Government Actuary's Department

Ofgem

2017 High-level review of network operators' pension costs

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Contents

1 Introduction

1.1 This report has been prepared by the Government Actuary's Department (GAD) at the request of Ofgem.

1.2 Ofgem have asked GAD to perform a high-level review of network operators' (NWOs') defined-benefit pension costs. In particular to review how the benefit design, investment strategy, as well as methods and assumptions used to determine the pension costs have changed since GAD's previous review, which concluded in 2014. Further, Ofgem have also asked GAD to review statements provided by NWOs which describe how they have interpreted the interest of consumers to inform participation in the governance of pension schemes.

1.3 This report builds on, and should be read in conjunction with, GAD's report on the review of network operators' pension costs dated 27 November 2014, which carried out a more detailed review on the determinants of pension costs for the NWOs. Primarily this was based on the actuarial valuations that occurred for the various schemes in 2012 or 2013.

Purpose

1.4 The purpose of section 2 of this report is to compare how the methods and assumptions adopted at the most recent actuarial valuations in 2015 or 2016 have changed since the previous valuations. For this review we have assumed Ofgem were content with the approach adopted by the NWOs' defined benefit pension schemes at the 2012 or 2013 valuations and have therefore only considered how the relevant methods and assumptions have changed since.

1.5 We have carried out this comparison by reviewing the formal documentation from the previous two actuarial valuations. We have not reviewed any annual funding updates or Pension Deficit Allocation Methodology (PDAM) reports. Please let us know if you would like us to review any further documentation.

1.6 The main areas we have considered in our review are:

- **Benefits** – the more generous the benefits the higher the ultimate cost
- **Discount rates** – the lower the discount rate the higher the assessed cost of providing defined benefits as future expected cashflows are discounted back at a lower rate. Discount rates are typically expressed relative to the yields available on government bonds (gilts)
- **Investment strategy** – this affects investment returns which impacts on current and future funding levels as well as the choice of discount rate. Investment strategy is typically considered in terms of 'return-seeking assets' (such as equities) and 'matching' assets (such as bonds).
- **Deficit recovery plans** – the period and rate at which any assessed funding deficit is paid off
- **Funding position** – the difference between the market value of the scheme's assets and the assessed value of the liabilities at the valuation
- **Employer cost of accrual** – The employers share of the contributions required to meet the expected cost of accruing future benefits
- **Any other significant changes apparent from the documentation**

1.7 Section 3 of this report summarises comments provided by NWOs which describe how they have interpreted the interest of consumers to inform participation in the governance of pension schemes. Given the scope of this review and the information provided, it is not possible to draw any firm conclusions. We note that all companies have provided some examples of actions which they consider to represent evidence of them acting in the consumer interest. We note that some companies have cited more examples than others, although it is recognised that scheme circumstances vary and views on how the consumer is best served can also differ.

Disclaimers and compliance

1.8 **Purpose**: The purpose of this report is to assist Ofgem in its consideration of price control allowances. This report does not represent advice on the appropriate funding of NWOs', or other, pension schemes.

1.9 **Data**: In preparing this report, GAD has relied on data and other information provided by Ofgem. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification.

1.10 **Compliance**: This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

2 Results

2.1 Overall, we have no major concerns with the changes to benefit design, investment strategy and the method and assumptions used to determine the NWOs' defined benefit pension costs at the most recent valuations.

2.2 There were, however, several notable changes which we have outlined below. Given the constantly changing nature of a pension scheme and the wider environment, it is expected that some changes will occur between valuations. A summary of the results of the review can be found in appendix B.

Investment strategy

2.3 Three of the schemes changed the benchmark proportion of return-seeking assets held by more than 10%. These are:

> SGNPS: 15% reduction in return-seeking assets

> UKPNESPS: 17% increase in return-seeking assets (with a further 5% increase following the valuation as at 31 March 2016)

> ENWESPS: 27% reduction in return-seeking assets

2.4 A reduction in the proportion of return-seeking assets is a common trend for many UK private sector defined benefit pension schemes as their liability profiles mature. Given all the NWOs' schemes are closed to new entrants, their liability profiles will mature over time and a move from return-seeking assets to lower risk matching assets would be expected. Several of the schemes (including SGNPS and ENWESPS) have a de-risking plan in place which sets out a process by which the scheme will move to a matched investment strategy which is expected to reduce the risk of further deficits arising at future actuarial valuations. However, a lower risk investment strategy is also expected to yield lower returns and hence may increase contributions required.

