

Simply Pensions

**Balfour Beatty Pension Fund
Valuation Special**

Pension terms explained



Actuary

The qualified, independent professional appointed by the Trustee to examine the BBPF's finances and assess its financial health.



Actuarial valuation

An in-depth look at the BBPF's finances, carried out at least every three years.



Assets

The actual amount of money invested and held by the BBPF.



Liabilities

The amount of money estimated to be needed now to provide benefits in the future earned by members to date.



Deficit

The difference between assets and liabilities, if liabilities exceed assets.



Funding level

The ratio of assets to liabilities.



Journey Plan

A long-term funding and investment plan developed by the Trustee and Company with the aim of reducing risk in the BBPF over time.



Annual actuarial report

An approximate update on the BBPF's financial position carried out by the Actuary in between formal actuarial valuations.

A message from the Chairman of the Trustee Board



Welcome to the 2016 Valuation Special newsletter from the Balfour Beatty Pension Fund (BBPF) Trustee Board. This newsletter is designed to help you understand more about the results of the most recent actuarial valuation that was undertaken as at 31 March 2016. Inside, you can find information about the key findings and the steps taken to undertake a valuation.

One of the positive outcomes of the valuation discussions between the Company (Balfour Beatty plc) and Trustee is a reduction of three years in the length of the Journey Plan with the BBPF now aiming to reach self-sufficiency during 2027.

You can read more about the Journey Plan on page 6, and there's an update on some changes we have made to the investment strategy of the BBPF on page 7. On page 9 we have provided answers to some frequently asked questions.

In the back pages there are a few topical updates and a list of documents available to you giving more in depth information about the BBPF's finances and the way the assets are managed by the Trustee.

I hope that you find this newsletter useful.

A. Mathias

Adrian Mathias
Chairman
on behalf of the Trustee Board

Your Trustee Directors

Adrian Mathias, Chairman (Company nominated)
Alistair Wivell (Company nominated)
Paul Raby (Company nominated)
Adam Walker (Company nominated)
Heather Dervin (Member nominated – active members)
Andrew Gilpin (Member nominated – active members)
John Tansey (Member nominated – pensioners)

Membership as at 31 March 2016

DEFINED BENEFIT ACTIVE

17

DEFINED CONTRIBUTION DEFERRED

7,305

DEFINED CONTRIBUTION ACTIVE

5,835

LIFE COVER ONLY

389

DEFINED BENEFIT DEFERRED

12,680

DEFINED BENEFIT PENSIONER

19,065

Actuarial valuation

What is an actuarial valuation and how often does it take place?

Actuarial valuation

A valuation is a complex process, undertaken by an actuary, who is an expert in this field.

Taking place every 3 years, it is an analysis of the financial condition of a pension scheme and provides the Company, the Trustee and the members with key information about how the BBPF is performing financially.

The valuation looks at how much money (assets) the BBPF holds and compares this with the value of benefits (liabilities) built up by members. From this, the Actuary is able to work out the funding surplus or deficit. If there's a deficit, the Trustee must then put into action a plan for eliminating the deficit, often known as a Recovery Plan.

The valuation also aims to:

- Check that the BBPF's funding arrangements meet current legal requirements
- Help the Trustee and the Company agree an appropriate level of contributions that need to be paid into the BBPF.

Actuarial valuation as at 31 March 2016

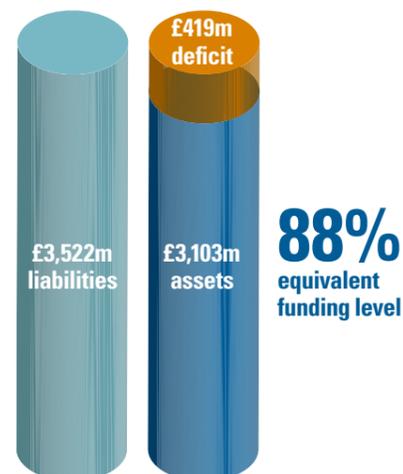
The diagram shown below sets out the results from the latest actuarial valuation. To provide some context, we have also shown the results from the previous actuarial valuation as at 31 March 2013 and from the annual actuarial report as at March 2015.

