

United Norwest Co-operatives
Employees' Pension Fund

pensions focus

Autumn 2019



It's what we do

Welcome

Welcome to this issue of **pensionsfocus**, which aims to keep you in touch with developments in your pension scheme.

It summarises the annual Report & Accounts for the year to 31 January 2019, which the Trustee is required to produce for the United Norwest Co-operatives Employees' Pension Fund (the Fund). If you would like to see the full Report & Accounts on which this newsletter is based, you can find it at coop.co.uk/pensions – follow the link to 'Other schemes'. You can also find other formal Trustee documents and copies of Evergreen (for retired members of the Fund).

This year's **pensionsfocus** gives the results of the latest funding check, as at 31 January 2019, which showed that the funding level remained level at 76%. The Summary Funding Statement on pages 9 to 11 gives more details and also explains how the Co-op is planning to reduce the funding shortfall.

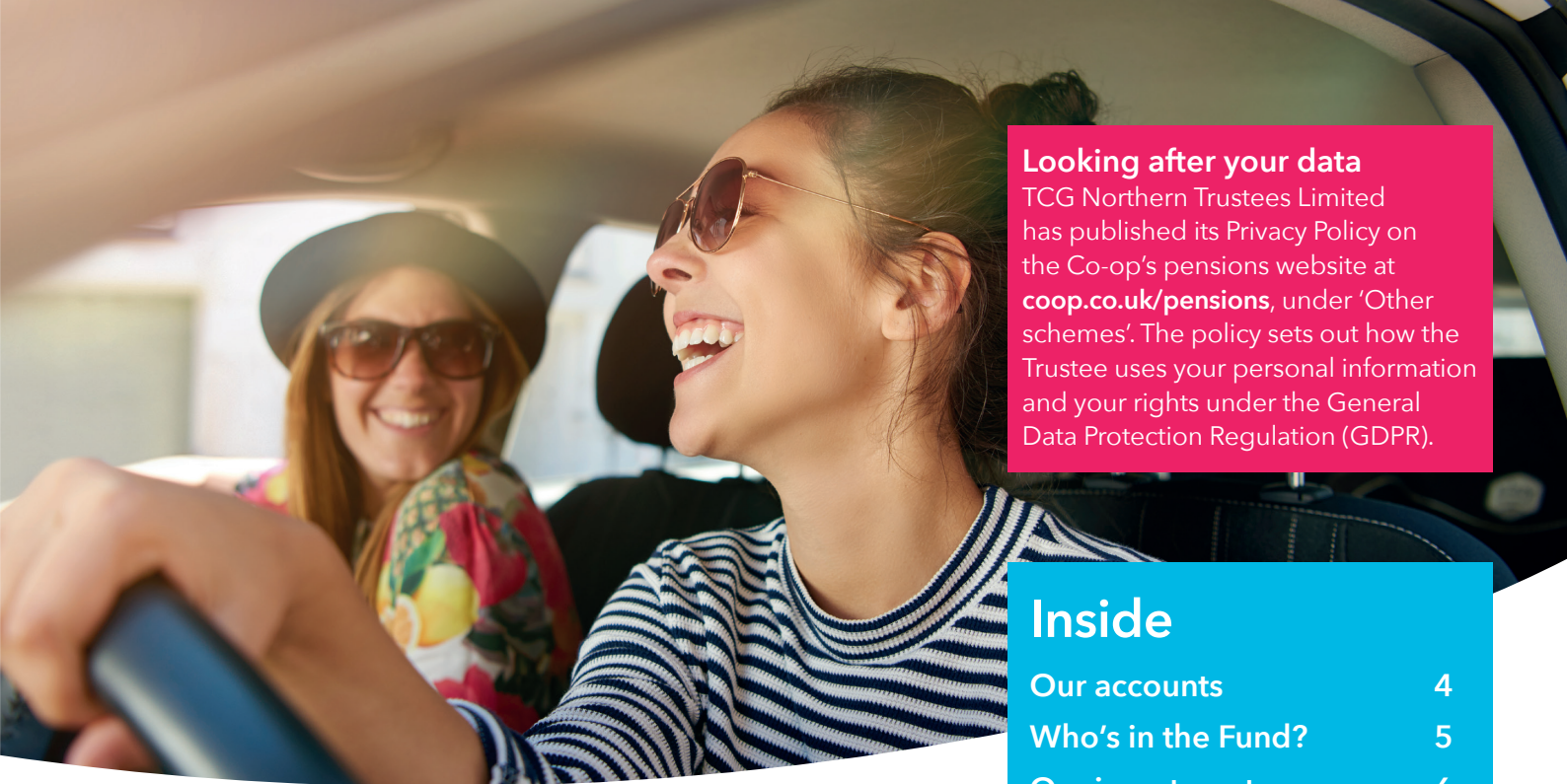
Following the resignation of Matthew Speight from the Trustee Board in January 2018, we welcomed a new Co-op appointed Trustee Director, Carol Kestin, in August 2018.

