United Norwest Co-operatives Employees' Pension Fund

Summary Funding Statement:
Valuation Update

2015

The co-operative

Introduction

This Valuation Update is an important document sent to Fund members by the Trustee Directors to tell you about the financial security of the Fund.

You may remember that a similar funding update is provided each year in **pensions**focus – the members' annual report. This year's **pensions**focus will be sent out early in 2016. This Valuation Update is an additional communication to provide you with details of the actuarial valuation of the Fund as at 31 January 2014, which was completed in April 2015, as well as the 2015 annual funding update.

Who are the Trustee Directors of the Fund and what do they do?

The Trustee Directors are the people who look after the Fund and make sure it is run in the best interests of all its members. More information on the Trustee Directors will be included in **pensions**focus.

Help for visually impaired members

If you have trouble reading this newsletter, you might prefer a large print version. If so, please contact Group Pensions Department on **0843 751 1700.**

Background to the valuation

The Fund's valuation has taken place against the background of a very challenging period in the history of the Co-operative Group (the 'Group'), and difficult financial conditions for all UK pension schemes.
As you may be aware, the Group is now implementing a three-year 'Rebuild' programme to create a sustainable business model for the Group.

What do I need to know?

- The Fund's assets have grown, but the cost of providing member benefits (the 'liabilities') has increased more.
- The Fund had a shortfall of around £120m at 31 January 2014 and this had increased to around £224m at 31 January 2015.
- The Group is providing financial support for the Fund to reduce the size of the shortfall. Further details are on page 6.
- The Trustee Directors and the Group are working together to improve the funding position, as explained on page 6.
- The Trustee Directors and the Group closely monitor funding, and you will continue to receive an update every year.

What is a valuation?

Every three years the Fund's actuary, an adviser to the Trustee Directors, carries out an in-depth look at the Fund's finances. This is called a valuation. The valuation calculations, and discussions with the Group on how to address the shortfall, are complex and take around 15 months to complete. The actuary also carries out less detailed but more regular 'annual check-ups' on the Fund's financial position.

The estimated cost of providing the benefits that you and other members have built up in the Fund to date is known as the '**liabilities**'. This includes the benefits of members who have left employment but whose pension is still in the Fund, or who have retired and are receiving a pension from the Fund.

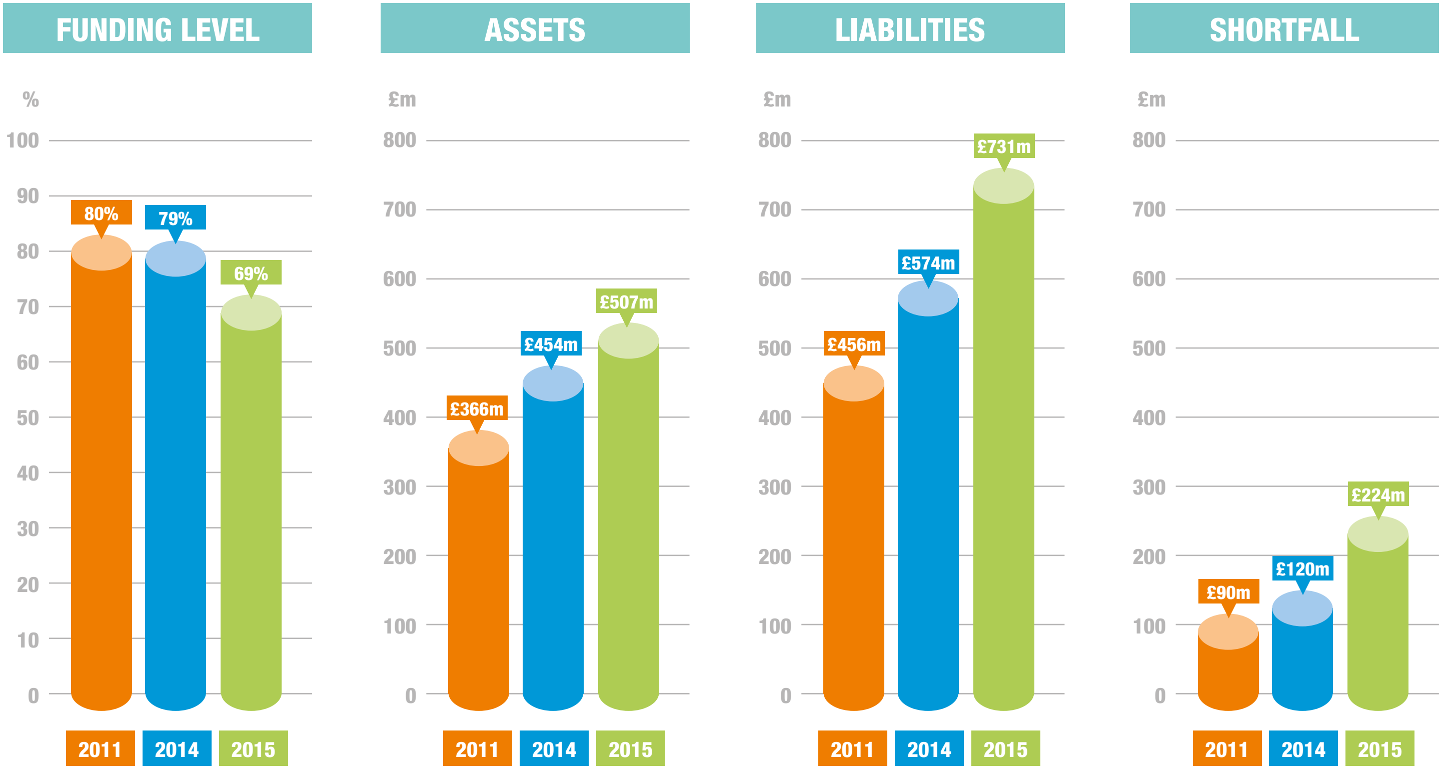
The money that has been paid into the Fund by members and the Group is invested so that it will grow and can provide members' benefits as they become payable. The money is held in a communal fund, not separate funds for each individual (with the exception of members' Additional Voluntary Contributions). The amount of money invested is known as the Fund's '**assets**'.

