Somerfield Pension Scheme

pensions focus

Autumn 2020

It's what we do

Welcome

Welcome to pensionsfocus, the members' report for the Somerfield Pension Scheme ('the Scheme').

The Scheme year covered by this report runs from 1 April 2019 to 31 March 2020 – so the financial impact of the coronavirus pandemic in 2020 was only just starting to be felt as we closed our books.

2020 has been a difficult year for many people as they have struggled with loss of household income and possibly the illness or death of family members. However, while these are challenging times, please be assured that the Scheme continues to be run in an orderly manner, with all pensions paid on time throughout this period. The Trustee's priority has been to ensure the normal running of the Scheme and to focus on managing the Scheme's investments through this crisis, with the help of its professional advisers.

The actuarial valuation as at 31 March 2019 was finalised and signed off on 26 June 2020. The results showed the Scheme to be 99% funded on an ongoing basis (with a shortfall of £7m). The actuary also carries out less detailed annual check-ups on the funding position. The last one looked at the position at 31 March 2020. By the end of February, global stock markets had recorded their largest one-week declines since the 2008 financial crisis, as a result of the emerging Covid-19 crisis. However, as the Summary Funding Statement on page 12 shows, the Scheme was protected from the worst of these falls and our funding level was unchanged at the end of March 2020. Remember that the valuation and annual check-ups only provide a snapshot in time. The Trustee will continue to assess the funding level with the Scheme actuary and next year's members' report will provide an update.

We also need to tell you about a proposal by the Trustee of the Somerfield Pension Scheme to make a small change to how your pension increases will be calculated each year – specifically over which period the RPI increase is calculated. The proposed change is being made for practical reasons. You can find out more about this important matter on pages 8–10.

If you have any feedback on the proposal, please let us have your comments by email to somerfieldpensions@coop.co.uk by 4 November 2020.

There are some changes to the Trustee Board to tell you about. Chris Martin, who represented Independent Trustee Services Limited and acted as our Chair, was replaced by Mark Evans from the same company, as of June 2019. Vicki Mains resigned as a Trustee Director in June 2019 and we are very sad to announce that John England, our pensioner Trustee, passed away on 9 January 2020. John was a long-serving, loyal Trustee whose contribution to the Scheme will be missed. The Trustee Board is considering how best to meet our requirements for member-nominated Trustee Directors.

Remember, you can read the full Report & Accounts, on which this newsletter is based, on the Co-op's pensions website: **coop.pacepensions.co.uk/other-schemes**. If you have any questions about your benefits, please get in touch using the contact details on page 16.

The Trustee Directors send our best wishes to you and your families and hope you stay safe and healthy in these unprecedented times.

With best regards from the Trustee

Inside

Our accounts

Between 2019 and 2020, the Scheme's assets grew in value by £35 million. As at 31 March 2020, the Scheme's investments were worth almost £1.2 billion.

The Trustee's annual accounts are audited by Deloitte, an independent company, to ensure that the money paid into and out of the Scheme is properly managed and accounted for. Deloitte has confirmed that the 2019/20 accounts are an accurate reflection of the Scheme's finances for the financial year to 31 March 2019. You can download a full copy of the accounts at **coop.pacepensions.co.uk/other-schemes** under 'Somerfield'.

Value of the Scheme as at 1 April 2019	£1,128m
Plus income including contributions from the Co-op of £2.6m and investment income of £27.3m	£30m
Less expenditure including pensions, cash lump sums and transfers out of the Scheme	£44m
Change in market value An increase in the value of the assets during the year (after fees)	£49m
Value of the Scheme as at 31 March 2020	**£1,163m**

Who's in the Scheme?

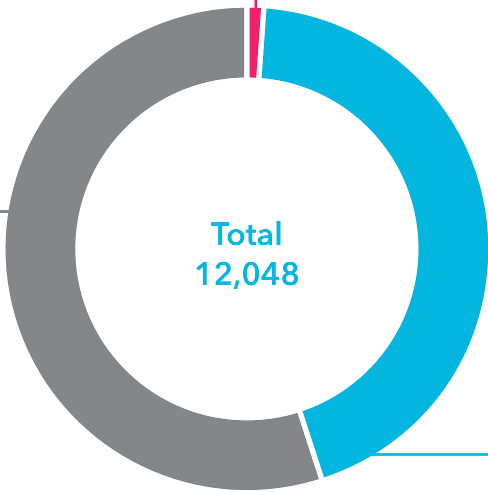
As at 31 March 2020, the Scheme had 12,048 members. As a closed scheme, you can expect to see the membership numbers gradually reduce over the years as we have no new members joining.

Closure members 156

These members were still working for the Co-op at 31 March 2020 but are no longer paying contributions into the Scheme.