2.5 The UKPNESPS annual report and financial statements for the period ending 31 March 2016 states in the investment report that a new investment strategy was set. We understand that whilst the allocation to return-seeking assets did increase the extent is not to the same degree as the 17% headline would suggest, which is in part due to the re-classification of existing investments from matching assets to growth assets upon changing investment adviser. Despite the increased allocation in return-seeking assets it is stated that the new strategy will increase interest and inflation rate protection by 30% which will help manage risk. There also appears to be an intention to de-risk the investment strategy by 2026.

Discount rate

2.6 Several of the schemes have changed the structure of their discount rates since the previous review:

> WPDESPS and CNESPS have a tapered pre-retirement discount rate which reduces over a 20 year term to reflect the scheme's de-risking investment strategy

- ENWESPS have changed from setting their discount rate relative to gilts to relative to RPI, consistent with a change in investment strategy
- UKPNESPS discount rate structure now references pre and post 2026 periods consistent with the investment objective to de-risk by 2026
- SPPS and MANESPS have changed from setting their discount rate relative to swaps to relative to gilts

2.7 The remaining schemes have either retained the same discount rate relative to gilts, or changed it by a small margin (within 0.5%), except NGNPS who have reduced the pre-retirement discount rate by 0.55% (relative to gilts) for assessing past service liabilities, but increased it by 0.8% when assessing the cost of future accrual.

2.8 The discount rates adopted appear reasonable given the investment strategies in place and wider UK practice.

Recovery period

2.9 There appears to be a range of approaches to changes in recovery plans from the previous valuations. Some schemes have kept the annual payment amounts constant while increasing the period they are paid for, whereas other schemes have increased the amount of the annual payments required while retaining the recovery period. Appendix B summarises the changes in recovery plans.

2.10 NWOs' adopting different recovery periods will result in costs filtering through to consumers at different rates. I am aware that Ofgem has recently published their policy on deficits[1].

Cessation of contracting-out

2.11 Several NWOs' took advantage of the statutory override available to them to recoup some of the National Insurance rebate they would lose on contributions paid after 6 April 2016 due to the cessation of contracting-out.

2.12 NGNPS, WWUPS, NPESPS and NGESPS all increased member contributions to help offset the increase in net employer contributions.

2.13 SGNPS reduced the accrual rate of future benefits from 60 to 63 (which will reduce the cost of pension accrued). The documentation available does not confirm that this was a consequence of the cessation of contracting out, but it is consistent with such a change.

2.14 It appears that some NWOs' did not utilise the option available to offset the increase in net employer contributions, or at least there is no evidence in the valuation reports to suggest they did. The relevant schemes are outlined in appendix B. It is recognised that the ability of some schemes to utilise this option may have been restricted by regulations.

[1] https://www.ofgem.gov.uk/system/files/docs/2017/04/decision_on_policy_for_funding_pseds.pdf

Funding position and employer cost of future accrual

2.15 The funding levels for all schemes have increased from the previous valuations. Typically this was a result of strong investment performance and deficit recovery contributions paid, partially offset by a deterioration in market conditions (with regard to how the liabilities are assessed).

2.16 The majority of contribution rates payable by employers with respect to future accrual have increased (with the exception of UKPNESPS, WPDESPS and CNESPS). This is predominantly due to the deterioration in market conditions resulting in lower discount rates (and consequently a higher assessment of the value of member benefits). This is consistent with trends witnessed in UK private defined benefit pension schemes. Market conditions may (or may not) revert back to former levels in the future which all else being equal will serve to reduce employer contributions (or not).

NGUKPS

2.17 The National Grid UK Pension Scheme (NGUKPS) was not fully reviewed by GAD at the last review due to the actuarial valuation not being agreed in time. Therefore it is not possible to carry out a review this time based on comparing methods and assumptions to the last review as we have done for the other schemes.

