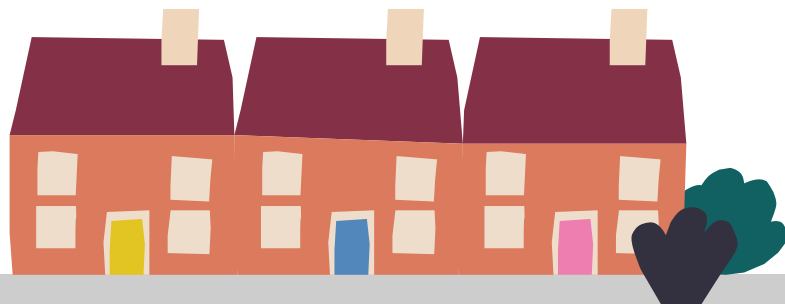


Pace DB

Members' Report

Autumn 2023



Chair's welcome

Welcome to the latest newsletter for members of Pace. We didn't send out a newsletter last year because we were finalising the results of the latest actuarial valuation, which looked at the Scheme's funding position on 5 April 2022.

I am delighted to report that the Co-op Section's surplus at 5 April 2022 had risen to almost £1.4 billion, with a funding level of 119%. Of course, 2022 was a challenging year for many of us, with the Russian invasion of Ukraine, high inflation and rising interest rates all having a major impact on the global economy.

You're probably also aware of the events last autumn when the Bank of England had to step in 'to save pension funds from going bust' (as the media reported it). We manage Pace's investments prudently, and had factored in the potential for interest rate rises into our investment strategy (and last September implemented the rebalancing plans we had in place for such a scenario of rising interest rates). Our investment strategy held up well, and the press coverage tended to be rather one-sided and ignored the fact that, for many defined benefit schemes like Pace, rising gilt yields have a positive impact on funding levels.

Elsewhere in this update, you can read about the work the Trustee has undertaken to further our responsible investment efforts. We believe that environmental, social and governance (ESG) factors play an increasingly important role in our investment processes, and you can read more about what we're doing to support this on page 11.

My fellow Trustees and I are proud to play our part in protecting the benefits you have built up in the Scheme. I hope you enjoy reading this newsletter and that it gives you some welcome reassurance about how the Scheme is being run.

Chris Martin
Independent Trustee Services Limited
Chair of the Pace Trustee Board

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The contact details on page 22 are for questions about Pace DB benefits administered by the Co-op Pensions Department. If you also have Plymouth Fund or Yorkshire Fund benefits which transferred into Pace DB in March 2021, you will receive another copy of this report which includes the contact details for Mercer, the administrator of those benefits.



Your Trustees

There have been no changes to the Trustee Board that runs Pace since the last Members' Report was issued, so your current Trustees are:

- Chris Martin, Chair (Independent Trustee Services Limited, Chair of the Pace Trustee Board) - chosen by the Co-op
- Stuart Benson - chosen by the Co-op
- Anne Kershaw - chosen by the Co-op
- Christopher Wheeler, BESTrustees - chosen by the Bank

You can find out more about each Trustee on the pensions website, at <https://coop.pacepensions.co.uk/about-pace/the-trustees>



