UPM UK PENSION TRUSTEES

UPM-KYMMENE UK PENSION SCHEME
2023 Newsletter

Introduction

Welcome to the 2023 Scheme Newsletter. 2022 – and 2023 to date – have been busy, but productive, for us all and for the Scheme, and this Newsletter provides you with an update on a number of important Scheme issues, including:

- The Parent Company Guarantee agreed with UPM Kymmene Corporation
- 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 and the new transfer value regulations
- A new partial transfer option

The Parent Company Guarantee

As the Trustee of the Scheme, I am delighted to give you great news which gives significant protection to the future viability of the Scheme and the security of your pension. We have recently signed an agreement with the Finnish parent company – UPM Kymmene Corporation – which means they will stand behind the Scheme if, for whatever reason, the UK Company (UPM-Kymmene (UK) Limited, which is the Principal Employer under the Scheme is unable to make its financial commitment to the Scheme. This Guarantee is not an open ended or a blank cheque – it is limited in time (to 15 years) and to the amount of any payment (up to £130m or the solvency deficit if lower). It should enable us, as Trustee to be able to provide the ultimate security for your pensions – which is through an insurance contract in your individual name.

The Parent Company Guarantee is a huge step forward for the Scheme, and allows us to move ahead with a significant degree of confidence that we can deliver your pensions for the long term. As the Trustee of the Scheme, I believe this is an excellent outcome that protects your future incomes.

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 2021 Newsletter, Capital Cranfield Pension Trustees Limited was appointed as the Scheme's Professional Corporate Sole Trustee, represented by Kevin Wesbroom and Harus Rai. In 2022 Harus Rai stepped down as a representative and we are pleased to introduce Tova Docherty as Harus's replacement.

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

- Capita Pension Solutions for Scheme Administration, Consulting and Secretarial services
- CLA Evelyn Partners Limited 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 about the Sole Trustee arrangement or Scheme pensions generally then please contact Kevin Wesbroom of Capital Cranfield (k.wesbroom@capitalcranfield.com). Questions about your personal pension circumstances should go to the administrators, Capita, whose contact details are on the last page.

Scheme Updates and Changes

Switchback

We wanted to take this opportunity to remind you that if you used to be a member of the Defined Contribution (DC) section of the Scheme and transferred your DC benefits 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: UPM, Legal & General, Ground Floor Knox Court, Cardiff, CF24 0EB

Lifetime Allowance

The Lifetime Allowance is currently £1,073,100 and will remain at this level until 6 April 2024. After that point it will be removed from pensions legislation.

The Lifetime Allowance applies to the total **value of all pension** benefits, excluding the State Pension. There has never been a limit on how much you can build up in pension benefits but there have been additional tax implications if the value of your pension benefits is in excess of the Lifetime Allowance. In its 2023 Spring Budget, the Government announcement that these tax implications will be removed from 6 April 2023 onwards. There will be no tax charge if the value of your pension benefits exceeds the Lifetime Allowance.

Further information about the Lifetime Allowance can be found in the News section of the Scheme website: http://www.myupmpension.co.uk/news.

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/. You will need a username (and password) to be able to access your account and you can get these by following the prompts within the Prudential website.

Stronger Nudge to Pensions Guidance

New pensions regulations are now in place which require the Trustee to provide additional encouragement to those deferred members in the Scheme who access their AVC benefits to seek guidance from MoneyHelper, which is a free Government service.

Capita can help you set up an appointment with MoneyHelper if necessary. If you do not wish to obtain guidance form MoneyHelper you will need to confirm this to Capita during your retirement process.

Transfer Values

We are aware that many of you who have not yet retired keep a watchful eye on the level of your transfer value, which you can access via the online estimator (which is available at https://www.hartlinkonline.co.uk/upm/hopl.chi/wui/homepgui.html). As Trustee, we thought it would be useful to give an explanation of why transfer values have moved so significantly in recent months.