2.18 Instead we have benchmarked the main methods and assumptions of NGUKPS against the other NWO schemes. At a high-level, the discount rates adopted, investment strategy, recovery plan, funding level and employer contributions all appear in line with other NWOs' approaches. However, I note the recovery period has been extended up to 2031, which is longer than any other scheme's recovery period. I understand this is a consequence of the sectionalisation of the scheme and that the recovery plan is expected to reduce in length at the next valuation. Furthermore, pension deficit allowances have only been requested up to March 2026.

3 Consumer interests

3.1 The table in this section summarises the main comments provided in NWOs' statements which describe how the NWO believe they have interpreted the interest of consumers when engaging with the governance of its pension scheme (including setting investment and risk strategies). In this context, examples of actions that may demonstrate that the NWO has actively considered and represented consumer interests may relate to the following (note that this is not an exhaustive list):

> *Benefit changes / contribution rates* – in practice changes may be difficult to implement due to various member protections in place. However, the cessation of contracting-out provided scheme sponsors' with a statutory override to enable them to recoup the National Insurance rebate they would lose on contributions payable in the future. This can be achieved by reducing the value of benefits accrued in the future or increasing the member share of the contributions

> *Governance* – we would expect NWOs to be keen to ensure that their pension schemes have robust governance processes in place and that their running expenses represent good value for money

> *Risk appetite (investment strategy)* – we expect that NWOs would be keen to ensure that the investment strategy reflects an appropriate balance between risk and reward, having considered the risk appetite of its consumers

> *Valuation outcomes* – evidence that the NWO has represented consumer interests during discussions with the trustees on triennial valuation outcomes (e.g. relating to assumptions, deficit recovery plans)

> *Managing benefit costs* – we would expect NWOs to be managing benefits as efficiently as possible and ensuring that consumers do not meet the cost of any unnecessary benefit provisions (e.g. enhanced early retirement or redundancy terms) and that any potential benefit cost savings are passed on to the consumer

3.2 We recognise that there may be different views on what outcome would best represent consumers in some areas (e.g. the level of risk in the investment strategy), however we understand that Ofgem are particularly interested in understanding the process followed by NWOs in considering the consumer interest.

3.3 All companies have been able to describe some examples of actions which they consider to be evidence of them acting in the consumer interest. A summary of these actions can be found in appendix C. We note that some companies have cited more examples than others. It is possible that additional actions could have been explored further by some companies since the last reasonableness review, however given the scope of this review and the information provided, we are not in a position to identify any actions (or lack thereof) which could indicate that companies have not fully acted in consumers' best interests. Viable ways to represent the consumer interest will depend on individual scheme circumstances and will vary between schemes.

3.4 Some companies have mentioned how it is in the consumer interest to avoid 'trapped surplus', which is where a scheme is overfunded but the surplus cannot be used to the benefit of the company (and ultimately consumers). As schemes approach full funding this will become more of a consideration when setting investment and funding strategies. We suggest Ofgem consider policy in this area and understand if the possibility of a trapped surplus is a problem for all the schemes.

3.5 Please note we have only summarised the evidence provided by the companies, we have not independently verified the accuracy or completeness of the information provided.

Scheme	Acting in the consumer interest – examples presented by companies as evidence
NGNPS	**Governance** - the company report that they have a strong relationship with the Trustees, which allows them to effectively represent consumer interests in their discussions. The company cite 'negotiating valuation outcomes' as an area where they have effectively controlled costs on consumers' behalf. **Investment Strategy –** the company report that they have worked with the trustees to develop an investment strategy which takes account of consumer interests (by aiming to minimise the volatility of pension contributions by gradually de-risking over time, whilst avoiding the risk of over funding and the surplus becoming trapped). The stated aim of this strategy is to ensure that future generations of consumers are not burdened with pension costs associated with the provision of services to previous generations. **Recovery Plan** – agreement to extend the length of the recovery plan was reached to reduce the risk of a trapped surplus emerging. An asset backed contribution funding arrangement has been implemented. One key element of this arrangement is to 'switch off' payments should the scheme become fully funded on an agreed basis, reducing the risk of trapped surplus. **Managing costs -** the company cite examples of reducing its pension liabilities by shareholder funding of age 55 retirements, and effective management of operating costs by actively monitoring fees and PPF levies. Member contributions were increased from 3% to 6% from April 2016, to reduce the costs associated with the cessation of contracting out.
SGNPS, SHEPS and SEESPS	**Governance** – the company state that they have engaged effectively with the trustees through regular presentations and via their Stakeholder Advisory Panel which consults on scheme management issues (e.g. funding and consumer interest issues).

