Willis Towers Watson

Yorkshire Building Society Pension Scheme

Actuarial report as at 31 December 2020

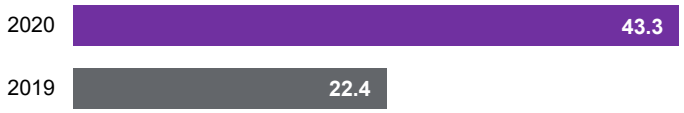
24 August 2021

Summary

The main results of the Scheme's actuarial valuation are as follows:

- Technical provisions funding level as at 31 December 2020 has increased to 104.1% (2019: 102.3%)

- There is now a £43.3 million surplus of assets relative to technical provisions (2019: £22.4 million surplus)



- The solvency funding level as at 31 December 2020 has increased slightly to 88.3% (2019: 88.2%)

Contents

Throughout this report the following terms are used:

Scheme
Yorkshire Building Society Pension Scheme

Trustee
YBS Pension Trustee Limited

Society
Yorkshire Building Society

Trust Deed & Rules
The Scheme's Definitive Trust Deed and Rules dated 5 December 2018

Introduction

Scope

This is the actuarial report in respect of the Yorkshire Building Society Pension Scheme as at 31 December 2020 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it. This report and all figures included in it relate solely to the DB Section of the Scheme.

The actuarial report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Society within seven days of receiving of a finalised version.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the latest actuarial valuation. It should be considered in conjunction with the report dated 30 June 2020 on the actuarial valuation as at 31 December 2019, which forms a component communication for the purposes of this funding update.

This report and the work involved in preparing it are within the scope of and comply with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) published by the Financial Reporting Council. However, as this report has been produced solely to meet a legislative requirement and no decisions are expected to be taken on the basis of the information set out in it, I have taken a proportionate approach when considering and applying the requirements contained within TAS 100 and TAS 300.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes from this actuarial report within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 December 2022.

In intervening years the Trustee will obtain annual actuarial reports, such as this one, on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 December 2021, must be completed by 31 December 2022.

Chris Gore
Fellow of the Institute and Faculty of Actuaries
24 August 2021

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Society who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial report and takes no account of developments after that date except where explicitly stated otherwise.

Methodology

In carrying out the estimates of the updated financial position of the Scheme, I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 31 December 2020 (since the last full actuarial valuation) using approximate methods.

The approach taken to calculate the estimates will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonable indication of how the funding position might have moved since the last assessment.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has been made for climate-related risks.

Funding

Statutory funding objective

The Trustee's only statutory funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The method and assumptions for calculating the technical provisions as at 31 December 2019 were agreed between the Trustee and the Society and documented in the Statement of Funding Principles which came into effect on 30 June 2020. The table below summarises the main financial assumptions used to estimate the Scheme's technical provisions for this actuarial report. Consistent assumptions were used for the actuarial valuation as at 31 December 2019, but based on gilt yields and break-even Retail Prices Index (RPI) inflation at that date.

Financial assumptions	31 December 2020 % pa
Discount rate[1]	**Gilts + 0.5%**
Price Inflation – RPI[2]	**Breakeven RPI**
Price Inflation – CPI	**RPI – 1.0% to 2030 then RPI – 0.5%**
Pensionable earnings increases	**CPI + 1.25%**
Pension increases	**Set using the RPI and CPI inflation curves, allowing for inflation volatility (as implied by market pricing) and the relevant minimum and maximum increase limits.**

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Scheme's technical provisions at 31 December 2019, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

On 25 November 2020, the Government and the UKSA published the response to their joint consultation on the future of RPI and confirmed that RPI will be aligned with the Consumer Prices Index including owner occupiers' house costs (CPIH) from February 2030 onwards. Broadly this is expected to result in RPI inflation being around 1% per annum lower in the longer term.

I have chosen to retain the same CPI assumption, relative to RPI, for this actuarial report as those adopted for the actuarial valuation as at 31 December 2019. If I was to update the CPI assumption to reflect the current position, I would be likely to propose a post 2030 margin relative to RPI to be zero (as opposed to 0.5% currently), however such a change would not affect the estimated funding level to a significant extent (probably less than 0.25%). I will review this assumption in detail at the next actuarial valuation as at 31 December 2022.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 December 2019, as set out in the Scheme's Statement of Funding Principles on 30 June 2020. The impact of the COVID-19 pandemic has been negligible for the Scheme and I believe the current demographic assumptions to be appropriate.

