

# Shell Pensions Trust Limited Shell Contributory Pension Fund Trustee Webcast - 26 January 2016



## Webcast Question and Answers

You will find in this document all the answers to the questions that were submitted during the Shell Pensions Trust Limited 2016 webcast. The questions have been split into 8 categories:

1. Benefit Design
2. [Taxation](#) (AA & LTA)
3. [Covenant](#)
4. [AVCs](#)
5. [SOCPF](#)
6. [BG](#)
7. [Investment](#)
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## BENEFIT DESIGN

*The Company designs the benefits to be paid to members and amongst other things agrees with the Trustee the level of contributions to be made to the SCPF, on the advice of the Fund's Actuary.*

1. **When did the Shell final salary pension scheme close? And what is the current arrangement?**  
The SCPF closed to new members with effect from 1 March 2013. All new joiners to Shell Companies in the UK on or after 1 March 2013 are enrolled into the UK Shell Pension Plan (UKSPP) in accordance with UK legislation.
2. **Have you seen an increase in the number of people transferring out of the SCPF to take advantage of the new Freedom and Flexibilities?**  
Whilst the Trust Deed and Regulations of the SCPF have always allowed members to transfer their pension to another arrangement, since the introduction of the new 'Freedom and choice in pensions' legislation in 2015 the TSU has seen an increase in the volume of transfer quote requests. Transfer quotes have almost doubled in 2015 compared with 2014. However the number of members actually going ahead with transfers out of the SCPF has not increased.
3. **The early retirement factor is 4% per year for each year paid early before Pension Age. How likely is this to be changed and when might this happen?**  
The early retirement factor is set by the Founding Companies (after consulting the Actuary) at 4% a year, but this can be reviewed and could change in future.

This document provides a summary of the funding and benefits available from the SCPF. Benefits can only be paid in accordance with the Trust Deed and Regulations and relevant law at that time.

## BENEFIT DESIGN CONTINUED

### 4. Can you explain what the recently communicated 'Salary Sacrifice' actually means?

In early February 2016, all active SCPF members at that time were sent a communication from the Company explaining the new Salary Sacrifice arrangement in detail. Further materials, including a copy of the letter, are available on HR Online.

From 1 April 2016, normal member contributions to the SCPF will be automatically paid via salary sacrifice. Under a salary sacrifice arrangement a member agrees to give up part of their salary, equivalent to the amount of the current normal contribution. In return the Company agrees to make the contribution on their behalf. Members can opt out of the salary sacrifice arrangement.

National Insurance Contributions (NICs) are currently based on earnings after any salary sacrifice and therefore NICs will be based on the reduced salary, resulting in a reduction in the amount of NICs a member pays. SCPF benefits are calculated using Pensionable Salary before any salary sacrifice. Therefore being in a salary sacrifice arrangement does not change any SCPF pension benefits. For more information on the way SCPF benefits are calculated please refer to the SCPF Explanatory booklet which can be found in the Documents Library on [www.pensions.shell.co.uk](http://www.pensions.shell.co.uk).

### 5. What is the risk / likelihood of the 'Pension Age' of the SCPF (currently 60 years) being increased - e.g. to 65 (or more)?

Your Normal Pension Age is the age at which you can take your pension from the SCPF unreduced. For most Pre-2009 members this will be age 60. However for Post 2009 members i.e. those who joined the SCPF between 1 January 2009 and 28 February 2013 their Normal Pension Age is 65.

Under legislation, pension benefits that have been accrued in the past are protected so the Normal Pension Age cannot be changed.

The Company reviews its total benefits offering, including pensions, approximately every 5 years and the next review is scheduled for later in 2016. The Company is therefore not in a position to comment on possible changes to any benefit until the review has been carried out.

### 6. Does a portion of your pension form part of any severance package?

The Company's offering on severance is discretionary and disclosing the terms could potentially compromise the favourable tax treatment any payment receives.

For an employee that is made redundant and is above the Normal Minimum Pension Age (currently 55), their Employing Company may consider exercising its discretion to provide a smaller reduction than usual on early retirement. This is providing the pension is put into payment immediately after leaving the Company.