Funding update

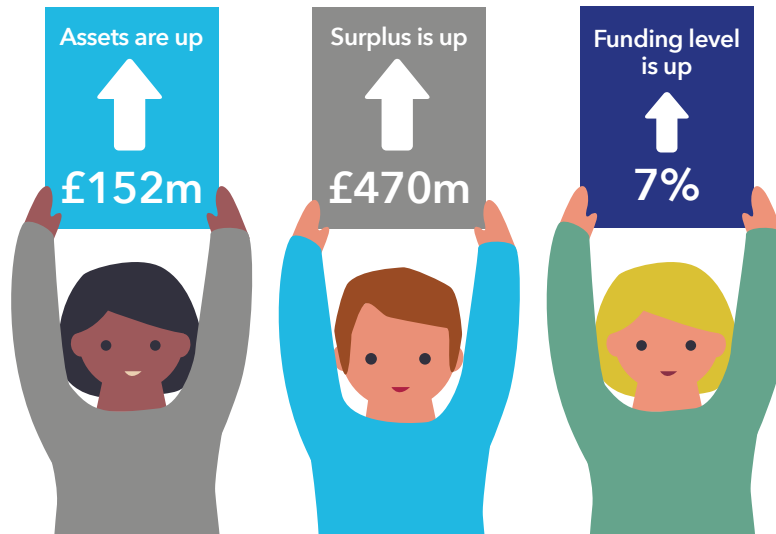


Every three years the actuary, an adviser to the Trustees, looks at Pace DB's finances to undertake a formal valuation. The actuary also carries out less detailed 'annual check-ups' on Pace DB.

Both the three-yearly valuation and the annual check-ups look at the financial strength of Pace DB on a particular day - in our case, usually 5 April. In addition, the Trustees and the actuary regularly monitor the financial strength of Pace DB.

The latest valuation looked at the position on 5 April 2022, and this was followed by an annual check-up as at 5 April 2023.

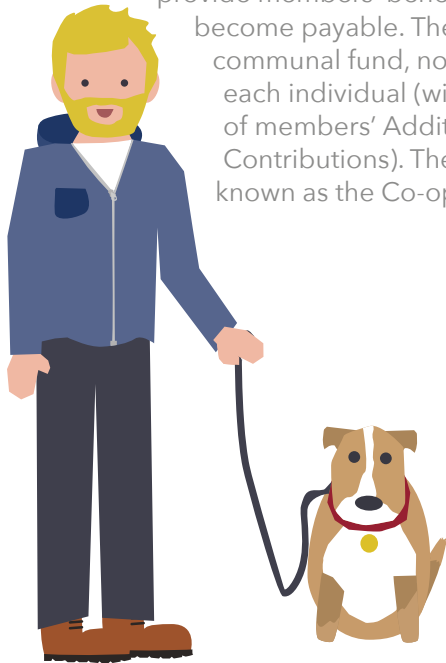
How have things changed between the valuations in 2019 and 2022?



Understanding the funding position

The estimated cost of providing the benefits built up in the Co-op Section to date is known as the 'liabilities'.

The money paid into the Co-op Section by the Co-op and members (before it closed to future pension build-up) 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 money invested is known as the Co-op Section's 'assets'.



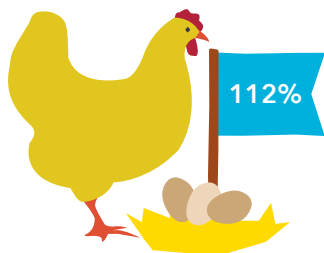
The actuary compares the value of the Co-op Section's liabilities with its assets to work out the funding position. If the Co-op Section has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities, it is said to have a 'surplus'.

In the last Members' Report, we gave you the results of the 2021 annual check-up, which showed that the assets in the Co-op Section more than covered our pension promises to members - but what is the position now, after a very turbulent time in global markets?

The good news is that the Scheme is largely protected against changes that increase the value of the liabilities - so if the liabilities go up (or down), then the assets go up (or down) too. So, although the value of Pace assets went down, so too did the liabilities. In fact, the gap between what we have (our assets) and what we need (our liabilities) was even bigger, so our surplus grew between the 2019 and 2022 valuations.

Mind the gap!

If the Co-op Section's liabilities were bigger than its assets, it would have a funding shortfall - in which case the Co-op would have to pay in extra money to fill the gap. But right now we're estimated to have a surplus. However, this surplus is reliant on the assumptions used by the actuary, and to an extent by things like future investment returns and life expectancy being in line with what is expected. We are continuing to actively look at ways of taking advantage of our favourable financial position to further improve security and reduce the risks to members.