During 2019, we approved a revision to the Member Nominated Director (MND) Policy which allows the Trustee the option to appoint the runner-up of the previous MND election, if an MND were to step down before their term of office has finished. The revision aims to give the Board maximum flexibility and avoid the expense of an election process, where appropriate.

Following a successful MND election during 2019, Chris Moss was reappointed on 1 October 2019.

Following the resignation of Sarah Horne from the Trustee Board, we welcomed a new MND, David Brighthouse, in August 2019, who was the runner-up in the earlier MND election.

With best regards from the Trustee.



Looking after your data

TCG Northern Trustees Limited has published its Privacy Policy on the Co-op's pensions website at coop.co.uk/pensions, under 'Other schemes'. The policy sets out how the Trustee uses your personal information and your rights under the General Data Protection Regulation (GDPR).

Help for visually impaired members

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

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Our accounts

Between 2018 and 2019, the Fund increased in value by around £12.6m. As at 31 January 2019, the Fund's investments were worth almost £627m.

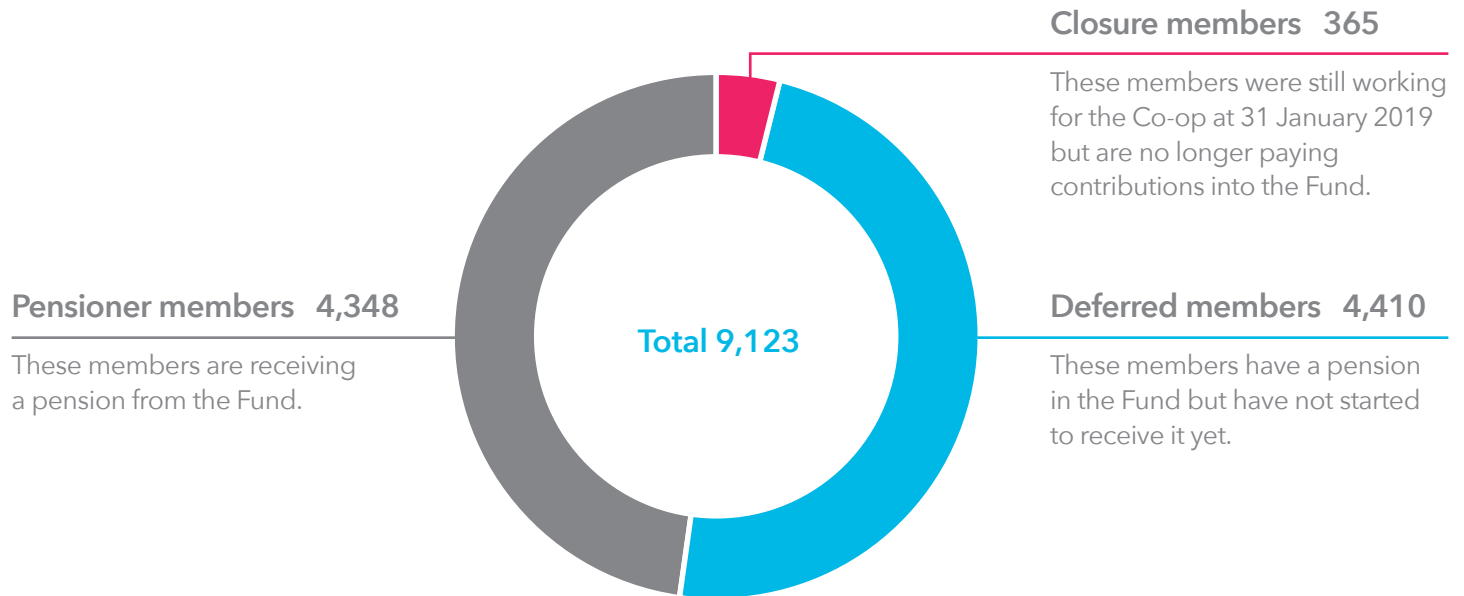
The information here is a summary taken from the Trustee's formal Report and Accounts for the year to 31 January 2019. These have been audited by Deloitte, who confirm that they give a true and fair view of the Fund's financial transactions for the year.