## TAXATION

*The Annual Allowance is the total amount of pension that you can build up in all of your pensions each year without incurring a tax charge. The Lifetime Allowance is the total amount that you can build up from all your pension savings in your lifetime without incurring a tax charge.*

1. Does the Company have plans to address the new Lifetime Allowance of £1 million?
2. As a result of the Government having two Pension Input Periods (PIPs) in tax year 2015/6, will there be a change in the pension annual statement produced around June 2016?

Answer to 1 & 2

Payment of tax is a member's responsibility. Where practical and possible Shell will help members to understand their Shell benefits. The Company prepared a note on the upcoming pension tax changes to help explain what is an increasingly complex topic. This can be found on HR Online > My HR Information > My Country Policies & Guidelines > By A to Z> Pensions

Members can also find further information in the Annual Allowance and Lifetime Allowance factsheets on the pension website [www.pensions.shell.co.uk](http://www.pensions.shell.co.uk)

The Company also provides financial education courses which are free for employees to attend. Employees can always follow up with the course provider if they want more tailored financial advice, although at their own expense.

Information on members' Pension Input Amount for 2015/2016 year will appear on the annual Pension Input Statement due in June 2016.

3. What are the longer term risks and opportunities from the pension income tax legislation that members need to be aware of?
4. Will the contribution allowance each year be going up or down?
5. How do you see the UK tax situation developing over the next 5 years?

Answer to 3, 4 & 5

The Government have consulted on a Green Paper which outlines significant changes to the way in which pensions are taxed while contributing.

We will know more following the Budget announcements on 16 March 2016.

6. How does the reduction in the Annual Allowance affect contribution levels (from individuals and the Company) for those earning over £150,000?

From April 2016, pension tax relief will be reduced for individuals with total taxable income (including pension contributions) of over £150,000 a year. For every £2 of income above this level the Annual Allowance of £40,000 will be reduced by £1. Those earning £210,000 or above will therefore have a reduced Annual Allowance of £10,000.

A UK HR Employee Update was issued to all active members in October 2015 and recirculated in January 2016, which outlined the changes [click here](#).

This can also be found on HR Online > My HR Information > My Country Policies & Guidelines > By A to Z> Pensions

## TAXATION CONTINUED

7. Linked to the reduction in the Lifetime Allowance in 2014, Shell Supplementary Pension Plan (SSPP) was set up, but legislation has since evolved, and continues to do so, - is SCPF still committed to the SSSP?

The SSPP is a separate scheme from the SCPF. Shell Pensions Trust Limited, the Trustee of the SCPF, has no role in the decision making process around the SSPP. That is entirely a Company matter.

In the Summer Budget, the UK Government announced that it will consult on tackling the use of unfunded employer financed retirement benefit schemes (such as the SSPP) to obtain a tax advantage in relation to remuneration. The Company is monitoring developments and will consider its response pending further announcements.

8. Many SCPF members will be impacted by the reduction in the tax free Annual Allowance for pension contributions. Can you say anything regarding the option that exists for members to elect for the Shell pension scheme to pay the Annual Allowance charge from the accumulated Funds?

The Annual Allowance is a limit to the total amount of benefits that you can build up in defined benefit pension scheme each year, for tax relief purposes. The current Annual Allowance is £40,000 p.a. (although it is changing from April 2016). If you exceed the Annual Allowance in a year you won't receive tax relief on any contributions you paid that exceed the limit and you will incur an Annual Allowance tax charge.

If you wish, you have the right to ask the SCPF to pay your tax bill for you in exchange for a reduction to your pension – this is called 'Scheme Pays'. Please see the Annual Allowance Charge - Scheme Pays Option factsheet on the pension website for further information [www.pensions.shell.co.uk](http://www.pensions.shell.co.uk). You are recommended to take independent financial advice if you are considering doing this or opting out of the SCPF.

9. The Lifetime Allowance drops to £1 million in April, impacting a number of employees. Protection schemes are currently not available. What happens to employees intending to retire after April and before the protection schemes are enacted?

Protections will be available that are applicable from April 2016, similar to those provided under previous protection regimes although HMRC will only make online forms available in the Summer of 2016.

It is up to the member to seek independent financial advice as to whether seeking one of the available protections is appropriate to their situation.

