

United Norwest Co-operatives
Employees' Pension Fund

pensions focus

Summer 2022



It's what we do

Welcome

It's that time of the year when we update you on developments in the United Norwest Co-operatives Employees' Pension Fund.

Did you know there's a dedicated page on our pensions website for members of the United Fund? You can find out more 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.

This report includes the usual summary of payments into and out of the Fund, as well as the actuary's latest funding report. The latest funding update showed that the funding level had improved to 99% as at 31 January 2022, which is great news.

Since then, UK pension schemes have been impacted by economic (high inflation) and world (the conflict in Ukraine) events. Please be assured that the Trustee continues to monitor the situation closely and respond accordingly.

Pages 8-11 provide a round-up of pensions news and updates from the Fund, which you may find useful as you plan ahead for retirement.

We hope you find this newsletter interesting and that it helps you keep up to date with developments in your pension scheme.

With best regards from the Trustee.



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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 2021 and 2022, the Fund decreased in value by around £6m. As at 31 January 2022, the Fund's investments were worth almost £786m.

The information here is taken from the Trustee's formal Report & Accounts for the year to 31 January 2022. An independent auditor, Deloitte LLP, audits the statements before they are approved by the Trustee. The table shows a summary of 2021/22's transactions, but you can download a copy of the full Report & Accounts from coop.pacepensions.co.uk, under 'Other schemes'.

Value of the Fund as at 1 February 2021	£791.6m
Plus income including contributions from the Co-op of £22.7m and investment income of £20.4m	£43.1m
Less expenditure including pensions, cash lump sums and transfers out of the Fund	(£39.0m)
Change in market value A decrease in the value of the assets during the year (after fees)	(£9.9m)
Value of the Fund as at 31 January 2022	£785.8m

Who's in the Fund?

At 31 January 2022, the Fund had 7,521 members, as follows:



Closure members 264

These members were still working for the Co-op at 31 January 2022 but are no longer paying contributions into the Fund.



Deferred members 3,623

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



Pensioner members 3,634

These members are receiving a pension from the Fund.

Total 7,521

Our investments

The Trustee reviews the Fund's investment strategy at regular intervals (including after the completion of each triennial valuation) and updates it as needed.

The investment strategy was last updated in July 2021, when the Trustee agreed to move to a lower-risk strategy and make some changes to the investments in line with this.

The investment strategy is written down in a document called the Statement of Investment Principles (SIP). It was last updated in March 2022 and is available online at coop.pacepensions.co.uk, under 'Other schemes'.

The chart on the right shows the wide range of assets held by the Fund.

Investment performance

Over the year to 31 January 2022, the value of the Fund's net assets decreased from £791.6m to £785.8m. The Fund's performance to the year ending 31 December 2021 was 3.9%, compared with the benchmark of 3.6%.

Investments by type

■ Growth investments 15%

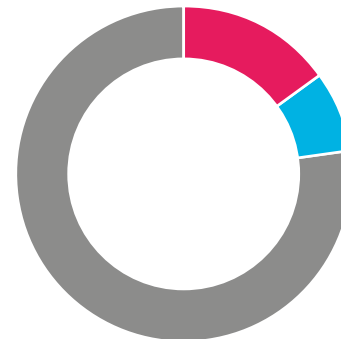
Consists of holdings in shares from companies around the world.

■ Less liquid credit holdings 8%

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

■ Risk-reducing investments 77%

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





The war in Ukraine

Russia's invasion of Ukraine in February 2022 led to share prices around the world falling and has had a major impact on oil and gas prices at a time when inflation in the UK was already high. The Fund's relatively low-risk investment strategy meant that investments in Russia and in Russian companies were already limited to around 0.03% of the Fund's total assets and are now nil. The Trustee is monitoring the situation closely.

Responsible investment

We wrote last year about the Trustee's approach to 'responsible investment' and 'ESG'.

As a reminder, 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.

