It's what we do

pensions focus

Summer 2021

United Norwest Co-operatives Employees' Pension Fund

Welcome

We're delighted to provide you with another issue of pensionsfocus**, to keep you up to speed with developments in your pension scheme since the last update was sent out in 2019.**

With everything that's happened since, it feels like a long time since we last wrote to you. We didn't send out a **pensions**focus last year as we were in the middle of carrying out the 2020 valuation, but you were able to download the 2020 Report & Accounts from the Co-op pensions website. The 2020 valuation (and 2021 check-up) has now been completed and we have provided the results on pages 11 to 15, along with an explanation of how the Co-op is planning to remove the funding shortfall identified by the Fund actuary. This makes for really positive reading, and measures taken by the Trustee and the Co-op to reduce the shortfall have had a significant impact.

As usual, this newsletter includes a summary of the 2021 Report & Accounts. If you would like to see the full Report & Accounts, they're available on the pensions website at **coop.pacepensions.co.uk**. Follow the link to 'Other schemes'.

You can also find other formal Trustee documents and copies of *Evergreen* (for retired members of the Fund) on the website.

We also have some news stories from the world of pensions that might affect your retirement plans, so please take a look at page 9.

Finally, we'd like to thank our members for their patience during what has been a difficult year for all of us. We're proud of the way the team continued to administer and run the Fund, despite the challenges of working from home and conducting the Fund's business remotely.

With best regards from the Trustee.

Inside

Looking after your data

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

Our accounts

Between 2020 and 2021, the Fund increased in value by around £58m. As at 31 January 2021, the Fund's investments were worth almost £792m.

The information here is a summary taken from the Trustee's formal Report & Accounts for the year to 31 January 2021. 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.

You can see a full copy of the Accounts at **coop.pacepensions.co.uk**, under 'Other schemes'.

Value of the Fund as at 1 February 2020	£733.8m
Plus income including contributions from the Co-op of £30.1m and investment income of £9.5m	£39.6m
Less expenditure including pensions, cash lump sums and transfers out of the Fund	£21.5m
Change in market value an increase in the value of the assets during the year (after fees)	£39.7m
Value of the Fund as at 31 January 2021	**£791.6m**

Who's in the Fund?

At 31 January 2021, the Fund had 8,738 members, as follows:

Closure members 316

These members were still working for the Co-op at 31 January 2021 but are no longer paying contributions into the Fund.

Deferred members 4,055

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

Pensioner members 4,367

These members are receiving a pension from the Fund.

Total 8,738

Our investments

The Trustee sets the overall investment strategy for the Fund, with the key aim of making sure there is enough money in the Fund to pay pensions to members now and in the future.

After every full actuarial valuation, the Trustee reviews the investment strategy to check that the Fund is still on the right path. Any changes to the strategy are recorded in a document called the Statement of Investment Principles (SIP). You can read the Fund's SIP online at **coop.pacepensions.co.uk**, under 'Other schemes'. It was last updated in September 2020.

Investment performance

Over the year to 31 January 2021, the value of the Fund's net assets increased from £733.8m to £791.6m.

Investment performance is measured over the year to 31 December. During 2020, despite the impact of COVID-19 on investments in the first three months of the year, the Fund achieved a return of 11.9%, while the benchmark set by the Trustee was 11.4%. Given the market volatility we saw in early 2020 and again in 2021, this return is higher than the change in market value over the scheme year to 31 January 2021 shown on page 4.

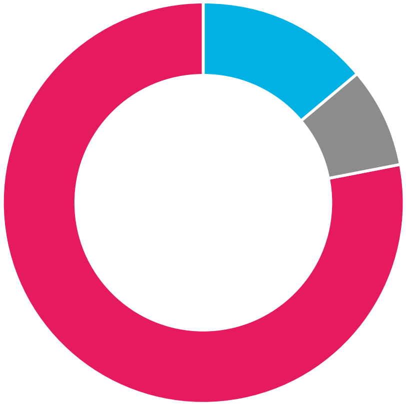
To provide some longer-term context for the whole period, over the three-year period to 31 March 2020 the Fund's investments grew by 4.9% a year (against a target of 4.9%).

