Actuarial valuation as at 31 December 2022

Yorkshire Building Society Pension Scheme

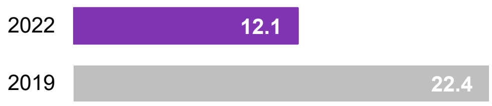
9 November 2023

Summary

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

- Technical provisions funding level as at 31 December 2022 has decreased to 102.0% (2019: 102.3%)

- Surplus of assets relative to technical provisions has decreased to £12.1 million (2019: £22.4 million)



- The Scheme Actuary's statutory estimate of solvency as at 31 December 2022 has increased to 94.4% (2019: 88.2%)

Contents

Throughout this report the following terms are used:

Scheme
Yorkshire Building Society Pension Scheme

Trustee
YBS Pension Trustees Limited

Society
Yorkshire Building Society

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 1 April 2010 and subsequent Deeds of Amendment and Merger Deeds

Introduction

Scope

This report is the actuarial valuation of the Yorkshire Building Society Pension Scheme as at 31 December 2022 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 valuation is required under the terms of Clause 7.15 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Society within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Scheme at 31 December 2022 using several different measures of its liabilities and how it has changed since the previous valuation at 31 December 2019. It also describes the strategy that has been agreed between the Trustee and Society for financing the Scheme in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions. This confirmation is provided on the basis that this report values the scheme's assets and calculates its technical provisions as required under the Pensions Act 2004 and is not intended to support any decisions.

Next steps

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

The financial position of the Scheme and the level of Society contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 December 2025.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 December 2023, must be completed by 31 December 2024.

C. J. Gore

Chris Gore
Fellow of the Institute and Faculty of Actuaries
9 November 2023

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https://wtwonlineuk.sharepoint.com/sites/tctclient_615442_ybs22V/Documents/7. Reporting (CO)/7.1 Valn report/YBS valuation report.docx

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 membership data at 31 December 2022 was provided by the Scheme's administrators XPS Administration Limited, on 4 January 2023.

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 valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Scheme, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act (DPA) and the General Data Protection Regulation (GDPR), which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the DPA and GDPR). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and WTW, so we have provided further details on the way we may use this data on our website at https://www.wtwco.com/en-gb/notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees.

Assumptions

In accordance with the Scheme Funding legislation, the assumptions underlying the technical provisions have been chosen prudently. The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 9 November 2023, is the responsibility of the Trustee, in agreement with the Society, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Society must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

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.

Further information on the main risks affecting the Scheme and the actions taken to manage them is set out in the Additional Information section.

Funding

Statutory funding objective

The Trustee's only formal 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 technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service up to 31 December 2015 are taken into account in this calculation. With effect from 31 December 2015 the Scheme closed to future accrual. Members who were still active at 31 December 2015 and who remain in employment with the Society retain the salary link on their final salary benefits until they leave their employment with the Society. This is allowed for within the technical provisions. The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 80 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 December 2022 have been agreed between the Trustee and Society and are documented in the Statement of Funding Principles dated 9 November 2023.

The table below summarises the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation.

Financial assumptions	**31 December 2022** **% pa**	31 December 2019 % pa
Discount rate[1]	**Gilts + 1.0% to 31 December 2025 decreasing linearly to gilts + 0.25% by 31 December 2031**	Gilts + 0.5%
RPI inflation[2]	**Breakeven RPI**	Breakeven RPI
CPI inflation	**RPI minus 1.0% to 2030 then in line with RPI thereafter**	RPI minus 1.0% to 2030 then minus 0.5%
Pensionable earnings increases	**CPI + 1.25%**	CPI + 1.25%
Pension increases in payment	**Set using the RPI and CPI inflation curves, with an assumption for inflation volatility of 1% pa, and allowance for the relevant minimum and maximum increase limits**	Set using the RPI and CPI inflation curves, considering the effect of inflation volatility (as implied by market pricing) and the relevant minimum and maximum increase limits

[1] Term-dependent discount rates from the full nominal gilt yield curve at the valuation date with the additional margin stated 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.