Pensioner members 6,621

These members are receiving a pension from the Scheme.



Deferred members 5,271

These members have a pension in the Scheme but have not started to receive it yet.

Our investments

Over recent years, our focus has been on working with the Co-op to reduce risk within the Somerfield Scheme's investments; improving member security as the funding level has improved to its current healthy position; and, in particular, investing in assets that grow in a similar way to the liabilities (also referred to as 'liability driven investment').

As part of this journey, in January 2019 we entered into an insurance policy with Pension Insurance Corporation, a UK insurer, to match the pension payments due to some of the members of the Scheme. The Trustee remains responsible for paying pensions to members, and the Co-op remains committed to the Somerfield Scheme. The insurance contract is just part of our investments and will provide improved security for all members.

These changes have helped to protect the Scheme from the worst of the volatility that has been a feature of investment markets since the Covid-19 outbreak.

We also take our role as a large investor seriously and aim to invest responsibly where we can. Since the last **pensions**focus, we've moved our investments in shares (almost £100m) into funds which are 'tilted' to invest in more sustainable companies (for example, those with lower greenhouse gas emissions or more diverse workforces and boards, that have robust policies on bribery, discrimination and freedom of association, and companies with stronger corporate governance processes).

Details on the Scheme's investment strategy are set out in a document called the Statement of Investment Principles, or 'SIP'. You can read the latest SIP online at **coop.pacepensions.co.uk/other-schemes** under 'Somerfield', where you can also find our responsible investment policy and further details about the change in approach for our shares investment.

Investment performance

Over the year to 31 March 2020, the value of the Scheme's assets increased from £1,128m to £1,163m. Investment performance is measured over the year to 31 March. During the year to 31 March 2020, before allowing for payments out, the assets (excluding the annuity policy) grew by 11.7%. This was slightly lower than the benchmark set by the Trustee of 12%.

Over the three-year period to 31 March 2020, the Scheme's investments grew by 8.1% a year – slightly outperforming the benchmark, which was 7.8% a year.

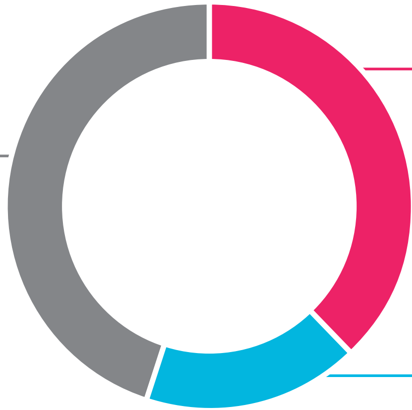
Investments and Covid-19

Investment markets fell sharply in March 2020 in response to the coronavirus pandemic and the prospect of a severe global economic shock. However, share prices and corporate bond values around the world staged a remarkable recovery between April and July, supported by government intervention. There are signs that major economies are starting to recover from the partial economic shutdown that took place in March and April, but the Trustee will continue to review the situation with the help of their specialist investment advisers.

Investment split – 31 March 2020

Risk-reducing investments 45%

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



Annuity policy 38%

An insurance policy that covers a proportion of the Scheme's liabilities, and pays the Scheme an income equal to the benefits of the members covered.

Growth investments 17%

Growth investments consist of shares and higher-risk bond investments.

Proposal to change pension increases

Members who are receiving a pension from the Scheme get an annual pension increase that is linked to changes in the cost of living (inflation). These increases are applied to pensions in payment in February each year.

For most increases in our Scheme, we use the Retail Prices Index (RPI) to measure inflation – and more specifically, we look at the change in RPI over a 12-month period running up to the previous 31 December.
So, for the pension increases due in February 2021, we would look at how RPI changed over the period from 1 January 2020 to 31 December 2020. This is called the 'reference period' for calculating the change in RPI.

Each year, there is a delay between 31 December and the date the RPI increase is published by the Office for National Statistics (ONS). The ONS has said that the proposed release dates for the 31 December 2020 RPI figures will be later than in previous years. Because of this, if increases continue to be based on the change in RPI to 31 December, it won't be possible to implement pension increases in February 2021 as the timing would be too challenging.

The proposal

To avoid a delay in implementing the increases to members' pensions, the Trustee is proposing to change the reference period over which RPI is measured from February 2021 and beyond. The Trustee is proposing that, from February 2021, increases to RPI-linked pensions in payment would be linked to the increase in RPI over the year to the preceding 30 November, rather than the year to the preceding 31 December (as is currently the case).

The Trustee has considered various options to deal with the practical issues arising from the delayed expected release dates of 31 December RPI figures. In their view, the proposed change is the best solution, and it is not expected that any members will be worse off as a result of the change. This isn't a cost-saving measure.