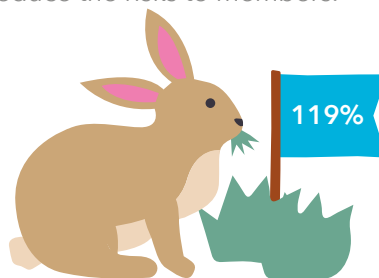


2019 - valuation year

Assets*: **£8,633m**

Liabilities: **£7,726m**

Surplus: **£907m**



2022 - valuation year

Assets*: **£8,785m**

Liabilities: **£7,408m**

Surplus: **£1,377m**



2023 - check-up

Assets*: **£6,279m**

Liabilities: **£5,247m**

Surplus: **£1,032m**

* This doesn't include Additional Voluntary Contributions paid in by members

Shortfall on winding up

When we did the 2022 valuation, we also had to look at what would happen if the Co-op Section was wound up (that is, if for any reason we transferred all our assets and liabilities to an insurance company). We have to include this information in our annual funding update, so the fact we're telling you about it doesn't mean the Co-op is planning to wind up the section. If the Co-op Section had wound up as at 5 April 2022, it's estimated that we would have had to pay an insurance company £8,539m (2019: £9,255m) to provide all the benefits in full.

At the last valuation in 2019, we had a shortfall on this 'wind-up' basis, but the latest valuation shows that we have a surplus this time around. In fact, the Co-op Section's assets at 5 April 2022 covered 105% of the cost of insuring members' benefits.

Pension Protection Fund

If the Co-op Section were to wind up and had a shortfall, and the Co-op didn't have enough money to pay off the shortfall, the Pension Protection Fund (PPF) might help (although, as explained in the previous section, the Co-op Section currently has enough assets to cover its liabilities). The PPF was set up 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. Find out more at: [ppf.co.uk](https://www.ppf.co.uk)

Other things we have to tell you

As part of this funding update, we also have to tell you that:

- There haven't been any surplus payments to the Co-op from Pace during the last 12 months
- The Pensions Regulator hasn't used its powers in relation to Pace over that period.

Our investments

Recent years have seen considerable political and economic volatility, with the prolonged impact of coronavirus lockdowns, Russia's invasion of Ukraine and the UK government's 'mini-budget' in September 2022.

The Trustees' investment strategy has held up well in the face of these events and our robust governance framework has allowed us to react promptly to assess the impact and make adjustments where required; over 2022 we made modest changes to our investment strategy to continue to de-risk and improve the liquidity of our assets (and rebalanced as planned, as interest rates rose).

As part of our investment strategy, in 2020 the Trustees entered into insurance policies with PIC and Aviva in respect of a portion of Pace DB's pensioner liabilities.

The Trustees will continue their work to reduce risk within the Co-op Section of Pace and to improve the security of your Pace pension. This may involve other opportunities to enter into further insurance policies with regulated insurers, and the Trustees' utmost priority in such exercises will be the security of your Pace pension.

Investment strategy

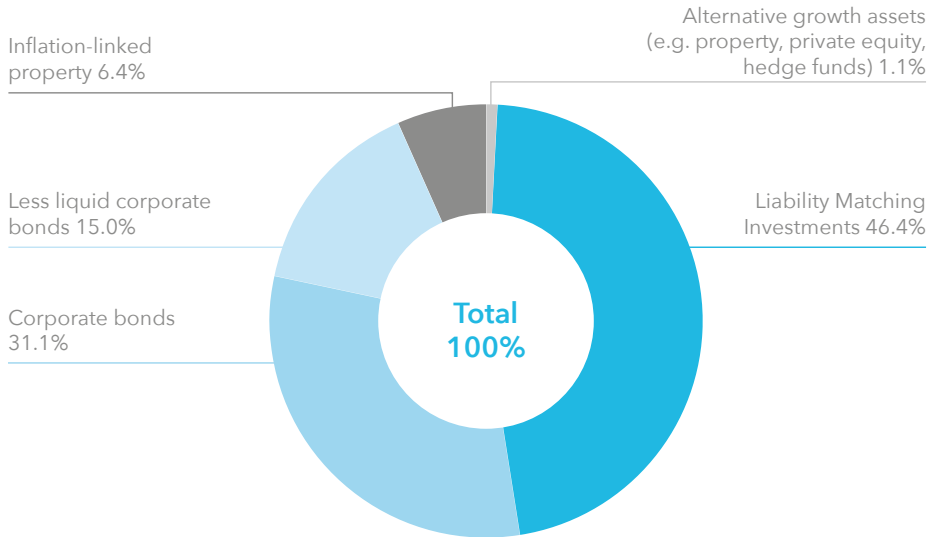
The Trustees have set a very low-risk, low-return investment strategy that aims for an expected return of around 0.8% p.a. (net of fees) above the return on gilts.

