Life

NOVARTIS UK PENSION SCHEME
NEWSLETTER DECEMBER 2020
ISSUE 23

An introduction from your Chairman, Philip Lowndes

Welcome to this year's edition of our annual newsletter for members of the Novartis UK Pension Scheme, which is slightly later than normal due to the current difficult situation.

Sadly, I must first inform members of the death in February this year of my fellow Trustee Director, Shaun Loughran, at the age of just 60. Shaun joined the Trustee Board in 2012 whilst Head of Finance at NIBR in Horsham, subsequently retiring from work around five years ago but continuing to serve the Scheme ever since as a very effective and committed Trustee. Many members will have known Shaun, and will I am sure wish to join me in expressing our sincere condolences to his family and friends. Richard Brazier was appointed as a new Company-nominated Trustee Director with effect from 1 August 2020.

This Trustee's Report covers the year ended 31 December 2019, and from an investment point of view, 2019 saw most of the world's major investment markets return to positive territory. The FTSE All-Share Index in the UK, for instance, rose by more than 15%, and most overseas equity markets also performed well. The property and bond markets also delivered worthwhile returns. Against this background the High Growth, High Risk Fund in which most current Scheme members are invested grew by 22.8%, and as a result most members will have seen a healthy increase in the value of their Retirement Accounts over the year.

Although all current members now earn benefits in the Defined Contribution (DC) section of the Scheme, if you have Final Salary or Defined Benefit (DB) benefits earned before 2012 it remains of vital importance that the DB section continues to be efficiently managed and properly funded. In 2019 the DB section's income again exceeded its expenditure, mainly due to investment income and gains of around £88.3 million. This meant that the overall value of the DB section increased from around £1.35 billion to nearly £1.42 billion during the year, a rise of approximately 4.8%.

As far as the Scheme's longer-term financial position is concerned, the three-yearly full actuarial valuation as at 31 December 2018 has now been completed. As reported in the Summary Funding Statement issued to members separately, this indicated that on an "ongoing funding level" basis there was a deficit of £149 million, and that the funding level stood at 90%. This compared with a deficit of £203 million at the time of the 2015 valuation, with a funding level of 84%. So the Scheme's funding position has improved significantly in the three years since the last valuation. As a result, the Company and the Trustee Board have agreed to continue with the "recovery plan" agreed after the 2015 valuation, which was designed to correct the deficit by the end of October 2025. It involves the Company continuing to pay in extra contributions at the rate of around £27 million per year, and it demonstrates the Company's continued strong commitment to fully supporting the Scheme.

With regard to the DC section, members will be aware that in February 2020 the Company entered into a consultation with its employees on a proposal to close the DC section and move to a new Master Trust pension arrangement with Legal & General, called the Novartis UK Pension Plan. This was subsequently agreed by the Trustee Board and became effective from 1 June 2020. At the same time the Company requested that the Trustee Board consider a bulk transfer of all members' accrued benefits to the Novartis UK Pension Plan. After advice from the Trustee Board's advisers, it was agreed that this was in members' best interests and agreed to the bulk transfer, which took place on 20 July 2020.

As your Trustee board we will continue to monitor closely all developments which affect the Scheme and your benefits and, as ever, I hope you will find this annual report useful and informative.

With best regards,

Philip Lowndes, Chairman of the Trustee Board

NOVARTIS

Scheme **Finances**

Since all active Scheme members contributed to and accrued benefits in the DC section during 2019 (though many will also have deferred benefits in the Final Salary section), below we show the finances of the two sections separately. The key points are as follows:

Defined Contribution section

	2018 £,000	**2019** **£,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£222,925	**£214,084**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£11,972	**£12,150**
Members' Additional Voluntary Contributions	£2,317	**£2,337**
Transfers-in of members' benefits from other schemes, and other income	£700	**£873**
TOTAL INCOME	£14,989	**£15,360**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£86	**£166**
Tax-free lump sum retirement benefits	£7	**£122**
Lump sum benefits on members' deaths in service or in retirement	£759	**£377**
Payments to and on account of leaving members	£5	**£0**
Transfers of leaving members' benefits to other schemes	£6,987	**£7,147**
Transfer to Final Salary section	£1,046	**£491**
Investment Management fees	£380	**£378**
TOTAL EXPENDITURE	£9,270	**£8,681**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£5,719	**£6,679**
Plus increase/(decrease) in market value of investments	(£14,560)	**£43,327**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£214,084	**£264,090**

