Actuarial valuation at 31 March 2019

Nationwide Pension Fund - Nationwide Section

Prepared for	Nationwide Pension Fund Trustee Limited (the Trustee)
Prepared by	Keith Poulson FIA
Date	9 September 2020
Signed	

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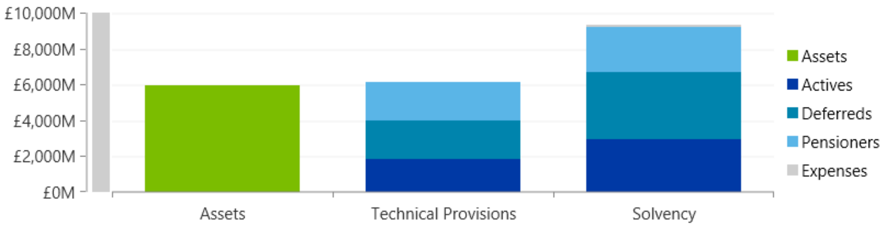
Executive Summary

The key results of the valuation at 31 March 2019 for the Nationwide Section (the Section) are set out below.

There was a deficit of £180M relative to the technical provisions
(ie the level of assets agreed by the Trustee and the Society as being appropriate to meet member benefits, assuming the Fund continues as a going concern).

There was an estimated deficit of £3,425M relative to the solvency liabilities
(ie the estimated level of assets needed to buy insurance policies for benefits earned to the valuation date).



The Society has already paid a £61M deficit reduction contributions in July 2019. Following discussions, a Recovery Plan has been agreed where the Society will pay a further;

- £61M by 30 November 2020
- £36M by 31 July 2021
- £25M by 31 July 2021 if there is a deficit under the definition set out in the Recovery Plan in 2021

The Society and Trustee are also discussing:

- Provision of a significant contingent asset to the Nationwide Section to be paid to the Section on resolution of the Society; and;
- Amendment of the technical provisions from 2022 to move to a term-dependent discount rate of gilts plus 0.5% by no later than 2037

If the contingent asset is agreed by 30 November 2020, the Trustee has agreed that no further contributions are required (other than to cover the cost of future accrual), other than the £61M already paid in July 2019. In this scenario, it is assumed that the remaining deficit will be addressed from the expected outperformance of the assets, above the discount rate.

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Introduction

This report has been prepared for the Trustee to meet the requirements of Section 224(2)(a) of the Pensions Act 2004. It sets out the results and conclusions of the actuarial valuation of the Fund at 31 December 2019.

This is a scheme funding report, it summarises the key aspects of the valuation process, including:

- The funding objective and background details;
- The technical provisions;
- The corresponding future service costs;
- The agreed recovery plan and other contributions;
- The results on the solvency basis;
- Further information required for compliance purposes, including:
  - The legal framework within which the valuation has been completed
  - A summary of the membership and asset data, the benefits valued and details of the assumptions used for the valuation
  - My statutory certification of the technical provisions
  - A glossary of some technical pensions terms

Throughout the body of this report, defined contribution (DC) benefits (including DC AVCs) have been excluded from the valuation results because in my view this provides a clearer picture.

Shorthand

Society
Nationwide Building Society

Fund
Nationwide Pension Fund

Trustee
Nationwide Pension Fund Trustee Limited

Nationwide Section
Nationwide Section of the Fund

Rules
The consolidated Trust Deed and Rules dated 30 March 2012

Pensionable Salary
As defined in the rules

Pensionable Service
As defined in the rules

Important Note: The report concentrates on the section’s financial position at the valuation date. As time moves on, the Nationwide Section's finances will fluctuate. If you are reading this report some time after it was produced, the Nationwide Section's financial position could have changed significantly.

Previous valuation results

A summary of the results, recovery plan and agreed contributions following the previous valuation is set out below.

The key results from the previous valuation at 31 March 2016 were:

- There was a deficit of £605M relative to the technical provisions, which corresponded to a funding level of 87%.
- There was an estimated deficit of £5,107M relative to the solvency liabilities

The Trustee and the Company agreed on a recovery plan that was designed to restore the funding level to 100% by 31 December 2021

Illustrative recovery plan:

- In order to achieve full funding by the recovery plan end date of 31 December 2021, annual deficit contributions of £61M pa starting from 2018 were agreed in addition to the £49M paid in July 2016, £100M paid in April 2017, £49M paid in July 2017 and £37M paid in August 2017.

This assumed:

- Investment returns on the Fund's assets are 1.9% p.a. above the yield on long-dated gilts (or around 0.8% pa higher than the investment returns underlying the discount rates).
- Deficit contributions are paid as lump sums in July each year, with the final year's contribution being paid in full.
- Society contribution rate in respect of future service benefits increases, ie:
  - to 31.5% of pensionable salaries with effect from 1 April 2017 based on the initial 2016 valuation basis

Notable changes since the previous valuation and since the valuation date

Changes to the Fund since the previous valuation are summarised below.

The below changes to the Nationwide Section should be noted as they have an impact on the funding assessment of the Section:

- **Contingent asset**

  The Trustee and Society are in discussions to provide a material contingent asset to the Nationwide Section, to provide increased security to member's benefits.

- **Investment strategy**

  Since the previous valuation date, the investment strategy has been diversified to reduce the overall risk in the portfolio.

- **Closure to future accrual**

Since the valuation date, the Society has proposed to close the Fund to future accrual. Closure would reduce the technical provisions by around £150M as a result of increases prior to retirement for active members being in line with CPI rather than in line with future salary increases (assumed to be RPI). The impact of any change will emerge at the next valuation and has not been allowed for in this valuation.