The BBPF's deficit has fallen to £106 million since the previous actuarial valuation and the overall funding level has risen to 97%.

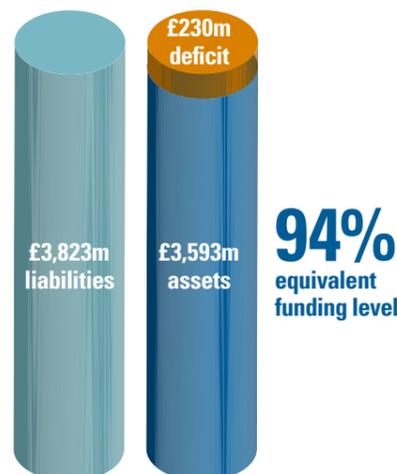
Several factors contributed towards the change in deficit over the period. The most significant of these include:

- Deficit reduction contribution payments made by the Company between 31 March 2013 and 31 March 2016
- Higher than assumed investment returns achieved by the BBPF since the previous valuation
- Updates to the assumptions used when calculating the liabilities to reflect the outlook for future investment returns, price inflation and future life expectancy.

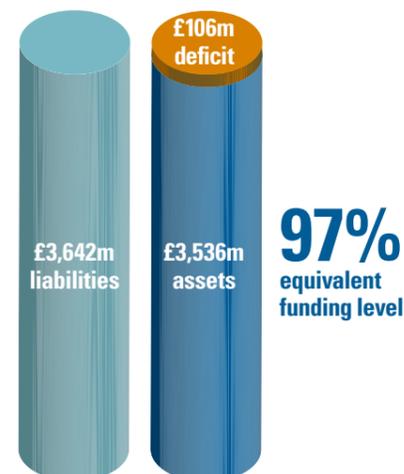
Actuarial valuation as at 31 March 2013



Annual actuarial report as at 31 March 2015



Actuarial valuation as at 31 March 2016



Actuarial valuations: the steps we take

Step one

The Trustee and the Company agree key assumptions, such as future investment returns, inflation and life expectancy. These have to be estimated after taking advice from the Actuary.



Step two

The Actuary uses the assumptions in order to place a value on the BBPF's liabilities.



Step three

The Actuary compares the value of the BBPF's liabilities with its assets to determine the size of any deficit.

Step four

With advice from the Actuary, the Trustee and the Company agree what contributions need to be made to meet the deficit so that the BBPF will have enough money in the future to pay benefits.



Step five

The Trustee sends a copy of the valuation paperwork to the Pensions Regulator.



Our Recovery Plan

The Trustee and the Company have agreed a recovery plan with the aim of removing the BBPF's funding deficit by the end of April 2023.

The recovery plan includes deficit funding contributions from the Company into the BBPF totalling some £134 million until 2023. In addition, the Company has pledged further contributions to the BBPF totalling £48 million, which may be used to provide additional support such as meeting expenses or reducing risk in the BBPF.

As well as these additional contributions, the Company also makes regular contributions to meet the cost of new benefits as they are built up each year.

As part of the actuarial valuation process the Trustee and Company agreed the following:

- The Company has extended its 'negative pledge' over the assets of the Group such that (subject to certain exceptions) it will not mortgage, pledge or grant security over any assets without giving a similar promise to the BBPF.
- The Trustee and Company established a Scottish Limited Partnership ('SLP') arrangement in 2015, which is a vehicle that provides secured funding to the BBPF over time. As part of the valuation discussions, the Company agreed to extend the support it provides to the BBPF through the SLP.
- The Company has agreed to amend the existing dividend sharing mechanism. If the Company returns capital to its shareholders in excess of an agreed level, an acceleration in deficit funding contributions will apply.



