Pensions
Newsletter

August 2023

Bringing you the latest news from the Trustees of the Arqiva Defined Benefit Pension Plan

Image courtesy of
Stephen Garnett Photographic

Message from Tom O'Connor

Chairman of the Trustees

Welcome to your 2023 Newsletter, bringing you the latest news from the Trustees of the Arqiva Defined Benefit Pension Plan ('the Plan').

This year marks yet another volatile period for financial markets. As we began to return to normality following COVID-19, markets were shaken again by news of the conflict in Ukraine, which continues to hold our attention and sympathy. In part as a result of this conflict, we have seen increased market turbulence and high levels of inflation, which has put added pressure on businesses and households, and importantly on our own Pension Plan and its members.

Please be assured that we have been in constant communication with both our investment advisers at Mercer, and our pension advisers at Isio, to ensure the continued smooth operation of the Plan. We are also pleased to confirm that throughout this period of volatility, the Plan's funding position has remained strong, and we continue to monitor the situation closely.

Plan Activity:

As Trustees of the Plan, it is our duty to closely monitor its funding status and ensure that your benefits as members are safe and protected. In line with these duties, the Trustees placed a temporary pause on Cash Equivalent Transfer Values ('CETVs') following market instability towards the end of 2022. The pause was put in place following discussions with our advisers and was implemented to prevent members acting on transfer value quotations that did not reflect a fair value of their benefits. The provision of CETV quotations has subsequently resumed – further information on how you can obtain a quotation is provided on page 6.

Between formal valuations (the current one has an effective date of 30 June this year, the Trustees commission, from the Plan Actuary on at least an annual basis, a high-level estimate of the Plan's funding liabilities (the amount in today's terms that is needed to pay for all members' future benefit payments).

Following the results shown in the last newsletter, a further update has been carried out as at 30 June 2022. The results of this update showed that the funding level had improved further to 112% on a consistently derived set of assumptions to those agreed at the formal valuation as at 30 June 2020. This improvement was mainly due to changes in market conditions reducing the value placed on the liabilities, a further Company contribution of £5.0 million received in March 2022, as well as another year of strong asset performance.

As described later in this newsletter, the market turmoil brought about by the government's mini-Budget at the end of September had significant impacts on pension schemes – both to the value of government bond investments and the value placed on liabilities. The Trustees kept on top of these developments with our advisers and took robust decisions on our investment strategy to ensure that the funding level of the Plan was not adversely impacted and remains resilient to volatile market conditions.

Further detail on the Plan's assets, including their investment performance can be found on the following page.

Changes to the Trustee Board:

With a much improved funding position, new opportunities arise for ways to secure member benefits, including through suitable insurance arrangements. To help the Trustees in assessing and pursuing such opportunities, the Trustees and Company have agreed for a new professional Trustee to be added to the Board with effect from June 2023. Following a detailed selection process, the Independent Governance Group (IGG) has been appointed as a Trustee and will be represented on the Board by Dan Gilmour and Akash Rooprai. The Trustee welcomes this appointment, which provides added expertise and experience in implementing insurance strategies that will be invaluable for the Plan.

With Dan and Akash joining, it has been agreed that Peter Heslop and Edward Thomas will step down from their role as Company-nominated Trustees. However, I'm delighted that both have agreed to stay on as consultants to the Board during a transitional period to help prepare for an approach to the insurer market and develop the future strategy of the Plan.

Details of the full Board are shown on page 8 and introductory videos from Dan and Akash will shortly be available on the Plan website.

Pension Scams:

We remind members to be extra vigilant about scammers as the Pension Regulator continues to alert the industry to increased scamming activity relating to pension transfers, particular during the current volatile economic conditions. See page 7 for more detail.

Keeping you up to date

You will find a lot of information to browse through in this newsletter. I hope that you find it useful, and it helps you stay informed about your pension and the Plan. If there are any matters that you would like to see covered in future issues, please do let us know.

