Scheme funding report: Actuarial valuation of the Nationwide Section of the Nationwide Pension Fund

As at 31 March 2022

Nationwide
Pension Fund

Scheme funding report

Actuarial valuation of the Nationwide Section of the Nationwide Pension Fund at 31 March 2022

Prepared for: Nationwide Pension Fund Trustee Limited (the Trustee)
Prepared by: Keith Poulson FIA
Date: 22 March 2023

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

AON

Introduction

Why bring you this report?

Section 224(2)a of the Pensions Act 2004 requires the Trustee to receive this formal report from me (as Scheme Actuary) setting out the results and conclusions from the actuarial valuation of the Nationwide Section at 31 March 2022.

My report summarises the key aspects of the valuation process, including:

- The funding objective and background details;
- The technical provisions;
- The agreed contributions;
- The results on the solvency basis;
- Further information is provided for compliance purposes, including:
  - The legal framework within which the valuation has been completed
  - A summary of the membership and assets 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.

Defined contribution (DC) benefits (including DC AVCs) have been **excluded** from the valuation results because in my view this provides a clearer picture.

Next steps

Some key deadlines are highlighted on the right.

The valuation process is complete when all the following have been agreed and are in place:

- This scheme funding report, including my certification of the technical provisions
- Schedule of contributions, including my actuarial certification of the adequacy of the schedule of contributions.

Key deadlines

A copy of this report must be provided to the Society as is required within 7 days of receiving it.

Within 10 days: The valuation summary and supporting documentation to the recovery plan must be submitted to The Pensions Regulator via Exchange.

By 30 September 2023: A summary funding statement must be provided to members within 18 months of the valuation date.

By 31 March 2025: The **next** actuarial valuation must be completed with an effective date no later than 31 March 2025 (i.e. three years after the effective date of this valuation).

Keith Poulson

Signature

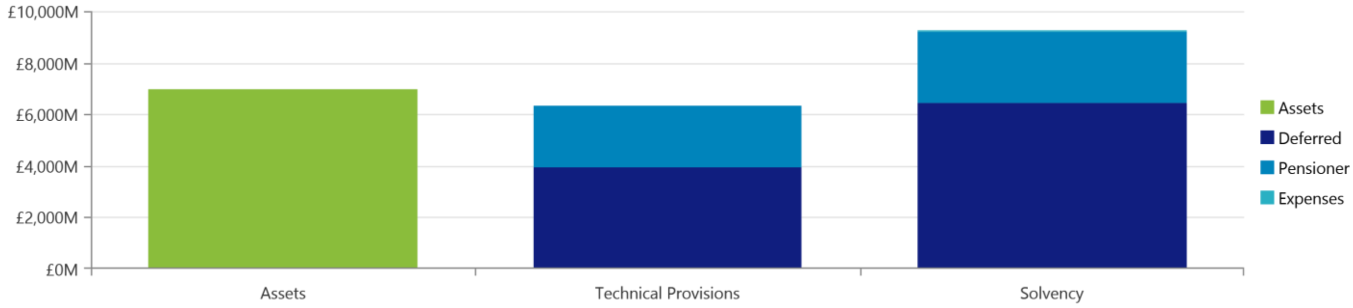
22 March 2023

Date

At a glance…

As your Scheme Actuary, I have carried out an actuarial valuation of the Nationwide Section at 31 March 2022.

Funding summary



Technical provisions

£698M

surplus

Solvency estimate

(£2,721M)*

deficit

Low Dependency**

(£89M)

deficit

Notes:
** The solvency deficit shown includes a £500m reduction in assets to allow for the estimated reduction in assets should the less liquid assets (AMA and PMP) be forced to be sold over a short timeframe.*
*** The Low Dependency position shown above is relative to targeting a funding level of 100%.*
The deficit on the Trustee Funding Target (111% of low dependency) was £871M.

Contributions

The Section closed to future accrual with effect from 31 March 2021. As a result, there are no regular contributions payable to the Section.

As the Section is in surplus on the Technical Provisions basis no contributions are payable to the Section, other than the cost of augmentations (if any).