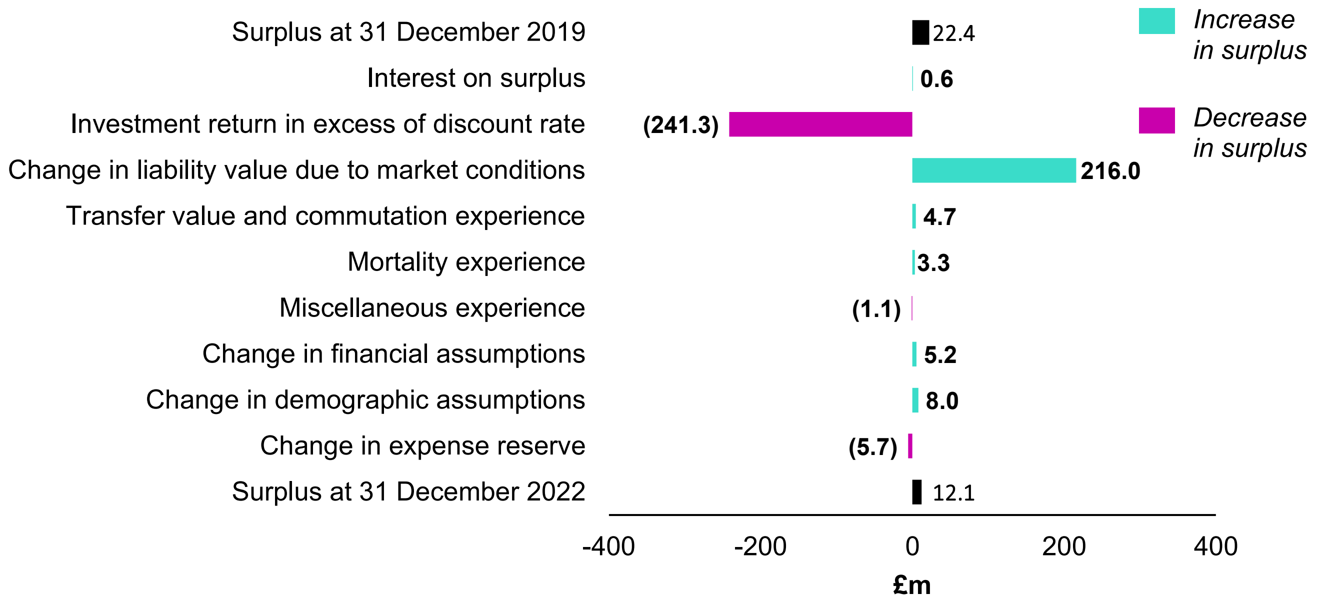
Demographic assumptions	31 December 2022	31 December 2019
Mortality base tables	**Males: 83% of S3PMA Females: 92% of S3PFA**	Males: 83% of S3PMA Females: 92% of S3PFA
Future improvements in longevity	**CMI core 2022 projections with a long-term trend rate of 1.50% pa and an initial addition to improvements of 0.25% pa**	CMI core 2019 projections with a long-term trend rate of 1.50% pa and an initial addition to improvements of 0.25% pa
Allowance for commutation	**85% of maximum tax-free cash for deferred members 10% of maximum tax-free cash for deferred in-service members**	85% of maximum tax-free cash for deferred members 10% of maximum tax-free cash for deferred in-service members
GMP equalisation reserve	**0.4% of liabilities**	0.4% of liabilities
Expenses	**Fixed £15m reserve**	1.5% of liabilities

The table below compares the Scheme's technical provisions as at the date of the actuarial valuation (31 December 2022) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 December 2022 £m	31 December 2019 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Deferred in-service members	**39.7**	123.0
Deferred pensioners	**176.4**	320.2
Pensioners and dependants	**219.3**	260.7
Insured pensioner buy-in members	**163.5**	268.4
Expenses	**15.0**	14.6
Technical provisions	**613.9**	986.9
Market value of assets	**626.0**	1,009.3
Past service (deficit)/surplus (technical provisions less assets)	**12.1**	22.4
Funding level (assets ÷ technical provisions)	**102.0%**	102.3%

Developments since the previous valuation

The funding level has decreased to 102.0% from 102.3% at the previous valuation. The main factors contributing to this fall are shown below.