Best regards

Investments

Twelve Month Market Overview to 31 March 2023[1]

The second quarter of 2022 saw a continuation of the broad economic trends seen since the beginning of 2022. Surging commodity prices, to some degree the result of the ongoing conflict in Ukraine and associated sanctions against Russia, alongside the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in major regions doubled down on raising interest rates as a consequence, resulting in higher market volatility and a fall in pretty much all asset classes except commodities. Growth expectations were reduced over the quarter, with a growing number of investors seeing a recession as an increasingly plausible scenario. On the brighter side, there was evidence of supply chains gradually beginning to improve.

Inflation and central bank policy continued to drive markets in the third quarter of 2022. Volatility spiked in UK markets in particular at the end of Q3 2022 as an unfunded fiscal budget led to a large sell-off in government bond markets.

In Q4, developed market central banks continued tightening monetary policy but at a slowing pace. The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but messaging from central banks in December around interest rates potentially needing to remain higher led to a premature end of the market rally, even though the quarter as a whole ended with positive equity returns for the first time in a year.

The first quarter of 2023 started with optimism over declining inflation and a hope of an end to monetary tightening. The demise of Silicon Valley Bank (SVB), the second largest US bank failure in history, and UBS's shotgun takeover of Credit Suisse in March were the major events of the quarter that briefly rattled markets until calm returned towards quarter end. Developed market central banks continued raising interest rates through the quarter as overall growth momentum remained robust and as inflation remained stubbornly high.

How have Investment Markets responded?

On a year-on-year basis to 31 March 2023, Sterling returns for global developed market equities were marginally negative, at -0.7%. Sterling depreciation mitigated negative equity performance for unhedged UK investors. Emerging market equities also posted negative returns.

Long-dated UK government bond returns were deeply negative over the year, returning -29.7%, while inflation-linked bonds also performed particularly poorly, returning -30.4%. This was due to the significant rise in real yields experienced over the period, with longer-dated real yields generally increasing by around 2.5% over the 1-year to 31 March 2023.

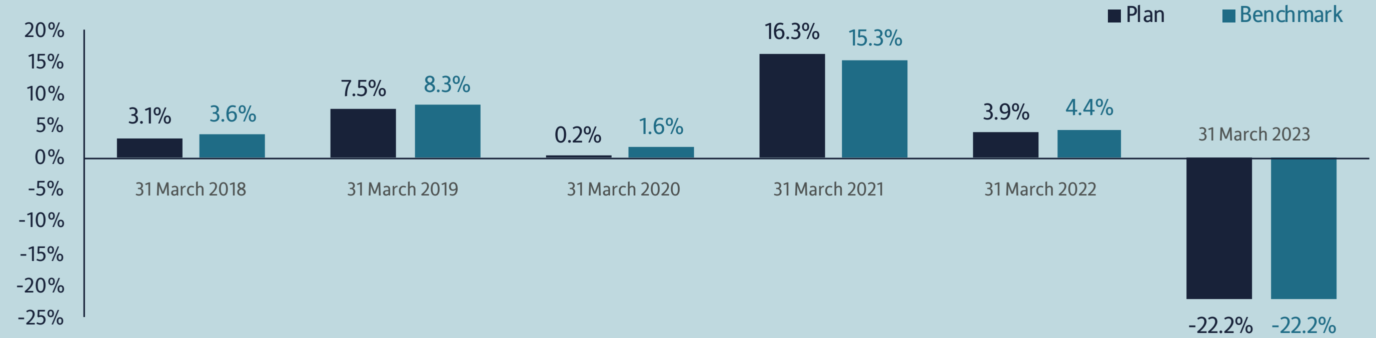
Meanwhile, both investment grade and high yield credit spreads widened over the 12-month period to March 2023, leading to negative performance for spread based assets, albeit with most of the negative impact being caused by the rise in gilt yields.

How have the plan's assets performed?

The Plan's assets produced an investment return of -22.2% over the twelve-month period to 31 March 2023 versus the benchmark return of -22.2%. This was largely driven by the increase in gilt yields over the year, leading to large negative returns from the Plan's defensive portfolio. Importantly, the Plan's liabilities have fallen by a similar and even greater magnitude, meaning the Plan's funding position has improved over the period.