- **Changes in funding since the valuation date**

If all of the assumptions in the technical provisions and recovery plan as at 31 March 2019 were borne out in practise, we would expect an improvement in the funding position on both the technical provisions and solvency bases over time.

However, due to the financial impacts on markets of COVID-19, the funding position has deteriorated slightly since the valuation date. As at 31 July 2020 we estimate:

i) the deficit on the technical provision (ignoring the impact of closure) had increased from £180M at the valuation date to £200M.

ii) the deficit on the solvency basis had increased from £3,425M at the valuation date to £3,550M.

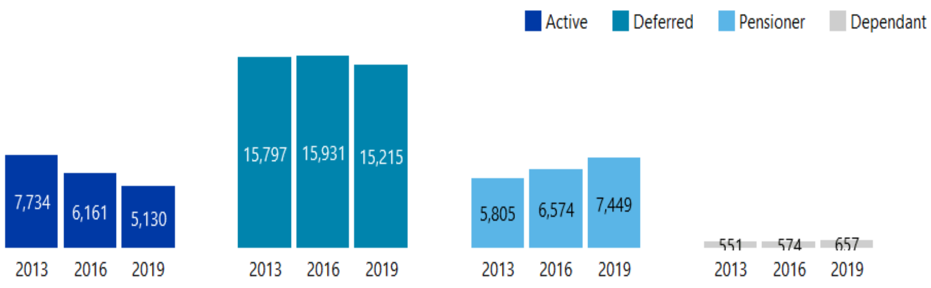
In my opinion the deterioration in funding is not sufficiently material to change the suitability of the approach agreed for the 2019 valuation, nor the suitability of the proposed contingent asset solution.

Data and benefits valued

Key information on the membership data used and the benefits valued in the valuation are summarised here.

The Fund has continued to mature with the proportion of pensioners increasing.

The membership numbers are shown graphically below. Further details can be found in appendix B.



- **Discretionary benefits**
  Under the provisions of the Rules, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Nationwide 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.
  .

- **Early retirement from age 60**
  Following the changes for benefits accrued after 1 April 2011, the Society has discretion to allow members retiring directly from employment to take their benefits unreduced from age 60 (whereas the normal retirement age for benefits accrued after 1 April 2011 is 65). An allowance for the continued future exercise of this discretion has been included in the technical provisions and in the future service contribution rate.

- **GMP equalisation**
  An approximate allowance for equalising GMPs is made by increasing the Nationwide Section technical provisions by 1%. This includes an approximate allowance for both past and future benefit payments. This is a change in approach from that adopted at the previous valuation.

Funding objectives and investment strategy

The Trustee's funding objective is to hold assets which are at least equal to the technical provisions (i.e. to meet the statutory funding objective).

A key factor in setting the funding objective is the Trustee's assessment of the employer covenant. The Trustee has carried out a review of the employer covenant themselves and concluded that the employer covenant is tending to strong. The covenant strength rating is similar to when assessed for the previous valuation and this has been taken into account in setting the assumptions to be adopted for the technical provisions and in agreeing the recovery plan.

The current assets are described in Appendix D.

The Trustee's investment strategy is set out in its statement of investment principles. In summary the Trustee's strategy is to diversify investments and ultimately match investment returns with the Nationwide Section's liabilities as they fall due over the long term. The Trustee is committed to a long term strategy of risk reduction. Over time this will lead to an increase in bonds and similar assets and a reduction in equities from the present levels.

In order to calculate the technical provisions and the cost to the Society of future benefit accrual, the benefits paid out by the Nationwide Section are estimated for each year into the future. The estimated benefits payments are then 'discounted back' to the valuation date using an agreed rate of interest known as the discount rate.

Summary of assumptions

The Trustee has agreed with the Society the assumptions used to calculate the technical provisions and the cost of future benefit accrual. The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change. Further details of all of the assumptions are set out in Appendix E.

Assumption	Previous valuation	This valuation	Rationale for change
Pre-retirement discount rate	Gilt yield curve plus 1.25% pa	No change other than the movement in the yield curve	Update for market conditions only.
Post-retirement discount rate	Gilt yield curve plus 1.0% pa	No change other than the movement in the yield curve	Update for market conditions only.
RPI inflation	"Break-even" RPI curve with 0.1% pa inflation risk premium deduction	No change other than the movement in the RPI curve and removal of the inflation risk premium deduction	Reflects change in investment strategy, specifically the increased level of hedging
CPI inflation	RPI inflation less 0.90% pa	No change other than the movement in the yield curve	Update for market conditions only
Salary inflation	RPI plus 0.75% pa	RPI	Updated for latest experience in salary increases

Assumption	Previous valuation	This valuation	Rationale for change
Post-retirement mortality assumption - base table	SAPS S2 'Light' tables with a scaling factor of 108% for males and 102% for females (future pensioners) and a scaling factor of 100% for males and 98% for females (current pensioners)	SAPS S3 series 'all' tables for males and SAPS S3 series 'mid' tables for females with scaling factors as set out below: Non-pensioners: 98% for males and their female dependants and 102% for females and their male dependants Pensioners: 93% for males and their female dependants and 95% for females and their male dependants	To reflect updated mortality analysis
Post-retirement mortality assumption - projection	CMI 2015 core projections with long-term improvement rate of 1.50% pa	CMI 2018 core projections Sk=7.0 and A=0.35 with long-term improvement rate of 1.50% pa	Update for latest best estimate of longevity projections

As for the previous valuation, the technical provisions have been calculated using the projected unit method. This method, with a five year control period, has also been used to calculate the cost of future benefit accrual.