This is a low-risk, low-return approach, and if the funding level improves, then the Trustees may look to use the opportunity to reduce investment risk further.



Where were the Co-op Section's DB assets invested during the year?

This chart shows the Co-op Section's investments (excluding the insurance policies) as at 5 April 2023. Since the last Members' Report was sent out, we have disinvested from our remaining higher-risk investments, such as property and alternative growth assets.



How the assets performed

The total return on the Co-op Section's assets for the 12 months to 31 March 2023 was approximately -29.0% compared with a benchmark return of -29.4%. (The benchmark is a target set by the Trustees.)

The value of the Section's DB assets fell by £2.7bn, from £9.1bn at 5 April 2022 to £6.4bn at 5 April 2023.

This negative performance is due to rising gilt yields over the year. While this appears to show a significant fall in assets, this negative performance has been offset by a fall in the Scheme's liabilities (as a result of rises in gilt yields), and in practice the funding level of the Co-op Section actually *improved* over the year from 119% to 120% (see page 7).

Responsible investment

As long-term investors, making sure Pace's assets are invested responsibly and sustainably is important to the Trustees, and we want to invest in order to pay benefits in a way that takes into account broader social and environmental concerns.

We've published a responsible investment policy on our website setting out our current priorities:

- climate change and the protection of the environment (including tackling deforestation)
- labour conditions and equal pay
- how the businesses we invest in are run.

In 2022, we published our first climate change risk assessment report, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This showed that our exposure to climate risk in the DB Section of Pace is relatively limited because of the low-risk nature of our investments; we've also set a target for both Pace DB and Pace DC to be Net Zero on carbon emissions by 2050 or earlier. Our second TCFD report will be published in November 2023.

You can find out more in the latest Responsible Investment Report and the climate change risk assessment reports available on our website: coop.pacepensions.co.uk/useful-information/pace-investments



Our accounts

Every year, the Trustees produce a formal report and set of accounts for Pace, which are independently audited by Deloitte. The information on this page is a summary of the report for the year ending 5 April 2023. You can download a copy of the full report from coop.co.uk/pensions under Useful information/Pace DB.

Value of Co-op Section as at 6 April 2022	£9,076m
Changes in the year	
<i>Plus income</i> (this is income from the investments; the Co-op Section has a funding surplus which means that currently the Co-op does not need to pay contributions into the DB Section of the Scheme)	+ £508m
<i>Less expenditure*</i> (including member transfers of £48m and pensions and other benefits of £218m)	- £281m
Change in market value (a decrease in the value of the assets during the year)	- £2,936m
Value of Co-op Section as at 5 April 2023**	£6,367m

In the year to 5 April 2023, the value of the Co-op Section decreased by £2.7 billion to £6.4 billion. Although this may seem concerning, as we have explained on page 10 of this newsletter, it's more important to consider the funding level (the relationship between the assets and liabilities), which has actually strengthened slightly over the year.

* This includes administrative and investment management expenses.

** This includes Additional Voluntary Contributions and places a slightly different value on the buy-in policy to that used in the funding update on page 7.



Who's in the Co-op Section of Pace?

As at 5 April 2023, the Co-op Section of Pace DB had 62,400 members.

