

Annual Review 2014

# Nationwide Pension Fund



On your side

# Chairman's message

**I would like to welcome you to this year's Annual Review. In this edition you will find an update on the Fund's financial position and the latest pension fund news.**

One of the main focuses for the Trustees over the last year was to make sure the full actuarial valuations for both the Nationwide and Cheshire & Derbyshire Sections as at 31 March 2013 were completed. This is a process that takes place every 3 years and allows the Trustees to agree a plan for funding your benefits with Nationwide. The results of the actuarial valuation revealed a deficit of £580 million in the Nationwide Section and a surplus of £13.3 million in the Cheshire & Derbyshire Section.

You may remember that in 2010 we reported a deficit of £320 million in the Nationwide Section which the Society cleared by making additional lump sum contributions in 2011. However, in common with many other defined benefit pension schemes the Fund's liabilities have continued to increase. This is largely due to the historically low returns on Government bonds.

Whilst the reporting of a deficit of £580 million in the Nationwide Section is not good news, I am pleased to announce that, following lengthy negotiations, the Trustees have agreed a plan with Nationwide to clear the deficit. You can find full details of the results of the actuarial valuation for both sections and the deficit recovery plan for the Nationwide Section on page 9. I believe that the outcome of the 2013 Valuation will provide further financial security for members.

This year also saw a pensioner trustee election take place and I would like to welcome back Bill Partis who was re-elected to serve another 3 year term as a Trustee.

Finally, I would also like to thank the growing number of members who have provided their email address to the Employee Pensions team and will be receiving this Annual Review electronically. This is good news as it helps the Fund to reduce administration costs and improve our efficiency. On page 16 you will find further information on how you can provide your email address to the Pensions Team through our website.

**Peter Wilkin**  
Chairman of the Nationwide Pension Fund  
Trustee Board



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# Running the Fund

## The Trustees

The Nationwide Pension Fund ('the Fund') is managed by a trustee company which has eight trustee directors ('the Trustees'). The Trustees are responsible for ensuring the Fund is run in line with legislation, the rules of the Fund and best practice requirements. The current trustees are:

### Appointed by Nationwide

**Peter Wilkin**, Chairman and independent trustee appointed 1 March 2013

**Andy Townsend**, appointed 1 April 2012

**Graham Pilkington**, appointed 1 April 2012

**Philip Whittome**, independent trustee appointed 1 June 2012

### Nominated and elected by Active Members

(6 year term of office)

**Arthur Amos**, elected 15 December 2010

**Rob Goldspink**, elected 17 November 2008

**Mark Willis**, elected 17 December 2009

### Nominated and elected by pensioners

(3 year term of office)

**Bill Partis**, elected 19 May 2014

Following the election earlier in the year for a trustee director nominated by pensioner members, Bill Partis was re-elected as a Trustee.

A review of the Fund's governance and risk management arrangements is underway to help ensure that the Fund continues to be run in accordance with best practice. The results of the review will be reported in next year's Annual Review.



### Trustee Advisers

The Trustees are responsible for the efficient running of the Fund. Some of their day to day responsibilities are delegated and, where necessary, they take advice from independent professional advisers when making decisions.

The main advisers are shown below. A full list, including investment managers, is available in the Annual Report and Accounts.

<b>Actuary</b> Jeremy Ball, Aon Hewitt	<b>Auditor</b> Crowe Clark Whitehill	<b>Custodian</b> Northern Trust
<b>Investment Consultants</b> Aon Hewitt	<b>Lawyer</b> Sackers & Partners	

# Scheme finances

Each year the Trustees produce a report and set of accounts for the period from 1 April to 31 March. A full copy of the Report and Accounts can be found on our website and a summary of the money paid in and out of the Fund is shown opposite.



## Scheme Assets

Over the year, total assets

**increased  
by 4%**

from **£3,468m** to **£3,614m**

## Nationwide Section

	£m
Total assets at 1 April 2013	3,243.1
Money paid in	+
Employer contributions	110.4
Member contributions*	0.3
Member additional contributions	1.3
Return on Investments	137.0
<b>Total Income</b>	<b>249.0</b>
Money paid out	-
Pension payments	57.1
Lump sums on retirement	11.6
Lump sum death benefits	0.5
Leavers	6.7
Administration & investment expenses	21.9
<b>Total outgoings</b>	<b>97.8</b>
Total assets at 31 March 2014	3,394.3

