


Drax Power Group
of the Electricity Supply Pension Scheme



Your guide

January 2013



The Drax Power Group of the Electricity Supply Pension Scheme ('ESPS') is a valuable benefit for both you and your family, giving you the opportunity to save – with Drax's help – towards a good income in retirement.

This guide aims to outline as clearly as possible how the Group works, and to give you the information you need to understand the benefits you will receive when you retire.

Broadly speaking, most of the benefits in this guide apply to all of you. However, some of the benefits do vary for different members – it normally depends on when you joined the ESPS (whether this was with Drax, or with another Group of the ESPS before joining Drax). When this is the case, the booklet aims to make it obvious:

If you joined before 1 April 1988, you are a 'pre-88 member' – look out for these panels, which include benefits that apply particularly to you.

If you joined on or after 1 April 1997, you are a 'post-97 member' – look out for these panels, which include benefits that apply particularly to you.

Please bear in mind that the guide is a summary, and cannot cover every last detail about the Group that you would find in its official Rules. As a result, if any difference comes to light between the two, the Rules would over-ride the contents of this booklet.

If you have any questions about the Group or your benefits, please get in touch, using the contact details on page 18.

At a glance

- When you retire, you receive a pension, paid monthly for life, and a cash sum, based on your salary near to retirement and the length of time you have been in the Group.
- You can retire early or late and receive the pension and cash sum benefits, adjusted to allow for whether you are receiving them before or after your expected retirement age.
- If you become too ill to work, you can receive a cash sum and ill-health pension immediately.
- Protection benefits are payable to your dependants following your death. These normally include pensions to your partner and children (if any), and if you die before retiring, a cash sum will always be payable.
- You pay a fixed contribution into the Group each month – although you can add to your benefits by paying more if you want to. Tax relief applies to your contributions so your take-home pay goes down by less than the amount being paid into the Group.
- Drax pays whatever is needed above the members' contributions to make sure the Group is able to pay all the benefits due, and meet its running costs.

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Special terms

Here are some brief explanations for some of the technical terms you will see throughout the guide.

Actuary

An expert who specialises in forecasting how finances may behave into the future. One of the Group actuary's key tasks is to carry out the valuation – they estimate how well the Group is funded by comparing the assets it is likely to build up with the benefits and costs it is expected to pay out.

Beneficiary

Someone you have named to receive benefits from the Group following your death. Your beneficiaries are likely to include a partner or children (if any), but can also include any person – or organisation, such as a favourite charity – you decide to nominate.

Dependant

Someone who relies to some extent on your income. So, your partner and children are considered dependants, but you may have others. The Group Trustees may consider paying benefits following your death to other dependants if you do not leave a partner or family.

ESPS

The Electricity Supply Pension Scheme

Group

The Drax Power Group, a pension scheme which forms part of the ESPS.

Group service

Broadly speaking, the length of time you have been a member of the Group. However, your Group service can also include:

- any service credit you receive if you transfer in benefits from another Group, or a different arrangement outside the ESPS; or
- any added years you have built up from paying extra contributions.

Normal pension age

The age your pension is expected to start. This is 63 for anyone joining on or after 1 April 1988 (and 60 for members who joined before that date).

If you stop work before normal pension age, it counts as early retirement and some or all of your benefits may be reduced to allow for the likelihood you will receive them for longer.

Partner

Your husband or wife, or civil partner, or (if the Group Trustees agree) a long-term partner of either sex who lives with you and relies on your joint income.

Pensionable salary

The salary figure used for working out your benefits. Your pensionable salary is normally your earnings over the 12 months before you retire, leave or die (not including any one-off payments).

However, if either of the following two figures works out to be higher, it will be used as your pensionable salary instead of the above amount:

- The highest of your pensionable salaries in the five years before you retire, leave or die – allowing for increases in line with inflation on the figures for the years before the most recent year.
- The highest average of your pensionable salary over any three years running in the ten years before you retire, leave or die (again, allowing for inflation increases on the salary figures for the first nine years).

Please note that the 'permitted maximum' limit (see top right) applies to your pensionable salary – however it is worked out – if you joined the Group after 31 May 1989.

Permitted maximum

If you joined the Group after 31 May 1989, this limit applies to the yearly salary that can count towards your contributions and benefits. For the 2012/2013 tax year, it is £137,400.

Protected person

Broadly, this means a member of the ESPS since 31 March 1990 without a break in pensionable service, and working in England and Wales throughout.

The Group is now generally closed to new members, but will admit protected persons.

Service credit

The number of years (and part-years) added to your Group service if you transfer in benefits from another Group of the ESPS (when it is sometimes called a 'scheme service credit') or from another pension scheme outside the industry (called a 'back service credit').

State pension age

The age your State pension starts. State pension ages are currently under review by the Government and, depending on dates of birth, people may have significantly different State pension ages. You can work out your State pension age on the special calculator on the Government's 'GOV.UK' website (see page 18).