The journey plan

At the previous valuation (as at 31 March 2013), the Trustee and the Company established a 'Journey Plan' which sets out how the BBPF aims to move to a lower-risk self-sufficient position over the longer term.

Following discussions around the 2016 valuation, the Trustee and Company reviewed the Journey Plan and agreed changes which have allowed the BBPF to target a self-sufficient position by 2027 (which is three years earlier than under the previous Journey Plan). As explained on the following page, the Trustee is targeting higher investment returns from the BBPF's assets without increasing overall risk which has meant that Company contributions could be contained.

The Pensions Regulator has powers under the 2004 Pensions Act to intervene in the funding of a pension scheme. The Regulator has not applied any of these powers with regard to the BBPF. In particular, the BBPF has not been modified by the Regulator, is not subject to any direction from the Regulator and it is not bound by a schedule of contributions imposed by the Regulator.

Investments

The Trustee regularly reviews how the BBPF's assets are invested and aims to protect the financial position of the BBPF in the best interest of its members.

Investment commentary to 31 March 2016

During the 12 months to 31 March 2016, there was significant divergence in the fortunes of different countries, both in terms of economic performance and market returns. In a number of areas, including the Eurozone, Japan and China, the central banks cut interest rates or took other measures to try and stimulate the economy. In contrast, the US Federal Reserve raised interest rates for the first time in 9 years in an attempt to prevent the economy from growing too quickly.

There were sharp falls in the price of oil and other commodities, which had a significant impact on many emerging market countries. This benefited those countries which purchase commodities and hampered those which supply commodities.

Over the year, US equity markets performed well for UK investors whereas all other regions delivered negative returns. The performance of emerging market equities was hit by the dual forces of weaker commodity prices and a slowdown in China. UK bond markets delivered modest positive returns over the period, with government bonds generally performing better than corporate bonds.

Investment strategy

The 2016 actuarial valuation provided an opportunity to review the financial health of the BBPF and determine how much of the deficit should be reduced by investment returns and how much by contributions from the Company.

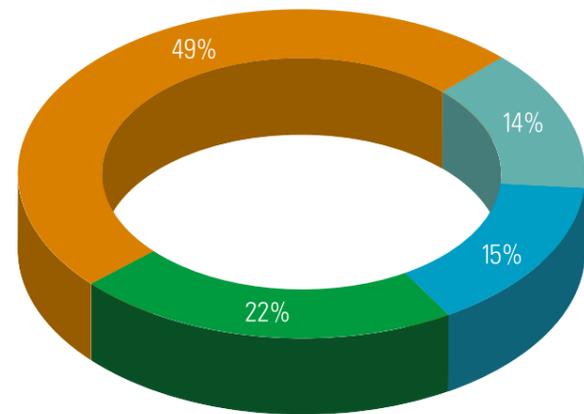
To improve the likelihood of the BBPF meeting its long-term investment objectives, the Trustee and Company have agreed to move to a more efficient portfolio which is expected to deliver a higher return without increasing overall risk. This has involved delegating more responsibility to the investment adviser to provide the support needed to implement the new portfolio. Importantly, the Trustee retains control over the objectives of the portfolio and closely monitors how the portfolio is invested. An update on the new portfolio will be provided in the next newsletter.



How the BBPF is invested

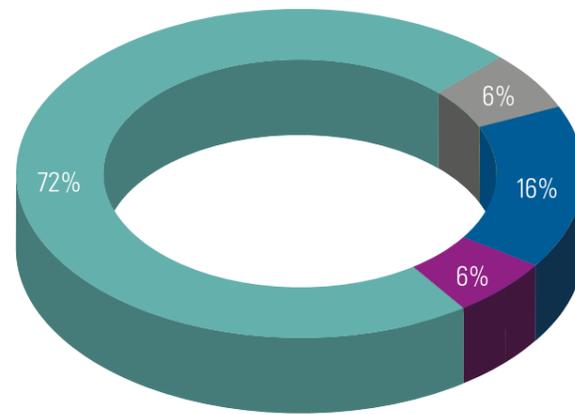
Defined Benefit assets

The pie chart below shows how the Defined Benefit assets of the BBPF were invested on 31 March 2016. The largest proportion was invested in the liability hedging portfolio which helps manage risk by 'matching' the BBPF's pension liabilities. The Trustee's current strategy aims to 'match' 70% of the BBPF's exposure to interest rate risk and inflation risk.



