Somerfield Pension Scheme

pensionsfocus

Summer 2016

Welcome

Welcome to **pensions**focus – the members' report for the Somerfield Pension Scheme ('Scheme').

This report provides a summary of the Scheme accounts over the year to 31 March 2015. It also includes an update on how the Scheme's assets are invested (page 6) and the latest funding update from the actuary (pages 8-11).

The 2015 funding update showed that the Scheme had a funding level of 96%.

Although members no longer pay contributions into the Scheme, the Co-op continues to pay contributions to help deal with the funding shortfall.

The next report will be sent to you when the next funding update is available towards the end of 2017. In the meantime, the Scheme accounts over the year to 31 March 2016 will be available on the Co-op's pensions website, www.pensions.coop, from November 2016.

Changes to the Trustee

You may remember from the last issue of **pensions**focus, the structure of the Trustee company that manages the Scheme has changed. In April 2015, its name changed to TCG Southern Trustees Limited, and it is now the Trustee for the Somerfield Pension Scheme and the Plymouth Fund.

Since early 2016, the Trustee Board comprises:

- **Independent Trustee Director appointed by the Co-op**
  Peter Stanyer (Chair of the Trustee Board)
- **Appointed by the Co-op**
  Peter Batt – Divisional Managing Director, Food, Co-op
  Fabienne Lesbros – Chief Procurement Officer, Co-op
  Julian Sykes – Director of Talent, Leadership and Performance, Co-op
  Adam Williams – Head of Financial Shared Services Centre, Co-op
- **Appointed from members of the Scheme and the Plymouth Fund**
  John England – pensioner member of the Scheme
  Graham Jones – closure member of the Scheme
  John Riley – pensioner member of the Plymouth Fund

With best regards from The Trustee

Inside

Help for visually impaired members

A large print version of this report is available on the Co-op's pensions website, **www.pensions.coop**

Our accounts

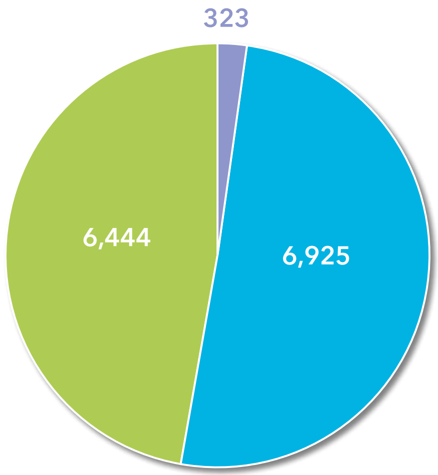
Between 2014 and 2015, the Scheme increased in value by around £171 million. As at 31 March 2015, it was worth almost a billion pounds.

The Trustee produces formal accounts, which are audited by Deloitte, an independent company. Deloitte has confirmed that the 2014/15 accounts give an accurate picture of the money paid into and out of the Scheme during the financial year to 31 March 2015. You can see a full copy of the accounts at **www.pensions.coop**

Value of the Scheme as at 1 April 2014	**£829.3m**
Plus income	**£28.9m**
including contributions from the Co-op of £1.9m and investment income of £27m	
Less expenditure	**(£29.5m)**
including pensions and other benefits of £26m	
Change in market value	**£171.2m**
an increase in the value of the assets during the year	
Value of the Scheme as at 31 March 2015	**£999.9m**

Who's in the Scheme?

As at 31 March 2015, the Scheme had 13,692 members.



Closure members 323
These members were still working for the Co-op at 31 March 2015 but are no longer paying contributions into the Scheme.

Deferred members 6,925
These members haven't yet started to receive their pension but have a pension in the Scheme.

Pensioner members 6,444
These members are receiving a pension from the Scheme.

Total 13,692

Controls
The Trustee looked at the controls in place to manage risks and make sure members receive a high quality service. Deloitte also checks the controls as part of the annual audit.

Our investments

The Trustee monitors how the money in the Scheme is invested on a regular basis. The way the money is invested means that the Scheme can pay out all the pensions that have been promised to members.

Investment performance

Over the year to 31 March 2015, the overall value of assets in the Scheme increased to £999.9m. This included investment growth of 24.2%, which was in line with the target set by the Trustee of 24.3%.

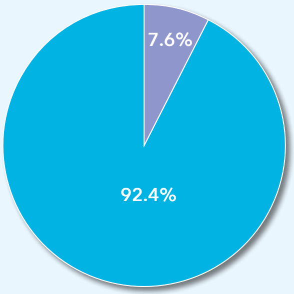
Over the three-year period to 31 March 2015, the Scheme's investments grew by 11.7% a year, which was ahead of the target of 10.6% a year.