Past service results

The Trustee's technical provisions and resulting funding position are shown below.

	Technical Provisions (£M)
Value of past service benefits for:	
Actives	1,846
Deferreds	2,136
Pensioners	2,123
Expenses	-
Value of liabilities	**6,105**
Value of assets	**5,925**
Past service surplus/(deficit)	**(180)**
Funding Level	**97%**

The key assumptions are the discount and inflation rate. The sensitivity of the technical provisions to these key assumptions is as follows:

- A 0.10% pa decrease in the pre retirement discount rate increases the technical provisions by £37M, reducing the funding level to 96%, and a 0.10% pa decrease in the post retirement discount rate increases the technical provisions by £93M, reducing the funding level to 96%

- A 0.10% pa increase in the RPI inflation assumption (also allowing for the consequent impact on the assumptions derived directly from that assumption) increases the technical provisions by £90M, reducing the funding level to 96%.

Reasons for change in past service funding position

The past service results show that the deficit of £605M in the Plan at the previous valuation has become a deficit of £180M at this valuation. The chart below quantifies the key reasons for this change:

	£M
Surplus/(Deficit) at previous valuation	(605)
Interest on deficit	(30)
Employer contributions less accrual	276
Investment returns above discount rate	1,427
Inflation higher than expected	(216)
Changes in financial conditions	(1,207)
Other experience gains (losses)	60
Allowance for GMP equalisation impact	6
Changes to assumptions	109
Surplus/(Deficit) at this valuation	(180)

The analysis shows that the main factors affecting the funding position since the previous valuation have been:

- The investment return on the Nationwide Section assets has been significantly higher than assumed.
- Changes to market conditions, which have acted to increase the technical provisions

  Breaking down the change in assumption item further:

- The impact of updating commutation factors and the commutation allowance is an increase to the technical provisions of around £185M
- The impact of updating all mortality assumptions and demographic assumptions is to reduce technical provisions by around £310M
- Allowing for other changes including increases in RPI and pension increases, reduction in salary increase assumptions and a change to proportions married, broadly offset each other, increasing the technical provisions by around £15M

Recovery plan

Following discussions, the Trustee and the Society have agreed a recovery plan.

The Society has already paid a £61M deficit reduction contributions in July 2019. Following discussions, a Recovery Plan has been agreed where the Society will pay a further;

- £61M by 30 November 2020
- £36M by 31 July 2021
- £25M by 31 July 2021 if there is a deficit under the definition set out in the Recovery Plan in 2021

The Society and Trustee are also discussing:

- Provision of a significant contingent asset to the Nationwide Section to be paid to the Section on resolution of the Society; and;
- Amendment of the technical provisions from 2022 to move to a term-dependent discount rate of gilts plus 0.5% by no later than 2037

If the contingent asset is agreed by 30 November 2020, the Trustee has agreed that no further contributions are required (other than to cover the cost of future accrual), other than the £61M already paid in July 2019. In this scenario, it is assumed that the remaining deficit will be addressed from the expected outperformance of the assets, above the discount rate.

Future service results

The table below shows the cost at the valuation date of benefits that members will earn in the Fund in future.

	% Pensionable salary
Value of benefits accruing	48.2%
Death in service lump sum	0.7%
Less member contributions	(7.0%)
Net cost to the Society	41.9%

The cost of future benefits in the Nationwide Section (on the new CARE benefit scale introduced with effect from 1 April 2011) has increased very significantly since the previous valuation. The main reason for this increase is a substantial fall in long-term interest rates and increases to long term inflation expectations.

The Society has consulted with members regarding the closure of the Fund to future accrual with effect from 31 March 2021. In light of this the Trustee has agreed that the contribution rate paid by the Society will continue at the current rate of 31.5% of Pensionable Salaries until 31 March 2021.

Should closure not be effective the employer's contributions, to meet the cost of future accrual, will increase to 41.9% of pensionable salaries with effect from 1 April 2021.

Solvency position

The statutory estimate of the Nationwide Section's solvency position is set out below.

	Solvency (£M)
Value of past service benefits for:	
Actives	2,968
Deferreds	3,744
Pensioners	2,518
Expenses	120
Value of liabilities	9,350
Value of assets	5,925
Past service surplus/(deficit)	(3,425)
Funding Level	63%

This solvency estimate represents the estimated cost of purchasing annuities at the valuation date from an insurance company to meet the Nationwide Section's benefits. The assumptions include an allowance for the expenses of winding-up the Nationwide Section. Further details and the assumptions used in the solvency estimate are summarised in Appendix F.

The solvency estimate is higher than the technical provisions, the broad reasons for which are set out below:

- Insurers will typically hold less risky assets which provide lower investment returns than are expected to be achieved on the Nationwide section's assets;
- Insurers typically hold larger margins, for example by assuming that members will live longer than is assumed in calculating the technical provisions; and
- Insurers need to cover costs, including administering the benefits, and also make a profit.
- Allowance is made for the cost of winding up the Nationwide Section.

