

Nationwide Pension Fund Cheshire & Derbyshire Section

Statement of Funding
Principles (SFP)

Nationwide Pension Fund – The Cheshire and Derbyshire Section

Statement of Funding Principles (SFP)

Introduction

This statement sets out the Trustee's policy for securing that the statutory funding objective (SFO) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

Technical Provisions

The technical provisions are the amount that will be needed to pay the Fund benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Cheshire and Derbyshire Section ("the C&D Section"), with a modest allowance for the future potential outperformance over gilts from continued partial investment in more risky asset sectors such as equities and property. There is an underlying assumption that the C&D Section will continue with benefits being met from the C&D Section as they fall due.

The method and assumptions used to calculate the technical provisions at the 31 March 2016 valuation date are summarised in Appendices A and B. These are subject to revision at future valuations by reference to both circumstances and industry practice.

Society contributions

With effect from 1 April 2011 all future benefit accrual in the Nationwide Pension Fund is being provided via the Nationwide Section. As a result no future benefits will be accrued in the C&D Section.

Contributions from Nationwide Building Society ("the Society") to the C&D Section are assessed by an estimate of the expenses and the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator, reduced by:

- an allowance for the assumed out-performance of the C&D Section's assets compared to the discount rate used for the technical provisions

and adjusted by

- the amounts needed to eliminate any shortfall or surplus relative to the technical provisions

Where the resulting contributions from the above principles are negative the Society contributions will be set to zero.

The allowance made for the assumed out-performance of the C&D Section's assets compared to the discount rate is detailed in Appendix A.

Consulting | Retirement

Verulam Point | Station Way | St. Albans | AL1 5HE

t +44 (0) 1727 888 200 | f +44 (0) 1727 888 333 | aonhewitt.co.uk

Aon Hewitt Limited | Registered in England & Wales No. 4396810 | Registered office: 8 Devonshire Square London EC2M 4PL

Authorised and regulated by the Financial Conduct Authority.

This report and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this report should be reproduced, distributed or communicated to anyone else and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this report. Copyright © 2014 Hewitt Associates Limited. All rights reserved.

Dealing with shortfalls Any shortfall in assets compared with technical provisions identified at an actuarial valuation (next valuation expected 31 March 2019) will be eliminated by the payment of additional Society contributions in accordance with the recovery plan agreed between the Trustee and the Society. The additional contributions will consist of payment(s) made over the recovery period.

In determining the recovery plan at any particular valuation the following non-exhaustive factors will be taken into account:

- the size of the funding shortfall;
- the business plans of the Society;
- the regulatory environment;
- the Trustee's assessment of the financial covenant of the Society; and
- any contingent security offered by the Society.

The assumptions to be used in the shortfall elimination calculations will be the same as those for calculating the technical provisions. In addition, allowance will be made for the assumed out-performance of the C&D Section's assets compared to the discount rate, as described in Appendix A.

Dealing with surpluses Any excess in assets compared with the technical provisions identified at an actuarial valuation (next valuation expected 31 March 2019) may be returned to the Society over a reasonable period, to be agreed between the Trustee and the Society, following each valuation, by a reduction in the Society regular contributions.

This may include the complete suspension of Society contributions for a period or a reduction to Society contributions for an agreed period. When determining the appropriate course of action, allowance may be made for the assumed out-performance of the C&D Section's assets compared to the discount rate, as described in Appendix A.

Policy on discretionary increases and funding strategy Under the provisions of the consolidated Trust Deed and Rules, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the C&D Section.

In particular, under Rule 6.9, the Trustee (with the Society's consent) may provide or increase a member's benefit at a rate higher than provided under the standard Rules, subject to certain conditions. No allowance is made in the technical provisions for such benefits, except as described in the next paragraph.

If discretionary increases to benefits are made, the Trustee's current policy is to request immediate additional contributions to meet the cost of such increases. This policy is subject to review from time to time.

Frequency of valuations Valuations will normally be carried out every three years, unless the Trustee decides otherwise.

The Trustee will obtain regular updates showing the approximate progression of the funding level, usually at quarterly intervals.


The Trustee will also obtain an actuarial report on developments affecting the funding level as at each intermediate anniversary of the valuation date. The actuarial reports will not normally lead to changes in the Society's contributions unless the Trustee and Society agree upon such

changes.

Signatures


This statement has been agreed by the Society and the Trustee.