Investment strategy

The aim of the Scheme's investment strategy is to ensure the Scheme's assets keep up with changes in the value of the pensions it has to pay in the years ahead.

The Scheme's investment strategy is largely unchanged from 2014, when the last **pensions**focus was issued, although the Trustee agreed to reduce the growth investments and increase the risk reducing investments by 5% during the year. The Trustee continues to monitor the investment performance on a regular basis and will carry out a detailed review of the strategy once the 2016 valuation results are known.

Investment split – March 2015



Growth investments
7.6%
Growth investments consist of shares.

Risk reducing investments
92.4%
Includes government bonds, company bonds and investments which are designed to protect the Scheme's funding level from changes in the interest rates and inflation.

You can download a copy of the Statement of Investment Principles (SIP), which describes the investment strategy, from the Co-op's pensions website: www.pensions.coop

Changes to State pensions

Your Scheme pension is paid on top of any State pension you may receive. From 6 April 2016, anyone reaching State pension age will receive the new State pension. The new State pension replaces the basic State pension and additional State pension (S2P/SERPS).

6 April 2016

If you reached State pension age before this date, the maximum weekly basic State pension amount is

£119.30

After this date, the maximum weekly amount of State pension is

£155.65

(reduced for the period you were in the Scheme or another scheme which was contracted out of the additional State pension)

To get the full State pension, you need to have paid National Insurance for 35 years.

That's an increase of 5 years.

To get any State pension, you need at least 10 years of National Insurance payments.

The new State pension is an individual benefit, so spouses will not be able to inherit State pension from their partner's National Insurance record.

Important changes to GMP for members reaching State pension age after 5 April 2016

If you were a member of the Scheme between 6 April 1978 and 5 April 1997, part of your pension from the Scheme may represent your Guaranteed Minimum Pension or 'GMP'. Once this GMP comes into payment, the increases applied to that part of your pension are different to the increases applied to the other parts of your pension. Under the old State pension system, the Government paid increases on GMP earned before 6 April 1988 and topped up increases on GMP earned after 6 April 1988. The new State pension will no longer provide increases on your GMP. However, the loss of these increases may be balanced out by the new State pension. Members who reached State pension age before 6 April 2016 are not affected by this change. Depending on when you joined the Scheme and the benefits you built up, your increases from the Scheme will vary.

More information about the new State pension can be found here: **www.gov.uk/new-state-pension**

Funding update

Every three years the actuary, an adviser to the Trustee, looks at the finances of the Scheme. This is called a valuation.

The valuation calculations, and discussions with the Co-op on how to deal with any shortfall, can take around 15 months to complete. The actuary also carries out less detailed but more regular 'annual check-ups' on the Scheme.

The estimated cost of providing the benefits built up in the Scheme to date is known as the 'liabilities'. The liabilities are based on assumptions about the future – for example, the growth of investments, inflation and how long members will live. These assumptions are agreed by the Trustee and the Co-op. The money paid into the Scheme by members and the Co-op 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 'assets'.

The actuary compares the value of the liabilities to the assets. If the Scheme 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'.

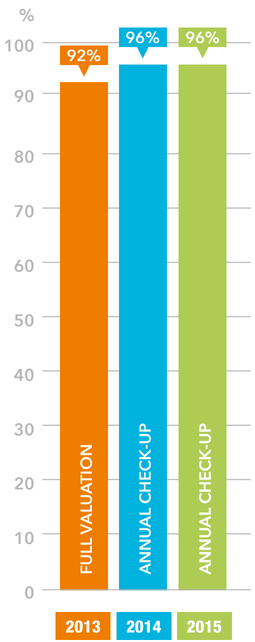
Both the valuation and the annual check-ups look at the position of the Scheme on a particular day – in our case, 31 March. Pensions are not all paid out on one day but over a very long period of time. A shortfall does not mean that the Scheme won't be able to pay members' benefits.

The Trustee and the Co-op 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 shortfall is less likely to change suddenly and unexpectedly.

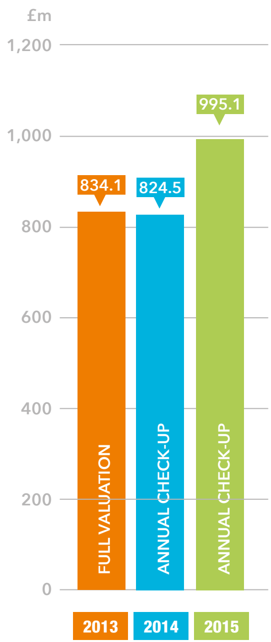
The next valuation of the Scheme at 31 March 2016 is under way and the results will be sent to you towards the end of 2017. In the meantime, this report includes the details of the last valuation in 2013 and the annual check-ups in 2014 and 2015.