It is important to bear in mind that your State pension age may not be the same as your normal pension age. So, the retirement benefits you receive from different sources may not start at the same time.

Membership

Joining from another Group

The Group has been generally closed to new members since 1 January 2002.

However, you may still be able to join if you are a protected person – that is, you have been a member of the ESPS since 31 March 1990 without a break in pensionable service, and working in England and Wales throughout.

If this applies to you and you are interested in joining the Group, please contact HR (see page 18).

Transfers in

If you have left any benefits in a pension scheme you belonged to before joining Drax, you may be able to transfer those benefits into the Group so they can be added to those you are currently building up.

The administrators of your former scheme work out a transfer value – the estimated value of your benefits – and pay that amount to the Group. You then receive a credit of extra Group service, based on the transfer value.

(It is common for the service credit to be a different period of years and days to your service in the old scheme,

because the schemes are likely to offer different levels of benefit – the transfer value takes account of this.)

If you are joining the Group as a protected person, you have three months to arrange a transfer of the ESPS benefits you have already built up. There is space for you to do this on your joining form. (If you have already joined our Group from another ESPS Group, you would have received details of your service credit at the time.)

If you want to transfer benefits from a scheme outside the ESPS, there is no time limit. Just contact HR for details.

Contributions

What you pay

Your contribution is 6% of your pay (not including overtime or any other one-off amounts).

However, tax relief applies to your contributions, so the actual cost to you is lower.

For example:

- If you earn £30,000 a year, that works out to £2,500 a month.
- You pay 6% contributions, that is 6% of £2,500 = £150 a month.
- You pay basic rate tax of 20%. So tax relief of 20% applies to your contributions.
- The impact on your take-home pay is £150 less 20% = £120.

Please note that if you joined after 31 May 1989, an upper limit applies to the pay figure used to work out your contributions and benefits. This is called the 'permitted maximum' – for 2012/2013, it is £137,400 a year.

Salary sacrifice (PensionPlus)

Your contributions to the Group can be paid through 'salary sacrifice'. This is a way of paying pension contributions that allows both you and Drax to make further tax savings. Drax pays your contribution amount directly into the Group (along with its own contribution), before it becomes part of your pay. You, in turn, give up the same amount of salary (this is all the term 'sacrifice' means – you do not actually lose any salary). As a result, your take-home pay is slightly higher than it would be otherwise, because you only pay National Insurance on the salary you actually receive.

Salary sacrifice has no effect on your benefits – only on how your contributions are paid into the Group. Whenever your salary amount is used to work out your benefits, or if you need a salary quotation (when arranging a loan or mortgage, for example), it will be your higher salary figure before the salary sacrifice reduction.

What Drax pays

Member contributions would not be nearly enough in themselves to pay for all the benefits the Group provides.

Drax pays whatever amount is needed on top of your contributions (and the income from the Group's investments) to make sure the Group can pay all the benefits due and meet its running costs.



Adding to your benefits

If you would like to add to your Group benefits, you can make extra contributions above the 6% rate, as long as your total contributions to the Group do not go over 15% of your taxable pay. Tax relief applies to extra contributions as well as your standard contributions (see page 5).

There are two ways you can use these contributions.

Added years

Your pension is partly based on your length of Group service. With the Group Trustees' agreement, you can choose to buy more Group service – 'added years' – with your extra contributions.

The amount you pay each month towards the number of added years you want depends, among other things, on the age you start to buy added years.

Additional voluntary contributions ('AVCs')

Instead of adding years to your service, you can choose to pay AVCs into a separate account. You choose how to invest this account from a range of funds, and then use the money you have built up in it towards extra benefits at retirement.

You will normally be able to take some or all of your AVC account as a tax-free cash sum, use it to buy extra pension, or a mix of both.

If you are interested in either added years or AVCs, please contact HR for a leaflet with all the information you need.

If you are a 'pre-88' member, you may also want to pay extra contributions to top up your cash sum if it would be reduced otherwise – see page 7 for more details.

Retiring

Retiring at normal pension age

Your normal pension age – when your Group pension becomes payable – is 63.

If you are a 'pre-88' member, please note that your normal pension age is 60.

At retirement, you will receive a pension and a cash sum.

Pension

Your pension will be 1/80 of your pensionable salary for each year of Group service (up to a limit of 40 years).

Your Group service will include any service credits you have from transferring in benefits, as well as any added years you have bought with extra contributions. If your Group service is not a whole number of years, it is rounded up to the next complete year, and the contributions you would have paid in those extra months are taken from your benefits.

Cash sum

You will also receive a cash sum of three times your yearly pension amount. Currently, this sum is tax-free.

For example:

- You retire with a pensionable salary of £40,000 with 20 years' Group service.
- Your pension is $1/80 \times £40,000 \times 20 = £10,000$ a year.
- Your cash sum is $3 \times £10,000 = £30,000$.