Value of the Fund as at 1 February 2018	£614.2m
Plus income including contributions from the Co-op of £38m and investment income of £5.1m	£43.1m
Less expenditure including pensions, cash lump sums and transfers out of the Fund	£31.2m
Change in market value an increase in the value of the assets during the year (after fees)	£0.7m
Value of the Fund as at 31 January 2019	£626.8m

You can see a full copy of the accounts at coop.co.uk/pensions

Who's in the Fund?

The Fund is closed to new members so total membership will continue to reduce year on year.
As at 31 January 2019, there were 9,123 members in the Fund, 219 fewer than the previous year.



Our investments

The Trustee is responsible for ensuring the assets of the Fund are invested with the objective of meeting its long-term liabilities – that is, to pay all the future pensions that have been promised to members.

Following agreement of the 2017 actuarial valuation, the Trustee continued to de-risk its investment strategy to meet long-term objectives; this involved making some changes to the allocation of the Fund's investments and the fund managers responsible for managing the different investment portfolios.

Investment performance

Over the year to 31 January 2019, the value of the Fund's net assets increased from £614.2m to £626.8m.

Investment performance is measured over the year to 31 December. During 2018 as a whole, the performance for the Fund was -2.6%, while the benchmark set by the Trustee was -2.4%.

However, it's important to remember that pension investments are a long-term commitment, so looking at performance over the three-year period to 31 December 2018, the Fund's investments grew by 7.4% a year – which was better than the target of 6.4%.

Investments by type

Growth investments 14%

Growth investments consists of holding company shares on a global basis.

Less liquid credit holdings 10%

Includes less actively traded bonds and debt, with higher expected returns.

Risk-reducing investments 76%

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

Noticeboard

Brexit

At the time of writing, uncertainty around the eventual timing and terms of any exit from the European Union continues. The Trustee and its advisers have assessed and identified any actions required to mitigate the risks of a 'no deal' Brexit. With the increased levels of interest rate and inflation protection in place within the Fund's investment strategy, together with low exposure to growth assets, the diversification of the Fund's equity holdings (shares) and the very limited exposure to foreign currencies, the Trustee concluded that no changes to the strategy were required at the time.



Equality in pensions for men and women

You may have heard in the news about an important High Court ruling that all Guaranteed Minimum Pensions (GMPs) must be equalised for men and women.

While the judgement relates specifically to the Lloyds Banking Group pension scheme, it is likely to create a precedent for other UK defined benefit schemes with GMPs, like ours. It could affect you if you were a member of the Fund between 17 May 1990 and 5 April 1997. You don't need to do anything as we will contact any members who are affected by this in due course, but members should note that the amounts involved are likely to be very modest in most cases. However, working out how to adjust benefits is a complex process, which could take many months, even years, to complete. We will bring you further updates when more information is available. In the meantime, we will continue to provide benefits on the current basis.

Noticeboard continued

Early and late retirement factors

We are planning to update the way in which we calculate the early or late retirement factors which will apply if you retire before or after your normal retirement date. Previously, these were set at a particular level, but in future they will vary from time to time and will be calculated by the Trustee following the advice of the Fund's actuary.

If you are thinking of retiring before or after your normal retirement date, bear in mind that any reduction or increase applied to your benefits at the point of retirement (to take account of the fact that they will be paid for a longer or shorter period of time) may be more or less generous than the factors applied to early and late retirements in the past.