However, if the Trustee and Society were to consider all the assumptions in detail as part of a formal valuation process it is likely that some of these assumptions would change.

Discretionary future CARE revaluations have been allowed for within the underlying technical provisions, and are assumed to be in line with CPI inflation. I have also made allowance for the CARE revaluation granted as at 1 January 2021 of 0.7%.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. This judgment followed on from the previous judgment

[1] Term-dependent discount rates from the full nominal gilt yield curve at the valuation date with an addition of 0.5% at all durations.
[2] The RPI assumption is the term-dependent rates of inflation implied by the difference between the full index-linked and nominal gilt yield curves at the valuation date.

on 26 October 2018 (which has been accounted for in the funding liabilities, through a reserve of 0.4% of total liabilities), where the High Court ruled that schemes had a legal obligation to pay benefits allowing for GMP equalisation. The previous judgment had not considered historic transfer values.

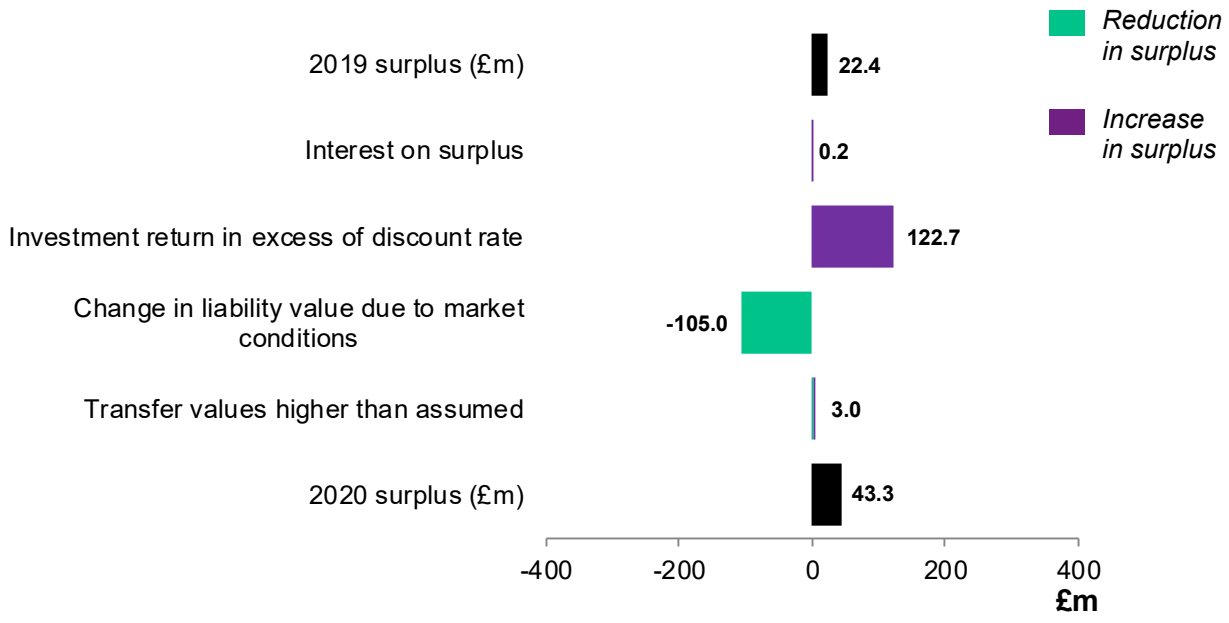
Based on the information provided by the Society, the expected cost of equalising past transfers, with an allowance for interest, is expected to be immaterial in the overall funding of the Scheme and so I have made no allowance for this for the purpose of this actuarial report.