If you are a 'pre-88' member:

Cash sum reduction

You may be paying a lower contribution rate than 6% (or have paid a lower rate in the past), which means you may receive a lower cash sum when you retire. Your benefit statement will say if this applies to you. You can choose to pay extra contributions to top up your cash sum – contact HR for more details.

Equal benefits rule

'Equalisation' rules took effect from 17 May 1990, meaning that from that date, pension benefits for men and women had to be treated in the same way.

As a result, if you are a man and you retire before age 63, the benefits you built up before 17 May 1990 will be reduced to allow for the number of years you draw that pension early. So, if you retire at your normal retirement age of 60, you will receive:

- the pension based on your Group service before 17 May 1990, reduced to allow for three years' early payment; and
- the pension based on your Group service from 17 May 1990 onwards in full.

Please note that any benefit payable to your partner following your death would be based on your full pension, as if none of it had been reduced.

Retiring early

You can generally retire early from age 55 onwards. Your pension would be worked out in the same way, using your pensionable salary and Group service at the date you retire. However, in most cases, your pension amount would then be reduced to allow for its early payment – it depends on the circumstances.

If you retire at Drax's request, or due to redundancy, your pension will not be reduced, as long as you joined the Group before 1 April 1997.

If you are a 'post-97' member, these benefits may be reduced for early payment.

Otherwise, If you retire early (in good health) with Drax's agreement, you will receive a pension and cash sum, reduced for early payment.

If you want to retire early but you do not have Drax's agreement, the Group Trustees may still agree to your retirement. You will be able to take a reduced pension, but the reduction is likely to be more than if you had retired with agreement from Drax. (Please also note that if you joined the Group before 6 April 2006 and retire in these circumstances, you can receive your benefits from age 50 onwards.)

Your cash sum will then be three times the amount of yearly pension you actually receive.

If you are a 'pre-88' member, bear in mind that the reductions for early payment apply on top of those shown above (the cash sum and equal benefits reductions).

Special rules apply if you have to retire early due to ill health – see page 9.

Retiring late

If you stay at work past age 63, you will normally carry on paying contributions to the Group.

Your pension would then be based on your pensionable salary and Group service – including service credits and added years, as usual – at the date you actually retire. However, your Group service is limited to 40 years at age 63, and 45 years overall.

Your cash sum will then be three times the amount of yearly pension you actually receive.

If you are a 'pre-88' member, your normal contributions stop when you reach age 60. You can carry on paying AVCs if you want to.

Your 40-year service limit also applies at age 60, rather than 63.

Any cash sum and equal benefits reductions will still apply (see page 7).

Other options

When you retire, you have the option to change how your benefits are split between pension and cash sum. In other words, you can give up some of your yearly pension and receive a higher cash sum – or take a lower cash sum in return for a higher pension.

You can also give up part of your pension at retirement towards extra pension for your partner, or a pension for another dependant, after you die.

If you are interested in any of these options, please contact HR.

Phased retirement

This option allows you to take your Group benefits, and carry on working (perhaps part time). If Drax agrees, you can take your pension and cash sum immediately (they would be reduced for early payment). Then, as you will remain a Drax employee, you can join the defined contribution scheme if you want to build up further retirement benefits.

Please bear in mind that if you go part-time, you also have the options of 'freezing' the pension you have built up and starting a new period of Group service, or paying your 'old' rate of contributions to keep your benefits at the same level. See the 'Your personal situation' section for more details.

Paying pensions

As you near retirement, you will need to give the administration team details of the bank or building society account you want to receive your pension and cash sum. Your pension will be paid into the account monthly, in advance.

Pension increases

Your pension will receive a yearly increase in line with inflation, as measured on the Retail Prices Index, or 'RPI'. Drax may decide to limit the increase to 5% in any year when the inflation rate is higher than that.

If you were in the Group before 6 April 1997, part of your pension will be made up of Guaranteed Minimum Pension, or 'GMP', which receives different increases once you reach age 65 (for men) or age 60 (for women). The GMP is the minimum amount of pension you must receive for being 'contracted out' of the second level of State pension between 6 April 1978 and 5 April 1997. (We explain contracting out in more detail on page 15.)

The increases on your GMP are different, as they are paid partly by the Group and partly by the State. The Group does not pay any increases on the GMP part of your pension built up before 6 April 1988. Increases are given on any GMP you built up from 6 April 1988 in line with inflation (as measured by the Consumer Prices Index, or 'CPI'), up to 3% a year. Normally the State then tops up the increase on all of your GMP to the full level of CPI inflation, through an increase to your State pension.

Protection

Ill-health benefits

If you have to stop work due to ill health or disability, you will qualify for a pension and cash sum immediately, as long as:

- you have at least five years' Group service; and
- the Medical Adviser to the Scheme confirms you are permanently unable to carry out any role Drax would reasonably assign to you.