In practice, if the Nationwide Section were to be discontinued with no solvent employer then the assets are unlikely to be sufficient to provide the benefits in full. If this were the case then:

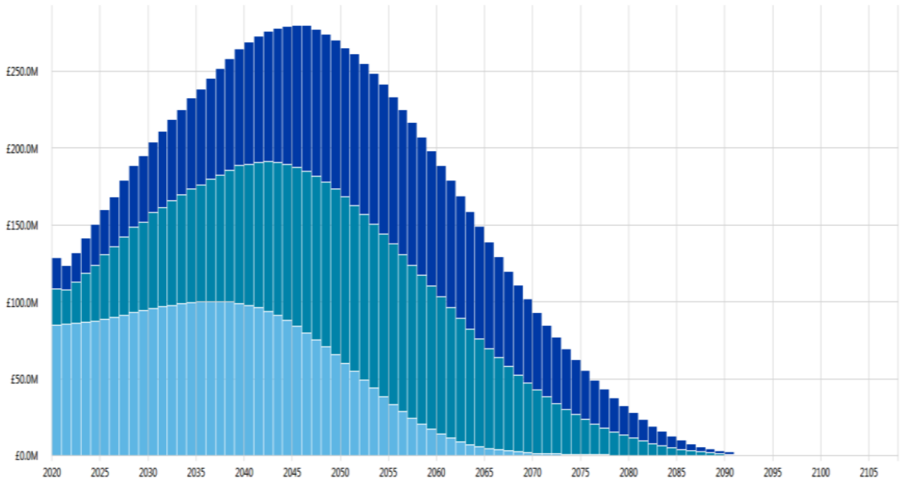
- Benefits corresponding to those covered by the PPF would be met first (either through the PPF or, if there were sufficient funds, by securing these benefits with an insurance company).
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

The proportion of full benefits provided will vary from member to member and may be higher or lower than the statutory estimate of solvency ratio quoted above.

Funding and investment risks

The funding level is likely to exhibit volatility. This is discussed below.

The benefit payments from the Nationwide Section are expected to be made for a very long period – the chart below shows the projected cashflows on the technical provisions basis for the Nationwide Section.



The Section faces a number of key risks which could affect its future cashflows and funding position, including:

- Funding risk – the risk that the technical provisions are set too low and prove insufficient to meet the liabilities (e.g. in the event of unexpected discontinuance).
- Investment risks – the risk that investment returns are lower than assumed in the valuation, and also that the assets are volatile and move out of line with the liabilities, so the funding position is volatile.
- Liquidity risk – the risk that cashflows are higher than expected as member's commute more than is assumed or take transfer values, possibly leading to the sale of assets at inopportune times.
- Longevity risk – the risk that Fund members live for longer than assumed and that pensions would therefore need to be paid for longer.
- Inflation risk – the risk that inflation is higher than assumed, increasing the pensions that need to be paid.
- Sponsor risk - this is the risk that the society is no longer willing or able to support the Fund to fund any future losses that arise.

Other risks – issues relating to climate change and other environmental risks as well as long-term uncertainty around geopolitical, societal and technological shifts may also impact on the funding, investments and sponsor covenant of the Fund.

Given the high level of interest rate and inflation hedging provided by the assets, and low level of growth seeking assets the risks to Nationwide Section are greatly mitigated. That said there still remain significant risks from the growth assets, which could return less than expected, or fall in value, sponsor risk and risk from longevity. To put these into context:
- the one in 20, 1 year, investment risk (VAR) is around 650M
- if members lived 3 years longer than assumed the technical provisions would increase by around 10%.

Agreed contributions and projections

The contributions agreed as a result of this valuation and the projected position at the next triennial valuation are summarised below.

Contributions

The Society has agreed to pay the following contributions to the Fund:

- £61M by 31 July 2019 (already received), plus
- £61M by 30 November 2020, plus
- £36M by 31 July 2021, plus
- £25M by 31 July 2021 if there is a deficit under the definition set out in the Recovery Plan Appendix in 2021

Note the contributions due by 30 November 2020 and 31 July 2021 will not be payable should the Trustee and Society agree a suitable contingent asset solution.

The Society will also pay contributions of 31.5% of Pensionable Salaries to meet the cost of future accrual of benefits. Should the Fund remain open to future accrual after 31 March 2021 this will be increased to 41.9% of Pensionable Salaries.

All expenses of running the Fund, including the cost of any PPF levies, will be met from the Fund.

Projections

I estimate that, by the next valuation, these contributions will have:

- Increased the technical provisions funding level to around 100%; and
- Increased the solvency level to around 70%.

These estimates assume that the experience of the Nationwide section between the two valuation dates is in line with the assumptions underlying the technical provisions and recovery plan (including that the return on the Plan's assets is 0.9% pa above the discount rate;

The assumptions underlying the technical provisions and solvency bases remain unchanged.

Next steps

Actions required to finalise the valuation process are summarised below.

The next steps are: .

- For the Trustee to provide a copy of this report to the Society within 7 days.
- To submit the valuation summary and supporting documentation to the recovery plan to the Pensions Regulator via Exchange.
- To provide a summary funding statement to members as soon as practical.

The statutory deadline for completing the valuation process was 30 June 2020, i.e. 15 months after the valuation date. This deadline has not been met for this valuation, but the Pension Regulator has been kept informed throughout the process.

Appendix A – Legal framework and alternative presentation

This report is produced in compliance with:

- Rule 12.2 of the Fund's rules.
- Section 224 of the Pensions Act 2004.
- The terms of the most recent Scheme Actuary Agreement between the Trustee and me, on the understanding that it is solely for the benefit of the addressees.

This report builds on and draws together the documents listed in Appendix J.

Appendix B – Membership data

The results in this report are based on membership data which is summarised below.