The table below compares the estimated technical provisions as at the effective date of the actuarial report with the market value of the Scheme's assets and the corresponding figures from the latest actuarial valuation:

Valuation statement	31 December 2020 £m	31 December 2019 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Deferred in-service members	**133.8**	124.9
Deferred pensioners	**359.1**	325.0
Pensioners and dependants	**279.8**	268.6
Insured pensioner buy-in members	**284.9**	268.4
Technical provisions	**1,057.6**	986.9
Market value of assets	**1,100.9**	1,009.3
Past service (deficit)/surplus (technical provisions less assets)	**43.3**	22.4
Funding level (assets ÷ technical provisions)	**104.1%**	102.3%

Developments since the latest valuation

The funding level is estimated to have increased to 104.1% from 102.3% at the 31 December 2019 actuarial valuation. The main factors contributing to this change are shown below.



Solvency

Discontinuance

In the event that the Scheme is discontinued, the benefits of employed members would cease to be linked to future salary increases.

If the Scheme's discontinuance is not the result of the Society's insolvency, the Society would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustees may decide to run the Scheme as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Society's insolvency, the "employer debt" would be determined as above and the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Society) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Estimate of solvency

The Pensions Act 2004 requires that I provide the Trustees with an estimate of the solvency of the Scheme as part of each full actuarial valuation. For completeness, I have also included an updated estimate in this actuarial report. Normally, an estimate of a scheme's solvency means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the effective date. For this purpose I have assumed that no further payments are received from the Society.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson around the valuation date. I have assumed the cost of implementing the winding-up to be around 1% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £12.6m).

The tables below summarise the main assumptions used to estimate the Scheme's solvency position for the 2020 actuarial report and the previous actuarial valuation. For any assumptions not shown I have used the same assumption as used to calculate the technical provisions liabilities.

Financial assumptions	31 December 2020 % pa	31 December 2019 % pa
Pensioner discount rate[1]	**Gilts + 0.15%**	**Gilts + 0.25%**
Non-pensioner discount rate[1]	**Gilts – 0.35%**	**Gilts – 0.15%**
Price inflation - CPI	**RPI – 0.70% to 2030 then RPI – 0.0%**	**RPI – 0.70% to 2030 then RPI – 0.4%**

[1] Term-dependent discount rates from the full nominal gilt yield curve at the valuation date with an addition of 0.15% at all durations for pensioners and a deduction of 0.35% at all durations for non-pensioners.

Demographic assumptions	31 December 2020	31 December 2019
Future improvements in longevity	CMI core 2019 projections with a long-term trend rate of 1.50%, an initial addition to improvements of 0.25% and a smoothing parameter of 7.5	CMI core 2018 projections with a long-term trend rate of 1.50%, an initial addition to improvements of 0.25% and a smoothing parameter of 7.5
Proportion of pension transferred out of Scheme (before or at retirement)	None	
Proportion of pension exchanged for a lump sum at retirement	None	

My estimate of the solvency position of the Scheme as at 31 December 2020 is that the assets of the Scheme would have met 88.3% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 December 2020 £m	31 December 2019 £m
Solvency liabilities	**1,246.2**	1,144.4
Market value of assets	**1,100.9**	1,009.3
Solvency (deficit)/surplus (total estimated cost less assets)	**(145.3)**	(135.1)
Solvency level (assets ÷ total estimated cost)	**88.3%**	88.2%

The change in the solvency level from 31 December 2019 to 31 December 2020 is due mainly to investment returns being greater than the discount rates above over the year, offset by the deterioration in estimated insurance pricing of relative bulk annuities during 2020.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

Additional information

Data provided

Membership data

The membership data used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 December 2019, as set out in our accompanying report dated 30 June 2020.

Summary of significant membership events

Other than the high level of transfer outs (which we have allowed for in our calculations) there have been no other significant membership movements/changes which would materially impact the liabilities since the actuarial valuation as at 31 December 2019.

Asset information

The asset information is based on audited figures disclosed in the Report and Financial Statements for the year ended 31 December 2020, showing that the market value of the Scheme's assets (excluding the buy-in contract) was £820.2 million. I have made an additional allowance of £280.7 million as the estimated value pensioner buy-in contract, giving a total asset value of £1,100.9 million.

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the Trustee to perform certain statutory duties for the Scheme.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.