(Please note that you may receive an ill-health pension after less than five years' Group service if your condition or disability was caused by your job.)

Your pension will be worked out in the same way as shown on page 7, using:

- your pensionable salary at the date you stop work; and
- the total number of years' Group service you could have built up if you had worked to age 63 (up to a limit of 40 years).

Your cash sum will be three times your yearly ill-health pension.

For example:

- You retire through ill health at age 48 with a pensionable salary of £30,000 after 13 years' Group service.
- You could have built up 15 more years' Group service to age 63, making a total of 28 years.
- Your pension is $\frac{1}{80} \times £30,000 \times 28 = £10,500$ a year.
- Your cash sum is $3 \times £10,500 = £31,500$.

The same options for normal retirement pensions (see 'Other options' on page 9) are available to you for ill-health benefits. If your condition is very serious, you may be able to take all of your benefits as a cash sum (the Group's actuary would work out the value of your pension benefits as a single payment).

If you are a 'pre-88' member, the pension is worked out using the Group service you could have built up at age 65, rather than 63.

Any cash sum reduction (see page 7) will still apply.

Recovery

The Group Trustees may keep track of your health, employment and earnings after you stop work, until you reach your normal retirement age, and can ask you to have a medical if necessary. You may have to fill in an update form from time to time about your state of health, and whether or not you have taken on any other form of employment.

If your health significantly improves over time, the Group Trustees may decide to reduce or stop your ill-health pension. If this happens, you will still receive a pension and cash sum from normal retirement age but they may be scaled down to allow for the benefits you have already received.

Death before retiring

If you die while you are still in Group service, the following benefits will be payable.

Pension

Your partner will receive a pension of 56% of the pension you would have received if you had retired due to ill health on the date you died. (In other words, it is based on your pensionable salary at that date, and takes into account the Group service you could have built up into the future.)

If you are a 'pre-88' member who joined before 1 April 1978, the partner's pension may be lower if you opted to pay lower member contributions and, in return, did not build up a right to a dependant's pension.

Cash sums

If you have a partner at the time you die, they will automatically receive a cash sum equal to your pensionable salary at your date of death.

A further cash sum is payable of either three times your pensionable salary, if you leave a partner, or four times pensionable salary if not. There are special rules for who might receive this benefit – see page 10.

(This second cash sum may be higher for members 55 and over who die after more than five years' Group service – the exact amount depends on their age.)

If you are a 'pre-88' member, any cash sum reduction (see page 7) will still apply.

- If we take the member from our previous example and assume they died at age 48 with a pensionable salary of £30,000 after 13 years' Group service.
- Their ill-health pension was £10,500 a year.
- Their partner would receive a pension of 56% of £10,500 = £5,880 a year.
- They would also receive a cash sum of £30,000 (equal to the member's pensionable salary).
- The additional cash sum payable would be $3 \times £30,000 = £90,000$.

Death after retiring

Pension

Your partner will receive a pension of 56% of the pension you were receiving on the date you died.

(The partner's pension is worked out ignoring any options you may have taken at the time that changed your yearly pension amount – see 'Other options' on page 8.)

Cash sums

If you die within five years of retiring (in good health), a cash sum is payable equal to the remaining full pension you would have gone on to receive for the rest of the five-year period.

If you die after retiring early due to ill health, a cash sum is payable equal to the amount that would have been paid if you had died in service on the day you retired – less the benefits you have already received, that is:

- the cash sum you received at the time; and
- your pension payments since (not including any yearly increases).

Different rules apply, however, if you joined the Group on or after 1 October 1991, retire due to ill health, then die **after** reaching your normal pension age of 63. In this case, the cash sum payable is the same as if you had retired in good health. It will be paid only if you die within 5 years of retiring, and it will only take account of your **actual** Group service – not the extra years you could have built up to normal pension age.

Children's pensions

Pensions are payable to your children after you die, until they reach age 18 (or 23 if still in full-time education). Children can also mean step-children, adopted children or any child the Group Trustees consider is in your care.

Disabled children may receive pensions after age 18 if the Medical Adviser to the Scheme considers that they rely on your income.

The child's pension would be at least 25% of the partner's pension.

If there is no surviving partner, the child's pension would be at least 37.5% of the pension a partner would have received.

The total amount payable to your children cannot be more than four children's pensions added together. So, if you leave more than four children, the Group Trustees will decide how to divide the overall amount between them.

Your wishes

The Group Trustees have the final decision over who receives any cash sum benefits payable after your death (apart from the payment equal to your pensionable salary which always goes to your partner if you die in service).

In this way, the cash sum does not become part of your estate, and whoever receives it will not have to pay inheritance tax on it.

With this in mind, please send the administration team a 'letter of expressed wishes'. This letter should include:

- who you would like to receive any cash sum benefits following your death; and
- if you are naming more than one beneficiary, how you would like the cash amount spread between them.