Scheme membership

Total membership of the Scheme decreased slightly to 12,832, a fall of 114 on last year (2018 figures in brackets):

Active members	**1,237** (1,542)	Members with deferred pensions	**8,669** (8,570)
Pensioners and dependants	**2,926** (2,834)		

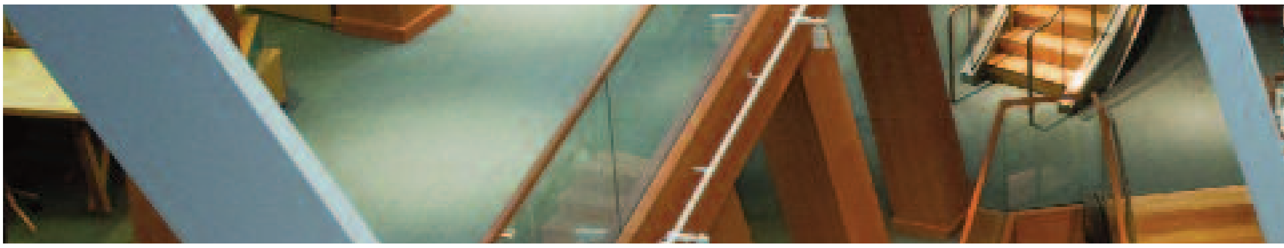
While 466 active members left the Scheme (partially due to Alcon Eyecare UK Limited ceasing to be a participating employer in the Scheme when it was spun off from Novartis as a standalone company), 167 new employees joined it during the year, all of whom we welcome warmly.

The income and expenditure of both sections of the Scheme in the financial year to 31 December 2019, and other detailed financial information, are given in the formal, audited Trustee's Report and Accounts for the Scheme as a whole. In that document the Scheme's auditors have given an unqualified opinion that the financial statements give a true and fair view of the financial transactions that have taken place, and that Company and member contributions have been fully paid as required. You can ask to see a copy of the Report and Accounts if you wish by contacting the Pensions Manager at rfarrarwork@outlook.com.

Final Salary section

	2018 £,000	**2019** **£,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£1,383,873	**£1,351,197**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£25,975	**£26,904***
Transfers-in of individual members' benefits from other schemes, and other income	£0	**£421**
Transfer from DC section	£1,046	**£491**
Income from investments *(dividends, interest etc.)*	£29,549	**£15,634**
TOTAL INCOME	£56,570	**£43,450**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£24,874	**£23,594**
Tax-free lump sum retirement benefits	£3,984	**£4,122**
Lump sum benefits on members' deaths in service or in retirement	£242	**£585**
Transfers of leaving members' benefits to other schemes	£21,240	**£19,140**
Investment Management fees	£2,518	**£1,590**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£1,893	**£1,863**
TOTAL EXPENDITURE	£54,751	**£50,894**
THIS GIVES NET INCOME/(EXPENDITURE) OF	£1,819	**(£7,444)**
Plus increase/(decrease) in market value of investments	(£34,495)	**£72,703**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,351,197	**£1,416,456**

* These were extra Company contributions paid into the Scheme as part of the "recovery plan" agreed after the 2015 actuarial valuation.



Defined Contribution section

Investment report

Members can choose between two investment routes for the investment of their Scheme contributions, **FREESTYLE** and **LIFESTYLE**.

If you select the **FREESTYLE** route, you can choose from the following range of four funds:

- **High Growth, High Risk -** invested in equities, currently 30% in the UK and 70% overseas.
- **Moderate Growth, Moderate Risk -** invested in a diversified growth portfolio consisting of equities, bonds, property and commodities.
- **Low Growth, Low Risk -** invested in index-linked and corporate bonds.
- **Cash -** invested in a diversified range of short term money market instruments via government and financial institutions, aiming to provide capital protection.

If you select the **LIFESTYLE** route, your Retirement Account is invested 100% in the High Growth, High Risk Fund until you are 15 years from your normal/target retirement age. Between 15 and 7 years from retirement it will be switched gradually into the Moderate Growth, Moderate Risk Fund. Finally, in the last 7 years leading up to your retirement your Account will be moved on a gradual basis into a combination of the Low Growth, Low Risk and Cash Funds.

You are reminded that the **LIFESTYLE** route, using the Low Growth, Low Risk Fund, was created specifically for members intending to purchase an “annuity” at retirement (a guaranteed pension income for life). This is because the Low Growth, Low Risk Fund is designed to move up and down by similar amounts to the price of annuities (which is driven by bond prices), thereby protecting the amount of pension income you can buy from any sharp fluctuations in annuity prices close to your retirement. However, as you probably know, the Government has opened up a range of flexible new options in recent years as to how you can take your benefits at retirement, including Income Drawdown and Cash Withdrawal. These newer options may mean that you no longer wish to purchase an annuity, and if this is the case you should consider whether the **LIFESTYLE** route continues to be right for you.

