

UPM-KYMMENE UK PENSION SCHEME

2021 Newsletter

Introduction

Welcome to the 2021 Scheme Newsletter. It has been another busy year for us all and for the Scheme, and this Newsletter provides you with an update on a number of important Scheme issues, including:

- The Trustee Board and the Scheme Advisers
- Scheme Updates and Changes
- A reminder about the Pension Website and the Hartlink Online Member Portal
- The latest funding position of the Scheme
- Pension Scams

Trustee Board and Advisers

The Company and the Scheme Trustee remain focused on development areas that enable the futureproofing and sustainability of the Scheme. The Trustee meets with its advisors regularly to discuss and review administration, governance, funding and Scheme investments.

As detailed in the 2020 Newsletter, Graham Hough, Craig Mitchell and Tracy Knox resigned as Trustees of the Scheme at the end of 2020 and it was agreed to appoint Capital Cranfield Pension Trustees Limited as the Scheme's Professional Corporate Sole Trustee, represented by Kevin Wesbroom and Harus Rai.

Capital Cranfield were previously the independent trustee on the Board and had been involved in the Scheme since 2016. At the time of their resignation Graham, Craig and Tracy agreed to form a 'Consultation Committee' for a 12-month period (or longer if needed) to ensure a smooth transition.

The Trustee is supported by a number of professional companies, including:

- Capita Pension Solutions for Scheme Administration, Consulting and Secretarial services
- KPMG LLP for Audit services
- Buck Consulting for Scheme Actuarial services
- Pinsent Masons LLP for Legal Advice
- Cardano for Investment Consulting services

If you have any questions or concerns about the change to the Sole Trustee arrangement, or the Consultation Committee, then please contact Kevin Wesbroom, of Capital Cranfield (k.wesbroom@capitalcranfield.com).

Scheme Updates and Changes

Switchback

We wanted to take this opportunity to remind you that if you accrued Defined Contribution benefits within the Scheme historically but had them transferred to the Legal & General Mastertrust last year that there is the option, upon retirement, to transfer all or part of those benefits back into the UPM Scheme.

This 'Switchback' into the Scheme can only be used to help fund all or part of your tax-free cash lump sum (known as a Pension Commencement Lump Sum (PCLS)).

Further information regarding this process can be found within a member announcement held on the Scheme website, which can be found at: <http://www.myupmpension.co.uk/news/2021/07/dc-switchback>. Alternatively, please contact Capita Pension Solutions (their contact details can be found at the end of this communication) who will provide you with a copy.

The Switchback process can be a lengthy process, typically taking two to three months to complete, and therefore you should take this into account when considering your retirement options.

If you have any queries in respect of your Defined Contribution benefits which were historically accrued within this Scheme, please direct these to Legal & General using the following contact details:

- Website: www.legalandgeneral.com/upmuk
- Phone: 0345 0260 081
- Email: employerdedicatedteam@landg.com
- Post: First Contact, Legal & General, Ground Floor Knox Court, Cardiff, CF24 0EB

Lifetime Allowance

There is no limit on how much you can build up in pension benefits but there are additional tax implications if the value of your pension benefits is in excess of the Lifetime Allowance.

The Lifetime Allowance is currently £1,073,100 and has been frozen at this level by the Government until the 2025/26 tax year. This allowance applies to the total **value of all pension** benefits, excluding the State Pension.

Further information about the Lifetime Allowance can be found in the News section of the Scheme website: [News | UPM UK Pension Scheme \(myupmpension.co.uk\)](https://www.myupmpension.co.uk/news). If you think the total value of all of your pension benefits may be close to or above the Lifetime Allowance at retirement, we recommend you seeking advice from a tax expert. We are unable to give such advice.

Additional Voluntary Contributions

If you are a deferred member you may have historically paid contributions in addition to the standard Scheme contribution rates in order to secure additional pension benefits within the Scheme. These are called AVCs (Additional Voluntary Contributions) and if your AVCs are held with Prudential then it is now possible for you to obtain a current value of those benefits via the Prudential online platform via the following link: <https://www.pruretire.co.uk/>

Scheme Website and Member Portal

The Scheme website can be found at the following address: www.myupmpension.co.uk. The website provides useful general information about the scheme including the retirement process, the different types of benefit available, various forms and Scheme documents.

The Scheme also has a member portal called Hartlink Online, which can be found at the following web address: <https://www.hartlinkonline.co.uk/upm/hopl.chi/wui/homepgui.html>. If you do not already have access to Hartlink Online then please follow the link above to register.

Hartlink Online will be of particular interest to deferred members of the Scheme as it allows you to instantly obtain an indicative Cash Equivalent Transfer Value, which is the amount that is available to transfer to an alternative plan in exchange for giving up your benefits under this Scheme. Many members find this useful when considering their financial planning for the future.