The Group Trustees do not have to follow your wishes by law, but they will take them into account. Your letter could speed up their decision considerably and reduce any delay or distress for your family.

Please bear in mind that if your personal situation changes – for example, you start or end a marriage or civil partnership, or become a parent – it may affect the names in your letter. If you want to update your letter, just send the administration team a new one and it will replace the old version.

Please note that if you joined the Group before 1 September 1986, the Group Trustees do not automatically have the right to pay cash sums in this way. So, it is important that you actively give them this right by sending in a 'letter of expressed wishes' (this is also called a 'Rule 22' form) – otherwise, the payments will go to your estate and inheritance tax will apply.

Leaving

Benefits

If you leave the Group before retiring, your benefits are 'frozen' at the date you leave. Your pension will be worked out in the normal way (see page 7) at the time, using your pensionable salary and the Group service you have built up to that date.

This pension amount will then receive increases each year in the same way as pensions already in payment, to help protect it against rising prices.

You then receive your increased pension – along with a cash sum of three times that yearly pension amount – at normal retirement age.

If you are a 'pre-88' member, you can delay receiving your benefits until age 63 at the latest if you want to. As your normal pension age is 60, the benefits would be increased to allow for the number of years' late payment.

If you are a man, delaying your pension in this way will also mean the equal benefits reduction is smaller. This works on a sliding scale, so if you wait until 63 to draw your pension, the reduction will not apply.

Drawing pension early

You can take your 'frozen' benefits before normal retirement age if you want to, as long as you give two months' notice before you want to receive them.

The same rules apply as if you were retiring early from Group service:

- if you joined on or after 6 April 2006, you can receive your pension from age 55; or
- if you joined before 6 April 2006, you keep the right to receive your pension from age 50.

Your pension would be reduced to reflect the number of years you receive it ahead of your normal retirement age.

If you stop work in the future due to ill health, you may be able to receive your Group pension and cash sum immediately, without reduction for early payment, if the Medical Adviser to the Scheme agrees. You should contact the administration team if this applies to you.

If you leave the Group because of redundancy or reorganisation within Drax, you will receive your pension and cash sum at age 50, with no reduction for early payment, unless you ask to 'freeze' your benefits instead (with Drax's agreement).

If you are a 'post-97' member in this situation, you will receive your pension and cash sum at age 55, reduced for early payment, if you agree. If you decide not to receive the benefits immediately, they will become payable in full when you reach your normal pension age.

Death before reaching normal pension age

If you die before you receive your benefits, your partner will receive a pension of 56% of your pension at the date you died – that is, your 'frozen' pension plus the increases it has received up to that point.

If you are a 'pre-88' member who joined before 1 April 1978, the partner's pension may be lower if you opted to pay lower member contributions and, in return, did not build up a right to a dependant's pension.

If you left the Group after 17 May 1990 and die before reaching age 60, the partner's pension will be worked out based on the pension you would have received at age 60.

Children's pensions – worked out in the same way as shown on page 10 – will be payable to any of your children born before you left the Group.

The cash sum payable on your death would be 8 times your pension at the date you died – again, including the increases your 'frozen' pension has received. (This is made up of the standard cash sum of 3 times your pension, plus a further payment of 5 times your pension.)

Remember to let the Group Trustees know who you would like to receive this cash sum (see 'Your wishes' on page 10). This is especially important if you have left Drax as we need to keep your contact details in our records.

Once you start receiving your pension, the benefits payable on death are worked out in the same way as if you died after retiring from Group service (see page 10).

Transfers out

If you join a new pension scheme, you may be able to transfer your Group benefits into it, as long as it can accept the payment.

If you are interested in doing this, let the administration team know. You will then receive a quotation of the 'transfer value' for your Group benefits (transfer values are explained in the 'Transfers in' section on page 5).

You should then contact the administrators of your new scheme and find out the level of benefits the transfer value would buy you. This will help you decide whether to take the transfer, or whether you think you would be better off leaving 'frozen' benefits in the Group.

Pension schemes vary considerably. You will need to compare the increases your 'frozen' pension would receive (see page 11), with the benefits are likely to build up in your new scheme. For example, if you transferred into another final salary scheme, the extra service will count towards benefits based on your salary near retirement rather than at the date you left the Group.

(You may also want to consider taking financial advice about this – see page 19.)

If you choose to take a transfer, you will no longer be entitled to any further benefits from the Group.

You do not have to take a transfer as soon as you leave the Group – you can 'freeze' your benefits and then transfer them at a later date. (For example, the scheme at your next employer may not accept transfers; but you could move to work somewhere after that with a scheme that does.)



Tax and your pension

Tax advantages

Valuable tax advantages apply to a number of Group benefits: tax relief applies to the contributions you pay into the Group (page 5) and any cash sum the Group pays out on your retirement or death is normally paid tax-free.

In return for these concessions, HM Revenue & Customs (HMRC) apply some rules and restrictions to your benefits.