Active members	Number	Average age*	Total pensionable salaries (£000 pa)	Average pensionable salaries (£ pa)	Average service (years)
2016	6,161	44.9	203,997	33,111	17.6
2019	5,130	47.3	188,257	36,697	22.1

Deferred members	Number	Average age*	Total pension (£000 pa)	Average pension (£ pa)
2016	15,931	45.5	64,899	4,074
2019	15,215	47.4	76,881	4,461

Note: The deferred pension amounts shown above are at the valuation date.

Pensioners	Number	Average age*	Total pension (£000 pa)	Average pension (£ pa)
2016	6,574	66.9	60,139	9,147
2019	7,449	67.9	72,667	9,757

Dependants	Number	Average age*	Total pension (£000 pa)	Average pension (£ pa)
2016	574	67.8	6,193	10,790
2019	657	70.2	7,918	12,052

The pension amounts shown above include the increase awarded in April 2019 and all average ages are unweighted.

**Average ages are unweighted*

I have conducted high level checks on the membership data provided and I am satisfied with its adequacy for the purpose of this actuarial valuation.

Appendix C – Benefits Valued

A summary of the key details of the Nationwide Section benefits considered in this valuation is set out below.

Introduction
The Nationwide Section is divided into the following main subsections:

- Final Salary Starter Scale
- Final Salary Standard Scale
- Pre-1 April 2011 Career Average (CARE) Scale
- Post-1 April 2011 Career Average (CARE) Scale
- Portman (including Lambeth and Staffordshire categories)

The benefits given by these sections are set out in the legal documentation of the Fund. For illustration only, this section includes an overview of the benefits. Following the closure of all other sections from 31 March 2011, all members have moved to the new scale of CARE benefits for service after 1 April 2011.

Normal Retirement Age
Pre 1 April 2011:
Age 60 (except for certain categories of former members who have older NRAs). Age 65 for Portman and Staffordshire members
Post 31 March 2011:
Age 65 (but the Society has discretion to allow employees to retire from employment from age 60 unreduced)

Pensionable Salaries
Basic Salary

Member Contributions
7% of Pensionable Salary.

Final Pensionable Salary
Pensionable Salaries in the year prior to retirement or earlier exit.

Normal Retirement Pension
Pre 1 April 2011
For each year of Pensionable Service:

- For Standard Scale Members 1/54th of Final Pensionable Salary
- For Starter Scale Members 1/108th of Final Pensionable Salary
- For pre-1 April 2011 CARE Members 1/54th of Pensionable Salary during that year, increased at each subsequent 1 April during service in line with the RPI
- For Portman members 1.7% of Final Pensionable Salary
- For Lambeth members 1/60th of Final Pensionable Salary for service before 1 March 2004 and 1/80th of Pensionable Salary for service after 1 March 2004
- For Staffordshire members 1/60th of Final Pensionable Salary Certain other categories of member have different benefits.

Post 31 March 2011
1/60th of Pensionable Salary during that year, increased at each subsequent 1 April during service in line with the RPI

Early Retirement Pension
A pension is provided on retirement after the age of 55 with Society consent. This is calculated using completed service and is normally reduced to allow for early payment, except that the Society is currently applying its discretion to waive any early retirement reduction at age 60 and above in respect of post-1 April 2011 CARE benefits for members retiring direct from active membership.

Death Benefits
Pre 1 April 2011
If a member dies in service, the following benefits may be paid:

- A lump sum of four times Pensionable Salary (two times for Starter scale).
- A dependant’s pension of two-thirds (half for Portman) of the member’s pension payable on ill-health retirement.
- Children’s benefits.

If a member dies after retiring, the following benefits may be paid:

- A lump sum equal to the balance of five years’ pension, if the member dies within five years of drawing their pension.
- A dependant’s pension of two-thirds (half for Portman and Lambeth) of the member’s pension (assuming they had not swapped any pension for cash at retirement).
- Children’s benefits.

Post 1 April 2011
If a member dies in service, the following benefits may be paid:

- A lump sum of four times Pensionable Salary.
- A dependant’s pension of half of the member’s pension payable on ill-health retirement.
- Children’s benefits.

If a member dies after retiring, the following benefits may be paid:

- A lump sum equal to the balance of five years' pension, if the member dies within five years of drawing their pension.
- A dependant's pension of half of the member's pension (assuming they had not swapped any pension for cash at retirement).
- Children's benefits

Lump Sum

A member may exchange some of their pension for a lump sum on retirement.

State Pension Scheme

The Nationwide Section is contracted out of the State Second Pension (S2P). This is done on a 'Reference Scheme' basis.

Incapacity and Ill Health Pensions

In the event of premature retirement due to ill-health or incapacity, an immediate pension may be paid (usually commencing after two years of absence) based on prospective pensionable service to Normal Retirement Age and with no reduction being applied due to early payment.

For ill-health retirements after 1 April 2011, 50% of the prospective service to Normal Retirement Age is allowed for.

Leaving Service

Members with less than three months of pensionable service are entitled to a return of their contributions.

Members with between three months and two years of pensionable service are entitled to either a return of their contributions, or a **cash transfer sum** payment.

Otherwise (for members with at least two years of pensionable service) a deferred pension is payable from Normal Retirement Age, based on the member's completed service.

Pension Increases

The majority of pension increases are based on RPI Inflation increases up to a maximum of 5% each year.

A small number of members (mainly relating to Portman members) are entitled to pensions with guaranteed pension increases not linked to inflation.