Closure members 2,792

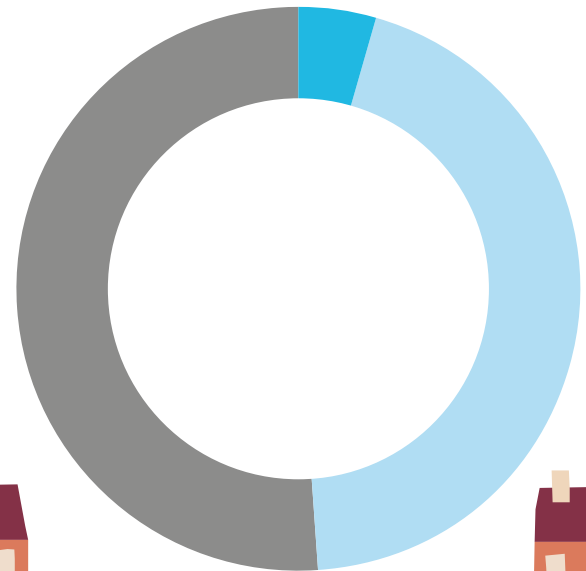
These members were paying contributions into Pace DB before it closed in October 2015 and are now paying contributions to Pace DC. As at 5 April 2023, the Co-op Section of Pace DC had just over 76,000 members.

Deferred members 27,740

These members haven't yet started to receive their pension but have a preserved pension in Pace DB.

Pensioner members 31,868

These members are receiving a pension from Pace DB.



Pace noticeboard

Check the website for updates

The pensions website at coop.co.uk/pensions remains your first port of call for the latest news about Pace or your pension. If service in future is disrupted for any reason, we will post updates on the website as they are confirmed – making this the quickest way to keep in touch with Pace. It's also a good idea to check the website regularly anyway, as it has lots of useful information about Pace and how your pension works.



Changes to our complaints process

The Trustees are required by law to maintain an Internal Dispute Resolution Procedure (IDRP) for resolving any complaints that you may have regarding your pension or the service that you receive from Co-op colleagues.

The IDRP for Pace was modified in January 2022 to reduce the number of stages involved and to ensure that the resolution of each complaint is reached as swiftly as possible. You can find a copy of the latest Pace IDRP as at March 2023 at bit.ly/451UuBo

Member Online now available to all

Since April 2020, our pensioner members have been able to view their P60s (annual tax certificates) and payslips through our secure member area, Member Online. We no longer send paper copies of these documents, and pensioners need to access them through the online facility.

Since the launch of that service, we have been working on adding additional functionality to the Member Online service and can confirm that this service is now open to all members. You can update your personal details online, including address and bank details, and keep your death benefit nominations up to date.

If you have requested a quotation or received a letter from the Pensions Department since 2022, copies of those documents are now held in your Member Online account and can be viewed at your convenience.

Details of the online service, including how to register can be found at memberonline.pacepensions.co.uk

Normal Minimum Pension Age

The government has confirmed that the minimum retirement 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. This won't apply to pension savers who already have a protected early retirement age below 55, and in some cases members may be able to 'lock in' early retirement at age 55 as long as it's set out in the rules of their scheme. The Trustees are reviewing the Pace rules and will be contacting those members who have 'locked in' a retirement age of 55.

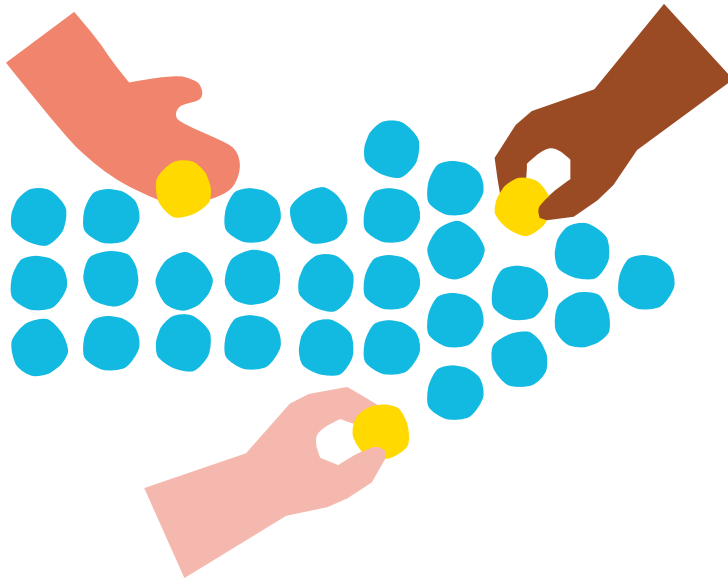
Did you know?