Allowances

At the time of printing, there are two tax 'allowances' in place. If your benefits go over either (or both) of the allowances, you will have to pay a tax charge on the excess.

The allowances are deliberately set at a level that should only affect relatively high earners – most people are unlikely to go over them. However, they apply to all your benefits from all sources apart from the State.

This means that you may be due other benefits from outside the Group that our administration team does not know about, and as a result, it is your responsibility as an individual to keep track of how your benefits compare against the allowances.

Annual allowance

This allowance applies to the increase in the value of your benefits in any one year. It is currently £50,000, although it is expected to fall to £40,000 from April 2014.

Please note that the allowance is not the amount of pension you build up in a year – it is the value of that pension.

Pension schemes can set the 12-month period for measuring benefits against the annual allowance – this is called the 'pension input period'. For the Group, the pension input period runs from 1 October to 30 September. So, the benefits you build up over each year to 30 September should be compared with the annual allowance in force for the tax year when the pension input period ends.

To compare your Group pension against the annual allowance, the steps are broadly as follows:

- Take the total pension you had built up at the start of the year – increased by the rate of inflation – away from the pension you had built up at the end of the year. This amount is the pension you have built up over that year. (If you do not know the rate of inflation, it is not too important – by leaving it out, it will mean you end up allowing a safety margin.)
- Multiply the pension amount by 16.
- Work out the cash sum you have built up over the year as well (by taking 3 times the earlier pension away from 3 times the later pension), and add that to the total.
- Add any AVCs you have paid over the year (you do not need to add any extra you have paid towards added years, as the pension amounts will allow for that).
- Finally, add any contributions you have paid to any pension plans outside the Group – for example, a personal or stakeholder arrangement.

The figure you arrive at after working through those steps, is broadly the amount to compare against the allowance.

You also need to bear in mind the 'carry forward' rule – especially if you think the annual allowance may affect you. This allows you to add any unused allowance from up to three previous years on to the current year.

To give a simple example, if you built up benefits last year worth £32,000, you were still £18,000 under the annual allowance – so you would be able to build up benefits this year worth up to £68,000 (£50,000 plus £18,000).

If your benefits go over your annual allowance figure for any given year, you will pay a tax charge at your highest rate on the excess benefits you have built up. You can pay this charge through your tax return or, if it is over £2,000, you have another option called 'scheme pays'.

'Scheme pays' is an arrangement where the Group pays some or all of this tax charge on your behalf. The Group will then apply a deduction to your benefits of the same value. The Group actuary will work out a fair estimate of the pension the amount of the tax charge would provide, and that figure will be taken away from the full amount you have built up. 'Scheme pays' can be an attractive option as it may still involve some tax advantage (you are effectively paying the charge from your benefits, rather than your salary after tax), and avoids the need to make such a large payment from your salary at the end of the year.

Please note that the Group will only offer scheme pays for your Group pension – not for any benefits you have built up elsewhere.

If you think you might want to use the scheme pays facility, please contact the administration team as soon as possible after the end of the relevant pension input period. In particular, please note that the scheme pays option cannot be used once your pension benefits come into payment.



Lifetime allowance

This allowance applies to the value of your benefits over your whole working life. It is currently £1.5 million, although it is expected to fall to £1.25 million from April 2014. To compare your Group benefits against the lifetime allowance, the steps are broadly as follows:

- Take your total Group pension, and multiply it by 20.
- Add your cash sum.
- Add the value of your AVC account (if any).
- Multiply the value of any other pension you started receiving before April 2006 by 25, and add that to the total.
- Finally, add the value of any other pension arrangements you may have.

The figure you arrive at after working through those steps, is broadly the amount to compare against the £1.5 million allowance. Please note that:

- If you have previously applied for 'protection' against the lifetime allowance, then a figure higher than £1.5 million may apply in your case.

- If you have drawn pension benefits from other schemes since April 2006, they will have used up part of your lifetime allowance.
- Your lifetime allowance may also be affected if you are subject to a pension sharing order after divorcing or dissolving a civil partnership.

To give a simple example, if we only take your Group benefits into account (without considering AVCs or any other benefits), you would need to build up a yearly pension of over £65,000 to reach the allowance:

- Pension: $£65,000 \times 20 = £1,300,000$.
- Cash sum: $£65,000 \times 3 = £195,000$
- Total value of benefits = $£1,495,000$.

Cash sum

HMRC also place an overall limit on the cash sum you can take at retirement of 25% of the overall value of your benefits (or, if lower, 25% of the lifetime allowance).

This includes the cash sum you automatically receive of three times your yearly pension. So, the HMRC limit may restrict, for example:

- your option to give up pension and increase your cash sum;
- the amount of cash you might be able to take from your AVC account (if you have one).