Over the past three years, the Plan's assets have returned -2.0% p.a, slightly above the benchmark of -2.2%.

Twelve Month Performance to 31 March 2023



Note: (1) Statistics sourced from Thompson Reuters Datastream unless otherwise specified.

JARGON BUSTER

What is the “funding level” of a scheme?

Here’s a guide to some of the pensions jargon and terms you may come across in this newsletter and elsewhere.

ASSETS

The value of the pooled funds invested to provide pension benefits to Plan members.

LIABILITIES

The estimated total amount required today to provide members of the Plan with their agreed benefits when they fall due.

FUNDING DEFICIT

The amount by which the value of the Plan’s liabilities exceeds its assets.

FUNDING LEVEL

The percentage of liabilities covered by the assets of the Plan.

CREDIT SPREADS

The difference between the yield/return of two different debt instruments with the same maturity but different credit ratings e.g. the difference between corporate bond yields and gilts.

What changes have been made to the plan’s investment strategy?

The Trustee’s primary objective in managing Plan assets is to ensure that they are sufficient to pay your pension benefits (which are liabilities for the Plan). Plan assets are invested in company shares – known as equities - and in bonds, including corporate bonds (loans to companies), gilts (loans to governments) and multi-asset funds, which invest in a mixture of equities and bonds. It is the balance of these different types of investments and the returns on them that the Trustee closely monitors and manage through their investment strategy.

The Trustee continually monitors the Plan’s assets and investment managers with advice from Mercer. An update is provided to the full Trustee board at every quarterly meeting.

Over the course of the year there have been a number of changes to the investment strategy of the Arqiva Defined Benefit Pension Plan.

As a result of the market turbulence and rise in government bond yields following the “mini budget” in September, many pension plans encountered liquidity issues after they faced calls for collateral (i.e. cash) to be provided to support their Liability Driven Investment (LDI) arrangements. LDI is an approach whereby pension plan assets are invested in a way that is designed to mirror the movements in the plan liabilities.

In October 2022, the Trustee took the decision to disinvest from the absolute return and emerging markets equity mandates managed by abrdn and Vontobel respectively. The proceeds were used to further enhance the level of collateral supporting the Plan’s LDI portfolio.

In December 2022 the Trustee conducted a formal review of the Plan’s investment strategy in light of the aforementioned improvement in funding position, primarily arising from the significant rise in government bond yields. As a result, the Plan reduced the allocation to global equities in favour of an increased allocation to corporate bonds and, again, to further enhance the level of collateral supporting the Plan’s LDI portfolio.

The Trustee will continue to review the current investment strategy in light of the upcoming 2023 Actuarial Valuation.