## Cheshire & Derbyshire Section

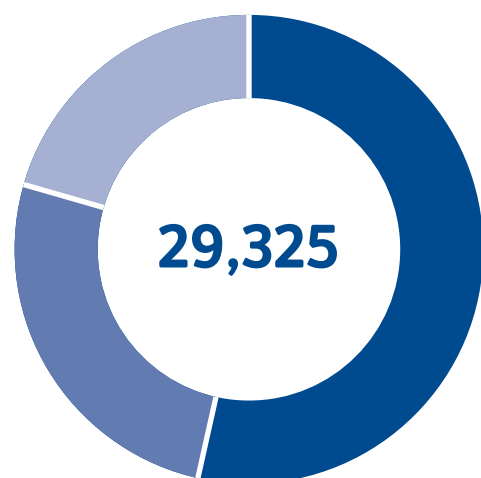
	£m
Total assets at 1 April 2013	224.5
Money paid in	+
Employer contributions	0
Member contributions	0
Member additional contributions	0
Return on Investments	1.1
<b>Total Income</b>	<b>1.1</b>
Money paid out	-
Pension payments	4.1
Lump sums on retirement	1.2
Lump sum death benefits	-
Leavers	0.1
Administration & investment expenses	0.4
<b>Total outgoings</b>	<b>5.8</b>
Total assets at 31 March 2014	219.8

\*Excludes salary sacrifice contributions of £14.5m (included in employer contributions).

## Our members

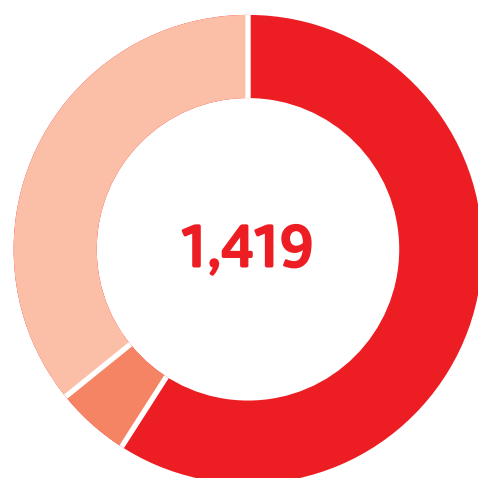
Although the Fund is closed to new members, the Trustees are responsible for looking after the pensions of over 30,000 members of the Fund.

### Nationwide Section as at 1 April 2014



Left scheme not yet taken pension:	15,872
Current employees:	7,125
Pensioners:	6,328

### Cheshire & Derbyshire Section as at 1 April 2014



Left scheme not yet taken pension:	811
Current employees:	69
Pensioners:	539

## Summary funding statement 2013 and 2014

This Summary Funding Statement updates you on the financial health of the Fund and provides important information regarding the security of your pension. It summarises the full actuarial valuations of the Nationwide and Cheshire & Derbyshire sections as at 31 March 2013 and the interim annual valuation updates which were completed at 31 March 2014.

### What does the full actuarial valuation look at?

One of the main reasons a full actuarial valuation is carried out is to ensure there is enough money to pay all of the benefits promised to members, both now and many years into the future. Full valuations are carried out every 3 years with annual interim valuation updates in between.

As part of the March 2013 Valuation the Actuary has reviewed the assumptions made in 2010 and various changes have been agreed between the Trustees and Nationwide. These factors include how long members and their dependants are expected to live and how quickly the Fund's investments are assumed to increase, as well as wider economic factors such as interest rates and inflation.

The assumptions are used by the Actuary to place a value on the Fund's liabilities (i.e. the value of members' benefits built up to 31 March 2013). This value is then compared against the value of the Fund's investments (assets) at the same date to see if there is a deficit or surplus.



# Summary funding statement 2013 and 2014 (cont.)

## What are the full valuation results for each section?

As detailed in the tables below, the Nationwide Section had a deficit of £580 million and the Cheshire & Derbyshire Section had a surplus of £13.3 million at 31 March 2013.

