Deloitte.

MAKING AN IMPACT THAT MATTERS since 1845

# Actuarial Report 31 March 2020

## GPS WEC Section of the Combined Nuclear Pension Plan

19 March 2021

Actuarial Report 31 March 2020
GPS WEC Section of the Combined Nuclear Pension Plan


**Deloitte Total Reward and Benefits Limited**
1 New Street Square
London
EC4A 3TR

# Contents

| | | |
|---|---|---|
| 1 | Introduction | 4 |
| 2 | Summary of results | 5 |
| 3 | Methodology overview | 6 |
| 4 | Experience since the valuation | 8 |
| 5 | Next steps | 10 |
| A | Assumptions | 12 |
| B | Assets | 13 |
| C | Glossary | 14 |

# 1 Introduction

This report has been prepared for the *Trustee* of the GPS WEC Section of the Combined Nuclear Pension Plan (the "Section") and sets out the results of the Actuarial Report at 31 March 2020.

The purpose of this Actuarial Report is to provide an approximate update of the Section's funding position at 31 March 2020, following the *actuarial valuation* at 31 March 2019.

This report should be read in conjunction with:

- The *Scheme Funding Report* dated 11 November 2020 for the actuarial valuation at 31 March 2019 and
- The in force *Statement of Funding Principles*, *Schedule of Contributions* and *Recovery Plan*, each dated 26 September 2020.

This report has been prepared in accordance with *Technical Actuarial Standard 100* and reviewed in accordance with Actuarial Professional Standard X2. This report has been drafted on the basis that it will not be used by the Trustee to support decisions on funding, contribution requirements or benefit levels. If this is not the case, please let me know.

This report may not be relied on for any purpose other than that explained above. The funding valuation is not relevant for any other purposes, and in particular is not relevant to the costs and liabilities of the Section to be disclosed by the Employers in their accounts.

In accordance with our terms of engagement, this report is addressed to the Trustee, but copies may be provided to the Employers. It may not be shown to any other party without the express written permission of Deloitte Total Reward and Benefits Limited and we do not accept any liability to any party other than the Trustee in relation to the contents of this Actuarial Report.

A glossary of defined terms can be found in Appendix C.

| Signature | Date |
|---|---|
| Mark McClintock | 19 March 2021 |
| **Name** | **Qualification** |
| Mark McClintock | Fellow of the Faculty and Institute of Actuaries |

# 2 Summary of results

At the date of the Actuarial Report there was a deficit of £6,806,000. This is a deterioration since the last valuation when the deficit was £2,820,000.

The table below sets out the value of the assets and *Technical Provisions* at 31 March 2020 compared to the position at the valuation date, and the corresponding change in *funding level*.

| £000's | 31 March 2020 Actuarial Report | 31 March 2019 valuation |
|---|---|---|
| **Assets** | 44,413 | 46,235 |
| **Technical Provisions** | | |
| - Total liabilities | 51,219 | 49,055 |
| - Expenses | - | - |
| **Total Technical Provisions** | 51,219 | 49,055 |
| **Surplus/(deficit)** | (6,806) | (2,820) |
| **Funding level** | 87% | 94% |

The scope of this Actuarial Report is limited to considering the funding position at 31 March 2020. It should be noted that the financial position will have changed since that date and some information on the extent of the change up to 30 November 2020 is included in Section 4.

It should also be noted that it is possible that the development of the buy-out solvency position, which is not considered in this report, might be different from the estimated development of the ongoing funding level.

# 3 Methodology overview

I have valued the Technical Provisions as at 31 March 2020 by approximately rolling forward the results of the valuation.

To value the Technical Provisions, I have allowed for:

- changes in financial conditions between the valuation date and the date of this Actuarial Report;
- actual inflationary increases to deferred benefits and pensions in payment; and
- actual benefit payments and expenses paid into and out of the Section.

As no new member data has been used for this report, membership movements are implicitly assumed to be in line with the projections made at the valuation.