Contribution requirements

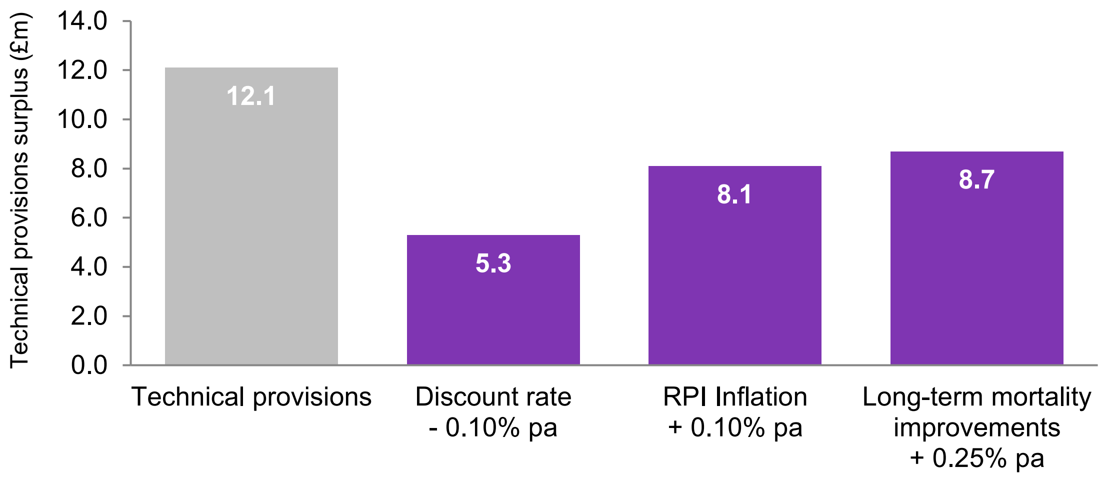
Recovery plan

As there were sufficient assets to cover the Scheme's technical provisions at the valuation date, a recovery plan is not required.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 December 2022, the funding level is expected to remain broadly stable (since the Scheme has a technical provisions surplus at the valuation date).

The chart below illustrates the sensitivity of the technical provisions as at 31 December 2022 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



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 Trustee 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.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme at the valuation date. Normally, this 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 valuation 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 WTW at around the valuation date. I have assumed the cost of implementing the winding-up to be 1.2% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £8.1m).

The table below summarises how the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

Financial assumptions	**31 December 2022** **% pa**	31 December 2019 % pa
Pensioner discount rate[1]	**Gilts + 0.35%**	Gilts + 0.25%
Non-pensioner discount rate	**Gilts - 0.15%**	Gilts - 0.15%
CPI inflation	**RPI - 0.7% to 2030 then in line with RPI thereafter**	RPI - 0.7% to 2030 then RPI - 0.4%

[1] Term-dependent discount rates from the full nominal gilt yield curve at the valuation date with additions and deductions shown in the table at all durations.

Demographic assumptions	31 December 2022	31 December 2019
Future improvements in longevity	**CMI core 2021 projections with a long-term improvement rate of 1.50% pa, an initial addition to mortaility improvements of 0.25% pa and a smoothing parameter of 7.5.**	CMI core 2019 projections with a long-term improvement rate of 1.50% pa, an initial addition to mortaility improvements of 0.25% pa and a smoothing parameter of 7.5
Allowance for commutation	**None**	None

My estimate of the solvency position of the Scheme as at 31 December 2022 is that the assets of the Scheme would have met 94.4% 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 2022 £m	31 December 2019 £m
Total estimated cost	**662.9**	1,144.4
Market value of assets	**626.0**	1,009.3
Solvency (deficit)/surplus (total estimated cost less assets)	**(36.9)**	(135.1)
Solvency level (assets ÷ total estimated cost)	**94.4%**	88.2%

The change in the solvency level from 88.2% to 94.4% is due mainly to the investment performance of the Scheme's assets being better than assumed and the estimated decrease in insurance company prices.

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.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997 (of which I understand there are none for the Scheme);
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Society became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

As the Scheme assets covered the Section 179 liabilities as at 31 December 2022 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Society become insolvent at 31 December 2022, in which case members would have received more than the PPF compensation paid from a private insurer.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £662.9 million is £49.0 million higher than the Scheme's technical provisions of £613.9 million.