At 31 December 2019 the four funds had a combined market value of just under £263 million, an increase of £51 million on the previous year. The performance of each of the funds during the year was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	22.9%	22.8%*
Moderate Growth, Moderate Risk	11.9%	14.5%*
Low Growth, Low Risk	0.6%	0.7%*
Cash	0.5%	0.5%*

* Please note these figures are after the deduction of investment management fees.

At the end of the year, around 72% of the DC sections’ assets were invested in the High Growth, High Risk Fund, the remainder being divided among the other three funds. This was mainly due to the fact that the majority of Scheme members have chosen to follow the **LIFESTYLE** investment route (as described above), and are therefore automatically invested in the High Growth, High Risk Fund until they are 15 years away from retirement. As a result, **most members will have seen a healthy increase in the value of their Retirement Accounts over the year.**

Monitor your Account online

You can check where your Account is currently invested and how it has performed via our highly secure member website at:

https://novartis.xpmemberservices.com

or on your most recent Personal Benefit Statement.

All the investment options are described fully in a leaflet entitled **Your Investment Routemap** which you can obtain via the member website if you haven't already got one. The website has lots of other useful content and enables you to:

- follow the progress of your Retirement Account in the DC section and, if you're a former member of the Final Salary section, keep track of your deferred pension.
- monitor your current investment fund choices, allowing you to alter these if you wish - remember that if you've selected the **FREESTYLE** route you can either select just one of the four investment funds, or you can spread your contributions between them in any combination you wish. Subsequently you can switch funds/combinations annually throughout your membership - you are not locked into your initial investment decisions.
- obtain illustrations of your projected fund value at your target retirement date (which can currently be any birthday from your 55th) and see the effect of paying AVCs or changing your target retirement date.
- access all the Scheme's current literature including the Membership Handbook, Guide to Additional Retirement Savings, "Life" newsletters, etc, and download all the forms you may need during your membership such as Change of Investments, Expression of Wish, Election to Opt Out, etc.

The value of investment funds can go down as well as up; returns cannot be guaranteed, and it is important to remember that past performance is not necessarily a guide to future performance. Which investment fund(s) are the right ones for you depends upon your individual circumstances, and under the Financial Services & Markets Act 2000, neither the Company nor the Trustee board are authorised to give you specific advice on which options you should select. Consequently, before making your investment decisions you may wish to seek independent financial advice. You can find an adviser in your area by visiting the IFA Promotions website: www.unbiased.co.uk.

Update on HMRC Allowances

The **Lifetime Allowance** is a limit imposed by HM Revenue & Customs on the total size of your pension "pot" earned from all sources over your working life. This includes the value of your Novartis Scheme benefits, benefits from any previous employers' schemes, AVCs and any personal pension arrangements, but excludes your State pension entitlement. The Allowance increases annually in line with inflation and **from 6 April 2021 will be £1,078,900.** If your "pot" at retirement exceeds the Allowance, the excess will incur tax charges.

The amount of annual pension savings you can make (including both your and the Company's contributions) that benefit from tax relief is limited by the **Annual Allowance.** This Allowance is currently 100% of your earnings or £40,000, whichever amount is the lower, and any pension savings you make above this give rise to a tax charge.

Higher earning individuals with taxable income plus pension savings of over £240,000 pa. (2021/22) have a **"Tapered Annual Allowance".** Essentially this means that for every £2 your income goes over £240,000, the Annual Allowance limiting the amount of pension savings you can make that year which benefits from tax relief is reduced by £1, from £40,000 down to a minimum of £4,000.

A further restriction called the **Money Purchase Annual Allowance** applies to members who take a one-off cash sum from their DC pension "pot" or transfer it to an income drawdown arrangement. If you continue to make contributions to the Scheme (or any other DC pension arrangement) after doing so, the amount on which you can receive tax relief will be subject to this Allowance, which is currently £4,000 pa.

You can obtain further information about these Allowances at: **www.gov.uk/tax-on-your-private-pension** or by contacting the Scheme's administrators. You may also wish to seek regulated financial advice.