However, because this proposal will affect how your pension increases are calculated in the future, the Trustee wants to give you the opportunity to ask questions and provide feedback on the proposed change.

You can contact the Trustee by writing to **somerfieldpensions@coop.co.uk**. Please send in your comments by 4 November 2020, so that the Trustee has time to consider member feedback before deciding whether or not to proceed with the proposal. The Trustee is also consulting with the Co-op about the proposal, and implementation of the change is subject to Co-op consent.

Proposal to change pension increases continued

Important legal information

The Trustee has taken advice from the Scheme's legal advisers and the Scheme Actuary in preparing this proposal, and will take final advice from them before deciding whether or not to proceed with the change in the RPI reference period.

If the Trustee decides to proceed with the proposal, the Scheme Actuary will need to confirm in accordance with legislation that, when the change takes effect, the value of a pension which has future increases based on RPI over the year to 30 November is 'actuarially equivalent' to the value of a pension which has increases based on RPI over the year to 31 December.

The Trustee cannot and will not proceed with the proposal unless the Scheme Actuary is able to provide written confirmation that the overall 'actuarial value' of a member's pension will be maintained after the change.

'Actuarial equivalence' is a way of comparing the 'actuarial value' of a member's pension immediately before and after the proposed change. The proposal cannot be implemented if it would reduce the current actuarial value of a member's pension. This is a legal requirement which ensures that the current value of a member's pension is expected to be maintained, at the date the change is made.

Find out more

More detail about the proposed change is set out in a question and answer document, available now on the website at **coop.pacepensions.co.uk/other-schemes** under 'Somerfield'.

What happens next?

If the Trustee does go ahead with this change, it would become effective on or before 1 February 2021. You would receive a letter before then, confirming the change.

Noticeboard

Lifetime Allowance changes

The Lifetime Allowance (LTA) is the maximum amount of pension savings you can have at retirement from all UK-registered pension schemes without incurring an additional tax charge. It currently increases annually in line with inflation as measured by the Consumer Prices Index. The LTA is set at £1,073,100 for the 2020/21 tax year.

Tell us your wishes

We would like to remind you that the Scheme provides pension and lump sum benefits payable to your loved ones in the event of your death. The Trustee decides who will receive these death benefits, but they will take into account your wishes. To help the Trustee pay these benefits to the right people, please make sure your expression of wish form is up to date. If you need a form, get in touch using the contact details on page 16.

Beware of pension scams

A major event like the Covid-19 crisis can lead to new types of scams. We urge you to be vigilant for scams of all kinds that could appear over the coming months. These could be about insurance policies, pension transfers or high-return investment opportunities, including investments in crypto-assets. For more information about pension scams and how to avoid them, go to **fca.org.uk/scamsmart** or **thepensionsregulator.gov.uk/en/pension-scams**

The UK transition out of the EU

On 23 June 2016, the UK voted to leave the European Union (EU), with the exact process of leaving the EU being unclear at the time of writing. Whilst the country officially left the EU on 31 January 2020, there is a transition period which comes to an end on 31 December. Much about what happens after this is, at the time of writing this Report, still unknown, but it is likely that there will be some impacts on pension schemes in the short, medium and long term. The Trustee is liaising with its advisers to understand what the potential impacts will be for the Scheme as events unfold. This, however, does not affect the amount that pension members or beneficiaries are entitled to receive from the Scheme.

Summary Funding Statement

What is a valuation?

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

Funding level

Both the valuation and the annual check-ups look at the position of the Scheme on a particular day – in our case, 31 March. The funding position can change from day to day.

Assets

The money that has been 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 accounts for each individual (with the exception of members' Additional Voluntary Contributions). The amount of money invested is known as the Scheme's 'assets'.