Defined Contribution assets

In the Defined Contribution section, the Trustee provides a range of investment options across various asset classes which aims to meet the needs of all members. The pie chart below shows the total allocation of the members' assets on 31 March 2016, with the majority being invested in equities.



ASSET TYPES EXPLAINED

Alternatives

These are investments whose value is driven by different factors from traditional investments, e.g. hedge funds and reinsurance.

Cash

Cash funds are usually deposit or savings based.

Credit

These are typically bonds issued by public companies. However, it may also include other forms of debt.

Diversified funds

These typically include a range of growth assets including equities, credit and alternatives.

Equities

These are stocks or shares in a company.

Liability hedging portfolio

This portfolio mainly contains UK government bonds, however it also has exposure to other instruments which mimic the broad movement of the BBPF's liabilities.

UK government bonds

These are loans to the UK Government.

Your questions answered

How are the BBPF's finances measured?

The figures on page 4 are produced by an actuary who compares the value of the BBPF's liabilities with its assets. The liabilities are the estimated cost of providing the benefits earned to date by all members.

The assets represent the total value of money available to the BBPF at any point in time to pay the benefits. It includes the money collected from contributing members and the Company. The BBPF's assets are held in a trust fund, completely separate from the Company's assets. The BBPF's assets are invested to provide the benefits that need to be paid out. Where the BBPF has fewer assets than liabilities it is said to have a 'deficit'.

Are my benefits secure?

Because the BBPF has a deficit, the Company is paying additional contributions to remove this deficit over a period of time. This is known as the Recovery Plan, see page 6.

There are regular reviews in place to ensure that the impact of any change in the funding level is recognised and addressed.

The Trustee also reviews the ability of the Company to maintain its contributions by obtaining regular reports from a specialist external adviser. The latest assessment from its adviser is that the Company continues to be able to maintain its support for the BBPF.

What has the Company been doing to reduce the deficit?

Balfour Beatty, like many other companies, has been paying significant additional contributions to the BBPF in order to deal with the deficit. Since the results of the actuarial valuation as at 31 March 2016 were revealed, the Company has put together a funding plan to remove the deficit by 2023 by paying contributions totalling £182 million over that period. You can read more about the contributions paid prior to 31 March 2016 in the BBPF's Annual Report and Financial Statements which is available on request from the Pensions Centre, details on the back page.

The Trustee will continue to monitor the financial position of the BBPF and the next full actuarial valuation is due to be carried out as at 31 March 2019.

Have there been any payments to the Company?

We confirm that since our previous newsletter, no payments have been made from the BBPF to the Company.

What if the BBPF were to be discontinued?

It is a legal requirement that we provide you with an update on the funding position if the BBPF were terminated and wound up. We would like to emphasise there is no plan to do so – this is for information only.

In the event that the BBPF were to be discontinued, the Company would be required to pay enough money to the BBPF so that the Trustee could secure all the members' benefits with an insurance company. Members would no longer be able to contribute to the BBPF or build up further benefits.

As part of the latest valuation, the actuary carried out an approximate, hypothetical assessment of the financial position of the BBPF if it were to be discontinued. If the BBPF had been discontinued at 31 March 2016, the actuary estimated that its assets would have been around 62% of the amount needed to secure benefits with an insurance company. This is a slight improvement since the previous actuarial valuation (as at 31 March 2013) when this figure was around 61%.