Final Salary section

Investment report

The Scheme’s assets are invested through professional investment managers, and - even though members are no longer paying contributions to or accruing benefits in the Final Salary section of the Scheme - it remains just as important as ever that strong investment performance is achieved. Here we report on the investment climate which prevailed during 2019, the strategy followed by the Scheme, and the performance which resulted.

Climate

After a less buoyant year in 2018, 2019 saw most of the world’s major equity investment markets return to positive territory.

The FTSE All-Share Index in the UK, for instance, rose by 15.6%. The North American equity market as measured by the Dow Jones Industrial Average produced a return of just over 24%. A typical European index, the Dax in Germany, increased by more than 26%. And in the Far East, the Japanese Nikkei index grew by over 18%.

The property markets performed creditably, and the bond markets also produced positive results: the S&P UK Investment Grade Corporate Bond Index had a return of around 11% over the year, while the S&P UK Gilt Bond Index gained just under 7%.

Strategy

The Trustee Board took the decision to materially reduce the Scheme’s risk profile during the year. To this end the Scheme’s holdings in UK property managed by Columbia Threadneedle were sold; the proportion of the Scheme’s assets invested in equities was reduced from 22.5% to 5%; and the target allocation to the Liability Driven Investment (LDI) mandate managed by Schroders Investment Management was increased from 25% to 52%. As a result of these changes being implemented the Scheme’s assets were invested as follows at the end of 2019, and the Trustee Board is continuing to make similar risk-reducing strategy alterations in 2020:

- 24.6% of the assets were managed by **Legal & General,** in “index-tracking” equity funds and in “actively managed” corporate bonds.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value property, comprising another 9.2% of the assets.
- A further 47.2% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management.**
- 19% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management.**

The target breakdown of the overall portfolio between asset types at the end of the year was as follows (31 December 2018 figures in brackets):

UK Equities	**0.4%** (1.7%)
Overseas Equities	**4.6%** (20.8%)
Corporate Bonds	**35.0%** (35.0%)
Property	**8.0%** (13.5%)
LDI mandate	**52.0%** (25.0%)
Cash	**0.0%** (4.0%)

Performance

The Trustee board monitor the performance of our investment managers closely, and assess it by reference to pre-set “benchmarks” based on the market trends described above. The following results were delivered, and they indicate that the Scheme slightly exceeded its overall investment performance target:

	2019		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	23.9%	23.8%	10.5%	10.4%
Legal & General - Corporate bonds	9.3%	10.7%	n/a	n/a
Aviva (HLV Property)	5.9%	7.0%	7.6%	7.3%
Schroder	5.4%	5.4%	4.7%	4.6%
Royal London	9.3%	9.7%	3.9%	4.0%
TOTAL SCHEME	6.8%	7.0%	5.2%	4.9%

Your Pensions Team

Your Trustee board

The Scheme's Trustee is Novartis UK Pension Scheme Trustees Limited and the members of the Trustee board are Directors of this company. Richard Farrar is Secretary to the Trustee board. The Trustee board met formally four times during the year, and during 2019 was unchanged from the previous year and was:

Company-nominated	Member-nominated
Philip Lowndes (Chairman)	Russell Cory
Richard Jarvis	Graham Dumbleton
Shaun Loughran	
Erica Cassin	

Erica Cassin resigned as a Trustee on 31 December 2019 on leaving the Company, having been a Trustee since 2012. We would like thank her for her hard work and commitment to the Scheme over such a long period, and wish her every success and happiness in the future. After the year end, and as reported on page 1, we learnt of the unfortunate death of Shaun Loughran. Erica and Shaun have now been replaced as Trustees, effective 1 August 2020, by Richard Brazier and Julie Campbell.

All Defined Contribution pension schemes now have to comply with some stringent quality and governance standards, and a requirement in this area introduced in 2015 was that the Chairman of the Trustee board must produce and make available to members an annual Statement regarding DC Governance. This should cover aspects like Trustee knowledge and understanding, requirements for processing financial transactions, the Scheme's default investment arrangement, and charges and transaction costs. Our Statement for the year ended 31 December 2019 is included in the Scheme's formal Annual Report & Accounts, a copy of which you can obtain if you wish by contacting the Secretary to the Trustee Board at rfarrarwork@outlook.com.