Liabilities

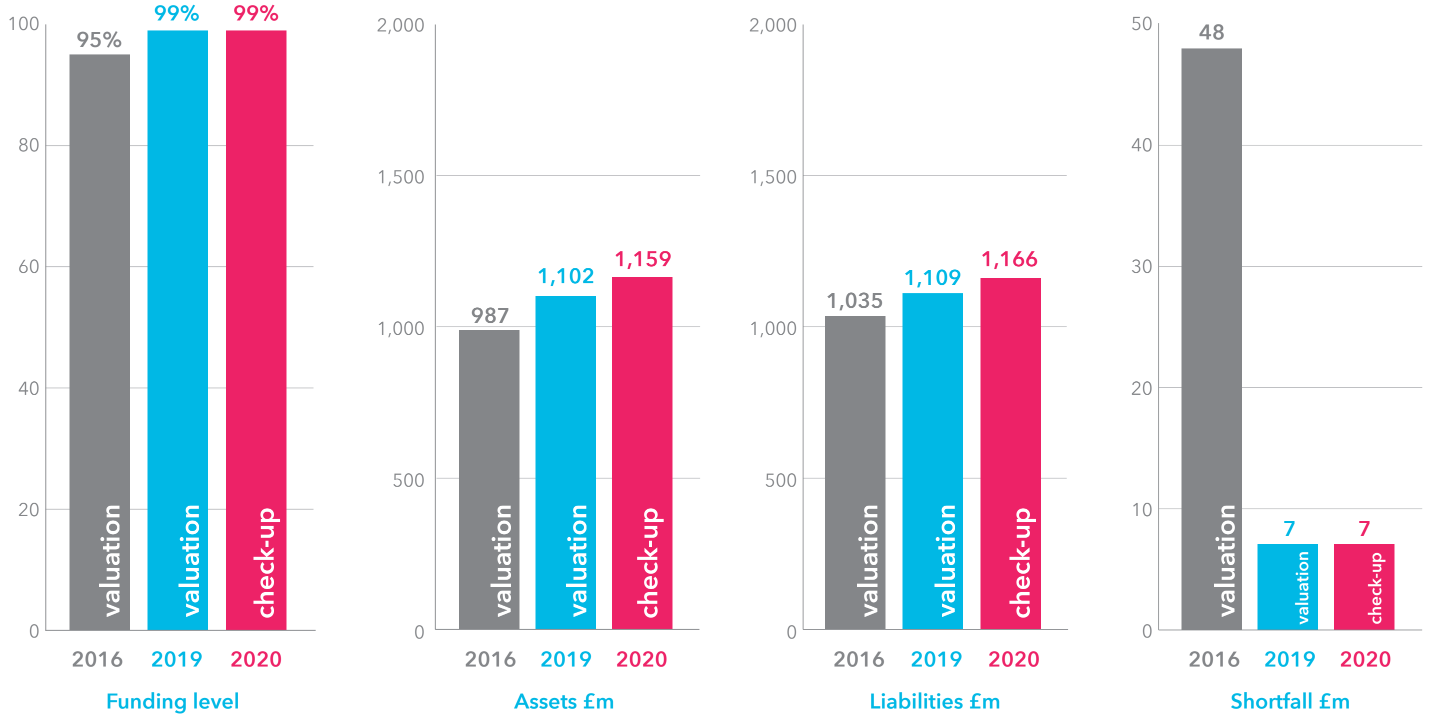
The estimated cost of providing the benefits that you and other members have built up in the Scheme to date is known as the 'liabilities'. This includes the benefits of members who have left employment but whose pension is still in the Scheme, or who have retired and are receiving a pension from the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

Shortfall

To check the Scheme's financial security, the actuary compares the value of its liabilities to its assets. If the Scheme 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 on one day but over a very long period of time, so a shortfall doesn't mean that the Scheme 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 it increasing significantly, for example by changing the investment strategy so that the Scheme's shortfall is less likely to change suddenly and unexpectedly.

How has the funding position changed?



Summary Funding Statement continued

The key reasons for the improved funding level since the 2016 valuation has been better-than-expected investment returns and changes to life expectancy. Although the liabilities have also grown, the assets grew by more, which is why the shortfall has reduced from £48m to £7m. Between 2019 and 2020, the funding level remained stable. Although the liabilities increased, they were matched by a rise in the assets.

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. They agreed that the Co-op would continue to pay contributions of £2.6m per year up to June 2020 to remove the shortfall identified as at 31 March 2019. These payments have been made. The next valuation will look at the position as at 31 March 2022. If that shows the shortfall has increased, the Trustee and the Co-op will agree a new Recovery Plan at the time.

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 Scheme in the last 12 months. The Scheme did not have a surplus at the last measurement date and no surplus payments have been made in recent years.

What would happen if the Scheme was wound up?

As part of the valuation, the actuary must also look 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 by law to give you this information.

If the Scheme had wound up as at 31 March 2019, the actuary estimated that the Trustee would have had to pay an insurance company £1,305m (2016: £1,379m) to provide all the benefits in full. This would have left the Scheme with a shortfall of around £181m (2016: £392m), and a funding level of 86% (2016: 72%).

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 **ppf.co.uk**

The Pensions Regulator

The Pensions Regulator is responsible for regulating workplace pension schemes in the UK. Its aims include protecting members' benefits and promoting good scheme administration. You can find more details at **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 employer contribution rate. The Regulator hasn't 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. If you work for the Co-op, any change to your address details will be updated when you update your employee records on MyHR.

Email: somerfieldpensions@coop.co.uk

Phone: 0330 606 1000

Pension payroll phone: 0330 606 9449

Find us online: coop.pacepensions.co.uk/other-schemes

Email should only be used for general enquiries and not for submitting personal information.

Write to us:
Co-operative Group Limited
Pensions Department
Department 10406
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.