Appendix D – Assets

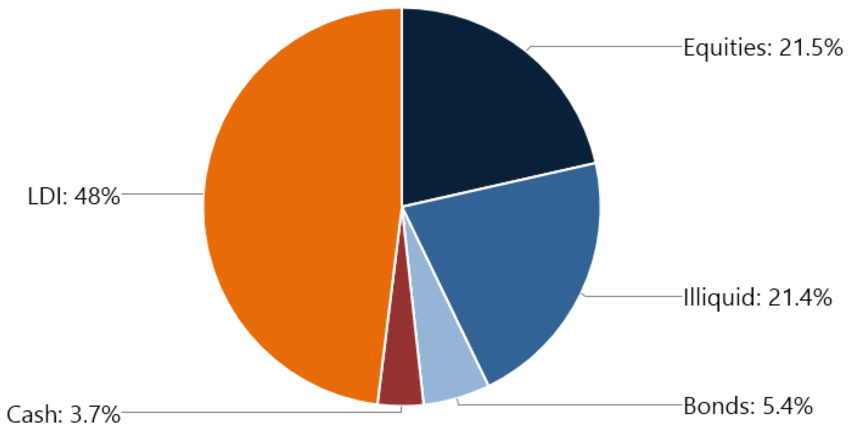
Information on the assets used in this valuation is covered here.

The audited accounts for the Fund for the year ended 31 March 2019 show the assets were £5,925M, which has been derived as:

- Total net assets of the Fund (£5,936M) from the audited accounts
- Less the value of AVC investments (£11M) from the audited accounts.
- Both the assets and the liabilities exclude members whose benefits are insured

The chart shows how the balance of the assets of £5,925M is broadly invested.

The Trustee's strategy is to diversify investments where possible and ultimately match investment returns with the Nationwide Section's liabilities as they fall due over the long term.



Appendix E – Assumptions for technical provisions – method and financial assumptions

Method	The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method with a control period of 5 years for calculating the future service rate.
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	The has been set as a yield curve structure derived from UK Government gilt yields appropriate to the date of each of the Nationwide Section's expected future cashflows (extrapolated for cashflows 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 2019, CPI inflation was assumed to be 0.9% lower than RPI inflation at all terms.
Discount rate	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 Nationwide Section's expected future cash flows (extrapolated for cash flows beyond the longest available gilts). The yield curve has been adjusted to make a prudent allowance for the expected out-performance (above gilt returns) on the Nationwide Section's assets by setting it equal to the gilt curve plus 1.25% p.a. in respect of the pre-retirement discount rate, and equal to the gilt curve plus 1.0% p.a. in respect of the post-retirement discount rate.
Salary increases	Each member's salary is assumed to increase in line with the assumed rate of RPI inflation. (The Nationwide Section ceased to have any members accruing benefits on a final salary basis beyond 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 the maximum and minimum annual increase that applies, and the fact that inflation varies from year to year.

Revaluations of deferred pensions in excess of GMP

CPI inflation assumption (see above).

Financial assumptions for technical provisions summary

The table below shows the forward rates for the financial assumptions used as at 31 March 2019.

Term	Pre-Retirement Discount rate (%)	Post-Retirement Discount rate (%)	Salary increases (%)	RPI inflation (%)	CPI inflation (%)	LRPI pension increases* (%)
1	1.84%	1.59%	3.45%	3.45%	2.54%	3.42%
2	1.91%	1.66%	3.42%	3.42%	2.52%	3.38%
3	2.02%	1.77%	3.36%	3.36%	2.46%	3.31%
4	2.14%	1.89%	3.23%	3.23%	2.33%	3.17%
5	2.28%	2.03%	3.23%	3.23%	2.33%	3.16%
6	2.44%	2.19%	3.33%	3.33%	2.43%	3.23%
7	2.61%	2.36%	3.44%	3.44%	2.54%	3.31%
8	2.79%	2.54%	3.56%	3.56%	2.66%	3.39%
9	2.98%	2.73%	3.68%	3.68%	2.78%	3.46%
10	3.14%	2.89%	3.79%	3.79%	2.89%	3.53%
11	3.29%	3.04%	3.88%	3.88%	2.98%	3.58%
12	3.40%	3.15%	3.95%	3.95%	3.05%	3.62%
13	3.48%	3.23%	3.98%	3.98%	3.08%	3.64%
14	3.53%	3.28%	3.99%	3.99%	3.09%	3.63%
15	3.55%	3.30%	3.97%	3.97%	3.07%	3.62%
16	3.54%	3.29%	3.93%	3.93%	3.03%	3.58%
17	3.50%	3.25%	3.87%	3.87%	2.97%	3.53%
18	3.45%	3.20%	3.79%	3.79%	2.89%	3.46%
19	3.38%	3.13%	3.70%	3.70%	2.80%	3.39%
20	3.30%	3.05%	3.60%	3.60%	2.70%	3.30%
21	3.21%	2.96%	3.50%	3.50%	2.60%	3.21%
22	3.11%	2.86%	3.39%	3.39%	2.49%	3.12%
23	3.01%	2.76%	3.28%	3.28%	2.38%	3.02%
24	2.89%	2.64%	3.17%	3.17%	2.27%	2.92%
25	2.78%	2.53%	3.06%	3.06%	2.16%	2.82%
26	2.67%	2.42%	2.96%	2.96%	2.06%	2.72%
27	2.56%	2.31%	2.86%	2.86%	1.96%	2.63%
28	2.46%	2.21%	2.77%	2.77%	1.87%	2.55%
29	2.38%	2.13%	2.70%	2.70%	1.80%	2.48%
30	2.30%	2.05%	2.64%	2.64%	1.74%	2.42%

