UPM-KYMMENE UK PENSION SCHEME

December 2023 Newsletter

Introduction

Welcome to the December 2023 Scheme Newsletter. This Newsletter provides you with an update on a number of important Scheme issues, including:

- The Trustee Board and the Scheme Advisers
- Details about the Scheme going digital!
- Scheme Updates and Changes
- The latest funding position of the Scheme
- A reminder about the Parent Company Guarantee agreed with UPM Kymmene Corporation
- Pension Scams
- Transfer value regulations

Trustee Board and Advisers

Capital Cranfield Pension Trustees Limited continue to act as Scheme's Professional Corporate Sole Trustee, represented by Kevin Wesbroom and Tova Docherty.

The Trustee continues to be 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

The Trustee meets with its advisors regularly to discuss and review administration, governance, funding and Scheme investments.

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.

Going Digital - Member Portal

We recently announced that the Scheme has a new online member portal. The online member portal is safe and secure and has an easy log-in process. The online member portal allows you to see and update some of the basic details we hold in respect of your pension benefits in the Scheme, including contact details and address. Deferred members can see a summary of their benefits and pensioner members can see their pension payslips and P60s. There is also a personalised inbox so that communication between you and Capita, the Scheme's Administrator, can be conducted online.

The web address of the member portal is: https://portal.hartlinkonline.co.uk/upm

If you have already registered on the member portal then your existing log-in details will still work in the new portal. If you haven't yet registered then I encourage you to do so. The registration process is straightforward and you will be able to enjoy the benefits of the portal straight away.

Going Digital – Scheme Website

In addition to the online member portal there is a Scheme website which 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.

Going Digital – Member Communications

From now on Scheme communications will be issued digitally where possible. This will either be via the online member portal (if you have registered) or by email (if Capita holds and email address for you and you have not registered on the member portal). 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 shown at the end of this document.

Scheme Updates and Changes

Lifetime Allowance

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 across all your pension arrangements is in excess of a limited called 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 therefore no longer be a tax charge if the value of your pension benefits exceeds the Lifetime Allowance.

Partial Transfers

Don't forget that 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 offer 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.

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

We wrote to you earlier in the year to provide you with details of the results of the 1 April 2022 triennial actuarial valuation. Since then, the 1 April 2023 funding update has been completed. The results of the full triennial actuarial valuation as at 1 April 2022 are shown below, together with the results of the funding update as at 1 April 2023.

	1 April 2023	**1 April 2022**
Assets	£275.5m	£438.7m
Amount required to provide benefits ('Liabilities')	£296.9m	£404.4m
Surplus / (Deficit)	(£21.4m)	£34.3m
Funding level	93%	108%

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 2022 and 1 April 2023

The updated funding position as at 1 April 2023 shows a deterioration compared to the most recent formal actuarial valuation as at 1 April 2022. This deterioration is mainly due to changes in economic conditions and in particular the increase in bond yields during the second half of 2022, which reduced the value of both the Scheme's liabilities and invested assets. The value of the scheme's investments dropped by more than the value of the Scheme's liabilities. In addition, high inflation over the year to September 2022 has increased member benefits by more than expected which worsens the funding position by approximately £15m.

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 Trustee has no concern as to the funding of the Scheme.

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.

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.

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. 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 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 2023 is summarised below:

Asset Class	%
Multi strategy funds	28.9%
Credit strategy funds	5.7%
Property funds	6.2%
Infrastructure funds	12.6%
Bond funds	37.8%
Cash	15.4%
Derivatives	-6.6%

Our membership as at 31 March 2023

At 31 March 2023 there were 950 deferred members within the UPM Scheme, along with 840 members being paid a monthly pension.

Pension Scams

Sadly, scammers continue to try and gain access to pension benefits, so here's a reminder of some tips on how to spot a pension scam.

Be Cautious: 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.

Transfer Regulations

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.

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

Cyber Security

In March 2023 Capita experienced a cyber incident. They worked quickly with their advisers to ensure the incident was contained and all members of the Scheme were written to with an explanation of what had happened.

We encourage you to stay alert against any suspicious calls, texts or emails which could be a scam. If you do receive any suspicious messages or calls, please do not hand over any information such as your bank account details. Instead, hang up, or delete any worrying texts or emails and then contact the Scheme using the contact details below to report any suspicious activity. The FCA has some useful information on how to spot the warning signs of financial scams at https://www.fca.org.uk/consumers/protect-yourself-scams.

The National Cyber Security Centre has guidance on data breaches at https://www.ncsc.gov.uk/guidance/data-breaches.

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 Update 1 April 2023.

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