Funding

The Trustee of the Scheme is required to send you a statement summarising the funding position of the Scheme (that is the extent to which the assets currently held in the Scheme are able to cover its obligations to pay benefits to members).

How is my pension funded?

UPM-Kymmene (UK) Ltd, known as 'the Company', pays contributions so that the Scheme can pay pensions and other benefits to members. The Scheme has a common fund in which all of the assets to pay benefits are held. Members do not have separate individual holdings apart from their Additional Voluntary Contributions. Some members will have had benefits built up in the former Defined Contribution (DC) Section of the Scheme, however these benefits were transferred to the Legal & General Mastertrust in August 2020 and are no longer part of the Scheme.

The Trustee of the Scheme has a funding objective, detailed in the Statement of Funding Principles, which has been agreed with the Company and which aims to make sure there is enough money in the Scheme to pay for benefits now and in the future.

The Trustee obtains regular reports from the Scheme Actuary and each of these provides an estimate of the assets needed to meet the payment of benefits. Since the benefits of many members are to be paid in the future, allowance is made for future investment returns. Using this information, the Trustee comes to an agreement with the Company on how much should be paid to keep the Scheme's funding on track against the funding objective.

Funding position for the Scheme

The results of the approximate funding update as at 1 April 2021 are shown below, together with the results of the formal actuarial valuation as at 1 April 2019 and the results of the approximate funding update as at 1 April 2020.

	1 April 2019	1 April 2020	1 April 2021
Assets	£410.6 m	£427.8 m	£426.2 m
Amount required to provide benefits ('Liabilities')	£429.5 m	£458.3 m	£441.6 m
Surplus / (Deficit)	(£18.9 m)	(£30.5 m)	(£15.4 m)
Funding level	96%	93%	97%

As a result of the funding shortfall identified by the formal actuarial valuation as at 1 April 2019, the Company agreed with the Trustee that the following contributions will be paid to the Scheme, by the Company, to remove the deficit:

- Four annual contributions of £5,300,000. The first contribution was to be paid by 1 April 2020 and all subsequent payments up to 1 April 2023 to be paid by 1 April of the corresponding year.

The funding shortfall was expected to be eliminated in 4 years from 1 April 2019, i.e. by 1 April 2023.

Reasons for the change in the funding position between 1 April 2020 and 1 April 2021

The updated funding position at the at 1 April 2021 shows an improvement compared to both the most recent formal actuarial valuation as at 1 April 2019 and the approximate funding position as at 1 April 2020. The improvement since 1 April 2020 is mainly due to changes in economic conditions that have led to a lower value being placed on the future pension payments due from the Scheme (the liabilities) and the contributions made by the Company.

The next formal actuarial valuation will be performed as at 1 April 2022.

The importance of the Company's support for the Scheme

The objective of the Trustee is to have enough money in the Scheme to pay benefits now and in the future. However, this relies on the Company continuing in business and supporting the Scheme because:

- assets can go down as well as up, and when there is a shortfall the Company will usually need to put in more money; and
- the cost of benefits may increase; for example, if members are living longer the Company will usually need to put in more money.

If there were more than enough money to secure the benefits in full with an insurance company, a refund could be paid to the Company. No such payment from the Scheme has been made to the Company and there are no proposals for any payment in the foreseeable future.

The Trustee formally assesses the strength of the covenant of the Company as part of each triennial actuarial valuation. In addition, the Company provides an update on its trading position and other Company matters at each quarterly Trustee meeting.

Regulatory statement

The Pensions Regulator has not issued any directions against the Scheme to modify the Scheme for future benefit accrual, direct the calculations of the current liabilities or the length of the recovery plan and/or impose a schedule of contributions.

What would happen in the unlikely event of the Scheme starting to wind up?

The Government requires trustees of all pension schemes to make an annual statement on what would happen if their pension scheme were wound up. Neither the Trustee nor the Company has any plans to wind up the Scheme. This statement is only made to comply with The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

If the Scheme winds up, you may not receive the full amount of pension you have earned, even if the Scheme is fully funded on its target funding level. If the Scheme were to wind up, the Company would be required to pay enough into the Scheme to enable your benefits to be completely secured with an insurance company. At 1 April 2019, the estimated amount that an insurance company would need to secure all the members' benefits was £604 million, giving an estimated 'buy-out' deficit for the Scheme of £192 million.

The worst-case scenario would be the Company going into insolvency without being able to pay the amount required to enable benefits to be completely secured with an insurance company. However, even if this happened, the Pension Protection Fund (PPF) might be able to take over and pay compensation to members. The PPF was set up by the government to help protect members' pensions where a company becomes insolvent, although it does not guarantee to pay full benefits.

Further information and guidance is available from the PPF via the following contact points:

- On the PPF's website at: www.pensionprotectionfund.org.uk
- By email: information@ppf.co.uk
- By phone: 0345 600 2541

Why does the funding plan not call for full 'solvency' at all times?