Money and Pensions Service

The Money and Pensions Service is the new name for the government's three financial guidance providers, the Pensions Advisory Service, the Money Advice Service and Pension Wise, which will be merged into a single organisation. It brings together the core services of pensions guidance, money guidance and debt advice.

Sponsored by the Department for Work and Pensions, the Money and Pensions Service is funded by levies on pension schemes and the financial services industry. Its aim is to help everyone manage their personal finances by providing easier access to the information and guidance needed to make effective financial decisions.

Go to **www.moneyandpensionservice.org.uk** for more information and to access the various services.



Summary Funding Statement 2019

What is a valuation?

Every three years the Fund's actuary, an adviser to the Trustee, carries out an in-depth look at the Fund's finances. This is called a valuation. The actuary also carries out less detailed but more regular 'annual check-ups' on the Fund's financial position.

Funding level

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!

Assets

The money that has been paid into the Fund 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 Fund's 'assets'.

Liabilities

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.

Shortfall

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's said to have a 'shortfall'. If the assets are more than the liabilities, it's said to have a 'surplus'.

Pensions are not all paid out over one day but over a very long period of time, so a shortfall doesn't mean that the Fund won't be able to pay members' benefits. However, 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 Fund's shortfall is less likely to change suddenly and unexpectedly.

Summary Funding Statement 2019 continued

What did the 2019 annual check-up show?

	2019 (check-up)	2018 (check-up)	2017 (valuation)
Assets	£624m	£612m	£587m
Liabilities	£821m	£806m	£823m
Shortfall	£197m	£194m	£236m
Funding level	76%	76%	71%

How has the funding level changed?

Between the 2018 and 2019 check-ups, the funding position remained stable at around 76%. The liabilities grew as a result of changes in market conditions, but additional investment returns helped to offset this increase.

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.

Following the 2017 valuation, the Trustee and the Co-op have agreed to remove the shortfall by 31 May 2028, through contributions of £33.7m a year until the end of June 2020, followed by £15.9m a year from July 2020 to May 2028.

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

After the 2017 valuation, the Trustee reviewed the Fund's investment strategy and implemented changes 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') and reducing the Fund's investments in growth assets. This work continued throughout 2018.

The Trustee monitors the funding level and investment strategy regularly to ensure risks are appropriately managed.

The Trustee relies on the Co-op for extra support if the Fund needs additional contributions. The Trustee, therefore, monitors the financial health of the Co-op regularly to make sure the Trustee understands what support could be provided if the Fund needed it.

Payments to the Co-op

By law, the Trustee must also tell you whether there have been any surplus payments to the Co-op out of the Fund in the last 12 months. The Fund does not currently have a surplus (see page 10) 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 Co-op or the Trustee are planning to wind up the Fund. The Trustee is required by law to give you this information.

If the Fund had wound up as at 31 January 2017, the actuary estimated that the Trustee would have had to pay an insurance company £1,118m to provide all the benefits in full. This would have left the Fund with a shortfall of around £531m, which is a funding level of 53%.

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 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.ppf.co.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 needs 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 hasn't used its powers in relation to the Fund.

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. If you work for the Co-op, any change to your address details will be updated when you update your employee records with HR.

Pensioner members

For questions about the payment of your pension:

In writing: Pensions Payroll Team, HR People Services, Co-operative Group Limited, 7th Floor, 1 Angel Square, Manchester M60 0AG

By phone: 0330 606 9449

Deferred and closure members

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

In writing: Mercer Limited, 4th Floor, 4 St Paul's Square, Old Hall Street, Liverpool L3 9SJ

By phone: 0370 010 1461

By email: Co-opGroupPensions@mercer.com

Please quote your full name, address, date of birth, the name of the Fund and your National Insurance number when making contact.

General queries

If you have any concerns that cannot be dealt with by Mercer, or if you wish to give us your comments or suggestions on this report, please contact the Pensions Department:

In writing: Pensions Department, Department 10406, 7th Floor, 1 Angel Square, Manchester M60 0AG

By phone: Pensioner members: 0330 606 9449
All other members: 0330 606 1000

By email: utdpensions@coop.co.uk

Please note: your benefits are determined by and subject to the Fund 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.