If actual member experience (e.g. number of deaths or transfers out of the Section) is significantly out of line with expectations, then the liability values calculated using full membership data may be materially different from the estimate given in this report.

**Proposed changes to RPI**

The UK Statistics Authority (UKSA) announced on 4 September 2019 that it intends to reform the Retail Prices Index (RPI) to bring it into line with CPIH, which is the Consumer Prices Index (CPI) including owner occupiers' housing costs. The Government carried out a public consultation on the matter during 2020, covering the timing and methodology used in any change. The results of this consultation were released on 25 November 2020. It concluded that RPI will be reformed to be in line with the CPIH with the transition taking place during 2030, and that no compensation would be paid to index-linked gilt holders.

It is necessary to consider how this proposed change will impact the future increases (under the pension scheme rules) for pensions that are currently RPI linked and also the appropriate derivation of the pension increase assumption to be used. It is my view that the market-implied RPI inflation curve remains a reasonable basis for estimating long term future RPI-linked pension increases at 31 March 2020, including the changes in the RPI index to CPIH. I am therefore not proposing to make any specific adjustments. However, as the market reacts to the outcome of the public consultation, this assumption should be kept under review and if necessary, taken into consideration again in future year ends, as this reform progresses.

**Consumer Prices Index ("CPI")**

There are differences in the determination of RPI and CPI, both in the method of calculation and the goods covered by the indices.

Unlike RPI inflation, there is currently no market measure of future CPI inflation. The assumption for RPI inflation is often therefore used as the starting point for determining a suitable CPI inflation assumption.

RPI inflation (before the proposed changes outlined above) is generally expected to be significantly higher than both CPI and CPIH inflation, with CPI and CPIH inflation being broadly similar. On the day of the UKSA announcement, I would have expected to see a significant reduction in market implied RPI inflation, given CPIH inflation has historically been significantly less than RPI inflation. The actual observed immediate reduction was less than the full amount of the expected change to RPI inflation post 2030, with long-term market expectations of RPI inflation falling by around 0.2% p.a.

At the 31 March 2019 valuation, the CPI inflation assumption was derived by applying a deduction to the RPI assumption of 1.0% p.a. CPI inflation is used in the derivation of the Post 88 GMP increase assumption. Following the UKSA announcement, I propose that the RPI-CPI differential is amended based on:

- the change to RPI inflation being introduced in 2030,
- my expectations of the difference between RPI and CPI before (1.0%) and after that date (0.0%),
- the profile of inflation-linked benefits in the Section; and
- a desire for a straightforward calculation methodology whilst being cautious on understating the cost of inflation-linkage.

As at 31 March 2020 I propose that the RPI-CPI differential is reduced to 0.80% p.a. and an assumption of 2.10% p.a. is adopted for the CPI inflation.

**Approximate funding position as at 30 November 2020**

In this report, I have set out the estimated funding position of the Section as at 30 November 2020 and a number of approximations have been made to estimate this, although none of these should have a material impact on the result:

- The cash in the Trustee bank account is unchanged from 31 March 2020;
- The cost of benefits accruing and benefits paid out of each section are assumed to be at the same rate as during the period to 31 March 2020; and
- No allowance for inflationary experience or membership movements has been made.

# 4 Experience since the valuation

Since the valuation the deficit has increased from £2,820,000 to £6,806,000, mainly as a result of changes in market conditions and lower than expected investment returns.

The key reasons for the change in funding position are:

- a fall in market expectations for long-term RPI inflation from 3.5% p.a. to 2.9% p.a.;
- the deficit contributions paid by the Employers; and
- short-term inflation has been lower than expected.

This has been offset by:

- lower than expected returns on the Section's assets over the period;
- yields on 20-year government bond have fallen from 1.6% p.a. to 0.85% p.a.; and
- the future service contributions being lower than the cost of benefits accruing.