When we work out a transfer value – known in pensions jargon as a Cash Equivalent Transfer Value or CETV – we are trying to place a current or present value on your future pension payments. We are projecting what your pensions will be when you retire, how much it will increase each year after you retire, and for how long you will draw your pension. These can only ever be estimates or averages based on what we expect will happen – that is the way that CETVs work. We then ask the question – what is a fair value today that is equivalent to those future payments? In order to place a value on your future payments we have to allow for future investment returns on the fund – or equivalently we discount your future payments.

Discounting is a standard actuarial technique – it basically says that you need less than a pound now to pay a pound in say 10 years' time, because you expect to earn an investment return on the pound today.

The real question is what rate of interest you should use to discount those future payments. In order to arrive at the relevant rate of interest, we start from the yields on Government bonds – effectively the rate of interest you can get for lending money to the Government. Because your pension payments will stretch over many years in the future, we are looking at the interest rates or yields on long term government borrowings – say over a 20-year period. What has happened in recent months is that those yields have increased significantly – from around 1% per annum, to around 4% per annum. This may not sound a lot, but it has a significant effect on CETVs – and reduces them a lot.

Just how much varies from individual to individual – and one key issue is that the reduction (as a percentage) can be expected to be more for younger members that for older members (because the higher interest rate works over a longer period). So, let us use some hypothetical members who have a deferred pension of £10,000 per annum and see how things have changed:

Member	Age	Long Term Interest Rate		Cash Equivalent Transfer Value	
		July 2022	February 2023	July 2022	February 2023
1	**62**	2.5%	3.6%	£208,000	£172,000
2	**57**			£172,000	£134,000
3	**52**			£144,000	£105,000

In practice, for you, as an individual member, the amount of your CETV, or the change in your CETV will depend on many aspects such as – your age, your sex (women live longer than men, on average) and the level of pension increases you are entitled to (which in turn can depend on which section of the scheme you were in, and your years of membership in that section).

If you would like further information about transfers generally then please do not hesitate to contact the Trustee. Questions about your personal details should be routed via Capita, as before.

Partial Transfers

If you are a deferred member you can transfer your benefits out of the Scheme and put them in a registered pension arrangement of your choosing (such as a personal pension or the pension policy you have with your current employer).

In order to provide you with more flexibility regarding your benefits we have introduced a "partial transfer" option. This option allows you to transfer part of your benefits out of the Scheme, subject to certain conditions being met.

Further information regarding this option, including the Scheme's partial transfer policy, is held on the Scheme website.

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 triennial actuarial valuation as at 1 April 2022 is has recently been finalised and the Trustee has agreed with the Company the required changes to the Statement of Funding Principles.

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 full triennial actuarial valuation as at 1 April 2022 are shown below, together with the results of the approximate funding update as at 1 April 2021.

	1 April 2021	**1 April 2022**
Assets	£426.2m	£438.7m
Amount required to provide benefits ('Liabilities')	£441.6m	£404.4m
Surplus / (Deficit)	(£15.4m)	£34.2m
Funding level	97%	108%

As part of the actuarial valuation UPM-Kymmene Corporation of Finland ('UPM Corporation'), the ultimate parent company of the Company, has agreed to provide a parent company guarantee to the Scheme. This guarantee will extend to 2037 and will cover the Scheme's solvency shortfall (i.e. any additional funds that would be required to secure benefits in full with an insurance company) up to a maximum of £130m.

As the Scheme has a surplus of £34.2m at 1 April 2022 there is no requirement for the Company to make any contributions currently to protect the funding position.

Reasons for the change in the funding position between 1 April 2021 and 1 April 2022

Since the approximate funding update as at 1 April 2021 the funding level has improved from a deficit of £15.4m to a surplus of £34.2m at 1 April 2022. This improvement is due mostly to the following reasons:

- Changes in economic conditions that have led to a lower value being placed on the future pension payments due from the Scheme (the liabilities);
- The assets of the Scheme have performed better than expected.
- The Company paid £5.3m into the Scheme in March 2022 which has helped to further improve the funding position;
- membership experience, such as members taking transfer values, have also helped improve the funding position.