The expenses of running the Section (including the PPF and other levies) are met by the assets of the Section.

Important

The report concentrates on the Section's financial position at the valuation date. As time moves on, the Section's finances will fluctuate.

If you are reading this report sometime after it was produced, the Section's financial position could have changed significantly.

Contents

Background to your actuarial valuation

Data and benefits valued

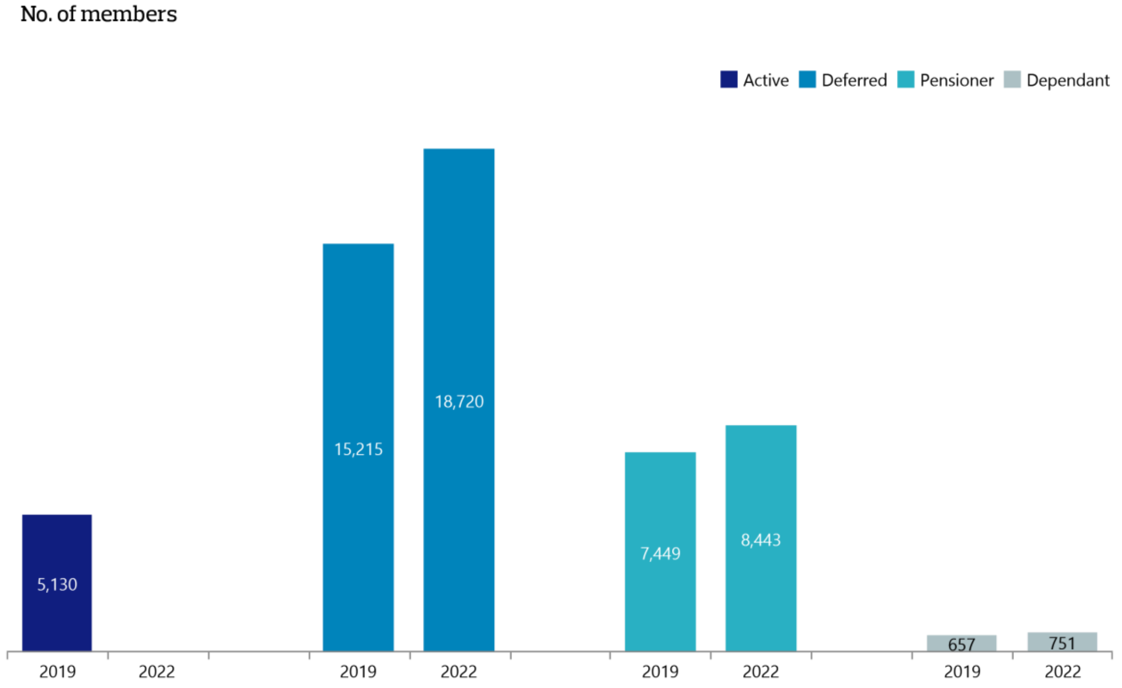
Your actuarial valuation was based on a snapshot of member data and my understanding of the Section's benefits.

Member data

The Section has continued to become increasingly mature with the proportion of pensioners increasing.

The membership numbers are shown graphically below.

Further details of the membership data used for the actuarial valuation calculations are provided in an appendix.



Benefits

Members are entitled to the benefits defined in the Rules. A summary of the benefits is included in an appendix.

In valuing these benefits, I have applied some judgment in the following key areas:

GMP equalisation

An approximate allowance for equalising GMPs is made by adding 0.1% to the Section's technical provisions, low dependency and solvency basis liability. This includes an approximate allowance for both past and future benefit payments.

This is consistent with the approach at the previous valuation.

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 Section. No allowance is made for such benefits.

Early Retirement from age 60

Following the closure to accrual on 31 March 2021 the Society has agreed to allow the following members to take their benefits unreduced from age 60 (whereas the normal retirement age for benefits accrued after 1 April 2011 is 65):

i) members retiring from service with the Society and immediately drawing pension

ii) members taking their pension but continuing to work for the Society

iii) any member who left employment with the Society as a result of redundancy or TUPE transfer.