** pension increase curve provided is LRPI5, there are other increases in the Section not detailed above*

Appendix E – Assumptions for technical provisions – demographic assumptions

Post-retirement mortality	The post retirement mortality assumptions used are: • The SAPS 'S3 series, all pensioners, all amounts' table for males (S3PMA) and 'S3 series, all pensioners, mid amounts' table for females (S3PFA_M) With scaling factors for: - non-pensioners of 98% for males and their future female dependants and 102% for females and their future male dependants; - pensioners of 93% for males and their future female dependants and 95% for females and their future male dependants; and • An allowance for future improvements in line with the CMI_2018 Core Projections assuming S_k=7.0 and A=0.35 and 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)	Pre-1 April 2011 benefits: 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. Post-1 April 2011 benefits: An allowance has been made for members to retire within 10 years of their normal retirement date (i.e. an allowance between ages 55 and 65). An early retirement factor is assumed to be applied below age 60 only for members retiring directly from employment.

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 is made for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave a deferred pension in the Plan and are not assumed to exercise their option to take a transfer value.
Family Details	▪ A male is assumed to be three years older than his dependant. ▪ 90% of males and 65% of females are assumed to be married (or, if not, have a dependant) at retirement/on death before retirement respectively.
Commutation	Each member assumed to commute 20% 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	Percentage leaving the Fund in the next year as a result of				
Current	**Withdrawal from service**	**Death before retirement**	**Ill health retirement**	**Early retirement (normal health, pre-2011 benefits)**	**Early retirement (normal health, post-2011 benefits)**
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	15
60	-	-	-	100	15
65	-	-	-	100	100

Women	Percentage leaving the Fund in the next year as a result of				
Current	**Withdrawal from service**	**Death before retirement**	**Ill health retirement**	**Early retirement (normal health, pre-2011 benefits)**	**Early retirement (normal health, post-2011 benefits)**
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	15
60	-	-	-	100	15
65	-	-	-	100	100

Appendix F – Assumptions for solvency estimate

The key assumptions used in calculating the solvency estimate are summarised below.

The solvency estimate has been calculated in line with statutory requirements. I have taken into account the investment strategies that a life assurance company is likely to use to back its annuity business and the resulting pricing we would expect to see under the market conditions at the valuation date, taking into account the size of the Fund.

However, this estimate is only a guide. The true position can only be established by conducting a competitive buy-out auction and fully defining the scope and likely cost of a wind-up process for the Fund.

The basis used is described on the next page.

Solvency estimate

This considers the position if:

- The Fund were discontinued on the valuation date.
- Member benefits were crystallised and, for active members, were based on their Pensionable Service and Salary at the valuation date.
- Discretionary benefits were suspended permanently.
- The assets were used to buy immediate and deferred annuities from an insurer.

The solvency estimate is a regulatory requirement and also provides a useful benchmark against which the Trustee and others can assess the prudence of other funding measures.

Assumption	Solvency
Pre-retirement discount rate	Aon Bulk Annuity Market Monitor yield curve for non-pensioners, which is constructed from swap and UK corporate bond market curves
Post-retirement discount rate	Aon Bulk Annuity Market Monitor yield curve for pensioners, which is constructed from swap and UK corporate bond market curves
RPI inflation	Term-dependent rates derived from the RPI swap markets
CPI inflation	RPI inflation less 0.6% p.a.
Salary inflation	CPI inflation
Post-retirement mortality assumption - base table	As per Technical Provisions
Post-retirement mortality assumption - projection	CMI 2017 core projections with Sk=8.0 with long-term improvement rate of 1.75% p.a. for men and women
Withdrawals	All members assumed to immediately withdraw from service with entitlement to deferred pension
Commutation	No allowance made
GMP equalisation	No allowance is made for the additional cost that may arise from equalising male and female GMP
Expenses	The reserve for expenses allows for the expenses associated with winding up and an estimate of the per member charges expected to be levied by an insurance company on buy-out. Please note that it does not include any allowance for the cost of forced sales of assets. The expense allowance is presented as additions to the liabilities as the regulations require the assets to be shown at audited market value.

Appendix H – Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Nationwide section of the Nationwide Pension Fund

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 March 2019 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Plan and set out in the Statement of Funding Principles titled "Nationwide Pension Fund – The Nationwide Section, Statement of Funding Principles (SFP)" signed by the Trustee on 8 September 2020 and by the Society on 9 September 2020.

Signature: Keith Poulson

Date: 9 September 2020

Name: Keith Poulson FIA
Qualification: Fellow of the Institute and Faculty of Actuaries

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Appendix I – Glossary

Control period
This is the period of time from the valuation date that is considered when calculating the future service cost for schemes still open to accrual.

Deficit
This is the funding target less the value of assets. If the value of assets is greater than the funding target, then the difference is called the surplus.

Defined Accrued Benefits Method
One of the possible methods used by actuaries to calculate actuarial liabilities and contribution rates. This method assumes that the scheme will be discontinued at the effective valuation date when calculating liabilities or at the end of the control period when calculating contribution rates and so does not allow for any further projected future increases to pay or any other terms applicable to active members.

Discount rate
This is used to place a present value on a future payment. A 'risk-free' discount rate is usually derived from the investment return achievable by investing in government gilt-edged stock. A discount rate higher than the 'risk-free' rate is often used to allow for some of the extra investment return that is expected by investing in assets other than gilts.

Discretionary benefits
Benefits that are not guaranteed under a scheme's rules and which are only granted to members at the discretion of the trustees and/or the sponsor.