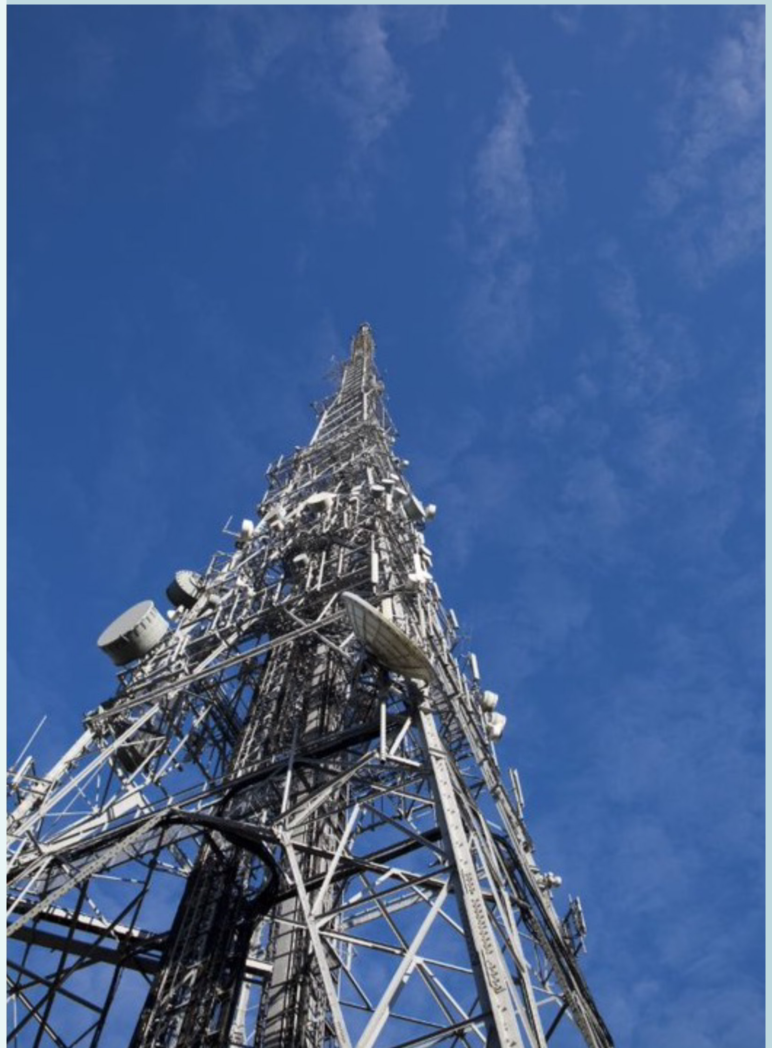
Funding strategy

At the 30 June 2020 formal valuation, the Trustees and Company agreed a revised funding plan, including a schedule of contributions consisting of payments of £5 million and £7 million to be paid in March 2022 and June 2023 respectively. At the time, the last payment was agreed in order to help the Plan target a lower risk funding strategy (i.e., with lower investment risk and reduced future reliance on the Company).

In light of the recent improvements in the funding position of the Plan (as described in the Chairman’s message), the Plan is currently estimated to have sufficient assets to cover the liabilities calculated on a sufficiently low-risk basis. As such, the Trustees have agreed in principle for the £7 million to be paid into a special ring-fenced bank account by 30 September 2023, instead of a contribution directly into the Plan.

Under the proposed terms of the account, the Trustees will then have the power to access some/all of this money when needed to purchase suitable insurance to enhance the security of members’ benefits. The Trustees will also be able to access the funds if there is a material deterioration in the existing funding position or concern about the Company’s ability to support the Plan.

The Company continues to meet the ongoing costs of running the Plan.



Other disclosure information from the 2020 valuation

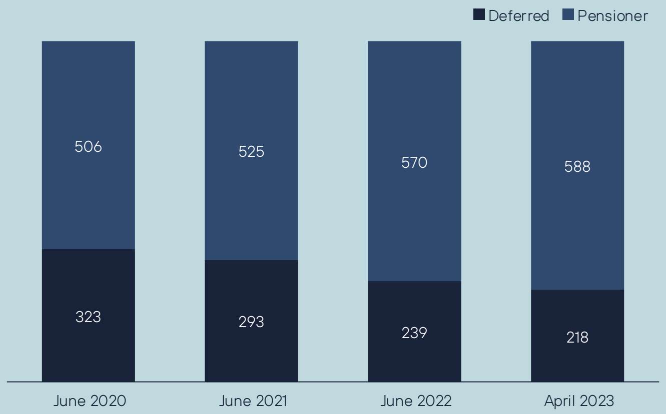
At the last formal valuation date, the estimated amount required so that all members’ benefits could have been paid in full if the Plan had started winding up and benefits were to be bought out with an insurance company, was £380.8 million (i.e. a shortfall of £97.8 million). Recent projections from the Plan Actuary have shown that this shortfall has reduced substantially over the last two years as result of changes in market conditions and Company contributions, putting the Plan on more secure footing.

In the unlikely event that the Company becomes insolvent and there is not enough money to buy all the benefits with an insurance company, members may be protected by the Pension Protection Fund (known as the PPF). The latest estimate shows that the Plan has a funding level of approximately 103% on a PPF basis.