What did the 2013 valuation and 2014 and 2015 annual check-ups show?

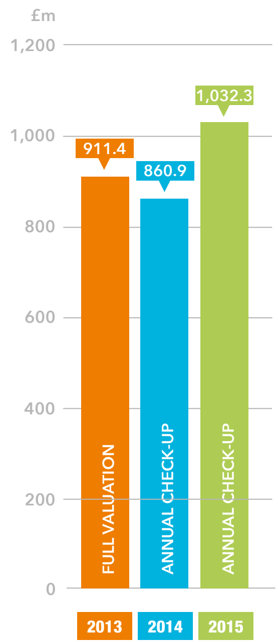
FUNDING LEVEL



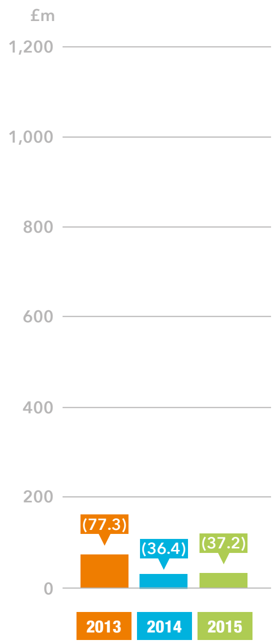
ASSETS £M



LIABILITIES £M



SHORTFALL £M



Funding update continued

What changed during 2014-2015?

Between March 2014 and 2015, the assets increased by £170.6m because of market conditions and the deficit contributions paid by the Co-op. However, liabilities increased by £171.4m, mainly as a result of falling long-term interest rates, which increased the value placed on the liabilities. The funding level stayed the same at 96%. This is higher than the funding level of 92% at the last full actuarial valuation – but please remember that the annual check-ups are estimates only.

What is being done about the shortfall?

After each valuation, the Trustee and the Co-op discuss what contributions may be required from the Co-op to remove the shortfall.

The Recovery Plan agreed after the 2013 valuation planned to remove the shortfall by June 2023. At 31 March 2015, the Scheme's funding level was slightly better than the Recovery Plan expected. The position will be reviewed and a new Recovery Plan agreed as part of the 2016 valuation.

What is the Trustee doing to manage the Scheme's funding level?

The Scheme's investment strategy is intended 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. The Scheme's funding level remained stable over 2014-2015, despite the large increase in the Scheme's liabilities. This shows that the Scheme's investment strategy has been successful in its aim. The Trustee monitors the funding level and investment strategy regularly.

The Trustee relies on the Co-op for extra support if the Scheme needs additional contributions. The Trustee monitors the Co-op's finances regularly to make sure they understand what support it could provide to the Scheme.

Payments to the Co-op

The Trustee must also tell you whether there have been any surplus payments to the Co-op out of the Scheme in the last 12 months. The Scheme does not currently have a surplus (see page 9) and no surplus payments have been made in recent years.

Shortfall on winding up

As part of the valuation, the actuary also looks at the funding level if the Scheme was wound up. Including this information does not mean that the Co-op or the Trustee are planning to wind up the Scheme. The Trustee is required to give you this information.

If the Scheme had wound up as at 31 March 2013, the actuary estimated that the Trustee would have had to pay an insurance company £1,201.9m to provide all the benefits in full. This would have left the Scheme with a shortfall of around £367.8m, and a funding level of 69%. The funding level on winding up is estimated to have improved to 72% at 31 March 2015. The Trustee aims 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 (PPF) was set up in 2005 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 regulates 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 needs to tell you if the Regulator has used its powers in relation to the Scheme 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 Co-op's contribution rate. The Regulator has not used its powers in relation to the Scheme.

Get in touch

Please remember to update your nomination form if your circumstances change, and tell us if you move house so we can keep in touch.

Email us
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Phone us
0843 751 1700
for general enquiries

0330 606 9449 to contact the pensions payroll team

Find us online
www.pensions.coop

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Co-operative Group Limited
1 Angel Square
Manchester M60 0AG

Please note: your benefits are determined by and subject to the Scheme Rules as amended from time to time (the Rules). If there is any conflict between any information in this members' report and the Rules, the Rules will be overriding and will determine the benefits you receive. You can request a copy of the Rules from the Pensions Department.

Please note that the Co-op reserves the right to amend the future benefits provided under the Scheme from time to time and will notify members of any proposed changes.

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