	The company report that they have negotiated reductions in the amount of future deficit contributions required at recent valuations. The company recognise work done by WPD / PwC and have commissioned a report from their actuaries to inform consumer engagement and pensions management strategy. The consumer interest has been considered by the Stakeholder Advisory Panel and the company believe their existing approach aligns with shareholders and consumers. **Investment strategy** – the intention is to progressively de-risk the investment strategy based on funding level triggers which the company consider targets a balanced approach. The scheme has increased inflation and interest rate hedging and is actively exploring longevity hedging to reduce risk. The company also report that recent investment performance has been enhanced through active management. **Liability management** – the company cites examples such as supporting benefit transfers, limiting future pay growth, pro-active management of the scheme as well as flexible retirement as evidence of costs being managed and delivering scheme cost savings.
NGUKPS	**Governance –** the company cite the outcome of the 2013 valuation as evidence of acting in consumers' interest as they gained trustee agreement through negotiation to the company proposal of including investment outperformance in the recovery plan which had the effect of lowering the required deficit contributions. The company states that it considers alternative valuation methods to ensure interests of consumers can be strongly represented with hard evidence in interactions with Trustees. The company states that as well as representing the consumer interest at regular meetings with the trustees, that it provides regulatory training to trustees to allow them to fully consider the impact of decisions on consumers. **Investment Strategy** – the company's view is that consumers would place little value on returns which deliver returns in excess of full funding. Taking account of this view, the risk in the investment strategy has been reduced as the funding level has increased to lock in the previous positive investment performance. **Recovery Plan** – the company negotiated a recovery plan at the 2013 valuation which included assumed out performance over the recovery period, which they report reduced the size of the deficit contributions by over £200m. **Liability management –** a cap on pensionable pay was introduced from April 2013 to reduce the impact of rising future service contributions.

	Sectionalisation – the company states this was introduced on the principle that gas consumers would not be negatively affected and the company report that they worked closely with Ofgem during the project. The company cites improvements in respect of the employer covenant, transparency and liabilities as consumer benefits following sectionalisation (implementation costs being met by National Grid Plc and not passed on to gas consumers).
WWUPS	**Governance –** in respect of the pension scheme, the company has identified 3 key consumer risks as being deficit volatility, generational equity and overfunding. **Investment strategy** – the company has sought to address consumer risk by revising the strategy to decrease the risk, in particular in respect of inflation and interest rates, in the scheme, whilst maintaining the same expected return. Future plans to de-risk further and increase interest rate and inflation rate hedging, which will slightly reduce the expected return. The company believes the proposed strategy serves the best interests of consumers by balancing the risk of an irrecoverable surplus and mitigating the chance of a significant increase in deficit. **2016 valuation –** the company state that they negotiated a change in assumptions with the trustees, specifically relating to salary increases, which they report reduced the deficit by £18million. The company negotiated a 15 year Recovery Plan, which they believe shares costs equitably between current and future consumers. **Liability management –** the company has facilitated the ease with which transfers out of the scheme can be taken at retirement. Transfers out of the scheme will typically reduce the cost to the consumers. It also states that it has considered (but presumably not implemented) a number of other member option exercises that may have resulted in reduced costs. Following consultation, member contributions were increased to reduce the costs associated with the cessation of contracting out.
SPPS and MANESPS	The company state that shareholders' interests are broadly aligned with those of consumers because there is significant non-Regulated liabilities in the Pension Schemes. **Governance** – the company participate in quarterly meetings with the Trustees and state that they have represented the interests of consumers during negotiations in two main ways: - Reducing investment risk and volatility in an 'efficient manner' - Adopting appropriate prudence in financial assumptions