Signed on behalf of Nationwide Building Society

Signature:  Name: RUSSELL GILL

Position: Head of Pension Risk & Capital Modelling Date: 29/06/17

Signed on behalf of Nationwide Pension Fund Trustee Limited

Signature:  Name: PETER WILKIN

Position: Trustee Director Date: 29 JUNE 2017

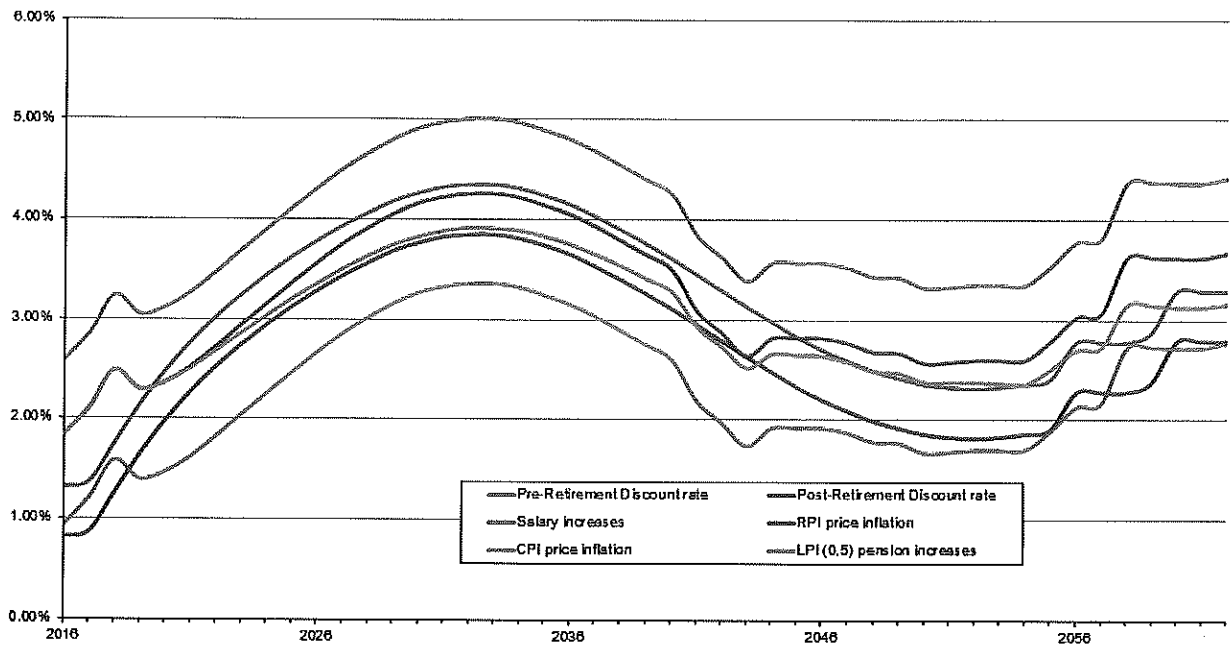
Appendix A: Method and financial assumptions for determining the technical provisions and employer contributions

Method	The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.
Financial assumptions for technical provisions - approach	The approach to be used in determining each of the financial assumptions for calculating the technical provisions and the employer contributions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are "term dependent".
RPI inflation	This has been set as a yield curve structure derived from UK Government gilt yields appropriate to the date of each of the C&D Section's expected future cash flows (extrapolated for cash flows beyond the longest available gilts).
CPI inflation	In the absence of market data, the CPI inflation assumption is constructed relative to the RPI inflation assumption. The difference will vary based on market conditions and future outlook for both indices. As at 31 March 2016, CPI inflation was assumed to be 0.9% lower than RPI inflation at all terms.
Discount rate	<p>This has been set as a yield curve structure derived from the yield on UK Government fixed interest gilts appropriate to the date of each of the C&D Section's expected future cash flows (extrapolated for cash flows beyond the longest available gilts).</p> <p>The yield curve has been adjusted to make a prudent allowance for the expected out-performance (above gilt returns) on the C&D Section's assets by setting it equal to the gilt curve plus 1.0% p.a. in respect of the pre-retirement discount rate, and equal to the gilt curve plus 0.5% p.a. in respect of the post-retirement discount rate.</p>
Salary increases	Each member's salary is assumed to increase in line with the assumed rate of RPI inflation plus 0.75% p.a. (The C&D Section ceased to have any active members on 1 April 2011 but this assumption is still required as some members have earlier benefits that continue to be linked to their salary beyond 1 April 2011).
Increases in pensions in payment	Inflation-linked pension increase assumptions are derived from the RPI inflation assumption allowing for any maximum or minimum annual increase that applies, and the fact that inflation varies from year to year.
Revaluations of deferred pensions in excess of GMP	<p>Increases to deferred pensions in excess of GMP for former Derbyshire members are assumed to be in line with the CPI inflation assumption (see above).</p> <p>Increases to deferred pensioners in excess of GMP for former Cheshire members are fixed 5% p.a.</p>

**Financial Assumptions
for Technical
Provisions – summary**

The table below shows the forward rates for the financial assumptions used as at 31 March 2016.