An allowance for these favourable retirement terms is included in the liabilities.

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).

Your funding target

The Trustee and Society have agreed a Long Term Objective whereby in 2037 the liabilities are discounted at gilts + 0.5%.

The Trustee has a separate Funding Target to be 109% funded on the Low Dependency basis (in line with the technical provisions basis but with a lower discount rate of gilts + 0.5% p.a.). This funding target was 111% at the valuation date but has since reduced to reflect favourable longevity swap pricing. Once the Section is 109% funded this would permit the Section to have sufficient assets to hedge longevity risk and have low dependency on the employer for ongoing financial support thereafter. This is separate from the statutory funding objective, however as it is a key measure for the Section, the low dependency funding results are included in this report.

The Low Dependency discount rate was gilts + 0.2% p.a. at the previous valuation, this was revised to gilts + 0.5% p.a. but with a funding target of 105%. The target was further increased to 111% (now 109%) to reflect the expected cost of hedging longevity risk. All other assumptions are in line with the technical provisions.

Employer covenant

A key factor in setting the level of the technical provisions is the Trustee's assessment of the employer covenant. The Trustee, with the support of Teneo, has carried out a review of the employer covenant and concluded that the employer covenant is **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.

Investment strategy

The assets held are described in the appendix.

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's Section liabilities as they fall due over the long term. The Trustee is committed to a long-term strategy of risk reduction.

In order to calculate the technical provisions the benefits paid out by the 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.

Method & assumptions

The Trustee has agreed with the Society the method and assumptions used to calculate the technical provisions liabilities.

Assumptions

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 the assumptions are set out in the statement of funding principles.

Further information

Your Actuarial valuations handbook contains further information on valuation methods and Aon's approach to assumption setting.

Financial assumptions

Assumption	2019	2022	Reason for change
Pre-retirement discount rate	Gilt yield curve plus 1.25% p.a.	Time-based discount rate tapering from gilts +2.25% to gilts plus 0.5% p.a. by 2037	Reflects change agreed at previous valuation.
Post-retirement discount rate	Gilt yield curve plus 1.0% p.a.	'Gilt Price Only' curves used to derive baseline risk free rate.	
RPI inflation	"Break-even" RPI curve with no inflation risk premium deduction	"Break-even" RPI curve with no inflation risk premium deduction	No change other than using 'Gilt Price Only' curve.
CPI inflation	RPI inflation less 0.9% p.a.	Based on RPI less Aon's best estimate of the CPI wedge as at the date of valuation (as at 31 March 2022 this was RPI inflation less 0.9% p.a. before 2030 and less 0.1% p.a. thereafter)	Reflects change in Aon's best estimate of the future long-term difference between RPI and CPI as a result of RPI reform.
Pension increases	Consistent with inflation assumptions and allowing for Aon's best estimate of future inflation uncertainty	Consistent with inflation assumptions and allowing for Aon's best estimate of future inflation uncertainty	No change other than the movement in the RPI curve/ and change in Aon's best estimate of future inflation uncertainty

Mortality assumptions

Assumption	2019	2022	Reason for change
Base tables			
Deferred males	98% of S3PMA	98% of S3PMA	Update for latest Demographic Horizons analysis
Deferred females	102% of S3PFA_M	102% of S3PFA_M	
Pensioner males	93% of S3PMA	92% of S3PMA	
Pensioner females	95% of S3PFA_M	99% of S3PFA_M	
Current dependants - male	95% of S3PMA	92% of S3PMA	
Current dependants - female	93% of S3PFA_M	97% of S3PFA_M	
Future dependants - male	95% of S3PMA	102% of S3PMA	
Future dependants - female	93% of S3PFA_M	97% of S3PFA_M	
Improvements	CMI_2018 projections with S_K=7.0, A=0.35 and a long-term improvement rate of 1.50% p.a.	CMI_2021 projections with S_K=7.0, W_{2020}=0%, W_{2021}=0%, A=0.35 and a long-term improvement rate of 1.50% p.a.	Update for latest best estimate of longevity projections
Pre-retirement mortality	70% of AM92 Ultimate for men, 70% of AF92 Ultimate for women	In line with post-retirement mortality	Align with post retirement mortality