Investments by type

- **Growth investments 14%**
  Growth investments consists of holdings in shares from companies around the world.

- **Less liquid credit holdings 8%**
  Includes less actively traded bonds and debt, with higher expected returns.

- **Risk-reducing investments 78%**
  Includes Government bonds, company bonds and investments which are designed to protect the Fund's funding level from changes in interest rates and inflation.



Our investments continued

Responsible investment

You may have heard a lot recently about 'responsible investment' and 'ESG'. ESG stands for 'environmental, social and governance' and is simply a term for investments that aim to achieve growth while also having a positive impact on the environment, society or on the performance of a business.

While the Trustee has a legal duty to invest in the best financial interests of the Fund's members, it aims to do this by being a responsible long-term investor. The Trustee believes that the way a company manages its environmental and social risks, such as its approach to climate change or how it treats its workers, can affect the long-term financial returns that it will make for its investors.

That's why we've been looking at responsible investment for several years. In 2019, we switched some of the Fund's growth investments into LGIM's Future World Funds, which invest more heavily in more sustainable and better-run companies and then in August 2020 we invested in their Emerging Market version of the Future World Funds.

Noticeboard

Measuring inflation in future

The Government wants to change the way inflation is calculated, by replacing the Retail Prices Index (RPI) with the Consumer Prices Index that includes owner-occupiers' housing costs, known as CPIH. The way the two indices are calculated has meant RPI is usually slightly higher than CPIH, on average. The Trustee and its advisers will assess the impact of the proposed change on Fund members and update you in a future issue of **pensions**focus. The changes are currently expected to happen in 2030.

GMP equalisation

In the 2019 issue, we told you about a High Court ruling on Guaranteed Minimum Pensions (GMPs). GMPs were accrued at different rates for men and women and were payable at different ages, reflecting the State Pension Age for men and women at the time. It may affect you if you were an active member of the Fund between 17 May 1990 and 5 April 1997.

Government guidelines that we have been waiting for on how GMPs should be equalised have now been released, and the Trustee is working with its administrators and advisers on this complex issue. This is likely to take some time to complete. You do not need to take any action as we will contact you if this affects you. Any amounts payable are likely to be modest.

Did you pay the small stamp?

A computer error at the Department for Work & Pensions (DWP) means that married women who paid a lower rate of National Insurance (NI) contributions before 1977 (known as the 'small stamp') may be due a top-up to their State Pension. The DWP says it first became aware of the issue last year. Where underpayments are identified, the DWP will contact the person to inform them of the changes to their State Pension amount and of any arrears payment they will receive but you may still want to check with them if you think you're affected.

LCP, the company that first brought this issue to the DWP's attention, has created a free online calculator that you can use to see if this might apply to you. You can find it here: **pensionunderpaid.lcp.uk.com**

Minimum pension age to increase

The Government has confirmed that the minimum pension age (the earliest age at which you can draw your pension unless you are in ill health) is set to increase from age 55 to age 57 in 2028. We are considering the impact of this on the Fund.

Beat the scammers

In these challenging times, we'd like to remind members to stay alert to the danger of scams of all types. Action Fraud estimates that £2 million was lost to pension scammers in the first three months of 2021.

If you're facing financial difficulties because of the pandemic, you may be tempted by offers to transfer your pension into 'guaranteed' or 'high-return' investment opportunities. In many cases, the money will be stolen outright. And, if you try to access your pension before age 55 (unless you are terminally ill or have a protected pension age), you will face a huge tax bill on top of that!

Scam tactics include:

- contact out of the blue
- promises of high/guaranteed returns
- free pension reviews
- access to your pension before age 55
- pressure to act quickly.

Follow these four simple steps to protect yourself from pension scams:

Check who you're dealing with

Go to **register.fca.org.uk** to make sure that anyone offering you advice or other financial services is authorised by the Financial Conduct Authority (FCA).