Since last year's update, the Trustee has taken further steps to improve the Fund's responsible investment credentials by appointing a new investment manager, Mirova, to manage half of the Fund's growth assets in a more sustainable manner. Mirova will only seek to invest in companies that score strongly on ESG factors such as (reduced) carbon emissions and human rights issues.

Noticeboard

Change to the minimum pension age and member protection

As covered in last year's Report, the minimum pension age is set to increase from age 55 to age 57 in 2028. The minimum pension age is the earliest age at which you can draw your pension unless you are in ill health, subject to any conditions imposed by the Fund Rules being met (such as a requirement to obtain consent to early retirement). We have considered what this change means for deferred members. Pensioner members are not affected by the change.

We have identified that certain groups of deferred members of the Fund qualify for a protected pension age or 'PPA' which is lower than age 57. Such members will not be affected by the increase in the minimum pension age when it takes effect on 6 April 2028. From that date, members with a PPA of 50 will continue to be able to draw their benefits from age 50 (as they can now) and members with a PPA of 55 will be able to draw their benefits from age 55 (as they can now). In both cases, however, early retirement is only possible if any conditions specified in the Fund Rules are satisfied.

From 6 April 2028, deferred members who do not have a PPA will not be able to draw their benefits before age 57 except on ill health grounds. As the position regarding whether you have a PPA is complicated and depends on a number of conditions, more details have been uploaded to the Fund website:

<https://coop.pacepensions.co.uk/other-schemes>

Please note the change in the minimum pension age affects deferred members (those who have not yet taken their pension) born after 5 April 1971. Deferred members born before this date will be over age 57 by 6 April 2028 and therefore will not be affected by the change.

Loss of Protected Pension Age (PPA)

The PPA is a protected age from which a member can, subject to the Fund Rules, take benefits from the Fund earlier than the prevailing minimum pension age without paying any 'unauthorised payment' tax charges to HMRC. However there are circumstances in which the protection can be permanently lost, meaning that this tax charge would be payable in respect of each benefit instalment paid before the member reaches minimum pension age.

Again, there are complex rules which determine the circumstances in which a member will lose their PPA. Details are on the Fund website.

We will also write to deferred members who qualify for a PPA of 50 or 55 to provide further information.

Watch out for scammers

Pension scammers love to exploit events, such as the pandemic, the current cost-of-living crisis - and changes in the law! The change in the minimum pension age is potentially a rich source for pension scammers, because it can be quite complicated, depending on when and where you build up pension benefits. If you have a number of different pensions (as many people do), you might have different minimum pension ages attached to each, depending on what each scheme's rules say. Scammers will undoubtedly try to exploit this confusion and convince you that they can help you access your savings earlier. The Financial Conduct Authority (FCA) has some useful tips to help you avoid a pension scam: www.fca.org.uk/scamsmart. Before you make any decision about taking your Fund pension, please check with Mercer on what options are available to you and if you can indeed access your money early.

If you paid AVCs

Up until 2012, members who wanted to top-up their Fund pension could pay Additional Voluntary Contributions (AVCs) into a with-profits fund with Royal London. This fund has now closed to new contributions.

As a reminder, a with-profits investment works by smoothing investment returns from year to year, holding back some of the growth in good years to use in years when returns are leaner. So, instead of receiving direct investment returns, members receive guaranteed annual bonuses and then a final non-guaranteed bonus when they withdraw their savings. Your annual statement from Royal London will tell you what bonus has been applied to your savings in the year.

If you have any questions, you can contact the Group Pensions Department, Department 10406, Co-operative Group Limited, 1 Angel Square, Manchester M60 0AG.

By phone: 0330 606 1000

Noticeboard continued

Your pension and inflation

Most defined benefit pension schemes like ours manage inflation risk by hedging, using a liability-driven investment (LDI) strategy. Our LDI investments with BlackRock (with a target allocation of around 36% of the Fund's total assets) aim to reduce risk by providing protection against the Fund's funding position worsening due to adverse movements in long-term interest rates or inflation expectations.