Inclusion of this information does not imply that the Company is considering winding up the Plan, or that the Plan would be expected to enter the PPF.

Membership of the Plan

The charts below show the combined membership of the Plan and how the numbers have changed since the valuation as at 30 June 2020.



Freedom
and choice in pensions

You will have read in previous years' newsletters about the pensions options available at retirement from defined contribution (DC) plans. We include a summary again to remind you of these options.

Please note that all members should read the news item on the following page entitled "pensions transfer scams" before making any retirement decisions regarding their DC benefits.

Option	How benefits are accessed	Tax treatment
Full withdrawal	Taking the entire value of a DC pot as a one-off cash lump sum.	25% of the lump sum can be taken tax free, the remainder is taxed.
Partial withdrawals	Taking a series of lump sum payments from a DC pot (regular and/ or one-off). At a subsequent time, the remaining pot can be accessed via any of the other options.	25% of each lump sum withdrawal can be taken tax free, the remainder is taxed.
Flexible access income drawdown	Withdrawing varying amounts out of a DC pension pot as and when required while keeping the remaining pot invested (i.e. like a savings account).	Up to 25% of DC pot can be taken as tax-free lump sum only at retirement. Withdrawn amounts are taxed
Annuity purchase –traditional option	Using a DC pot to purchase an annuity with a provider in the open market, which will give a regular income guaranteed for life and can be tailored to suit the needs of an individual.	Up to 25% of DC pot can be taken as tax-free lump sum only at retirement. Regular income is taxed.

How can you access these pension options?

If you have Defined Benefit (DB) Plan savings

If you would like to have access to the options shown above at retirement, you will have to transfer your DB pension savings into a DC arrangement first. You should think carefully before transferring to a scheme where you are not guaranteed an income for life. Should you wish to request a quotation of the value of your benefits (known as a 'transfer value'), please contact the Plan administrators, Isio. You are entitled to one free quotation each year.

Note that if your transfer value is above £30,000 you will be required to take independent financial advice before a transfer to an alternative DC arrangement can take place. Neither the Trustees of the Plan nor your employer can advise you on this decision. If you do not have an adviser, you can find one at:

www.unbiased.co.uk

If you have a dependant's pension

If you are receiving a dependant's pension from the Plan, for example in respect of a deceased partner or spouse, these can also be paid as a single, taxed, lump sum if they are worth less than £30,000.

For further information on whether this applies to you and how you can consider this option contact the Plan administrators, Isio.

From an existing DC arrangement

If at retirement you have any savings built up in a DC pot, such as the Arqiva Group Personal Pension Plan, and would like to have access to the options shown above, you will need to speak to your relevant DC provider. Some DC plans may not offer all of these options, but you have a right to transfer a DC pot to an arrangement that does.

Find out more about the pension reforms at:

www.gov.uk/government/news/pension-reforms-eight-things-you-should-know

If you have a small DB pension ('small pots' and 'trivial commutation')

If your DB pension is valued at less than £10,000 or if the total value of all your pension pots is less than £30,000 then, subject to certain conditions, you can take it as a lump sum from age 55. Please note that such a lump sum will subject to income tax (although 25% may be tax-free if you have yet to start drawing your pension). You can check if this option applies to you by contacting the Plan administrators, Isio.

You should be aware that taking such a lump sum would remove all your entitlements in the Plan, i.e. no other benefits would be payable and as such we recommend taking independent financial advice if you are unsure about this option.

If you have Additional Voluntary Contributions ('AVCs')

If you paid AVCs within the Plan, you have the option to take up to 25% of your AVC fund as part of your tax-free cash sum at retirement. The remaining portion of your AVC fund must be used to purchase a pension (called an "annuity").

However, if you do wish to access the new options shown above, you have the option of transferring your AVC fund (with or without also transferring your main Plan benefits), before you retire to an external provider offering these options. You can get further information about this option from the administrators, Isio.