Reject unexpected offers

If someone you don't know contacts you to talk about your pension, chances are it's a scam.

Don't be rushed or pressured

Take your time to make all the checks you need – even if this means turning down an 'amazing deal'.

Get impartial information and advice

You can use the new Government-backed website, **www.moneyhelper.org.uk** to get help and advice with your pension. If you prefer to use an independent financial adviser, be sure to use one that is regulated by the FCA.

Visit **www.pension-scams.com** or **www.fca.org.uk/scamsmart** to find out how to protect yourself.

Summary Funding Statement 2021

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.

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 2021 continued

What did the 2020 valuation and 2021 check-up show?

Assets (£m)

2021 (check-up)
£789m

2020 (valuation)
£732m

2019 (check-up)
£624m

2017 (valuation)
£587m

Liabilities (£m)

2021 (check-up)
£823m

2020 (valuation)
£813m

2019 (check-up)
£821m

2017 (valuation)
£823m

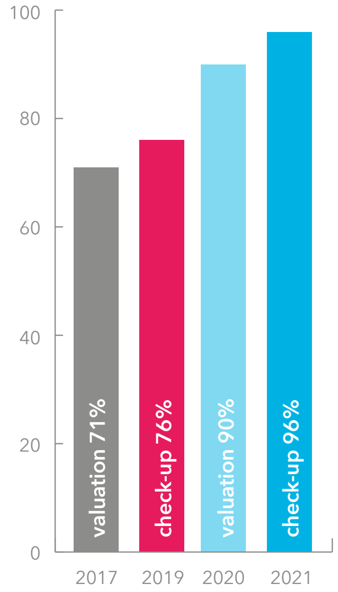
Shortfall (£m)

2021 (check-up)
£34m

2020 (valuation)
£81m

2019 (check-up)
£197m

2017 (valuation)
£236m



How has the funding level changed?

Between the 2017 and 2020 valuations, the funding level improved from 71% to 90%. This was mostly because of changes in the assumptions used to estimate the liabilities, together with better-than-expected investment growth and the extra payments from the Co-op to remove the shortfall. The actuary carried out an update as at 31 January 2021, which showed that the funding level had improved to 96%, again as a result of better-than-expected investment growth and the Co-op's extra payments, but it also helped that inflation was lower than expected.

How much has Co-op paid in?

In the period between the 2017 and 2020 valuations, the Co-op paid a total of £90.1m into the Fund.

2017/18
£16.6 million

2018/19
£38.0 million

2019/20
£35.5 million

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 2020 valuation, the Trustee and the Co-op have agreed a plan to pay off the shortfall of £81m, reflecting the following payments from the Co-op:

- From 1 February 2020 – 30 June 2020 £33.7m p.a.
- From 1 July 2020 – 24 March 2021 £25m p.a.
- From 25 March 2021 to 30 September 2023 £15.9m p.a.

As part of the 2020 valuation, it was also agreed that the Co-op will pay an extra £1.5m a year towards the Fund's regular administration costs and the levy paid to the Pension Protection Fund. The Co-op is also currently making additional discretionary contributions of £9.1m p.a.

The funding level is being monitored each month. If it reaches 100% for two consecutive months it is expected that the Co-op's funding contributions will stop. However, if the contributions stop and the funding level falls below 100% again for two consecutive months, then the payments would restart.

Summary Funding Statement 2021 continued

Long-term funding target

As well as the ongoing funding level explained on the previous page, the Trustee has developed a longer-term funding target which is designed to reduce its reliance on the Co-op for contributions in the future. On this measure, the funding level on 31 January 2020 was 84%.

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 12) 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 2020, the actuary estimated that the Trustee would have had to pay an insurance company £993m to provide all the benefits in full. This would have left the Fund with a shortfall of around £261m, which is a funding level of 74%. In 2017, the shortfall was estimated to have been £531m and the funding level 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, Department 10406, HR People Services, Co-operative Group Limited, 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, 1 Angel Square, Manchester M60 0AG

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

By email: staffpensions@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.