It is important to note that as the performance of the Scheme's assets and the assumptions change over time, it is expected that the funding position will change between valuations. The Trustee monitors the funding position closely and is in regular contact with their advisers.

The triennial actuarial valuation as at 1 April 2022 has recently been finalised. The next formal actuarial valuation will be performed as at 1 April 2025.

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 – and the Guarantee - 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 2022, the estimated amount that an insurance company would need to secure all the members' benefits was £552m, giving an estimated 'buy-out' deficit for the Scheme of £113m.

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, and the Guarantee not providing any additional funds. 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. As noted above, however, UPM Corporation have agreed to provide the Guarantee which would potentially provide additional funding to the Scheme in the event of the Company going into insolvency.

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
- By post: Pension Protection Fund, PO Box 254, Wymondham, NR18 8DN.

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 (including via the Guarantee), so it is appropriate to adopt more realistic assumptions about the future.

How are the Scheme's assets invested?

The Trustee of the Scheme has 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 2022 is summarised below:

Asset Class	%
Multi strategy funds	55%
Credit strategy funds	4%
Property funds	5%
Infrastructure funds	9%
Bond funds	18%
Cash	11%
Derivatives	-2%

You may have seen press reports about the impact of the “mini-budget” in October 2022, which lead to serious distortions of the government bond and LDI markets, in which we invest. Your pensions were never at risk of default, as some commentators suggested. The Scheme uses LDI to manage its risks in relation to inflation and interest rates. The fluctuations in October had a modest detrimental effect on the Scheme, but your pensions remain secure, and we continue to work with the Company and our advisers to make sure that we can pay all pensions in full for all members of the Scheme.

Our membership as at 31 March 2022

At 31 March 2022 there were 1,016 deferred members within the UPM Scheme, along with 810 members being paid a monthly pension.

Pension Scams

Sadly, there has been an increase in pension scams since the start of the Covid-19 pandemic. Scammers may attempt to gain access to your pension, so we wanted to give you some tips on how to spot a pension scam.

Be Cautious
Cold calling about pensions is banned. This includes text messages and emails. A genuine financial adviser will not contact you first. Phrases to watch out for: “free pension review” or “pension liberation” (the concept that you could access your pension sooner than age 55). Pensions are usually not accessible until you are age 55 (57 from 2028) but a common scam is fraudsters claiming they can help you access it earlier.

Check out adviser details
If you have approached an adviser directly you should still check their credentials. You can use the FCA register at www.fca.org.uk/firm/financialservices-register to check that they are regulated.

Be wary of investment promises
Pensions are a form of investment and all investments come with an element of risk. If you are being offered guaranteed, healthy returns then alarm bells should start ringing. Do your research and understand the different risks associated with any investment claims.

Take your time
Do not feel rushed or pressured into making a decision. Read and digest all the information you are given and take the time to speak to a regulated financial adviser.

New Transfer Regulations

Due to the increased risk of pension scams, new rules came into place on 30 November 2021 that require trustees and pension providers to prevent pension transfers if they believe the circumstances to be suspicious. Factors that may give rise to a request for a pension transfer being refused include, but are not limited to, a member:

- Not providing sufficient information in relation to the transfer when requested to do so
- Not providing evidence of having taken guidance from MoneyHelper
- Being given financial advice from a company without the appropriate regulatory permissions
- Receiving an unsolicited request to transfer funds from the Scheme to another arrangement
- Feeling pressured into making a transfer
- Wanting to transfer to a receiving scheme with high-risk, unregulated investments and/or charges and fees that are unclear or noticeably high.

It is important to remember that these regulations have been introduced to help reduce the risk of pension scams. The Capita administration team are on hand to liaise with you about your transfer and give you the opportunity to get guidance from MoneyHelper should your initial transfer request be denied. In most cases, you will be required to have obtained independent financial advice from a registered IFA before being able to transfer your DB section benefits out of the Scheme.

https://moneyhelper.org.uk

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.

Future Member Communications

From the second half of 2023 onwards 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 you 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:

- This Newsletter.
- 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 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, if any, is being made up
- The full report on the Actuarial Valuation as at 1 April 2022: 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