Pension wise

Pension wise is a free and impartial Government guidance which aims to explain the retirement options for taking DC pension savings including AVCs. It's accessible online at https://www.pensionwise.gov.uk/ or alternatively in person or over the phone from the Citizens Advice Bureau and the Pensions Advisory Service. The guidance will be tailored and personalised, but will not recommend specific steps, products or providers.

Plan
and pension news

Pensions fraud

There continues to be a significant amount of pension fraud in the UK. You should continue to remain extra vigilant and be wary of any correspondence about your pension, in particular, if you are asked to provide any personal information. If you think you are being targeted by a scam or have any concerns about the legitimacy of correspondence, please immediately contact the Scheme Administrators, using the details provided on the first page of this newsletter. Further information about pensions scams and how to avoid them can be found here:

www.thepensionsregulator.gov.uk/pension-scams

High inflation

The UK economy has recently experienced high levels of price inflation due to rising prices on a range of good and services including energy, groceries and transport. In order to try and keep inflation under control, the Bank of England has subsequently raised interest rates.

The annual increase in the two inflation measures used for increasing benefits in the Plan (the Retail Prices Index ("RPI") and the Consumer Prices Index ("CPI")) has been over 9% since early 2022, which is the highest level it's been for several decades. Annual increases applied to your pension are written into the Plan Rules and will depend on the section you are in and when you built up your benefits in the Plan. For most members, these increases will either be linked to CPI or RPI and subject to an annual cap. If you are being paid a pension, the annual cap on increases will likely mean that you do not receive a full inflationary increase in the current high inflation environment.

As usual we will be writing to retired members later this year to confirm how much their pension will increase by.

The Plan's assets have been structured in a way that means the Plan's funding position is largely protected against high levels of inflation.

Rising interest rates and LDI in the news

2022 was a turbulent year for investment markets, which were impacted by events such as the war in Ukraine and the response to the government's mini-Budget in September.

The rising interest rates from the Bank of England and the turbulent markets have led to increases in UK government bond yields – which is the rate of interest the UK government pays on its debt. This has resulted in falls in the values of government bond investments the Plan holds, but also a corresponding fall in the value of its liabilities (as government bond yields are used to determine a value of the liabilities).

You may also have seen coverage in the news about Liability Driven Investments (or 'LDI') and how this has impacted some UK defined benefit schemes. The Plan has been well placed to cope with this market turbulence and continues to run as normal.

Temporary hold on Transfer Values

The Trustees temporarily put a hold on quoting transfer values over September and October last year. This temporary hold was put in place due to the market volatility which made it difficult to place an accurate value on your benefits in the Plan, particularly when interest rates and inflation were fluctuating significantly on a day-to-day basis.

The hold helped to ensure that neither the Plan nor its members were disadvantaged by market conditions on the day that quotations were calculated.

GMP equalisation

A High Court judgment in the Lloyds Banking Group case was announced on 26 October 2018, which may have an impact on benefits built up between 1990 and 1997 for a small number of members in the Plan, as outlined in previous Newsletters. The Trustees have commenced a plan of action regarding the equalisation of benefits for the Plan and aim to write to any impacted members over the next year.

Increasing the normal minimum pension age

Last year, the government reaffirmed its intention to go ahead with plans to increase normal minimum pension age from 55 to 57 with effect from 6 April 2028. Further detail can be found at:

www.gov.uk/government/publications/increasing-normal-minimum-pension-age

The Trustees will be taking legal advice to determine how this proposed change may impact early retirement options for Plan members.

Changes to pension tax thresholds

In the most recent Budget in March 2023, the Chancellor confirmed that the lifetime allowance charge will be abolished from April 2023 and the lifetime allowance itself will be abolished from April 2024. Furthermore, he announced that the Annual Allowance will increase from £40,000 to £60,000 from April 2023. He also confirmed that the maximum tax-free pension commencement lump sum will be frozen at 25% of the current standard lifetime allowance (i.e. £268,275) or a member's protected lifetime allowance, where applicable.

Online Plan Information

The online Plan information platform can be used in order to find out extra information about the Plan. You can find, amongst other things, a copy of the Plan Member Booklets as well as the latest Trustee Report and Accounts, Plan valuations and this Newsletter. In addition, there are links to other sites where you can find helpful pension information and advice.