Funding level
This is the ratio of the value of assets to the funding target.

Funding target
An assessment of the present value of the benefits that will be paid from the scheme in the future, normally based on pensionable service prior to the valuation date. Often, the funding target is equal to the technical provisions.

Gilt yield curve
The term-dependent yields on gilts derived from fixed-interest gilts published by the Bank of England which is extended by Aon for years beyond those published.

Guaranteed Minimum Pensions (GMPs)
Most schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) before April 1997 have to provide a pension for service before that date at least equal to the Guaranteed Minimum Pension (GMP). This is approximately equal to the SERPS pension that the member would have earned had the scheme not been contracted out. GMPs ceased to build up on 6 April 1997 when the legislation changed.

Hedging
A liability is said to be hedged if a scheme holds investments which respond in the same way as it does to changes in the risk being hedged (eg interest rates or inflation). Gilts and swaps are examples of investments which are commonly used to hedge liabilities.

Limited Price Indexation (LPI)
The Pensions Act 1995 required schemes to provide a minimum level of annual increase to pensions in payment. The minimum level is the smaller of 5% and the increase in inflation* and applies to the pension earned from 6 April 1997 to 5 April 2005. With effect from 6 April 2005, the cap for statutorily required LPI for future service was reduced from 5% to 2.5%.

*Until 2010, inflation for the purpose of this minimum was defined with reference to changes in the Retail Prices Index. From 2011, inflation was defined with reference to changes in the Consumer Prices Index.

Partly Projected Unit Method
One of the possible methods used by actuaries to calculate actuarial liabilities and contribution rates.

This method allows for some, but not full, projected future increases to pay between the valuation date and retirement or date of leaving service.

Pension Protection Fund (PPF)

The PPF was established with effect from 6 April 2005. The PPF will normally take over the assets of a pension scheme in the event of its employer becoming insolvent and the scheme having insufficient assets to provide the PPF benefits. The PPF will not provide the scheme benefits in full. The PPF is financed by a levy on most defined benefit pension schemes.

The PPF benefits are broadly 100% of benefits for pensioners over normal retirement age and 90% of benefits up to a cap for all other members. Pension increases granted on benefits are at lower levels than apply in many schemes, in particular, benefits earned before 6 April 1997 would not be given any pension increases within the PPF.

Present value

Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a discount rate. This value is known as the present value. For example, if the discount rate was 6% a year and if we had to pay a lump sum of £1,060 in one year’s time the present value would be £1,000.

Projected Unit Method

One of the common methods used by actuaries to calculate actuarial liabilities and contribution rates. This method allows for full projected future increases to pay through to retirement or withdrawal.

Prudent

Prudent assumptions are assumptions that, if a scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

Recovery plan

Where a valuation shows a funding shortfall against the technical provisions, trustees must prepare a recovery plan setting out how they plan to meet the statutory funding objective.

RPI inflation curve

The term-dependent RPI inflation expectations derived from fixed-interest and index-linked gilts published by the Bank of England which is extended by Aon for years beyond those published.

Schedule of contributions

Trustees of pension schemes must prepare and maintain a schedule of contributions. This shows the dates and amounts of contributions due from the employer and members. Under the Pensions Act 2004 the schedule must be put in place within 15 months of the valuation date.

Solvency ratio

This is the ratio of the market value of a scheme's assets to the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

The Statement of Funding Principles

The Pensions Act 2004 requires trustees to prepare (and from time to time review and if necessary revise) a written statement of their policy for securing that the statutory funding objective is met. This is referred to as a statement of funding principles.

Statutory estimate of solvency

This is the difference between the market value of a scheme's assets and the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

Statutory funding objective

Under the Pensions Act 2004, every scheme is subject to the statutory funding objective, which is to have sufficient and appropriate assets to cover its technical provisions.

Surplus

This is the value of assets less the funding target. If the funding target is greater than the value of assets, then the difference is called a deficit.

Technical provisions

This is the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between a scheme's trustees and the company. It generally allows for projected future increases to pay through to retirement or date of leaving service.

Transfer value

Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in a scheme, and a sum of money (called the transfer value) is paid into another approved pension scheme; this is used to provide pension benefits on the terms offered in that scheme.

Appendix J - Report Framework

This report has been prepared in accordance with the framework below.

TAS compliant

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that Nationwide Pension Fund Trustee Limited is the addressee and the only user and that the report is only to be used as a summary of the outcome of the valuation. If you intend to make any other decisions after reviewing this report, please let me know and I will consider what further information I need to provide to help you make those decisions.

The report has been requested by the Trustee. It has been prepared under the terms of the most recent Scheme Actuary Agreement between the Trustee and me on the understanding that it is solely for the benefit of the addressee.

This report should be read in conjunction with:

- Statement of Funding Principles dated 2 August 2017.
- My report "Actuarial Valuation at 31 March 2016", dated 2 August 2017
- The Aon report "Guidance on Actuarial Valuations" dated Q1 2019, which should be considered as an appendix to this report
- My report "2019 Valuation Assumptions – initial thoughts" dated 11 April 2019
- My report "2019 Actuarial Valuation – initial results for Trustee" dated 11 July 2019
- My report "2019 Valuation Assumptions – December 2019 Update" dated 5 December 2019
- Minutes of the meetings on 11 April 2019, 11 July 2019, 24 October 2019 and 11 December 2019
- My report "Actuarial valuation at 31 March 2019 – assumptions advice and results" dated 19 August 2020

If you require further copies of any of these documents, please let me know.