If there were insufficient Company assets available to top up the BBPF's assets to 100% then, depending on circumstances, the Trustee would either:

- Run the BBPF as a closed fund
- Use the BBPF's assets to secure as much of the benefits as possible with an insurance company.

Alternatively, the BBPF might enter the Pension Protection Fund (PPF) and members would be provided with PPF benefits. A pension provided by the PPF would be a substantial proportion of your benefits built up in the BBPF, although there may be reductions depending on your age and when your benefits were earned.

You can find out more at www.pensionprotectionfund.org.uk or by writing to: The Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Defined Contribution savings are not covered by the PPF. If the BBPF were discontinued, the Defined Contribution benefits would normally be secured separately, either by transferring them to an insurance company or to another pensions agreement.

News at a glance

Pensions Centre News

During the last 12 months the Pensions Centre has successfully taken on administration of the Parsons Brinckerhoff Section from a third party provider.

This completes the move of the administration of all BBPF benefits to the in-house administration team, reducing costs and improving efficiency.

The Pensions Centre has responded to almost 45,000 individual contacts about members' benefits this year by a combination of post, email or telephone.

The Pensions Centre aims to provide a customer focused, high quality, efficient and cost-effective service. For this reason we prefer to deal with queries by email wherever possible.

If you have a question for the Pensions Centre please use the Pensions Helpdesk contact details on the back page.

Pension payment dates

Please see below for the pension payment dates for the balance of 2016 and 2017.

- 22 December 2016
- 31 January 2017
- 28 February 2017
- 31 March 2017
- 28 April 2017
- 31 May 2017
- 30 June 2017
- 28 July 2017
- 31 August 2017
- 29 September 2017
- 31 October 2017
- 30 November 2017
- December 2017 tbc

Tax changes

The Government introduced changes to tax allowances in April 2016 affecting members whose total UK lifetime pension savings amount to more than £1 million and certain members whose annual earnings are over £110,000. The Pensions Centre has written to everyone with BBPF benefits who we believe may be affected by these changes, but if you have benefits elsewhere and think you may be affected, we recommend that you seek advice from a financial adviser regulated by the Financial Conduct Authority (FCA). Please contact the Pensions Helpdesk if you need any further information about the changes.

New retirement service for our Defined Contribution section members

From April 2015 the Government introduced changes which offer members of Defined Contribution pension arrangements much more flexibility than before when they draw their benefits.

When you reach age 55 (or if you are already over the age of 55) you will have flexible access to your pension benefits. From this age you will normally have an opportunity to take up to 25% of your fund as a tax free cash lump sum and you will have a choice over how to take the rest, which is taxable.

Following the Government's changes we have reviewed the retirement service we offer to members and we have decided to replace the current annuity broker with a more comprehensive retirement service provided by Hargreaves Lansdown.

Hargreaves Lansdown are the UK's number one annuity broker and a market leading low-cost drawdown provider who can help you understand your options and answer any questions you have.

You currently only get one chance to take your retirement benefits from the BBPF so it is vital that you fully understand all the options available. The experienced Retirement Service helpdesk, the well-established annuity broking service and the drawdown provision offered by Hargreaves Lansdown will be able to provide you with everything you need to make your own informed decisions.

You will be able to obtain as many free, no obligation quotes as you like either over the phone, by post or instantly online.

If required, Hargreaves Lansdown will also be able to assist you in setting up your choice of benefits with your chosen provider. At this point they will let you know the cost of this part of the service.

We are hoping to launch the Hargreaves Lansdown service at the end of 2016 and we will automatically provide them with your details approximately 6 months prior to your normal retirement date or earlier if you let us know you are thinking of taking your benefits early. Once your details have been provided to Hargreaves Lansdown they will make contact with you and explain in more detail how the service works.

We feel the Hargreaves Lansdown service will fill a gap in the services provided to members of the BBPF, but please remember that you are under no obligation to use Hargreaves Lansdown and can use an alternative provider if you prefer.