Access to the online area is through the main Arqiva business website. Just go to https://www.arqiva.com/ and enter 'pension' into the search function at thetop right of the page. This will take you to some listed results where you can click on a link to Plan information.

Isio Pension Web

The administrators of the Plan, Isio, have recently launched their Pension Web service, which will allow members to login to a secure online portal to view details of their pension benefits within the Plan. It will also enable members to request benefit quotations, Plan information and updates to address and beneficiary details directly with the administration team.

To register for this service, simply log onto https://www.isiopensions.com and enter your personal details and username (the unique reference number quoted on recent Isio correspondence, which can be found at the bottom of the address label used for this newsletter).

Please contact Isio if you have any questions accessing the portal.

Is your nomination for death benefits up to date?

If your circumstances change in the future, such as change of address, or if you just want to make sure the Trustees have a recently dated document, simply request a form from Isio at any time or log on to the new Member Web service outlined above.

Current Arqiva employees are covered for life assurance benefits outside the Plan. Further details can be found on the member site. (Please note: if you are already receiving benefits as a dependant of the Plan, then no additional dependant benefits are payable, and this section is not relevant to you.)

The Virgin Media Pension Plan

If you have benefits within the Virgin Media / NTL Plan, our own administrators Isio will not be able to give you any information about benefits that you might have in the 'old NTL Plan'. For any enquiries, please contact XPS Pensions Group on 0118 313 0700.

Need more information?

If you have any questions on your pension or any other related matters, please contact the Plan's administrators Isio using the details below, or take a look at the online Plan information

Your contacts

Isio administrators
Daniel Bell/Karen Slatford
Isio, Isio c/o SPS, PO Box 721, Salford, M5 0QT
Tel: 0118 338 4442/0118 338 4432
email: ukfmarqiva@isio.com

Arqiva
People and Organisation helpdesk
Tel: 01962 822424
email:P&O.helpdesk@arqiva.com

Your Trustees

Our professional advisers

We are supported by a number of professional advisers:

Actuary and administrators
Isio Group Limited

Legal advisers
Baker & McKenzie LLP

Investment advisers
Mercer Limited

Auditors
Crowe UK LLP

Investment managers:
Legal & General Investment Management; Insight; Nordea Asset Management; Barings

AVC managers
Legal & General Investment Management, Clerical Medical; Utmost Life & Pensions

Bankers
Lloyds Bank Plc

Your personal data

Please help us maintain our high standards of member data. Contact Isio directly to let them know about any change in your circumstances such as a change of address, updated beneficiary nominations and marital/civil partnership status.

Other help with your pension

State Pension information can be found at www.gov.uk/browse/working/state-pension

If you would like any information relating to pensions guidance, debt advice, money guidance or consumer protection, a new single financial guidance body called the Money and Pensions Service was set up in 2019. This financial body replaces the Money Advice Service, The Pensions Advisory Service and Pensions Wise. Further information can be found at www.moneyandpensionsservice.org.uk

Tax advice cannot be given by the Trustees or our advisers. If you need further tax information please contact HMRC by visiting www.hmrc.gov.uk or calling 0300 200 3300.

Plan website

https://www.arqiva.com/about/arqiva-definedbenefit-pension-plan/

About Arqiva

Arqiva is at the heart of the broadcast and utilities sectors in the UK and beyond, providing critical communications infrastructure and media services.

We are the only supplier of national terrestrial television and radio broadcasting services in the UK, consistently delivering digital TV, analogue and digital radio to people in all four corners of the country. We distribute over 1,000 channels internationally using our fibre and satellite infrastructure. Our advanced, secure and dedicated networks are also supporting the management of critical data for a range of smart metering networks in the energy and water sectors.

Our teams are behind the scenes, delivering millions of vital connections every day for our customers - major UK and international broadcasters, independentradio groups as well as major utility companies and networks. They include leading brands such as the BBC, ITV, Sky, Global, Bauer, Thames Water and Anglian Water.