To check the Fund's financial security, the actuary compares the value of its liabilities to its assets. If the Fund has fewer assets than liabilities, it is said to have a '**shortfall**'. If the assets are more than the liabilities it is said to have a '**surplus**'.

Both the valuation and the annual check-ups look at the position of the Fund on a particular day – in our case, 31 January. The funding position can change from day to day – and very often does! Pensions are not all paid out over one day but over a very long period of time, so a shortfall does not mean that the Fund won't be able to pay members' benefits.

However, the Trustee Directors and Group are working together to remove the shortfall and to reduce the risk of the shortfall increasing significantly, for example by changing the investment strategy so that the Fund's shortfall is less likely to change suddenly and unexpectedly.

What did the 2014 valuation and 2015 annual check-up show?



How has the funding position changed?

Between the 2011 and 2014 valuations, assets increased by £88m because of additional employer contributions and investment growth. However, liabilities increased by £118m, mainly as a result of interest building up on the Fund's liabilities and falling long-term interest rates, which increased the value placed on the liabilities. This meant that there was a slight fall in the funding level, from 80% to 79%.

However, since the 2014 valuation date there have been further decreases in long-term interest rates, which have contributed to an additional increase in the Fund's liabilities. This meant that the funding level dropped to 69% at January 2015.

What is being done about the shortfall?

After each valuation, the Trustee Directors and the Group discuss what contributions may be required from the Group to remove the shortfall.

The Recovery Plan agreed after the 2011 valuation was planned to remove the shortfall by 31 July 2016. However, due to recent financial market changes, the shortfall has increased despite significant contributions of £16.64m each year from the Group, and so the Group and the Trustee Directors have agreed a new Recovery Plan. This involves the Group paying additional contributions (known as 'deficit reduction contributions') into the Fund of **£16.64m each year until 30 April 2018**, and then **£15m a year from 1 May 2018 to 30 September 2026**. When setting up this payment schedule, the Trustee Directors and the Group also took into consideration the worsening of the funding level since the 2014 valuation.

It was also agreed that, if the Fund is fully funded after 1 October 2022, then the Group will stop paying these contributions. The Fund will pay administration expenses and Pension Protection Fund ('PPF') levies. (See page 7 for more information on the PPF.)

What steps have the Trustee Directors taken to manage the Fund's future funding level?

The Trustee Directors have also revised the Fund's investment strategy to help reduce the likelihood of large changes in the funding level. This includes investing in assets that grow in a similar way to the liabilities (also referred to as 'liability driven investment'). The Trustee Directors monitor the funding level and investment strategy regularly to ensure risks are appropriately managed.

The Trustee Directors rely on the Group for extra support if the Fund needs additional contributions. The Trustee Directors, therefore, monitor the financial health of the Group regularly to make sure they understand what support it could provide if the Fund needed it.

Payments to the Group

By law the Trustee Directors must also tell you whether there have been any surplus payments to the Group out of the Fund in the last 12 months. The Fund does not currently have a surplus (see page 5) and no surplus payments have been made in recent years.

What would happen if the Fund was wound up?

As part of the valuation, the actuary must also look at the funding level if the Fund was wound up. Including this information does not mean that the Group or the Trustee Directors are planning to wind up the Fund. The Trustee Directors are required by law to give you this information.

If the Fund had wound up as at 31 January 2014, the actuary estimated that the Trustee Directors would have had to pay an insurance company £830m to provide all the benefits in full. This would have left the Fund with a shortfall of around £376m, and a funding level of 55%. The Trustee Directors aim to have enough money to pay pensions and other benefits to members as they fall due, rather than having to pay an insurance company to provide the benefits, which can be very expensive.

Pension Protection Fund

The Pension Protection Fund was set up in 2005 by the Government to compensate members of eligible UK pension schemes which are wound up when the employer is insolvent and the scheme does not have enough assets to cover members' benefits.

All eligible pension schemes are required to contribute to the PPF by paying a levy each year.