Other assumptions

<table>
<tr><th>Assumption</th><th>2019</th><th>2022</th><th>Reason for change</th></tr>
<tr><td>Commutation</td><td>20% of pension on then current commutation factors</td><td>18% of pension on current commutation factors</td><td>Updated in line with recent experience</td></tr>
<tr><td>Proportion married or with a financial dependant</td><td>90% of men and 65% of women at retirement or earlier death</td><td>Best estimate curves which at age 60 result in 87% males / 81% females</td><td>Updated in line with Demographic Horizons analysis</td></tr>
<tr><td>Age difference</td><td>An eligible dependant is assumed to be of the opposite sex and 3 years younger than a male member and 3 years older than a female member</td><td>An eligible dependant is assumed to be of the opposite sex and 3 years younger than a male member and 1 year older than a female member</td><td>Updated in line with Demographic Horizons analysis</td></tr>
<tr><td>Early retirement</td><td>Age based scale from deferred:
<table>
<tr><th>Age</th><th>NRA 60</th><th>NRA 65</th></tr>
<tr><td>55</td><td>15%</td><td>15%</td></tr>
<tr><td>56-59</td><td>15% p.a.</td><td>15% p.a.</td></tr>
<tr><td>60</td><td>100%</td><td>15%</td></tr>
<tr><td>61-64</td><td></td><td>15% p.a.</td></tr>
<tr><td>65</td><td></td><td>100%</td></tr>
</table></td><td>Age based scale from deferred:
<table>
<tr><th>Age</th><th>NRA 60</th><th>NRA 65</th></tr>
<tr><td>55</td><td>25%</td><td>25%</td></tr>
<tr><td>56-59</td><td>5% p.a.</td><td>5% p.a.</td></tr>
<tr><td>60</td><td>100%</td><td>5%</td></tr>
<tr><td>61-64</td><td></td><td>5% p.a.</td></tr>
<tr><td>65</td><td></td><td>100%</td></tr>
</table></td><td>Update in line with scheme experience</td></tr>
<tr><td>Discretionary benefits</td><td colspan="2">No allowance</td><td>No change</td></tr>
<tr><td>Expense reserve</td><td colspan="2">None - expenses assumed to be covered by asset returns in excess of the assumed discount rates</td><td>No change</td></tr>
<tr><td>GMP equalisation</td><td colspan="2">An approximate allowance for equalising GMPs is made by increasing the Section’s technical provisions by 0.1%</td><td>No change</td></tr>
</table>

Valuation results

Past service results

The Nationwide Section's technical provisions and low dependency liabilities and resulting funding positions have been calculated at 31 March 2022.

Results

	Technical provisions (£M)	Low dependency (target 100% of G+0.5%) (£M)	Trustee Funding Target (target 111% of G + 0.5%) (£M)
Value of past service benefits for:			
Deferreds	3,950	4,470	4,962
Pensioners	2,367	2,634	2,924
Value of liabilities	6,317	7,104	7,886
Value of assets	7,015	7,015	7,015
Past service surplus/(deficit)	**698**	**(89)**	**(871)**
Funding level	111%	99%	90%

My formal certificate of your technical provisions is included in this report.

Sensitivity of the funding level

The key assumptions are the discount and inflation rates and the mortality assumptions. The sensitivity of the funding level to these key assumptions is as follows:

Discount rate decreases by 0.25%

A 0.25% p.a. decrease in the discount rate increases the technical provisions by c£325M.

RPI inflation increases by 0.25%

A 0.25% p.a. increase in the RPI inflation assumption (and the knock-on impact on the other assumptions derived from it) increases the technical provisions by c£230M.