### Nationwide Section

31 March 2013

Money invested (assets)	£3,233m
Money needed to provide all benefits (liabilities)	£3,813m
Shortfall (deficit)	£580m
Funding level	85%

### Cheshire & Derbyshire Section

31 March 2013

Money invested (assets)	£224.4m
Money needed to provide all benefits (liabilities)	£211.1m
Surplus	£13.3m
Funding level	106%

## What is being done about the deficit in the Nationwide Section?

Following negotiations between Nationwide and the Trustees, a plan has been agreed to clear the deficit by Nationwide paying additional lump sum contributions as follows:

- £60m paid in March 2014
- £90m paid in July 2014
- £49m by each 31 July between July 2015 and July 2020 inclusive

The amounts due by 31 July 2015 and 31 July 2016 will only be paid if the Nationwide Section still has a funding shortfall in early 2015 and 2016 respectively. Further details are set out in the Nationwide Section's recovery plan, a copy of which is available on request.

## Why is the Nationwide Section in deficit and the Cheshire & Derbyshire Section in surplus?

This has been the case since the Cheshire & Derbyshire Section was first created in 2010, following the merger with the previous Cheshire & Derbyshire pension schemes. Additional contributions are being paid in to the Nationwide Section in order to help close the gap, as described above. You should be aware that the funding level of both sections will inevitably vary over time and the Trustees will continue to regularly monitor the funding positions.

## What contributions need to be paid to cover the cost of providing future benefits?

As part of the full valuation the Actuary also re-calculates how much money needs to be paid into the Fund to provide the cost of future benefits being built up by active members. This cost is expressed as a percentage of active members' pensionable salaries.

Following the 2013 valuation, the Society has agreed to increase its ongoing contribution rate from 15.9% to 22.1% of pensionable salaries with effect from 1 July 2014. Active members will continue to contribute at 7%.

## What is the interim funding position at 31 March 2014?

The interim funding position is not a formal valuation; it is an estimate of the financial health of the Fund using the 2013 valuation assumptions updated for changes in market conditions between 31 March 2013 and 31 March 2014. The interim funding position for both sections is set out below.

The main reasons for the improvement in the Nationwide Section's funding position since 1 April 2013 are:

- the payment of an additional contribution of £60 million by Nationwide on 28 March 2014 as part of the agreed plan to clear the Nationwide Section's deficit,
- the increase in long term interest rates which reduced the Nationwide Section's liabilities, and
- a higher than assumed rate of investment return.

The Cheshire & Derbyshire Section surplus increased from £13.3m at 31 March 2013 to £19.9m at 31 March 2014. This was mainly because of an increase in long term interest rates, which reduced the Cheshire & Derbyshire Section's liabilities.

## Interim Funding Position as at 31 March 2014

### Nationwide Section

Money invested (assets)	£3,384m
Money needed to provide all benefits (liabilities)	£3,685m
Shortfall (deficit)	£301m
Funding level	92%

### Cheshire & Derbyshire Section

Money invested (assets)	£219.6m
Money needed to provide all benefits (liabilities)	£199.7m
Surplus	£19.9m
Funding level	110%

# Summary funding statement 2013 and 2014 (cont.)

## How will my pension be paid if the Fund is wound up?

**Please note:** including this information within the Summary Funding Statement is a legal requirement and does not mean Nationwide is thinking of winding up the Fund.

Part of the full actuarial valuation requires the Actuary to work out what would have happened if the Fund had been wound up on 31 March 2013. This is known as a solvency valuation and the Actuary estimates if there is enough money to buy individual insurance policies to provide full pensions for every member.

The tables below show the solvency positions of both sections of the Fund at 31 March 2013, with the shortfall figure representing the money that would be required from the Society were the Fund to be wound up on the date indicated.

The funding level on a solvency basis is always lower as the cost of providing all members' benefits straight away through insurance policies is much higher than paying for them over the future life of the Fund. Also, insurance companies are required by law to take a very cautious approach to pricing pension annuities, which includes setting aside extra capital and reserves.

In addition, their prices will include their costs and a profit margin.

In the unlikely event that Nationwide was unable to pay any further money into the Fund, for example because it became insolvent, additional security is provided through the Pension Protection Fund (PPF), set up by the Government to assist schemes in such circumstances. The PPF would normally take over the Fund and pay compensation to members. There is an upper limit on the pension payable from the PPF to individuals. More information is available on their website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk).

## Other information required by legislation

The legislation requires the Trustees to say whether any surplus funds have been paid to Nationwide from the Fund in the period since the last Summary Funding Statement was issued. The Trustees can confirm that there has not been any such payment over the period. The Trustees can also confirm that the Fund has not been modified by the Pensions Regulator, or had any directions or Schedule of Contributions imposed by it.

