5% is subject to the Scheme actuary confirming that the scheme has sufficient resources to pay the full increase. This is known as "best endeavours" principle.

Specify which group of members	Former members of the United Utilities Pension Scheme - ex Defined Benefit section
Type of benefits	Defined Benefit

Contracted in or out of S2P	Out
Normal retirement age (age when unreduced pension is payable)	65 for all members.
Definition of pensionable pay (specify any deductions in particular)	Basic Pay (including contractual overtime).
Member contributions	3% or 5% of pensionable pay
Accrual rate for member benefits	1/80for 3% contributors and 1/60 for 5% contributors
Lump sum terms on retirement (specify commutation rate at NRA, if applicable)	
Dependants' provision	50% of ill health retirement pension (Total Incapacity basis).
Dependant's pension on death after retirement	50% of members pension prior to commutation.
Ill-health benefits	For Total Incapacity - service accrued plus full potential service to age 65 without reduction for early payment. For Partial incapacity – no additional service but members receive an unreduced pension.
Lump sum benefit on death in service	3 times pensionable salary for 3% contributors 4 times pensionable salary for 5% contributors
Pension increases in retirement (for excess pension over GMP)	Limited Price Indexation (RPI up to a maximum of 5% per annum)
Pension increases in deferment (excess pension over GMP)	Limited Price Indexation (RPI up to a maximum of 5% per annum)

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

When was it introduced?	2006
To which groups of employees does it apply?	All members were eligible to join
What percentage of eligible members participates in the arrangement?	Approx 80%
How is the reduction in salary calculated?	The salary is reduced by the amount of pension contributions that the employee would have paid if the salary sacrifice scheme not been in place.
Is the saving in employer's National Insurance Contributions shared between the employer and employees? If so, how?	No

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?	There are both added years and defined contribution options available.
Does the employer contribute to members' AVCs?	No

5.4. Does the scheme accept transfers in? YES

If no, when did the scheme cease to accept transfers in?	
If yes, has ceasing to accept transfers in been considered?	Not applicable

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.	Bonus no longer pensionable
State the effective date of the change, and what periods of service (or which groups of members) were affected by the change.	1995
Explain briefly the reasons for the change (for example, "to comply with the Pensions Act 1995", "to reduce costs", or "to apply valuation surplus").	To reduce ongoing liabilities
Provide details of any consequential or associated changes in other terms and conditions or pension benefits.	
Quantify the benefits / costs / savings separately to the employer and to members, and the effect on the current scheme surplus or deficit.	It is not possible to accurately quantify the cost savings.
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.	

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?

No

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.

It has been the policy since the inception of the scheme to not make pensionable any allowances that were ancillary to pay.

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.

No

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.

From 1998 redundancy benefits were removed. It is not possible to quantify savings.

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

It is not possible to accurately state savings.

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.

ENW Section of the ENW Group of ESPS	31/03/2007	31/03/2004	31/03/2001
Under Pensions Act 2004? (yes/no)	Yes	No	No
Funding method (for example, Projected Unit)	PU	PU	PU
Market value of assets	1594.7M	952.50M	813.1M
Actuarial value of assets, if not at market value			
Actuarial value of liabilities	1616.4M	1170.20M	791.40 M
Ongoing funding level (%)	99%	81%	102.70
Deficit recovery period (years)	10 years	14 years	n/a
Employer contribution rate for future accruals (%) of pensionable pay	23.2%	16.7%	8% to 25% depending on the section of membership.
Employer contribution rate after surplus/deficit (%)of pensionable pay	See 7.2	See 7.2	As stated above
Solvency (or buy-out) funding level (%)	73%	56%	80-85%

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

For 31/03/2004 Valuation

The Company made a payment of £216M in 2005 representing 5 years worth of contributions, 5 years worth of deficit recovery and 5 years payment for the cost of expenses. No further contributions would be due until 6 April 2010 at which time the ongoing contribution rate would re-commence along with an annual contribution of £26M (plus inflation increase from 1 April 2005). These payments would continue until 31 March 2018.

For 31/3/2007 valuation

A payment of 6.9M before 30/6/2008 plus additional contributions from 1/4/2008 for all employers apart from UU Water and UU PLC which will commence contributions from 1/4/2010 and 1/4/2014 respectively.

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.

The average working lifetime of the membership was the period used to set the deficit recovery period.

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

Following data validation of all members individuals were identified as being electricity or other business employees. Following discussions with Ofgem and further sampling of data at DPCR4 80% of electricity employees were attributed to the regulated electricity distribution business.