For the individual member, the Fund Rules provide for a measure of protection against inflation. Depending on when you built up pension, your pension might receive increases. These could be linked to inflation (capped according to the Fund Rules), or otherwise 'fixed' (i.e. the same percentage every year). Pension increases are paid in April each year and, for 2022, the increases ranged between 3% and 5%. We'll have to see what inflation is like in December, as that determines what the Fund's inflation-linked increase will be next year.

If you're a deferred member, your pension also receives increases between when you left the Fund and when you start to claim it (known as 'revaluation').

If you're retired and finding it hard to make ends meet, see if you're entitled to claim Pension Credit. This is a top-up to the State Pension for pensioners on a low income. Check if you're eligible at www.gov.uk/pension-credit. If you're a woman, check if you're entitled to a higher State Pension, as the Department for Work and Pensions underpaid many women who should have received something extra based on their husband's National Insurance record (www.lcp.uk.com/widows-pensions-are-you-being-paid-the-right-amount/)

If you're still a Co-op colleague you have access to a range of wellbeing support. You can find details on the Co-op colleague website under 'Your wellbeing'. Everyone can get free and impartial money and debt advice through MoneyHelper (www.moneyhelper.org.uk). If you're in debt, the charity StepChange offers free impartial guidance to help you understand your options (www.stepchange.org/coop). Other organisations you might find useful include: www.groceryaid.org.uk and <https://taxvol.org.uk/>

Are you managing your pension online?

We wrote to all our pensioners in May, inviting them to sign up for a new self-service website, where you can view your annual P60 and monthly payslips online. The final paper payslip and P60 were sent in May 2022.

To sign up for the online service, which has remained open for registration, you first need to complete the form here: <https://coop.pacepensions.co.uk/other-schemes/registration>

We will then email you a link to register for MyHR, which will include a request for you to create a MyHR password. The email will come from pensionselfserve@coop.co.uk, and it might end up in your junk or spam folder, so please do look out for it.

Don't worry if you can't access the online service - you can still access your documents and update your details by calling us on 0330 606 1001 and selecting option 3.



Summary Funding Statement 2022

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. The next valuation is due at 31 January 2023.

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.

What did the 2020 valuation and 2022 check-up show?



Assets (£m)

2022 (check-up)
£784m

2021 (check-up)
£789m

2020 (valuation)
£732m



Liabilities (£m)

2022 (check-up)
£795m

2021 (check-up)
£823m

2020 (valuation)
£813m



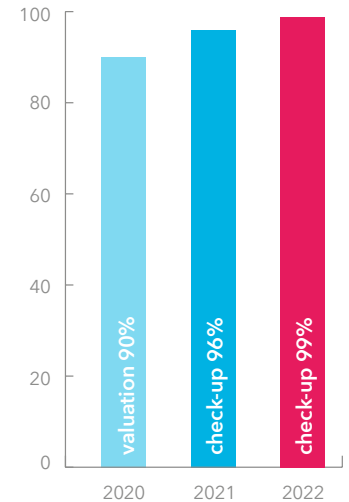
Shortfall (£m)

2022 (check-up)
£11m

2021 (check-up)
£34m

2020 (valuation)
£81m

Funding level



Summary Funding Statement 2022 continued

How has the funding level changed?

Between the 2021 and 2022 check-ups, the funding level has improved, and the shortfall has reduced. This is mainly because the Fund's liabilities have fallen in value while the Fund's assets, boosted by the performance of the growth investments, have remained broadly stable.

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 – 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 also paid additional discretionary contributions of £9.1m p.a. until September 2021.

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.

Long-term funding target

As well as the ongoing funding level explained on pages 12-13, 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 13) 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.

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 to 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

Online enquiry hub: <https://contact.mercer.com/blue>

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: 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.