10. Are you aware of any change to the 25% tax free lump sum that can be withdrawn from the Fund when service concludes?

Current legislation allows an individual at retirement, to commute some of their pension for a Pension Commencement Lump Sum (PCLS). Members are given details of the maximum amount of tax-free PCLS available when they ask for a retirement quotation. Under current tax law this is, broadly speaking, 25% of the total Capital Value of a pension benefit, including AVCs, but subject always to the Lifetime Allowance (LTA).

While a 25% tax free lump sum is still currently allowed, it could be subject to change by the Government in the future.

## TAXATION CONTINUED

### 11. How does the UK's Lifetime Allowance cap work if you have both SCPF and SOCPF pensions?

The SOCPF is a Bermudian scheme and as such is not a UK registered scheme with HMRC in the UK. For this reason, the Lifetime Allowance applies only to benefits accrued in the SCPF and not the SOCPF.

### 12. If I retire outside of the UK, how is my pension taxed and would the annual inflationary increase still apply?

All SCPF pensions are assessed for UK Income Tax under the 'Pay As You Earn' scheme. The Payroll team apply the tax code as advised by HM Revenue and Customs (HMRC). You should refer to the International Mobility policy on taxation of retirement income if you continue to work for Shell whilst receiving pension income, for further information click [here](#).

Pension increases are applied to all SCPF pensions, regardless as to whether the member lives in the UK or abroad.

### 13. Do you think a BREXIT would reduce or increase the taxation on pensions?

Any answer to this would be pure speculation.

## COVENANT

*The Covenant is a term for the promise a Company makes to support the Fund now and in the future. It is a core Trustee duty to regularly monitor the covenant.*

1. Please could the trustees respond to the following article posted in the Financial Times (FT) which specifically cites Shell as one of the pension Funds in question:

The FT reported on January 3, 2016 that "UK pensions are two decades behind on liabilities - UK pension Funds face a two-decade wait before they have enough cash to meet their liabilities and the assets needed to pay the pension requirements of their members." Question – What is the SCPF doing to redress the deficit referred to in this article?

The figures frequently referred to by the press, including the FT article, are taken from the RDS plc accounts, and refer to the net accounting liability for the entirety of Shell's schemes across the globe. This therefore includes schemes in some countries that are unfunded, which are a major contributor to the aggregate net accounting liability reported. However the SCPF is currently fully funded on an ongoing (technical provision) basis, and entirely ring-fenced from other schemes, including the unfunded schemes.

2. The Company has reduced its contribution to the Fund (via the CRA) from 31% to 20%. Can we expect further reductions in light of the low oil prices and pressure in costs?
3. How tied is the pension to the share price and price of oil? In the continued downturn, do we expect the Funding level of 105% to drop this year?
4. Does the drop in oil prices have an impact on the Pension Fund and if so how?

Answer to 2,3,4

First, there is no connection between Company contributions and oil prices as such; contribution levels are related to the funding level of the scheme. The funding level, as you have seen from the charts, is volatile. It is a measure of how well funded the SCPF is compared to the existing liabilities in the Fund (the 'technical provisions') but this does not include funding for benefits to be accrued by members in the future. The current contribution rate of 20% underlines the Company's commitment to see the SCPF remain well funded.

5. If RDS did suffer a 'black swan' event or was taken over whilst the share price was low, would the new company be obliged to maintain the Fund, or could they raid the Fund in any way?

It is difficult to anticipate what a new company would do. It would, as noted above, be possible for them to end future accrual and to trigger a wind up of the scheme. However the process would require consultation with affected members and all members' accrued benefits would have to be secured in full. As noted above, the scheme is set up as a trust and its assets are completely separate from those of the Member Companies. The Trustee regularly monitors the strength of the Company covenant (i.e. the willingness and ability of the Company to support the Fund). In the event of any such incident, the Trustee would need to assess the impact of the incident on the strength of the Company covenant, and to determine whether any changes to the Fund's investment strategy or contribution requirements would be appropriate in light of this impact.

## COVENANT CONTINUED

6. I read in the Telegraph (January 2016) that the majority of remaining DB pension schemes will be closed by the end of the year. Is this a risk to the Shell Fund especially in light of current market conditions and changes in tax conditions?
7. What is the Trustee's view on Shell's ability to continue its final salary pension scheme for existing members?
8. The media has very recently reported an end to final salary pensions schemes. Is there a risk to SCPF members?