Further information is available at:
www.pensionprotectionfund.org.uk

The Pensions Regulator

The Pensions Regulator is responsible for regulating work-based pension schemes in the UK. Its aims include protecting members' benefits and promoting good scheme administration. You can find more details at **www.thepensionsregulator.gov.uk**

The Trustee Directors need to tell you if the Regulator has used its powers in relation to the Fund over the last year, for example, by changing the way future benefits build up, or the way the funding target is worked out, or amending the employer contribution rate. The Regulator has not used its powers in relation to the Fund.

Pensions update from the Group

The Group has reviewed the risks and costs associated with its pension schemes. It has taken the following steps to address these issues:

- Closing the Defined Benefit section of Pace.
- Focusing on funding the benefits which have been built up.
- No longer waiving the reduction for early retirement (as explained below).

Discretionary benefits on early retirement

The Fund's Rules determine the benefits payable to members, including the age at which members can take their pension without a reduction being applied for early retirement. Generally, if members take their pension before this age, their pension is reduced to reflect the fact that it is expected to be paid for longer.

Some members of the Fund have the right to retire between age 60 and age 65 with no early retirement reduction. This includes most (but not all) members who joined the Fund before 17 January 1995 and members who were previously part of the former Norwest Fund and were in active service on 6 April 1997.

For some groups of members who do not fall into these categories, the Trustee Directors and the Group previously agreed to waive the early retirement reductions that applied between ages 60 and 65. This was effectively an enhancement to the pension payable from the Fund. As part of the focus on funding benefits which have been built up, however, the Group is no longer providing its approval for these discretionary unreduced early retirement benefits. These members can still choose to retire early, however, their pension will be reduced. **Pensions which are already in payment are not affected**.

If you requested an estimate for early retirement before age 65 from the Fund's administrator, Mercer, before July 2014, this may have included discretionary unreduced early retirement benefits which are no longer being granted.

The Group understands that affected members will be disappointed by this if they are considering early retirement. However, in view of the increasing cost of providing the Fund's benefits (as shown on page 6) and the Group's financial position, the Group has decided to focus its resources on removing the shortfall in the Fund (and the shortfalls in its other pension schemes) to protect the security of guaranteed pension obligations.

Please note: The Fund’s early retirement Rules are complicated and the Rules that apply depend on many factors. These include your membership status, when you joined and left the Fund, and whether you were a member of another scheme which previously merged with the Fund. If you have any questions about your pension or early retirement, please contact Mercer, the Fund’s administrator (details are on page 11).

Benefits are determined by the Fund Rules. If there is any conflict between any information in this Valuation Update and the Rules, the Rules (as amended from time to time) will be overriding and will determine the benefits you receive.

Protect your pension

The Pensions Regulator has warned that pension scams are on the increase. Scammers may approach you out of the blue over the phone, via text message or in person door-to-door, and will try to entice you with a 'free pension review', 'one-off investment opportunity' or 'legal loophole'. The scammers may even pretend that the Government has asked them to contact you. What they will not tell you is that you will probably never see your pension savings again.

If you transfer your money from a company pension, you will normally only be able to access it before age 55 if you have had to stop work because of ill health. Otherwise, if you take money out of a pension before age 55, you will have to pay a very high tax charge. On top of this, a number of people who have been persuaded to 'cash in' their pensions have not even received the money they were promised by a salesperson.

Please check the facts before you make an irreversible decision. Working with organisations across the financial industry and Government, the Pensions Regulator launched a campaign in March this year to raise awareness of the danger of pension scams. Find out more by visiting **www.pension-scams.com** if you think you have been targeted.

Important

If for any reason you are thinking about transferring your benefits out of the Fund, you should consult an independent financial adviser (IFA) before taking any action. You can find one local to you on this website: **www.unbiased.co.uk**

Keep in touch

We will send you a funding update each year, so if you move house please let us know so we can update our records.

Pensioner members

If you have any questions about the payment of your pension:

Pensions Payroll Team, HR People Services, 7th Floor,
1 Angel Square, Manchester M60 0AG

By phone: 0330 606 1001 (Option 2)

All other members

If you have any questions about your pension, or if you would like any more information, please contact the Fund's administrator, Mercer:

In writing: Mercer Limited, Belvedere, 12 Booth Street, Manchester M2 4AW

By phone: 0370 0101461

By email: co-opgrouppensions@mercer.com

Please quote the name of the Fund and your National Insurance number when making contact.

General queries

You can contact Group Pensions Department if you have any general questions about pensions or the information in this update:

In writing: Group Pensions Department, Co-operative Group, Department 10406, 1 Angel Square, Manchester M60 0AG

By phone:
Pensioner members – 0843 751 1701
All other members – 0843 751 1700 (Option 2, Option 3)

By email: utdpensions@co-operative.coop

If you are employed by the Group, any change to your address details will be updated when you update your employee records with HR.

Please note: Benefits are determined by the Fund Rules. If there is any conflict between any information in this Valuation Update and the Rules, the Rules (as amended from time to time) will be overriding. If you have any questions or would like a copy of the Rules, please contact the Group Pensions Department.

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