Pension Scams – don't get caught out

With the recent change in pension regulations relating to the use of Defined Contribution pension savings, pension scams are on the rise. If you are yet to draw your pension, be aware of scams that offer you 'early release' of your pension savings. Accessing your pension savings is not usually possible unless you are over 55 (50 in some cases) or qualify for ill health early retirement.

Scams will often involve cold calls, emails, website pop-ups or text messages and may refer to 'legal loopholes'. These scams can include transferring your pension savings overseas and can result in you losing all or most of your retirement savings through early release fines, tax bills and poor performance by risky investments.

Find out more about pension scams and what to watch out for at www.pension-scams.com

New Additional Voluntary Contributions facility

The Trustee is pleased to announce a new tax efficient saving opportunity for active members of the Defined Contribution section.

Members of the BBPF are now able to make additional savings for their retirement with the new payroll deduction facility which was launched on the Oracle R12 payroll from 1 November 2016. These additional savings are called Additional Voluntary Contributions (AVCs) and they provide a tax and NI efficient way of building up extra funds for your retirement. Employee Services have been working closely with the Pensions Centre to put the arrangement in place and all eligible members will have received an announcement from Employee Services with more information.

If you require any more information about AVCs please use the Pensions Helpdesk contact details on the back page. If you would like an AVC contribution form to complete please email Employee Services on employeeservices@balfourbeatty.com

The option to pay AVCs will be extended to the small number of members of the BBPF who are not yet on the Oracle R12 payroll as each remaining payroll migrates.



Contacting the Balfour Beatty Pensions Centre

If you would like to receive this newsletter in large text format, have questions about your benefits in the BBPF or would like an estimate of your benefits, please contact the Pensions Helpdesk by:

📞 **Calling 0151 482 4664**

✉️ **Emailing bbpensionshelpdesk@balfourbeatty.com**

✍️ **Writing to Balfour Beatty Plc Pensions Centre, Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ**

When contacting the Pensions Centre please include your full name and date of birth to help us identify you.

If you'd like to send us feedback on this newsletter, we'd love to hear from you. Send your comments to the Pensions Centre using the contact details above.

Need more information?

There are a number of documents available about the BBPF which you may find of interest:

Statement of Investment Principles:

An explanation of how the Trustee invests the money paid into the BBPF.

Statement of Funding Principles

An explanation of how the Trustee determines the BBPF's liabilities and its strategy for dealing with any deficit.

Recovery Plan

This shows the contributions the Trustee and Company have agreed should be paid to eliminate the BBPF's deficit.

Schedule of Contributions

This shows all of the contributions that are being paid into the BBPF by the Company and active members, and the due dates for these contributions.

Annual BBPF Report and Financial Statements

This shows the BBPF's income and expenditure over the year to 31 March each year.

Report on the latest formal Actuarial Valuation

This contains details of the actuary's check on the BBPF's finances as at 31 March 2016.

To receive a copy of any of the above documents, or if you have any questions, please contact the Pensions Centre.

Need financial advice?

By law, neither the Trustee nor the Company can give you financial advice. If you need more help, you should consider speaking to an FCA regulated financial adviser. You can find details of a local financial adviser at www.moneyadvice.service.org.uk

DATA PROTECTION ACT 1998

The Trustee needs to hold and process personal data about you to administer the BBPF.

The data may be shared with, or transferred to, your employer, future participating employers and third parties (for example insurers, pension scheme administrators and actuaries) providing services relating to BBPF administration and wider matters relating to benefits under the BBPF, and with bodies that are responsible for preventing and detecting fraud.

The way the data is held and processed is regulated by the Data Protection Act 1998, which places certain responsibilities on those who exercise control over the data (known as 'data controllers'). Data controllers include the BBPF Trustee, and, in certain circumstances professional advisers to the BBPF, including the actuary. All parties who receive your personal data must comply with this legislation – every care is taken to ensure it is held securely, and that your rights are protected.