### Nationwide Section

Money invested (assets)	£3,233m
Solvency Liabilities	£6,424m
Shortfall (deficit)	£3,191m
Funding level	50%

### Cheshire & Derbyshire Section

Money invested (assets)	£224.4m
Solvency Liabilities	£320.1m
Shortfall (deficit)	£95.7m
Funding level	70%

# Investment update

## Market Commentary

Recovery in the US has been encouraging but in Europe, it has been significantly slower with sluggish growth and a lot of issues still needing to be addressed. The inevitable slowdown in China's growth has also had a dampening impact on emerging markets. In the UK the recovery has been stronger than most analysts predicted but faces the challenge of a potential housing price bubble at a time when some austerity measures have still to take effect.



## Investment Strategy

The broad aim of the investment strategy is to invest the Fund's assets prudently and achieve the right balance of risk together with potential long term growth. This strategy is managed by a Trustee Investment Sub-Committee within a framework of objectives set out by the Trustees in a Statement of Investment Principles.

The Nationwide and the Cheshire & Derbyshire sections have their own Statement of Investment Principles which details their respective investment strategy. The Trustees amended these in March 2014 to reflect their decision to reduce the investment risk in the Nationwide section.

# Investment update (cont.)

## Nationwide Section

Money is mainly invested in two broad asset categories:

### Liability matching assets

These assets are designed to provide cash flows which correspond with the current and future liability to pay pensions to members. Such investments are generally low risk and consequently over the longer term investment returns may be lower. Over the year the Trustees increased the amount of the Fund invested in liability matching assets from 31% to 41%.

### Return seeking assets

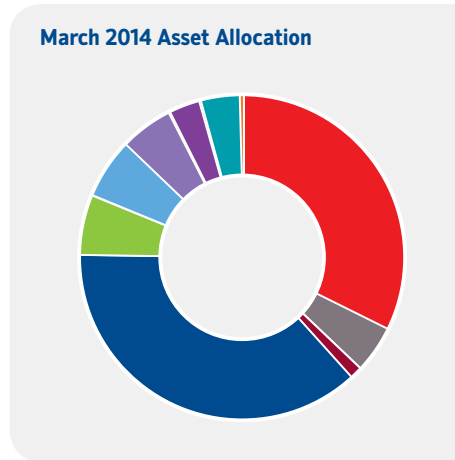
These assets aim to produce higher investment returns in the long term but are riskier and more volatile than liability matching assets. There is still a high allocation of money invested in return seeking assets. Over time, as the funding level and the market environment permits, the Trustees' long term plan is to increase the investment in liability matching assets. This will further reduce the investment risk within this Section of the Fund.

You can find more information on the investment activity over the year within the Fund's full report and accounts.

The total return for the Nationwide Section for the scheme year was 3.45%, this compares to a benchmark return of 4.78%. The average return for the 3 years to 31 March 2014 was 7.72% pa compared to the benchmark of 8.33% pa.

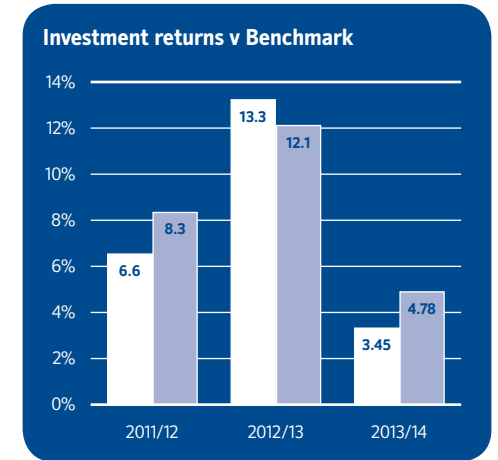
The shortfall was due to poor performance of active equity managers over the last three years. As a result the Trustees decided to exit these Funds and move to passive index tracking managers in developed markets. The process of transition from active to passive took some time and also contributed to the underperformance this year.

The investment assets at 31 March 2014 were valued at £3,393m, up from £3,245m at 31 March 2013. The assets are managed by a number of different Investment Managers and the asset allocation at 31 March 2014 is shown opposite.