Professional Advisers

The Trustee board have overall responsibility for running the Scheme. However, they delegate some of the more specialised tasks to external professional advisers, whose performance they monitor closely. Our advisers at the end of 2019 were unchanged from the previous year, apart from the departure of Columbia Threadneedle from our roster of investment managers as reported on page 6, and were as follows:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Paymaster
Investment Managers	Legal & General Investment Management
	Aviva Fund Management
	Royal London Asset Management
	Schroder Investment Management
Investment Advisers	Mercer
Investment Custodians	HSBC Global Investor Services
Auditors	Deloitte
Solicitors	DLA Piper UK
AVC Providers	Equitable Life, Phoenix Life, Standard Life
Bankers	Lloyds

Newsdesk

Your State Pension

If you reached State Pension Age before 6 April 2016...

If you reached State Pension Age before 6 April 2016 then, in addition to your Novartis pension, you will normally be receiving the **State Basic Pension** as well in your retirement. The full rates (effective 6 April 2021) at which the State Basic Pension will be paid, if you made the required amount of National Insurance contributions during your working life, are £7,157.80 per year (£137.65 per week) for a single person and £11,445.20 per year (£220.10 per week) for a married couple.

You may also be receiving the **State Second Pension (S2P),** which is an earnings-related pension on top of the State Basic Pension - it was previously called the State Earnings-Related Pension (SERPS). This will depend on how many years during your working life you were “contracted-in” to S2P/SERPS (which you were if you were a member of the Novartis Scheme’s DC section). If you were a member of the Scheme’s Final Salary (DB) section you were “contracted-out” of S2P/SERPS, and you will not be receiving a S2P/SERPS pension for that period.

If you’ve not yet reached State Pension Age (or you’ve reached it since 6 April 2016)...

Both the State Basic Pension and S2P were abolished with effect from 6 April 2016. Everyone reaching State Pension Age after that date will instead receive a **universal, single-tier State pension.** The full amount of this will be £179.60 per week (£9,339.20 per year) in 2021/22; the actual amount you receive, though, will depend on your National Insurance contribution record, and if you were contracted-out of S2P/SERPS as a member of the Novartis Scheme DB section (therefore paying lower National Insurance contributions during that period), you will probably receive less than that full amount.

You can obtain an online forecast of how much State Pension you are likely to receive at: **www.gov.uk/check-state-pension.** You can find more information about the new State pension generally at: **www.gov.uk/new-state-pension**

Benefits from the State Pension Scheme are payable from your State Pension Age, which will depend on when you were born; generally it will be between 65 and 68. You can find out your exact State Pension Age under current law at: **www.gov.uk/state-pension-age**

Your annual pension increase...

Whatever State Pension you receive, the amount of it is currently increased annually (under the government’s “triple lock”) in line with either that year’s growth in average earnings, the rise in the Consumer Prices Index, or 2.5% (whichever is the highest).

Don’t let a pension scam ruin your retirement!

The new pension freedoms which came into effect in April 2015 seem to have acted as a magnet for a whole host of clever, manipulative fraudsters, eager to get their hands on company pension scheme members’ newly-flexible pension pots. Their aim is to persuade you to take advantage, by transferring your “pot” out of the Novartis Scheme and into theirs, of the “opportunity” to release a large cash sum, or to achieve “guaranteed” high investment returns. What the scammers won’t tell you, of course, is that if you do this, you risk losing all your money and the security you’ve saved for throughout your working life, **and** you could face a huge tax bill as well.

To try and combat this rapidly-growing problem, the Pensions Regulator has a very useful website: **www.pension-scams.com**

The website features several very useful tips to protect yourself from scammers. These include being wary of cold calls (although in theory these are now illegal), unsolicited texts or emails and professional-looking websites and brochures; steering clear of unregulated (often overseas) investment “deals”; checking that an “adviser” is properly registered with the Financial Conduct Authority (FCA); and never being pressured or rushed into making important decisions without doing your homework and checking everything for yourself. **We urge all active members of the Novartis Scheme to have a look at this website.**

As another useful resource, the Metropolitan Police have produced a guide on fraud prevention. “The Little Book of Big Scams” explains some of the most common scams in existence, ranging from the simple to the sophisticated, providing essential advice to help us all protect ourselves. This online booklet includes sections on identity fraud, banking fraud, scam mail, door-to-door scams and internet scams. It contains a number of helpful hints and also gives details on where to go to get help and how to report fraud if you do become a victim. You can access it at: **www.met.police.uk/SysSiteAssets/media/downloads/central/advice/fraud/met/the-little-book-of-big-scams.pdf**

If you have a query about your membership, you should in the first instance contact the Scheme’s administrators: **Novartis UK Pension Administrators,** Equiniti Paymaster, Sutherland House, Russell Way, Crawley, West Sussex, RH10 1UH. Helpline: **01293 603047** Email: **novartis@equiniti.com**

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