A summary of the reasons for the change are set out in the table below.

| | | £000's |
|---|---|---|
| **Surplus/(deficit) at 31 March 2019** | | (2,820) |
| Interest on the deficit | | (72) |
| Deficit contributions paid by the Employers | | 550 |
| Contributions above/(below) the cost of accrual | | (135) |
| Investment returns in excess of the discount rate | | (1,667) |
| Changes in market conditions | | (2,975) |
| Pension increases (in payment and deferment) | | 313 |
| **Surplus/(deficit) at 31 March 2020** | | (6,806) |

There have been no significant events that have occurred since 31 March 2020 that have affected the membership profile or the benefits of the Section. However, since the start of 2020 there has been significant levels of volatility in market conditions and in equity markets, which deteriorated the value of the assets at the effective date of this annual report when compared with equity values during January 2020. Equity markets have recovered and increased strongly during November 2020 after the announcement of the potential COVID-19 vaccinations.

There has been an increase in expected RPI inflation and the assumption as at 30 November would be 3.25% or 0.35% p.a. above the figure at 31 March 2020 and increases the Section's liabilities. Gilt yields were similar at 31 March 2020 and 30 November 2020 and have had little impact.

Overall, the funding level as at 30 November 2020 has improved since 31 March 2020 as the effect of significant investment returns on the Section's assets and the Employers' deficit contributions have offset the impact of higher expectations for long-term inflation.

By approximately updating the funding position to 30 November 2020, it is expected that the funding level has improved from 87% to 95%.

Also, short-term inflation is lower than expected with September 2020's RPI inflation figure being 1.1% and there will be funding saving on the deferred and pensioner liabilities when this is implemented on 1 April 2021. No allowance for this increase has been applied in the 31 March 2020 results or the approximate position at 30 November 2020.

Since the approximate update as at 30 November 2020, equity markets have continued to rise but inflation expectations have increased. The yield on government bonds has also increased resulting in a higher discount rate. While no formal calculation has been completed, it is expected that the funding position will have improved since 30 November 2020.

# 5 Next steps

The Trustee are required to share the results of this report with the Employers and members.

Following receipt of this report the Trustee should:

- Send a copy of this report to the Employers within seven days; and
- Provide a summary funding statement to members within a reasonable period.

While this annual report does show a deterioration in the funding position as at 31 March 2020, market movements since this date have resulted in a stronger funding position. I do not consider it necessary to bring forward the date of the next actuarial valuation if there has not been a significant change in the employer covenant.

A further Actuarial Report is due with an effective date of 31 March 2021, and the next full actuarial valuation is due at 31 March 2022.

# Appendices

# A Assumptions

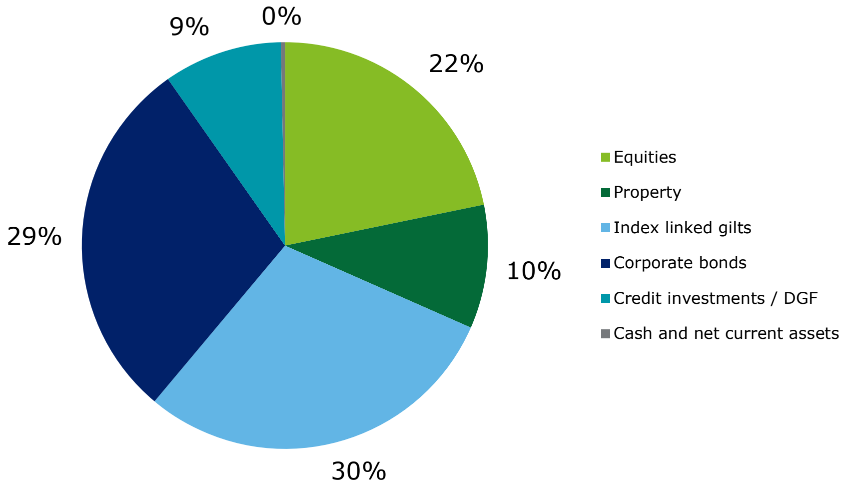
The key financial assumptions used to calculate the Technical Provisions for this Actuarial Report are set out below. The corresponding assumptions used for the valuation are shown for comparison.