It's possible to defer the payment of your State Pension if you want to do this. You can find out how much you're on track to receive at gov.uk/check-state-pension



Changes to pensions tax allowances

In March 2023, the government announced a number of changes to the tax position for pensions which took effect from 6 April 2023. These changes are summarised in this article. It's a good idea to review your arrangements and consider if the changes have any impact on your financial and retirement planning.



Annual Allowance

The Annual Allowance is the total amount that can be paid into all of your pensions each tax year without you having to pay extra tax. For most people, the Annual Allowance is now £60,000 but it might be lower if you're a high earner.

If you're a high earner, you may have a reduced Annual Allowance, known as the 'Tapered Annual Allowance'. From 6 April 2023, the minimum Tapered Annual Allowance is £10,000.

You'll start to pay income tax at your marginal rate on any pension savings you make which are more than the Annual Allowance or Tapered Annual Allowance.

The rules governing the Annual Allowance and Tapered Annual Allowance are complicated. You can find more information in the **Pensions Tax Limits: Summary Factsheet** and the **Annual Allowance Factsheet** on the pensions website. You should always seek advice from an independent financial adviser if you think you could be affected by the Annual Allowance or the Tapered Annual Allowance.

Money Purchase Annual Allowance (MPAA)

If you've already started taking money from a defined contribution (DC) or 'money purchase' pension scheme, you can now save up to £10,000 a year into another DC scheme without paying extra tax. This £10,000 limit is known as the MPAA.

Once your savings reach £10,000, you'll start paying income tax at your marginal rate on the money you save.

This is relevant for you if you're already using some of your pension savings and continuing to work and save into a different pension at the same time. Your pension scheme administrator will let you know if you've triggered the MPAA.

More information about the MPAA can be found in the **Annual Allowance Factsheet** on the pensions website.



Lifetime Allowance

The limit on how much can go into your pension over your lifetime is known as the Lifetime Allowance.

The government removed the Lifetime Allowance tax charge from 6 April 2023. This was a one-off tax charge of 55% where pension savings above the Lifetime Allowance were taken as a lump sum, or 25% plus income tax where they were taken as a pension.

The government also announced plans to abolish the Lifetime Allowance from 6 April 2024. We're still waiting to hear from the government as to how this change will be implemented.

The Lifetime Allowance is still in place for the 2023/2024 tax year and is currently £1,073,100.

If you take any of your pension savings this tax year and the total value of your pension savings is above the Lifetime Allowance at that time, you'll pay income tax on the excess at your marginal rate instead of the Lifetime Allowance tax charge. This means all of your pension savings, apart from any tax-free cash, will now be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance. There will be no additional Lifetime Allowance tax charge.

You can find more information about the Lifetime Allowance in the **Pensions Tax Limits: Summary Factsheet** and the **Lifetime Allowance Factsheet** on the pensions website.

Tax-free cash

When you retire, you can take up to 25% of your pension as tax-free cash. There is now a maximum amount that you can take as tax-free cash, which is £268,275. Any cash you take from your pension after that will be taxed at your marginal rate of income tax. If the value of all of your pensions combined is worth more than £1,073,100, this might affect you. The maximum amount of tax-free cash you can take at retirement is expected to remain frozen at £268,275, and this limit is likely to apply to you if you take your benefits in a future tax year.

Further information about the limit on tax-free cash can be found in the **Pension Tax Limits - Summary Factsheet** and the **Lifetime Allowance Factsheet** on the pensions website.