	Investment Strategy – the company report that they accounted for consumer interests when promoting reduced volatility in the investment strategy. **Valuation negotiations** - the company cite some concessions (on the discount rate) made by the trustees on the valuation assumptions **Liability management –** the company states that it has promoted flexible retirement and pension increase exchange options. Member take-up of either of these options is expected to result in a cost saving for the scheme.
NPESPS	**Governance –** the company have a small in-house advisory pension team whose primary duties are to provide input towards the efficient management of the scheme. The company states that it engages with the trustees via regular committee meetings and during discussions on strategy and valuations. **Investment Strategy** – the company states that it has interpreted the interests of consumers following consumer research which concluded that the majority preferred a lower risk, and more certainty at the expense of a potential surplus (plus an overarching conclusion that it was important to keep all costs under control). The current strategy targets a 100% funding level by 2025, rather than targeting a surplus. The company report that the results of the consumer research have been fed into discussion with the trustees. **Valuation negotiations** – the company states that they managed to persuade the trustees not to reduce the post-retirement discount rate (which would have resulted in higher contributions) by employing modelling techniques which looked at the probability of being fully funded in 2025 on the existing discount rates. **Recovery Plan -** the company state they are managing the risk of a stranded surplus by retaining a longer than proposed deficit period, therefore leading to lower deficit contributions. The company consider that this approach retains the same balance of interests between existing and future consumers that was behind Ofgem's original notional repair period to 2024/25. The company note that this approach will result in existing and future customers having lower allowances / revenues from 2018/19. The company proposals also include accelerating the payment history adjustment with the aim of limiting volatility in revenues.
NGESPS	**Governance –** the company cite the outcome of the 2013 valuation as evidence of acting in consumers' interest as they gained trustee agreement through negotiation to the company proposal of including investment outperformance in the recovery plan which had the effect of lowering the required deficit contributions. The company states that it considers alternative valuation methods to ensure interests of consumers can be strongly represented with hard evidence in interactions with trustees.

	The company states that as well as making representations in the consumer interest at regular meetings with the trustees, that it provides regulatory training to trustees to allow them to fully consider the impact of decisions on consumers. **Investment Strategy** – the company's view is that consumers would place little value on returns which deliver returns in excess of full funding. Taking account of this view, the risk in the investment strategy has been reduced as the funding level has increased to lock in the previous positive investment performance. **Liability management –** a cap on pensionable pay was introduced from April 2013 to reduce the impact of rising future service contributions.
UKPNESPS	The company has identified 4 key statements which it believes reflect consumer interests. It states that is has proactively engaged with the trustees and represented consumer views in a number of areas. **Investment Strategy –** the company debated changes that might be made to the Investment Strategy based on its interpretation of how consumer interests would best be served. Ultimately, this process led to a new strategy with an increased target return and increased inflation and interest rate hedging. **Recovery Plan** – the company stated that they negotiated with the trustees to not implement an increase in the annual deficit recovery payments (with no allowance for negative post valuation experience) and to reduce the recovery period. **Future contributions –** the company stated that they negotiated a change in the 2016 actuarial valuation funding basis so that is was more closely aligned with the investment strategy, thereby reducing the future costs to the employer and consumers. **Further de-risking opportunities** – the company state that it has negotiated with the trustees to investigate the use of other de-risking strategies such as longevity swaps and the introduction of member choice options.
ENWESPS	The company decided against setting up customer panels, considering it more appropriate to adopt a more analytic approach using expert professional support, given the complicated nature of pension scheme funding. **Governance –** the company state that they have a strong relationship with the trustees and the company seeks independent professional advice in reviewing any trustee proposals and influence the trustees' decisions to take account of the consumer interests through informed comment.