Answer to 6, 7&8

It is true that DB schemes are closing right across the country. This has been a trend evident for a very long time as many companies find that DB schemes are too costly. There are comparatively very few occupational schemes that are open for future accrual, unlike the SCPF.

In 2013 the Company closed the SCPF to new members. However they chose not to close it for future accrual to existing members. We are not aware of any plans for the Company to close the SCPF to future accrual.

9. What would happen if the Scheme is not fully funded by the time I am due to receive my pension?

If the SCPF were to have a deficit, benefits would continue to be paid in full. If the Fund were to start to wind up, the Company are required to pay enough into the Fund to enable the members' benefits to be completely secured with an insurance company.

The discontinuance funding position - the estimated extent to which members' benefits could be paid in full if the SCPF were to be immediately wound up - was 71% as at 31 December 2014. The Trustee is legally obliged to provide you with this information, even though the Company has no intention of winding up the SCPF.

10. Do we have a strategy in place to cope with a potential weakening of the company covenant?

The covenant is kept under constant review, and discussed quarterly by the SPT Board. Channels are kept open with the Company at all levels and contingency plans are in place to enable the Fund to react to significant events.

11. Is there any risk in current or forecasted market conditions that RDS would consider a buy-out of the SCPF liabilities and move members into the open UK Shell Pension Plan?

Buyout policies are used to transfer pension rights built up in occupational schemes into an individual pension policy. This typically involves the transfer of a scheme's liabilities to an insurance company in return for payment. The Company does not have any plans to do this for the SCPF.

12. Increased pension legislation adds to costs and reduces the benefit to the Company. What is the Fund (and Company) doing to engage with legislators on this?

The Trustee does not generally lobby the Government directly but does provide input to the Pensions and Lifetime Savings Association and other national organisations who engage with the Government and respond to consultations. The Company uses the CBI as the main vehicle to provide views.

13. Does the panel see any impact of staff reductions upon overall monies coming into the Fund?

Whilst lower staff numbers would lead to reduced future contributions to the Fund and the CRA, there are also reduced levels of future accrual of liabilities associated with members leaving Shell employment. The impact on the Fund is therefore broadly neutral.

## BG

*In February 2016, Shell completed the acquisition of the BG Group.*

1. With the integration of BG business into RDS in 2016, what are the plans for integrating BG pension liabilities into those of the SCPF? And has some assessment been made on the "health" of the BG pensions scheme(s) and what the likely impact of integration will be?
2. Is there any effect expected or consideration being given with respect to future pension Funding (perhaps outside SCPF?) if the BG takeover is successful e.g. existing BG pension Fund, pensioners and those BG employees that come on board to Shell?
3. How will the SCPF be impacted by the BG merger if it gets the go-ahead after the shareholder votes this week?
4. Is there any impact on the SCPF of the BG acquisition? Will there be any merger of the Funds, increased liabilities/risk etc?

Answer to 1,2,3,4

The merger with BG might have two potential impacts. First on the strength of the combined Shell/BG group, and therefore the covenant. Whether the combined group is stronger or weaker than before the merger is a matter of lots of press speculation. The Trustee does not have an opinion at this early stage, but will be reviewing the covenant diligently now that the merger has taken effect and further information on the strength of the combined entity is becoming available. Second it is not clear yet whether there will be any merger of the SCPF and BG pension fund after the merger. The Trustee is not aware of any such intention, and both sets of Trustees, who are independent of the Company, would have to agree that this was in the best interests of each Fund's members were any such a proposal made.

The Company is not in a position to comment on any plans following the takeover of BG. If the Company asks the Trustee to consider any changes following the merger, then we will need to consider if they are in the best interests of all our members. The Trustee is confident that it has the breadth and depth of expertise on the Trustee Board to make this judgement.

## SHELL OVERSEAS CONTRIBUTORY PENSION FUND (SOCPF)

*The SOCPF is a Bermudian trust subject to the law of Bermuda. The SOCPF is governed by the SOCPF Trust Deed and Regulations.*

1. Is there a similar webcast for the SOCPF?
2. Could the SOCPF be asked to deliver something similar please?

Answer to 1, 2,

We know of no current plans to have a similar presentation on the SOCPF for SOCPF members but we will feed back your comment to the Board of Shell Trust (Bermuda) Limited, the Trustee of the SOCPF.