Term	Pre-Retirement Discount rate (%)	Post-Retirement Discount rate (%)	Salary increases (%)	RPI inflation (%)	CPI inflation (%)	LRPI pension increases* (%)
1	1.32%	0.82%	2.59%	1.84%	0.94%	1.84%
2	1.37%	0.87%	2.86%	2.11%	1.21%	2.11%
3	1.75%	1.25%	3.24%	2.49%	1.59%	2.49%
4	2.14%	1.64%	3.05%	2.30%	1.40%	2.30%
5	2.48%	1.98%	3.12%	2.37%	1.47%	2.37%
6	2.77%	2.27%	3.27%	2.52%	1.62%	2.51%
7	3.03%	2.53%	3.48%	2.73%	1.83%	2.69%
8	3.25%	2.75%	3.70%	2.95%	2.05%	2.87%
9	3.45%	2.95%	3.91%	3.16%	2.26%	3.04%
10	3.63%	3.13%	4.12%	3.37%	2.47%	3.21%
11	3.79%	3.29%	4.32%	3.57%	2.67%	3.36%
12	3.94%	3.44%	4.51%	3.76%	2.86%	3.51%
13	4.07%	3.57%	4.67%	3.92%	3.02%	3.64%
14	4.19%	3.69%	4.81%	4.06%	3.16%	3.75%
15	4.27%	3.77%	4.92%	4.17%	3.27%	3.83%
16	4.33%	3.83%	4.98%	4.23%	3.33%	3.89%
17	4.35%	3.85%	5.01%	4.26%	3.36%	3.92%
18	4.35%	3.85%	5.01%	4.26%	3.36%	3.91%
19	4.31%	3.81%	4.97%	4.22%	3.32%	3.89%
20	4.24%	3.74%	4.89%	4.14%	3.24%	3.83%
21	4.15%	3.65%	4.80%	4.05%	3.15%	3.75%
22	4.03%	3.53%	4.68%	3.93%	3.03%	3.65%
23	3.90%	3.40%	4.54%	3.79%	2.89%	3.54%
24	3.76%	3.26%	4.40%	3.65%	2.75%	3.41%
25	3.61%	3.11%	4.25%	3.50%	2.60%	3.28%
26	3.45%	2.95%	3.84%	3.09%	2.19%	2.93%
27	3.29%	2.79%	3.62%	2.87%	1.97%	2.73%
28	3.13%	2.63%	3.39%	2.64%	1.74%	2.52%
29	2.98%	2.48%	3.57%	2.82%	1.92%	2.66%
30	2.83%	2.33%	3.57%	2.82%	1.92%	2.65%
31	2.70%	2.20%	3.57%	2.82%	1.92%	2.64%
32	2.59%	2.09%	3.52%	2.77%	1.87%	2.58%
33	2.49%	1.99%	3.43%	2.68%	1.78%	2.49%
34	2.42%	1.92%	3.42%	2.67%	1.77%	2.47%
35	2.36%	1.86%	3.32%	2.57%	1.67%	2.38%
36	2.33%	1.83%	3.33%	2.58%	1.68%	2.38%
37	2.32%	1.82%	3.35%	2.60%	1.70%	2.38%
38	2.33%	1.83%	3.35%	2.60%	1.70%	2.37%
39	2.36%	1.86%	3.35%	2.60%	1.70%	2.36%
40	2.41%	1.91%	3.54%	2.79%	1.89%	2.51%
41	2.78%	2.28%	3.78%	3.03%	2.13%	2.70%
42	2.78%	2.28%	3.82%	3.07%	2.17%	2.73%
43	2.78%	2.28%	4.37%	3.62%	2.72%	3.15%
44	2.88%	2.38%	4.38%	3.63%	2.73%	3.15%
45	3.29%	2.79%	4.37%	3.62%	2.72%	3.13%
46	3.29%	2.79%	4.37%	3.62%	2.72%	3.13%
47	3.29%	2.79%	4.42%	3.67%	2.77%	3.16%
48	3.30%	2.80%	4.43%	3.68%	2.78%	3.16%
49	3.29%	2.79%	4.42%	3.67%	2.77%	3.15%
50 and above	3.29%	2.79%	4.42%	3.67%	2.77%	3.15%



Additional assumptions for employer contributions

In determining employer contributions the same assumptions will be used as those for calculating the technical provisions together with the additional financial assumptions described below.