A pension scheme is said to be 'solvent' if it has sufficient assets to secure its benefits in full with an insurance company. The vast majority of pension schemes do not meet this test because insurers are required to take a very cautious view of the future, include a profit margin and make an allowance for their expenses.

In contrast, our funding plan assumes that the Company continues to financially support the Scheme as required, so it is appropriate to adopt more realistic assumptions about the future. Pensions will continue to be paid in full even if funding is temporarily below target.

How are the Scheme's assets invested?

The Trustee of the Scheme have appointed a fiduciary asset management company who actively manage and review the Scheme's investments with the aim of achieving the best return possible while taking account of the cash flow obligations of the Scheme and the risks of having too much money in any one type of investment. The approximate split of the Scheme's invested assets at 1 April 2021 is summarised below:

Asset Class	%
Equity	21%
Credit	19%
Derivatives	1%
Property	4%
Cash	28%
Liability hedging	27%

Our membership as at 31 March 2021

At 31 March 2021 there were 1,072 deferred members within the UPM Scheme, along with 791 members being paid a monthly pension.

Pension Scams

There continues to be pension scam activity occurring within the pensions market and the Department for Work and Pensions has now imposed additional conditions which must be met before individuals have a statutory right to transfer. Scammers can come across as being financially knowledgeable, have seemingly legitimate websites, references and materials and can seem like the real deal. Please therefore reject any unexpected offers, do not be pressured or rushed into anything and always check who you are dealing with.

The Pensions Regulator regularly updates its guidance on scams and its latest leaflet lists the following warning signs:

- Contact out of the blue - You should not receive an e-mail about your benefits from any person or company you don't know.
- Promises of high/guaranteed returns - All investment involves a certain level of risk, so treat any 'guarantee' with caution.
- Free pension reviews - Genuine independent financial advice almost always carries a charge.
- Access to your pension before age 55 - Unless you are retiring early due to ill health, 55 is the earliest age you can legally receive your benefits – so avoid any offers claiming otherwise.
- Pressure to act quickly - A tight deadline could mean the fraudster is trying to access or move money in a hurry. A reputable organisation will not normally need to rush you.

The Regulator's leaflet also includes guidance for looking after your savings and benefits. You can view a copy of the leaflet on the Pensions Regulator's website:

<https://www.thepensionsregulator.gov.uk/en/pension-scams>

The Financial Conduct Authority (FCA) has dedicated a section of its website to help people avoid pension and investment fraud. It keeps a 'warning list' of known scams. You can find whether an offer you have received is on the warning list by answering a series of questions on the FCA website. The website address is: <https://www.fca.org.uk/scamsmart/warning-list>

If you think you may have been contacted by a scammer, call the Scheme Administrator, Capita, to check out the validity of your contact before you take any further action. Finally, if you have taken up an offer to transfer your benefits but are now worried it could be a scam, it may not be too late but you should act immediately.

- Contact Capita straight away. They may be able to stop a transfer if it has not yet taken place.
- Call Action Fraud on 0300 123 2040 to report it.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

Future Member Communications

From the start of 2023 we are aiming to issue all member communications digitally, either by email, via the Scheme website or via Hartlink Online. If you would prefer to continue to receive member communications in hard copy then please let us know by contacting Capita using the contact details below.

Where Are You?

Please help us to keep in touch with you by telling us if your change address - it makes it much easier for us to communicate with you and even to pay your benefits in due course.

Further information

The following Scheme documents can be found on the Scheme website under the “Useful Documents” page:

- The latest Statement of Investment Principles – This explains how the Trustee invests the money paid into the Scheme
- The latest Implementation Statement – This explains how the Trustee has complied with the Statement of Investment Principles
- The current Privacy Statement – This explains how we use your data and keep it safe.
- The Annual Report and Accounts of the Scheme – These show the Scheme’s income and expenditure for each year.
- The current Trust Deed & Rules – This explains how the Scheme is run and what benefits are available.
- The Switchback Process – This is explained earlier in the Newsletter.

The following documents can be provided upon request:

- The Schedule of Contributions – This shows how much money is being paid into the Scheme
- The Statement of Funding Principles – This sets out the Scheme’s funding plan
- The Recovery Plan – This explains how the funding shortfall is being made up
- The full report on the Actuarial Valuation as at 1 April 2019 – This gives a full and detailed analysis of the funding position including the Actuary’s assumptions and methodology.
- The Annual Funding Updates as at 1 April 2020 and 1 April 2021.

Contact details

For more information about your Defined Benefits in the Scheme please contact the Scheme’s administrators:

- By email: upmpensions@capita.co.uk
- By Post: UPM-Kymmene UK Pension Scheme, Capita, PO BOX 555, Stead House, Darlington, DL1 9TY
- By telephone: 0800 917 4552

Don’t forget – visit the dedicated pension website at www.myupmpension.co.uk