3. Given the SCPF and SOCPF are separate, do the comments on funding status (i.e. fully funded) also apply to the SOCPF liabilities?
4. Where do I get the same information with respect to the SOCPF?

Answer to 3, 4

Information on the Funding and Investment strategy of the SOCPF is published in the annual SOCPF newsletter 'the Source'. The Source is emailed to all active members of the SOCPF every September and is available on [www.pensions.shell.co.uk](http://www.pensions.shell.co.uk).



## AVCS

*Additional Voluntary Contributions (AVCs) are extra contributions members can make to a money purchase arrangement of the SCPF.*

1. There would be significant benefits for certain members if the company were to allow transfers in to the L&G AVC scheme. In brief this would allow those funds to be taken tax free at age 55 without affecting the defined benefit pension. I understand that this has been passed to the Company. Can you update us on the status of this?

The Company will review the possibility of making such transfers as part of the benefits review, planned for 2016. The outcome of the benefits review will be communicated to all staff once this is known.

2. What is the deadline for paying 2015 bonuses as an AVC ?

The deadline was February 2016.

3. To what extent does the Trustee monitor the AVC arrangement such as the performance of the L&G Funds vs. the relevant benchmarks etc. Could this information be communicated in the Source next time?
4. On a recent Shell course the provider (Close Bros) said reviewing the fund performance over the past 5 years would be a good thing to do before choosing. I've tried to see this information on information provided by L&G (in the Shell area and wider L&G site) - I can't find this information across all Funds named on Shell AVC arrangement?

Answer to 3, 4

Members can access factsheets on the funds available in the AVC arrangement on L&G's 'Manage Your Account' online tool. These are updated monthly and include performance information. Members can register for 'Manage Your Account' at [www.landg.com/shell](http://www.landg.com/shell). The Trustee undertakes an annual review of the overall performance of the AVC Funds together with its investment advisor; if there are concerns about the performance of particular funds, the fund range might change.

5. The SOCPF does not allow for Additional Voluntary Contributions for those who want to top up their pension Fund. Is it possible to change this as this may attract additional Funds into the scheme?

This is a matter for the SOCPF to consider, which is independent of the SCPF.

## INVESTMENT

*The Trustee is responsible for the investment of the SCPF assets; they decide the investment strategy after consultation with its advisers and the Company.*

1. What might the impact of Brexit (the UK leaving the European Union) have on the Fund?

At this point the Board simply cannot tell. Without any clear picture as to whether Brexit is likely, and what the consequences might be, the only realistic action for a Fund such as the SCPF is to have a high quality and well-diversified investment portfolio, which the SCPF has.

2. What would be the impact on SCPF of possible Scottish independence?

It would be very similar to what was already mentioned about the risks around Brexit. Scottish independence could have an impact, but we simply could not predict the degree at this stage.

3. How far is the Fund down the road of equity disposal? Did the Fund sell while the market was still relatively high?

At the end of the second quarter the Fund took a decision to place a hedge on 10% of the portfolio, with a future derivatives overlay. This was intended to protect the Fund's holding of equities, were it to be decided to sell down part of the equity portfolio. This position was taken after much deliberation, consultation with the Company and consideration of professional advice.

During the Strategic Asset Allocation exercise, the Investment Committee decided that it would be wise to make that a permanent reduction. Within a few days of that decision, which was supported by the Board, the equities were sold, reducing the holding from 35% to 25% of the Fund. By putting in the hedge during the third quarter, approximately £112 million was saved, to the benefit of the Fund, and having subsequently disposed of the 10% of equities profits arising from several years of strong equity performance were locked in.

4. Can you explain in lay-person terms what gilt is?

Gilts are Bonds issued by the UK Government.

5. How does the Investment Committee think about asset allocation given the low interest rate environment?

A formal Strategic Asset Allocation exercise is carried out every three years, during which the Trustee Board looks at each asset class. The Trustee takes advice from its Investment Advisors on what level of returns the Fund might see in the future and whether interest rates will continue to stay low.