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.)

	31/3/07	31/03/04	31/03/01
Pre-retirement nominal rate of return	6.15%	6.5%	6.3
Pre-retirement real return above price inflation	3.15%	3.7%	2.3%
Pre-retirement real return above salaries	1.65%	2.2%	2.3%
Promotional salary scale (if not in salary assumption)	20 122 25 138 30 156 35 164	Within salary assumption	Within salary assumption
Post-retirement nominal discount rate (i.e. real rate of return to value liability)	4.65%	5.4%	6.3%
Post-retirement real return above price inflation	4.65%	2.6%	2.3%
Post-retirement real return above pension increases	1.65%	2.6%	3.8%
Proportion of pension commuted at retirement	Assume that members commute 80% of the maximum allowed under the rules of the Scheme.	Assume that members commute the maximum cash at retirement as permitted by the rules of the Scheme	Assume that members commute the maximum cash at retirement as permitted by the rules of the Scheme
Mortality table used to value current pensioners*	PA92, (B=YOB) mc +2	Post Retirement: PA92 b 1935 mc +2 years for pensioners. PA92 b 1965 mc+ 2 years for non-pensioners	PA92 for pensioners PA92-3 for non-retired members
Expectation of life at 60 for male pensioner			
Expectation of life at 60 for female pensioner			
Mortality table used to value future pensioners*	PA92 (B=YOB)mc+2	PA92 b 1965 mc + years	PA92-3
Expectation of life for male who will be aged 60 in 20 years			
Expectation of life for female who will be aged 60 in 20 years			

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

The discount rates were determined based on the fixed gilt yield of appropriate duration at the valuation date, plus an allowance for the expected investment return of the Group assets above this risk free rate. A lower anticipated out performance over gilts has been assumed for post valuation liabilities than pre valuation liabilities.

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 assumptions were set following debate and greement between the Group Trustees and the Company. Factors taken into account when setting these assumptions were the employer's long term plans on pay policy, together with analysis of the actual pay increases granted over the previous inter-valuation period.

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

Not applicable

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.

The Trustees considered the covenant of both the regulated water and electricity employers participating in this scheme.

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.	19 December 2007
Background to the merger/transfer and name of other pension scheme(s).	The transfer relates to employees who were members of the United Utilities Pension Scheme (UUPS) and who left that arrangement at the date of sale of ENW Limited, joining the ENW group of ESPS on mirror image benefits to those that they received in the UUPS.
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.	There were 32 employees who joined the ENW Section on former UUPS type benefits and 283 employees who joined the UUES Section on UUPS type benefits All membership numbers related to members of a regulated business
The amount of the transfer value and the principles/basis underlying its calculation.	ENW section: £4.1M UUES section: £16.6M
The extent to which the transfer value was scaled back to reflect underfunding.	The transfer amount as at 19 December 2007 was on the ENW Group's funding basis.
Quantify the amount of the scheme's current surplus or deficit relating to the transferred members.	This information is not available.

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.

The scheme has reduced its exposure to equities as the proportion of active members has reduced with the growing maturity of the scheme.

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 strength of covenant (which included two regulated employers) allows a relatively high exposure to equities.

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

Asset class	**31/03/2007**	**31/03/2006**	**31/03/2005**	**31/03/2004**	**31/03/2003**	**31/03/02**	**31/03/01**
UK equities	32.8	34.1	36	40	40.8	41.6	38
Overseas equities	36.2	35.6	34	28	26.9	27.9	29
UK property							
Overseas property							
Hedge funds							
UK fixed-interest gilts	7.7	8.1	8	13	21 (combined with ILG)	14.6 (combined with ILG)	26 (combined all UK Bonds)
UK index-linked gilts	8.3	7.5	8	9	21 (combined with UK FI)	14.6 (combined with UK FI)	26 (combined all UK Bonds)
UK corporate bonds	10.7	11.1	10	8	13.3	14.3	26 (combined all UK Bonds)
Overseas bonds	1.7	2.3	2				2
Cash	2.6	1.3	2	2	2.7	1.6	5
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.

Not applicable as ENW is no longer participating in this scheme.

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

Not applicable as ENW is no longer participating in this scheme.

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

n/a

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

The main change has been to reduce the exposure to equities as the scheme matured.

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

	31/03/07	31/03/06	31/03/05	31/03/04	31/03/03	31/03/02	31/03/01
Investment return (%)	5.5	23.6	10.3	24.3	-18.8	0.8	-3.3

[redacted]