Expected return on assets

A prudent allowance may be made for part of the expected out-performance of the C&D Section's assets compared to the discount rate.

No allowance was necessary for the valuation 31 March 2016 as there was no deficit at the valuation date. An appropriate allowance may be made at future valuations where a deficit is revealed.

Expenses

In determining the contributions an estimate of the future expenses of running the C&D Section is made (which includes an allowance for PPF and other levies collected by the Pensions Regulator).

If it is clear that there is sufficient surplus in the C&D Section to cover future expenses then these will be met from the assets of the Section without the need for future contributions.

Appendix B: Demographic Assumptions

Post-retirement mortality

The post retirement mortality assumptions used are:

- The SAPS 'S2 series, all pensions, light amounts' table (S2PxA);

With scaling factors for:

- non-pensioners of 108% for men and 102% for women;
- pensioners of 100% for men and 98% for women;

and

- An allowance for future improvements in line with the CMI_2014 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% for men and women.

Pre-retirement mortality

Males: 70% of Standard table AM92 Ultimate.

Females: 70% of Standard table AF92 Ultimate.

Sample rates are shown below.

Early retirements (normal health)

An allowance has been made for members to retire within 5 years of their normal retirement date (i.e. an allowance between ages 55 and 60). An early retirement factor is applied where appropriate.

Early retirements (ill-health)

Allowance has been made for members to ill-health retire and these members are assumed to have the same mortality as a non-ill-health retiree who is 10 years older.

Withdrawals

Allowance made for withdrawals from service (see sample rates below).

Family Details

- A man is assumed to be three years older than his dependant.
- 90% of males and 75% of females are assumed to be married (or, if not, have a dependant) at retirement/on death before retirement respectively.

These assumptions include allowance for pensions payable to children or other dependants including civil partners.

Commutation

Each member is assumed to commute 24% of their pension on retirement, based on commutation factors 10% higher than those in force at the valuation date.

Sample rates

The tables below illustrate the allowances made for withdrawals, deaths before retirement and retirements from service at various ages.

Men

Current	Percentage leaving the Fund in the next year as a result of			
	Withdrawal from service	Death before retirement	Ill health retirement	Early retirement (normal health)
20	7	0.041	0.050	-
25	7	0.040	0.038	-
30	6	0.041	0.033	-
35	5	0.048	0.037	-
40	4	0.066	0.058	-
45	3	0.103	0.104	-
50	2	0.176	0.189	-
55	-	0.313	0.338	15
60	-	-	-	100

Women

Current	Percentage leaving the Fund in the next year as a result of			
	Withdrawal from service	Death before retirement	Ill health retirement	Early retirement (normal health)
20	7	0.014	0.039	-
25	7	0.017	0.047	-
30	6	0.024	0.063	-
35	5	0.034	0.090	-
40	4	0.052	0.135	-
45	3	0.082	0.210	-
50	2	0.132	0.335	-
55	-	0.215	0.539	15
60	-	-	-	100

Sample life expectancies

The assumed improvements in life expectancy for non-pensioners are illustrated in the table below:

Current age	Male life expectancy on reaching age 60	Female life expectancy on reaching age 60
60	28.3	30.0
45	29.9	31.8

Appendix C: Further information to meet requirement of Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values

The Trustee will ask the Scheme Actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values (CETVs) for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

Where coverage is less than 100%, the Trustee will take advice from the Scheme Actuary regarding whether to reduce CETVs and, if appropriate, the extent of such reduction.

If at any other time, after obtaining advice from the Scheme Actuary, the Trustee are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the Scheme Actuary regarding whether and, if appropriate, the extent to which CETVs should be reduced.

Payments to the Society

Payments can be made from the C&D Section to the Society and any other participating employers only insofar as are permitted by legislation and the C&D Section's Rules.

Contributions to the Fund

There are no arrangements currently in place for persons other than the Society or members of the C&D Section to contribute to the C&D Section.