	Investment Strategy – the company state their belief that the current investment strategy broadly fitted Customers' best interests, striking a balance between generations of Customers, whilst seeking to keep current bills at a stable level. Recent changes to the strategy have involved increasing hedging against inflation and interest rate risks to keep the deficit as stable as possible (although initially this reduces the assumptions about expected returns and so increases the reported deficit). The company state that it has considered inter-generational fairness in relation to the size of deficit recovery payments and the length of the recovery period. There is an aim for the scheme to be self-sufficient by 2025, by gradually de-risking the scheme, based on funding level triggers to lock in the profits of any outperformance. **Surplus** – as the scheme is 89% funded the company are conscious of the impact of a "trapped" surplus, which they do not believe consumers can benefit from via recovery of payments. The company is seeking to influence the trustees to de-risk the portfolio further whenever the funding level permits. **Liability management** – the company state that they have explored the possibility of changing benefits, but note that changes would only be possible for around 250 out of 800 active members (those members who are not subject to Protected Persons legislation). Based on this and citing the risk of industrial action and noting that DB provision is helpful in terms of a staff retention tool, the company concluded that any potential savings were outweighed by the potential risks involved in reducing benefits.
WPDESPS and CNESPS	The company commissioned PWC to consult with consumers as a way to help determine the most efficient way to fund their pension scheme. PWC presented a number of different investment and funding scenarios and asked consumers which they preferred. They found that consumers preferred: - A significant exposure (c.50% of the asset portfolio) to return seeking assets. - A long term funding target which retains potential for additional investment return - Deficit contributions calculated at each actuarial valuation - Deficit repair periods extended in scenarios where there is a larger deficit than anticipated. No information was provided to GAD as to what changes were implemented following the PWC consultation.

Appendix A: Pension schemes and abbreviations

Defined benefit pension scheme	Most recent formal valuation	Abbreviation used
Gas		
Northern Gas Networks Pension Scheme	March 2016	NGNPS
Scotia Gas Networks Pension Scheme	March 2015	SGNPS
National Grid UK Pension Scheme	September 2015	NGUKPS
Wales & West Utilities Pension Scheme	March 2016	WWUPS
Electricity		
Scottish Hydro-Electric Pension Scheme	March 2015	SHEPS
ScottishPower Pension Scheme	March 2015	SPPS
Northern Powergrid Group of the ESPS	March 2016	NPESPS
ESPS National Grid Electricity Group	March 2016	NGESPS
ESPS UK Power Networks Group	March 2016	UKPNESPS
ESPS Manweb Group	March 2015	MANESPS
ESPS ENW Group	March 2016	ENWESPS
ESPS Southern Electric Group	March 2016	SEESPS
ESPS WPD Group	March 2016	WPDESPS
ESPS Central Networks Group	March 2016	CNESPS

Appendix B: Summary of results

B.1 The following table summarises the main differences between the two most recent formal actuarial valuations.

Scheme	Evidence of cost saving measures utilised due to cessation of contracting-out	Change in discount rate (relative to gilts)	Change in return seeking asset allocation[2]	Change in recovery period years	Change in recovery period annual amount	Change in funding level	Change in employer cost of accrual, pa
Gas							
NGNPS[3]	Yes	Pre-retirement: -0.55% for past service liability, +0.8% for future accrual.	-3%	-	+ £1.6m	+ 4%	+ 3%
SGNPS	Yes	-	-15%	-	-	+ 10%	+ 10%
WWUPS	Yes	-	-	+ 3 years	-	+ 2%	+ 4%
Electricity							
SHEPS	No	-	-5%	- 8 years	- £15.5m	+ 13%	+ 14%
SPPS	No	Structure changed from considering swaps to gilts	-5%	+ 2 years	-	+ 7%	+ 14%
NPESPS	Yes	-	0%	-	+ £9m	+ 7%	+ 10%
NGESPS	Yes	Pre-retirement: -0.15% Post-retirement: -0.1%	-5%	-	-	+ 14%	+ 6%

[2] This does not reflect any changes to investment strategy that have occurred since the most recent formal actuarial valuation
[3] The final valuation report was not provided. Our analysis of NGNPS is based on the initial results note dated 20 September 2016