Inflation Linked Bonds: 31.8%  
 Corporate Bonds: 4.9%  
 Long Lease Property: 1.3%  
 Equities: 37.3%  
 Credit: 5.8%

Infrastructure: 6.4%  
 Private Equity: 5.3%  
 Real Estate: 3.4%  
 Cash: 3.7%  
 Other: 0.1%



□ Investment Return  
 ■ Benchmark

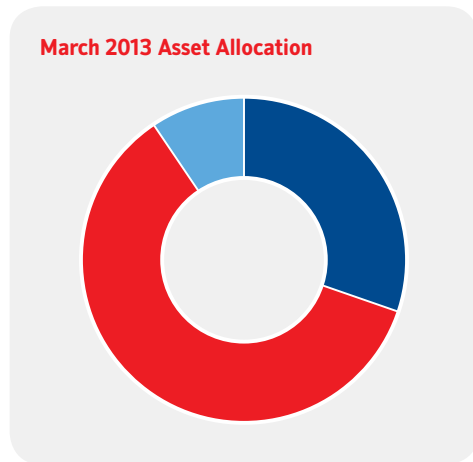


# Investment update (cont.)

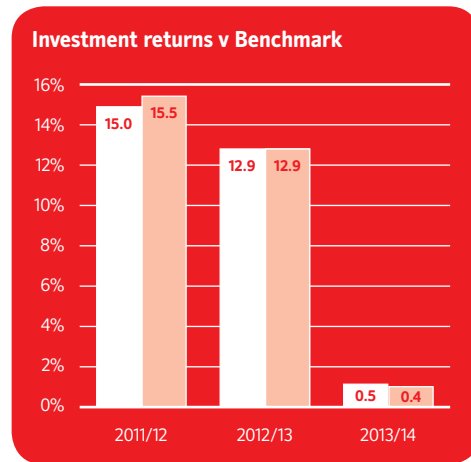
## Cheshire & Derbyshire Section

The Cheshire & Derbyshire section's return for the year was 0.54% which compares to a benchmark of 0.43%. The average annual return for the period from 1 April 2011 to 31 March 2014 was 9.29%.

The investment assets at 31 March 2014 were valued at £220m, down from £225m at 31 March 2013. The assets are managed by Legal & General and the asset allocation is shown below.



Equities: 30%  
Government Bonds: 58%  
Non Government Bonds: 12%



□ Investment Return  
■ Benchmark

# Pension news

## Benefit Statements for Active Members

Active members can access their 2013/14 pensions benefit statement through 'Fruitful', Nationwide's flexible benefits on-line system. The benefit statement shows the value of your pension and death benefits as at 1 April 2014. Take a look at the figures on your statement and consider whether you feel you need to start making additional contributions to boost your pension.

## Nationwide Pension Fund Website

The website will shortly be updated to incorporate pre-retirement information for members. This on-line service will consist of a number of interactive modules which are split into 4 different areas of retirement and financial planning. Further information on this new service will be provided to you in due course. You can find all the latest Fund news on-line. For example, we have recently added a news item on pension scams to highlight a growing trend of individuals being targeted with a promise of early access to their pension. Such people often end up losing all their pension savings to tax charges and administration fees. Find out more at [www.nationwidepensionfund.co.uk/home/pensions-news](http://www.nationwidepensionfund.co.uk/home/pensions-news)

## Registering to go paperless

The Trustees are keen to reduce the amount of money the Fund spends on printing and postage whilst at the same time reducing its carbon footprint.

If you have not previously elected to receive non-personalised communications by email you can enrol on our website by clicking on the 'keeping in touch' icon on the homepage and then completing your details



in the 'Help the Environment' section ([www.nationwidepensionfund.co.uk/help\\_the\\_environment](http://www.nationwidepensionfund.co.uk/help_the_environment)).

## Changes to the Fund's rules

Following the Marriage (Same Sex Couples) Act 2013, which allowed same sex couples to get married from 29 March 2014, the Fund's rules were updated to provide for dependants' benefits to be payable to the widow(er) of any member who dies, regardless of gender.

## Equitable Life Additional Contributions Update

National Savings and Investments (NS&I), the administrator of the payment of compensation for the Equitable Life Payment Scheme, has now completed the payment of compensation to all qualifying members of the Nationwide Pension Fund.

Further information on the Equitable Life Payment Scheme can be found online at: [www.gov.uk/equitable-life-payment-scheme](http://www.gov.uk/equitable-life-payment-scheme)

## Pension news (cont.)

### Budget 2014

In his Budget on 19 March 2014, the Chancellor of the Exchequer announced some of the most radical pension changes in decades. The centrepiece of the proposals was to allow members of defined contribution schemes greater flexibility and choice over how their benefits are paid at retirement. This included the option to take the whole pension fund as a lump sum. The proposals are scheduled to take effect from April 2015.