The way the Fund is presently structured, if interest rates were to begin to rise, it would be helpful in terms of the decreasing value attributed to liabilities.

6. Did the 2015 Strategic Benchmarking exercise suggest we could be doing something better?

At a total Fund level the results were pleasing; there are always improvement opportunities to be found in the detail of individual asset class performance.

## INVESTMENT CONTINUED

7. The Source used to publish the top 20 held equity investments by the Fund, are these details still available for members to view?
8. Could you clarify a bit more about the type shares/companies we hold? In which sectors are they and which are the 3 biggest ones?

Answers to 7, 8

Major investments can be found in the annual report. However as much of the equity strategy is passive, broadly the 20 largest equity holdings in the Fund will reflect the largest publically listed companies in the world.

9. If the blue line remains above the red line for a prolonged period does that not mean that we are accumulating Pension Fund value in absolute terms? The graph shows the quarter by quarter comparison, but the positive delta must represent a growing accumulation?

The two lines are absolute Fund and liability values, in GBP billion. The larger the gap, the greater the surplus.

10. Secured Lending; if banks don't do this anymore does that not mean it's a higher risk and really against the mantra of the portfolio risk?
11. Could you say more about the expected risk and return associated with Secured Lending?

Answer to 10, 11

Banks now have increased capital requirements against all lending activity, and lower risk/lower margin business is no longer attractive to banks when looked at against these increased requirements. An occupational pension scheme is not subject to the same capital requirements. The structural change in the market has created attractive investment opportunities for pension funds, such as asset-backed securities and loans that are considered low risk. Investments made to date have been independently assessed as AAA (i.e. strong issuers which have the highest credit quality); are of a nature that did not suffer default during the previous financial crisis; and offer better returns than available in more liquid bond markets.

## OTHER

1. What do you say to the 'predator' who points out that if you cash in your pension, and [say] buy property, you don't suffer the reduction in pension that your spouse would receive should you die?

Decisions about your pension savings are complicated and important; the Trustee encourages all members to seek independent financial advice before deciding what to do with their pension.

The Trustee, Shell companies and their employees cannot give financial advice regarding pension decisions; this includes recommending financial advisers. See question 4 for information on financial advice.

2. Can you explain more with regards to the change in Contracting Out of SERPS in the UK and what impact it will have on individuals

The SCPF is currently a 'contracted-out' pension scheme. Members of a 'contracted-out' pension scheme do not accrue the additional State Pension, currently called the State Second Pension (S2P) and previously known as the State Earnings Related Pension Scheme (SERPS). As members of a contracted-out pension scheme do not receive the additional State Pension, they and their employer pay a reduced rate of National Insurance Contributions (NICs).

The ability to contract-out of the S2P will be abolished in April 2016, when the current two-tiered system of Basic State Pension and additional State Pension will be replaced by a single-tier State pension. This also means that both active members and the Company will be required to pay full rate NICs. See question Salary Sacrifice question on page 2 for more information on NICs.

3. What does one do to get a pension valuation for an individual within 1 year of retirement?
4. As I am about to take my pension are the figures checked before the paperwork is sent?

Answer 3, 4

The Pensions Advisory Unit (PAU) provides information to employee members of both the SCPF and the SOCPF.

The PAU contacts all members within six months of their retirement date to advise them of the pension that is available to them and the next steps.

The PAU is unable to give financial advice as it is not authorised to do so by the Financial Conduct Authority. If you need advice you should contact an independent financial advisor. If you do not already use a financial adviser you can use the 'Find an IFA' search on IFA Promotions' website at:

[www.unbiased.co.uk](http://www.unbiased.co.uk)

The PAU also provides a session on pensions on the Long Term Income Planning and Planning for Pension Age courses as part of the Company's Financial Education Programme.

5. What measures are being taken to protect the Fund from potential devaluation of the UK Pound over the coming decades to ensure members who incur retirement expenses in USD, EUR or CHF do not see their buying power reduced?

The SCPF pays benefits in GBP which are linked to your final salary. It is that pension, in UK pounds, that is the Fund's liability and which the Fund aims to ensure that it can pay in the future. It cannot provide any protection for individual members who incur expenses in other currencies