Scheme	Evidence of cost saving measures utilised due to cessation of contracting-out	Change in discount rate (relative to gilts)	Change in return seeking asset allocation[2]	Change in recovery period years	Change in recovery period annual amount	Change in funding level	Change in employer cost of accrual, pa
UKPNESPS	No	Structure changed to consider pre and post 2026 periods	17%	- 1 year	-	+ 11%	-
MANESPS	No	Structure changed from considering swaps to gilts	-5%	+ 3 years	+ £9m	+ 9%	+ 15%
ENWESPS	No	Structure changed to consider return relative to RPI ~0.5% equivalent increase pre-retirement	-27%	- 2 years	-	+ 4%	+ 5%
SEESPS	No	Pre-retirement: +0.4% Post-retirement: +0.2%	-10%	+ 3 years	+ £3m from 2020	+ 7%	+ 7%
WPDESPS	No	Pre-retirement: + 1.7% tapering down to + 0.1% at 20 years	-	+ 3 years	Broadly similar	+ 14%	- 3%
CNESPS	No	Pre-retirement: + 1% tapering down to + 0% at 20 years	-	+ 4 years	Broadly similar	+ 6%	- 4%

Appendix C: Summary of representation of consumer interests

C.1 As requested by Ofgem we have provided a simplified summary of the reported recent actions taken by NWOs to reflect consumer interests in the table below. This table is based on information reflected in companies' consumer interest statements, and related correspondence clarifying actions undertaken by companies. The consumer interest statements were provided in emails from Ofgem to GAD on 12 and 28 September 2017.

C.2 Only the PWC report into consumer preferences commissioned by WPD was provided to GAD with respect to WPDESPS and CNESPS. No statement was provided to GAD detailing the actions taken, therefore we have left the relevant fields blank.

C.3 All companies state that they have actively represented consumers in discussion/committee meetings involving the trustees. This is in part expected due to statutory requirements.

C.4 The summary table is based on our interpretation of the statements provided, other interpretations may be viable. A blank entry does not necessarily indicate the action has not been undertaken or that it would have been appropriate to do so, as:

- the relevant information may have been omitted from the statement
- viable ways to represent the consumer interest will depend on individual scheme circumstances and will vary between scheme, so not all the actions may be relevant to all schemes

C.5 We note that some companies have cited more examples than others. It is possible that additional actions could have been explored further by some companies since the last reasonableness review, however given the scope of this review and the information provided, we are not in a position to identify any actions (or lack thereof) which could indicate that companies have not fully acted in consumers' best interests.

Actions	NGNPS	SGNPS	NGUKPS	WWUPS	SHEPS	SPPS	NPESPS	NGESPS	UKPNESPS	MANESPS	ENWESPS	SEESPS	WPDESPS	CNESPS
Investment strategy reviewed	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		
De-risked or increased risk in investment strategy	De-risk	De-risk	De-risk	De-risk	De-risk	De-risk	De-risk	De-risk	Target higher returns in short term, de-risk at 2026	De-risk	De-risk	De-risk		
Valuation concessions obtained	?*	Y	Y	Y	Y	Y	Y	Y	Y	Y	?	Y		
Asset backed contributions (or contingent assets) utilised	Y		Y					Y	Y					
Trapped surplus considered**	Y		Y	Y			Y	Y	Y		Y			
Increased member contributions following the cessation of contracting out.	Y		Y	Y			Y	Y						

Actions	NGNPS	SGNPS	NGUKPS	WWUPS	SHEPS	SPPS	NPESPS	NGESPS	UKPNESPS	MANESPS	ENWESPS	SEESPS	WPDESPS	CNESPS
PPF levy management	Y		/	Y			/	/						
Liability management exercises considered***	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		
Liability management exercises implemented ****	Y	Y	Y	Y	Y	Y	N	Y		Y		Y		
Consumer survey conducted							Y						Y	Y

*A question mark denotes that in our opinion it is not completely clear from the information provided if an action has been covered or not

**Trapped surplus is where a scheme is overfunded but the surplus cannot be used to the benefit of the company (and ultimately consumers). As schemes approach full funding this will become more of a consideration when setting investment and funding strategies. I suggest Ofgem consider policy in this area and understand if it affects all schemes

***Some companies have explicitly stated how they have considered the use of liability management exercises, but have decided that the costs associated with implementing the changes outweigh the potential benefits

****Liability management exercises include allowing flexible retirement ages, supporting benefit transfers, limiting pay growth, changing accrual rates, and sectionalisation

***** A " / " entry under PPF levy management reflects that it has been reported that the risk based levy is zero