These assumptions have been based on the methodologies set out in the in force Statement of Funding Principles, as determined by the Trustee and Employers, and updated for market conditions.

| **Technical Provisions** | 30 November 2020<br>Approximate update | 31 March 2020<br>Actuarial Report | 31 March 2019<br>Valuation |
|---|---|---|---|
| Discount rate | Pre-retirement: 2.05%<br><br>Post-retirement: 1.35% | Pre-retirement: 2.05%<br><br>Post-retirement: 1.35% | Pre-retirement: 2.80%<br><br>Post-retirement: 2.10% |
| Retail Prices Index (RPI) inflation | 3.25% | 2.90% | 3.50% |
| Consumer Prices Index (CPI) inflation | 2.45% | 2.10% | 2.50% |
| Salary increases | 1.00% plus a promotional salary scale | | |
| Inflation-linked pension increases in payment | 3.25% | 2.90% | 3.50% |
| Post-retirement mortality | 110% SAPS S3 All Pensioners YoB and CMI 2018 projections with a long term trend of 1.5% p.a. | | |
| Pre-retirement mortality | Same as post-retirement mortality | | |
| Retirement | Age 60 or 65 as applicable to specific members | | |
| Withdrawal from active service | Withdrawal scale applied | | |
| Proportion married | Based on scheme specific experience | | |
| Age difference | Males 3 years older than females | | |
| Cash commutation | 58% of members assumed to commute the maximum amount of tax free cash | | |
| Expenses | Paid directly by the Employers | | |

# B Assets

I have used an asset value of £44,413,000. This is based on the audited value in the Trustee's Report and Accounts, excluding Defined Contribution assets.



# C Glossary

Key terms used throughout this report are summarised below

| | |
|---|---|
| **Actuarial Report** | A report commissioned by the Trustee to provide an update of the Plan's funding position at a time between full actuarial valuations |
| **Actuarial valuation or valuation** | A review carried out by an actuary under legislation at least every three years to assess whether a pension scheme's assets are sufficient to meet its liabilities and determine the contributions payable to the Plan in the future |
| **Discount rate** | The rate used to place a present value on the projected benefit payments |
| **Employers** | Springfields Fuels Limited and Westinghouse Electric UK Holdings Limited |
| **Funding level** | The ratio of the value of assets to the value of the liabilities |
| **Funding valuation** | An actuarial valuation of the Section carried under legislation to determine the contributions payable to the Section in future |
| **Guaranteed Minimum Pension ("GMP")** | A minimum level of income provided to members of contracted-out pension schemes between 1978 and 1997 |
| **Recovery Plan** | An agreement between the Trustee and the Employers for payments needed to meet any shortfall between the assets and Technical Provisions |
| **Schedule of Contributions** | A schedule setting out the contribution rates and payment dates agreed between the Trustee and the Employers and certified by the Scheme Actuary as being adequate to satisfy the SFO |

| | |
|---|---|
| **Scheme Funding Report** | A report prepared by the Scheme Actuary setting out the results of the actuarial valuation |
| **Statutory Funding Objective (SFO)** | The requirement that a defined benefit pension scheme should have sufficient and appropriate assets to cover its Technical Provisions |
| **Statement of Funding Principles** | The documented policy for meeting the SFO and the principles for determining the assumptions to calculate the Technical Provisions |
| **Technical Actuarial Standard 100** | A professional standard issued by the Financial Reporting Council which applies to technical actuarial work |
| **Technical Provisions** | The actuarial value of the accrued liabilities of the Section |
| **Trustee** | The Trustee of the Section |
| **Valuation Date** | 31 March 2019 |