If you have a protected right to a higher tax-free lump sum at 5 April 2023, or if you successfully apply for such a protected right, you'll still be able to access this right. The **Pensions Protections Factsheet** on the pensions website provides more information about tax-free lump sums and protected rights.



Further information and financial advice

Pensions taxation is complicated. You can find further information in the various tax factsheets mentioned in this article on the pensions website at: coop.pacepensions.co.uk/useful-information/tax-information/

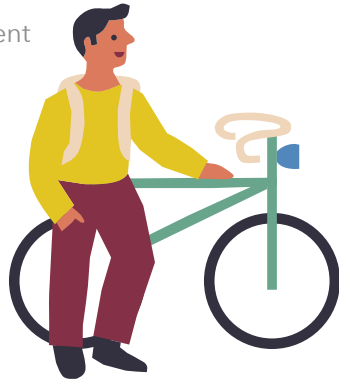
If you think you may be affected by the tax limits, you should consider getting independent financial advice. You can find an adviser in your area who is regulated by the Financial Conduct Authority by searching for 'Find a retirement adviser' on the MoneyHelper website: moneyhelper.org.uk/en

You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

Don't let a scammer steal your pension

Research by the Financial Conduct Authority (FCA) and the Pensions Regulator found that half of pension savers do not believe that they are at risk of being targeted by a pension scammer. Pension scams can happen to anyone and the number of people being scammed out of their retirement savings is growing.

Many people have been targeted by pension scams, which offer seemingly attractive 'investment opportunities' to encourage you to transfer your retirement savings into their funds. These scams could result in the loss of your entire retirement savings, and you could also face significant tax penalties.



Scam tactics include:

- contact out of the blue (this could be via a phone call or via social media for example)
- promises of high or guaranteed returns or better returns on your pension savings
- free pension reviews and/or access to your pension before age 55
- pressure to act quickly and high-pressure sales tactics
- unusual investments, which tend to be unregulated or high risk and/or complicated structures, so it is not clear where your money will end up
- several groups or companies involved which all take a fee, meaning the amount taken from your pension will be significant.

Members should also be aware that scammers are operating as so-called claims management companies and attempting to use 'subject access requests' to obtain personal information and details about a saver's pension arrangements. Please be particularly vigilant if you are approached in this context. Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing. They design attractive offers to persuade you to transfer your pension to them or release funds from it. It is then invested in unusual and high-risk investments, like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

To help you identify a scam and protect your retirement savings, the FCA has launched an online tool so you can check that the firm you are dealing with is regulated and see if what you're being offered is a known scam or has signs of a scam. You can access this tool and find out more information on scams by visiting [fca.org.uk/scamsmart/how-avoid-pension-scams](https://www.fca.org.uk/scamsmart/how-avoid-pension-scams)

You can also obtain more information about scams in the FCA leaflet which you can view at [fca.org.uk/publication/fca/pensions-scams-leaflet-screen.pdf](https://www.fca.org.uk/publication/fca/pensions-scams-leaflet-screen.pdf) or on the pension scams section of the Pace website (under 'Transfers') where you can find links to other useful websites.

Do not sign up for anything that you do not understand. If you have any doubts, contact Money Helper on 0800 011 3797 or via [moneyhelper.org.uk](https://www.moneyhelper.org.uk) and discuss your concerns.



Get in touch

Please get in touch by email if you can. If not, you can call or write to us.

Email us: staffpensions@coop.co.uk

Phone us: 0330 606 1000

Find us online: coop.co.uk/pensions

Write to us:

Pensions Department
Dept. 10406
Co-operative Group Limited
1 Angel Square
Manchester
M60 0AG

If you're a former Plymouth or Yorkshire Fund member

The contact details on this page are for questions about Pace DB benefits administered by the Co-op Pensions Department. If you also have Plymouth Fund or Yorkshire Fund benefits which transferred into Pace DB in March 2021, you will receive another report which includes the contact details for Mercer, the administrator of those benefits.

Please note: your Pace benefits are determined by and subject to the Pace 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 download a copy of the Rules under Useful information/Pace DB at coop.co.uk/pensions