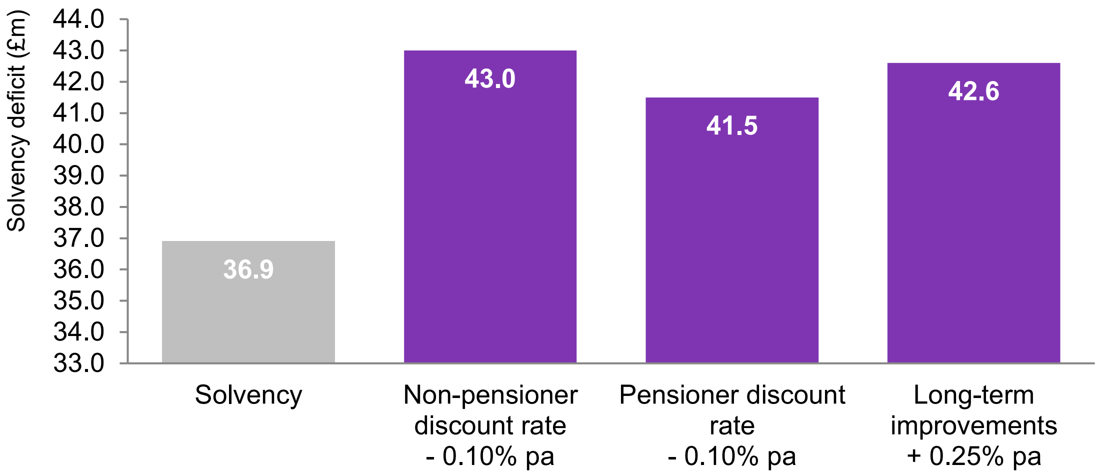
The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Society being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Society.

If the statutory funding objective had been exactly met on 31 December 2022 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 92.6%. This compares with 86.2% at the 31 December 2019 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provision as at 31 December 2022 and projected asset outperformance of the Scheme's assets in excess of the solvency discount rate, the solvency level is projected to broadly uniformly increase before the next valuation.

The chart below illustrates the sensitivity of the solvency position as at 31 December 2022 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the main risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Society unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Society to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Society's financial strength regularly.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Society at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme currently hedges its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme currently hedges its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Society in order to understand the Society's appetite for bearing this risk and takes advice on the Society's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Society would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Society, where relevant.
Changing patterns of weather, temperature or disease could adversely affect the funding of the Scheme	The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the Scheme the key ways these risks could manifest themselves are through unmatched falls in asset values, Scheme members living longer than assumed or a reduction in the strength of the Society covenant. Each of these particular risks are separately addressed above.

Economic risk | Demographic risk | Legal risk | Climate risk

Clearly the likelihood and impact of some of the risks above are linked. For example:

- The likelihood of the Society not being able to pay contributions will be linked to the Scheme funding position, with circumstances that both worsen the funding position and weaken the Society's covenant of particular concern;
- As set out above, climate-related risks can affect the strength of the Society, investment returns and life expectancy;
- Inflation being different to that assumed can affect both the Scheme's funding position and the strength of the Society.

In addition the likelihood and impact of the risks occurring will vary over time. For example:

- The risk of movements in asset values leading to a worsening in the Scheme's funding position might be expected to reduce over time if the Trustee increases its investments in assets that match the Scheme's liabilities;
- The likelihood of the Society being unable to pay contributions on time will reduce over time as the Scheme funding position is expected to improve.
- The effect of changes to discount rates and inflation will, all else being equal reduce over time as the duration of the Scheme's liabilities reduces due to members ageing.

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004 and its CARE 65 Section (whilst it was still open to accrual) was contracted-out of the State Second Pension. Benefits have been valued in line with the provisions set out in the Scheme's Trust Deed and Rules and in the various member booklets which have been issued from time to time in respect of the Scheme and its constituent former schemes.

Discretionary benefits

The Society determines the Revaluation Percentage to apply to uncrystallised CARE benefits on each 1 January. An allowance for the expected CARE revaluations in line with CPI inflation is included within the funding assumptions.

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency, other than our understanding of established practices in benefit calculations.

Changes to the benefits

Since the valuation as at 31 December 2019 no changes have been made to the Scheme's benefits.