State benefits

State pension

The State pension is currently paid in two parts: the Basic State Pension, which is a flat amount, and the State Second Pension (or 'S2P'), which is currently linked to earnings. (S2P replaced a similar arrangement called 'SERPS' – the State Earnings Related Pension Scheme.)

You will start receiving your State pension when you reach your 'State pension age' (on top of your Group pension and any other benefits you are due to receive).

Remember that your State pension age may not be the same as your normal pension age.

Contracting out

Pension schemes can 'contract out' of S2P. This means that both the members and employer pay lower National Insurance contributions and the member 'gives up' the S2P they would otherwise build up while in the scheme. In return, the scheme must provide benefits as least as good as those the member is giving up from the State scheme.

The Group is contracted out, so this applies to you and your benefits.

Between 6 April 1978 (when contracting out was introduced) and 5 April 1997, the minimum benefit level was the Guaranteed Minimum Pension, or 'GMP'. If you were in Group service between those dates, your pension will include a GMP, which is increased differently from the rest of your pension (see page 8).

GMPs were replaced from 6 April 1997 by the Reference Scheme Test. The 'reference scheme' is a sample set of benefits outlined by the Government. Contracted-out schemes must provide benefits which match or exceed those in the reference scheme for most of their members to pass the test.

The Group has always met all the legal requirements for contracting out.

At the time of going to press, the Government had announced proposals to simplify State pensions from two separate levels into one single flat amount payment. If this goes ahead, there will be no S2P as such, and contracting out is expected to end.



About the Group

Group history

The Electricity Supply Pension Scheme was introduced in 1983 as the single pension scheme available to all workers across the electricity industry. Following privatisation (which took effect from 31 March 1990), the resulting 17 electricity companies were required by law to allow all existing employees to stay in the ESPS.

This meant that each company formed a separate Group within the ESPS where the current members could continue to build up benefits. The companies were allowed to decide individually whether or not to close their Group to new joiners from 31 March 1990. (The Drax Group remained open to new employees until 31 December 2001.)

The Group Trustees

The Group is set up as a trust, and its finances are held separately from Drax, solely for the purpose of paying benefits to Group members and their dependants.

The Group Trustees are responsible for managing the Group in line with its own rules and pensions law, while looking after the best interests of its members. There are six Group Trustees in all – the members elect four of them, while Drax appoints two – and each one normally holds office for four years.

Scheme documents

As well as this guide, you will normally receive:

- a regular newsletter from the Group Trustees;
- a yearly benefit statement showing the pension and cash sum you are building up; and
- a yearly funding update bringing you the latest news on the Group's finances.

You can ask the Group Administrator if you would like to see any of the official Group documents, such as:

- the Group Rules;
- the Group Trustees' statements of investment and funding principles, which outline their approaches to managing the Group's finances;
- the latest valuation report (the valuation is the regular 'healthcheck' on the Group's funding, which takes place at least once every three years); and
- the most recent formal annual report and accounts for the Group.

You can also find copies of these documents on Dataport.

Changing or ending the Group

Drax intends the Group to continue providing benefits into the future. However, it does have the right to make changes to the Group, or close it down completely – this is called 'winding up' – if necessary.

If Drax were to do this, it is required by law to provide the funding needed to pay the benefits members had already built up in full. In an extreme situation – where an employer has to wind up its scheme due to insolvency – the Government's Pension Protection Fund may be able to step in and compensate members for some or all of their benefits.

Your personal situation

Time away from work

Broadly speaking, during any long period of absence, your Group service will continue, and you will carry on paying contributions, based on the salary you are actually receiving.

There are some exceptions to bear in mind:

- If you are on sick leave for more than 24 months running, the Group Trustees will decide if any of the leave beyond those 24 months can count towards your Group service.
- If you go on any kind of unpaid leave for more than 30 days – including maternity, paternity or adoption leave past the point where you still receive pay – your contributions will stop. You will have the chance to make up the 'missing' contributions on your return to work if you want to include the period of unpaid leave in your Group service. Please contact HR shortly before your return if you want to do this.

Working part time

If you work part-time, your Group benefits are worked out using:

- The pensionable salary amount you would have if you worked full time; and
- Your Group service, scaled down to reflect the hours you actually work.

For example:

- You work 18 hours a week (that is, half the 'full-time week') and you are earning £16,000 a year when you retire after 22 years' service.
- Your full-time pensionable salary would be twice £16,000 = £32,000.
- Your scaled-down Group service would be half of 22 years = 11 years.
- So, your pension would be $1/80 \times £32,000 \times 11 = £4,400$ a year.
- Your cash sum is $3 \times £4,400 = £13,200$.

If you change from full-time to part-time hours, you can decide (by letting HR know) whether to:

- freeze your full-time pension and start a new period of Group service from when you go part-time; or
- combine both your full-time and part-time membership into one period of Group service.

You have three months from the date you change your hours to let HR know how you want them to treat your service. (You should contact them in good time if you have any questions about this.)