Under current proposals members would need to transfer to a defined contribution pension arrangement to take full advantage of the new rules. However, the government are also consulting on whether the new flexibility should be extended to defined benefit pension schemes, such as the Nationwide Pension Fund. Other changes announced in the budget that may affect you are:

- an increase to the minimum age at which an individual can draw their pension from 55 to 57 from 2028. From then it is proposed that the minimum pension age will maintain a 10 year gap below the State Pension Age
- a requirement for members transferring from a defined benefit scheme to a defined contribution scheme to have taken advice from an authorised financial adviser.

### Reduced Annual and Lifetime Allowances

From 6 April 2014 the Government reduced the Annual Allowance and the Lifetime Allowance. The Annual Allowance is the maximum amount of pension benefits that you can build up which will qualify for tax relief. This fell from £50,000 to £40,000 from 6 April 2014.

The Lifetime Allowance is a limit on the value of pension benefits that you can accumulate during your working life from the Fund and any other registered pension schemes. This fell from £1.5m to £1.25m from 6 April 2014. Very few members are likely to be affected by these changes.

Members can choose to protect any pension savings built up before 6 April 2014 (subject to an overall maximum of £1.5 million), by applying to HM Revenue & Customs for individual protection.

The Employee Pensions team will be writing to those current employees of the Fund who are most likely to be affected by the reduced limits either now or in the future. If you are no longer employed by Nationwide and are a member of a new employer's pension scheme you may wish to contact this scheme to check if your new pension benefits are affected. You can also request information about your pension from the Employee Pensions Team.

### Small pensions

Also in the budget the Government announced an increase to the limit up to which a member can take their NPF benefits as a cash sum, from £2,000 to £10,000. This limit applies regardless of any other pension benefits held outside of the NPF. The Trustees will be commencing an exercise later in the year to write to pensioners whose pension has a capital value of less than £10,000 to provide the option to surrender their lifetime pension for a one-off taxable lump sum.

## Contact the Pensions Team

The Pensions Team are responsible for the day to day administration of the Fund, for example, dealing with queries from members, providing quotes and putting pensions into payment.



### Post:

Employee Pensions  
Nationwide Building Society,  
Nationwide House  
Pipers Way, Swindon  
SN38 2GN



### Telephone:

01793 655131



### Email:

pensions.team@  
nationwide.co.uk



### Online internal:

Pensions intranet

### Online external:

www.nationwide  
pensionfund.co.uk



## Contact the Payroll Team



If you are a pensioner  
and have a query on the  
payment of your pension

### Telephone ASK HR:

01793 556808  
(option 1)



# Documents available on request

**The documents below can be downloaded from the pensions website: [www.nationwidepensionfund.co.uk](http://www.nationwidepensionfund.co.uk). If you would like a hard copy of any of the documents please contact the Pensions Team.**

## **The Statement of Investment Principles**

Explains the principles applied by the Trustees when investing money paid into the Fund.

## **The Statement of Funding Principles**

Explains the principles and objectives used for financially supporting the Fund.

## **Schedule of Contributions**

Shows how much money is to be paid into the Fund.

## **Actuarial Valuation Report 2013**

Contains details of the Actuary's last full actuarial review of the Fund's financial position, including details of the assumptions made.

## **The Annual Report and Accounts**

Details the Fund's financial information, including income and outgoings in the year to 31 March 2014.

## Useful Contacts

**You may find the following websites helpful:**

### **[www.hmrc.gov.uk](http://www.hmrc.gov.uk)**

HM Revenue and Customs includes HM Inspector of Taxes. They can answer tax queries you may have about your pension in payment as well as other tax questions.

The Fund's office to contact is:

HM Revenue and Customs, Pay As You Earn,  
PO Box 4000, Cardiff, CF14 8HR

Tel: 0300 200 3300 Tax Ref: 470/N9705

### **[www.gov.uk/browse/working/state-pension](http://www.gov.uk/browse/working/state-pension)**

For information about the State Pension and how to calculate your State Pension Age.

### **[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)**

The Pensions Advisory Service is an independent voluntary organisation offering free help and advice on state, company and personal pensions.

### **[www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)**

The Money Advice Service is an independent service set up by the government. It provides unbiased money advice, information and tools covering a range of financial topics.



**On your side**