Uncertainty about the benefits

An allowance of 0.4% of liabilities has been made in the calculation of the technical provisions and statutory estimate of solvency as an estimate for the possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Number	31 December 2022			31 December 2019		
	Males	Females	Total	Males	Females	Total
In-service deferred members	41	91	132	78	159	237
Deferred pensioners	367	1,046	1,413	408	1,160	1,568
Pensioners	515	1,195	1,710	499	1,084	1,583
Dependants	61	102	163	46	85	131
Children	1	1	2	-	-	-
Total	985	2,435	3,420	1,031	2,488	3,519

Annual salary or pension

£000s	31 December 2022			31 December 2019		
	Males	Females	Total	Males	Females	Total
Pensionable salaries	2.1	2.8	4.9	3.8	5.1	9.0
Deferred pensions	2.9	4.1	7.0	3.6	4.2	7.8
Pensioners' pensions	11.3	7.0	18.3	10.9	5.9	16.8
Dependants' pensions	0.2	1.9	2.1	0.2	1.1	1.3

Average age

Years	31 December 2022			31 December 2019		
	Males	Females	All	Males	Females	All
In-service deferred members	52.5	52.0	52.2	51.0	50.4	50.7
Deferred pensioners	54.5	53.3	53.8	53.7	51.6	52.6
Pensioners	73.3	70.9	72.4	72.2	69.3	71.2
Dependants	74.0	76.7	76.4	67.0	73.5	72.7

Notes on data tables:

- Figures in respect of dependants exclude children.
- Deferred pension amounts include revaluation to the valuation date.
- Average ages are weighted by amount.
- Figures include all insured pensioners as at 31 December 2022.
- Pensionable salaries for part-time workers are shown as full time equivalents.

Asset information

Movements in the market value of assets

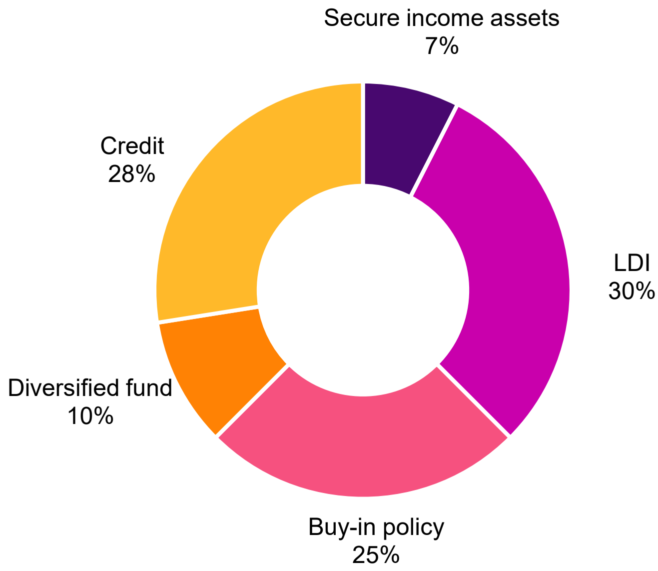
The audited accounts supplied as at 31 December 2022 show that the market value of the Scheme's assets was £626.0 million.

The change in the Scheme's assets from £1,009.3 million as at 31 December 2019 to £626.0 million as at 31 December 2022 is detailed in the Trustee's Report and Financial Statements over that period. The table below summarises a broad reconciliation of the change (excluding AVCs):

	£m	£m
Assets at 31 December 2019		**1,009.3**
Benefits paid:		(100.1)
- Transfers out	(34.1)	
- Pension payments	(58.3)	
- Lump sums at retirement	(7.5)	
- Other benefits	(0.2)	
Expenses		(5.0)
PPF levies		(0.2)
Other payments		(1.6)
Changes in market value of investments and investment income		(276.4)
Assets at 31 December 2022		**626.0**

Investment strategy

A summary of the Scheme's strategic investment benchmark at 31 December 2022 is set out below:



The assets, excluding AVCs, were invested as summarised below as at 31 December 2022 and 31 December 2019:

	Current benchmark	Market value as at 31 December 2022		Market value as at 31 December 2019	
	%	£m	%	£m	%
Reinsurance	0.0%	5.9	0.9%	28.8	2.9%
Secure income assets	7.5%	68.8	11.0%	51.7	5.1%
LDI	30.0%	375.9	60.1%	309.3	30.6%
Cash and other	0.0%	11.9	1.9%	15.0	1.5%
Buy-in policy	25.0%	163.5	26.1%	268.4	26.6%
Diversified fund	10.0%	-	0.0%	136.4	13.5%
Credit	27.5%	-	0.0%	199.7	19.8%
Total	100.0%	626.0	100.0%	1,009.3	100.0%

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Yorkshire Building Society Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2022 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 9 November 2023.

C. J. Gore

Chris Gore
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company
9 November 2023

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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.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

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.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

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

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

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.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

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.