Please note that if you die while working part-time, the cash sum payable is based on your actual salary – it would not be scaled up to the full-time equivalent.

Change in pay

If your pay goes down due to a change in role or work pattern, you can generally choose to carry on contributing at your current rate of pay, and add to your Group service accordingly. Your pensionable salary would then be 'fixed' using the old pay figure, until your new pay catches up with it at a future date.

You have three months from the date your hours change to let HR know if you would like to do this. (Please see the 'Change in pay' leaflet for more information.)

Your details

Please let HR know about any significant change to your personal details or circumstances – for example, if you marry or divorce, start or end a civil partnership, become a parent or suffer a loss in your immediate family, or move house. (You should send them any relevant birth, marriage or death certificates – they will be returned to you.) Otherwise, it could affect the benefits you or your dependants receive.

HR will let you know what documents they may need when you contact them about any change.

Please note that if you divorce or dissolve a civil partnership, it is especially important to get in touch, as the courts have a number of options for how to treat your pension benefits:

- The benefits you have built up may be 'shared' at the date of divorce (by paying part of their value into a policy for your former partner).
- Part of your pension may be 'earmarked' – which means that it will be split at the time you retire between you and your former partner.
- You may keep your entire pension when you retire, but its value may be taken from another asset being shared or passed to your former partner.

Security

In line with data protection laws, the Group Trustees are allowed to keep certain personal and sensitive information about you on record, as long as it is only used to run the Group and look after your benefits efficiently. This permission extends to others (inside and outside Drax) who need that information for the same purpose – such as HR, Group Administrator and Group Actuary.

Your details will not be used or passed on to other for any other reason. You can ask to see the information held about you at any time.

Finding out more

Getting in touch

HR is your first point of contact if:

- you have any questions about the Group or your benefits in particular;
- you want to see any official Group documents; or
- any of your personal details have changed.

Please contact Karen Gallagher on 01757 612522.

You can also contact the administration team:

RPMI EPAL
West Oak House
Westwood Way
Westwood Business Park
Coventry CV4 8HS

Telephone: 02476 472895

E-mail: enquiries@epal.uk.com

Problems or issues

If you have a problem or complaint, you should contact the Group Administrator (at the Aon Hewitt address above) in the first instance. If they cannot resolve the issue, you can ask them for a complaint form. Fill in the form and return it to the Group Administrator, who will acknowledge receipt within 7 days.

You will receive a written response within two months – or, if there is some delay, a letter explaining why, and telling you when you can expect to receive the response.

If the issue remains, you can ask for the Group Trustees to consider your complaint. The Group Administrator will explain how to do this (if necessary) in their letter to you.

Directory

Here are the details of some organisations and websites, which can provide you with useful information about pensions and retirement benefits.

The Pensions Advisory Service ('TPAS')

TPAS is available at any time to help with queries or problems to do with pensions – including State or personal pensions, as well as your benefits from Drax (or other employers). TPAS do not charge for their assistance.

TPAS,
11 Belgrave Road,
London SW1V 1RB

0845 601 2923

enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman

The Ombudsman has the power to decide on any disputes or issues about pensions. The Ombudsman's office is normally the last port of call for any complaint, and will normally enter the dispute only if the member has tried to resolve the problem first with their scheme administrators and Trustees, and then TPAS.

Pensions Ombudsman,
11 Belgrave Road,
London SW1V 1RB

0207 834 9144

enquiries@pensions-ombudsman.org.uk

GOV.UK

This Government website contains details of all the State benefits and services in one place. There is a link on the homepage to 'Working, jobs and pensions' where you can find details about State pensions (including a calculator to help you find out your State pension age), tax and financial planning.

GOV.UK also includes the Pension Tracing Service. If you have lost the details for an old scheme you belonged to that may be due to pay you benefits, you can use this service to track it down.

www.gov.uk

The Pensions Regulator

The Pensions Regulator oversees the running of pension schemes in the UK. It issues guidance for employers, trustees and advisers about 'best practice' for managing schemes, and can step in if any of them fail in their duties.

The Pensions Regulator,
Napier House,
Trafalgar Place,
Brighton BN1 4DW.

0870 606 3636

www.thepensionsregulator.gov.uk

The Money Advice Service

This is a consumer service offering a wide range of useful information about all aspects of financial planning, including saving for retirement. (Please note, this service provides general guidance but it cannot advise you about your personal finances – see 'Getting advice'.)

www.moneyadvice.service.org.uk

0300 500 5000

Getting advice

The law prevents anyone involved in running the Group – that is, Drax, the Group Trustees, the Group Administrator, or our advisers – from giving you personal advice about your finances.

If you are uncertain about any financial decision you need to take, please consider speaking to an independent financial adviser. Remember to check that any adviser you speak to is properly qualified and authorised, and that they may charge you for the consultation.

The website 'Unbiased' can help you find an adviser in your area:

www.unbiased.co.uk