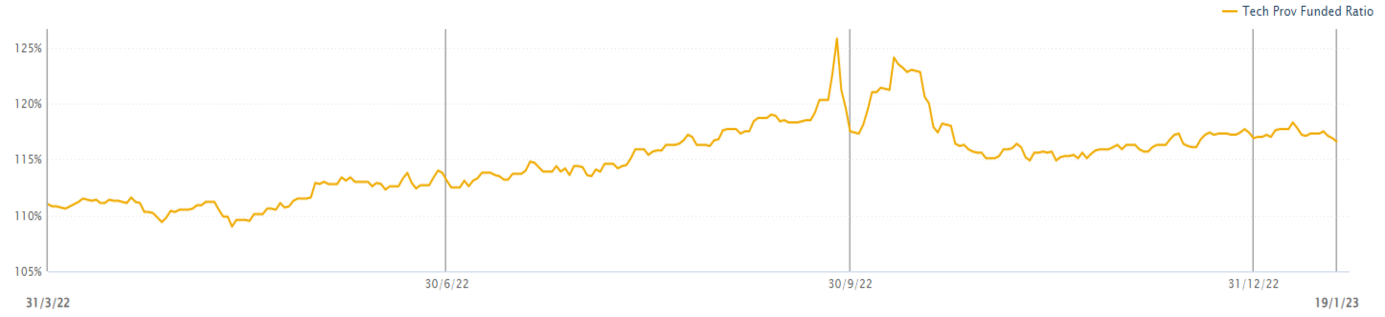
Approximate developments since the valuation date

Since the valuation date, the Section’s funding position is estimated to have improved.

The chart below illustrates how the position has changed over time.

Note that this is more approximate than a full valuation, for example mortality experience for this period has been assumed to be in line with the assumptions.

This value of the Section's liabilities is based on assumptions consistent with those used to calculate the technical provisions, with financial assumptions updated to reflect changes in market conditions.



Reflecting post-valuation experience

No post valuation date experience has been allowed for other than when considering the likely future commutation factors to be adopted by the Section, latest market conditions have been considered.

Solvency position

I have estimated the Section's statutory solvency position.

Results

This solvency estimate represents the estimated cost of purchasing annuities at the valuation date from an insurance company to meet the Section's benefits.

Given some of the Section's less liquid assets may suffer a discount if sold in a short period of time (6 months to a year) I have shown the position both with, and without the potential discount on 'forced' sale of the Private Market Portfolio (PMP) and Alternative Matching Assets (AMA). The table below therefore shows the position:

a) assuming no reduction in assets because of forced sales;

b) assuming a reduction of £500M to the value assets to reflect an estimate of the impact on the value of the PMP and AMA assets in the event of forced sale; and

c) allowing for the impact of forced sale of assets as an increase to the liabilities (rather than reduction to assets) which is in line with guidance regarding how the impact of reductions in assets on forced sale should be formally disclosed.

Solvency (M)	a) no allowance for forced sale of assets	b) allowance for forced sale of assets	c) allowance for forced sale of assets shown as increase to liabilities for disclosure purposes
Value of past service benefits for:			
Deferreds	6,429	6,429	6,429
Pensioners	2,756	2,756	2,756
Expenses	51	51	551
Total past service liabilities	9,236	9,236	9,736
Assets	7,015	6,515	7,015
Surplus / (deficit)	(2,221)	(2,721)	(2,721)
Funding ratio	76%	71%	72%

Why higher?

The solvency estimate is higher than the technical provisions.

Broadly, this is for the following reasons:

- Insurers will typically hold less risky assets which provide **lower investment returns** than are expected to be achieved on the 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
- Insurers need to cover **costs**, including administering the benefits, and also make a **profit**, and
- Allowance is made for the **cost of winding up** the Section.

The assumptions used in the solvency estimate are summarised in an appendix. The impact of forced sale of assets is approximate and assessed as:

- A reduction of 21% to the value of the Private Markets Portfolio (PMP) which totalled £1,743M at 31 March 2022, plus
- A reduction of 24% to the value of the Alternative Matching Assets (AMA) which totalled £552M at 31 March 2022.

The percentage reductions are based on estimates provided by the Fund's investment consultant, noting an accurate assessment of the impact of forced sale can only be determined by testing the market.

In practice

Supply and demand factors mean that the actual cost of purchasing annuities may be different to the above solvency estimate. There may also be some practical barriers to voluntarily winding up the Section.

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

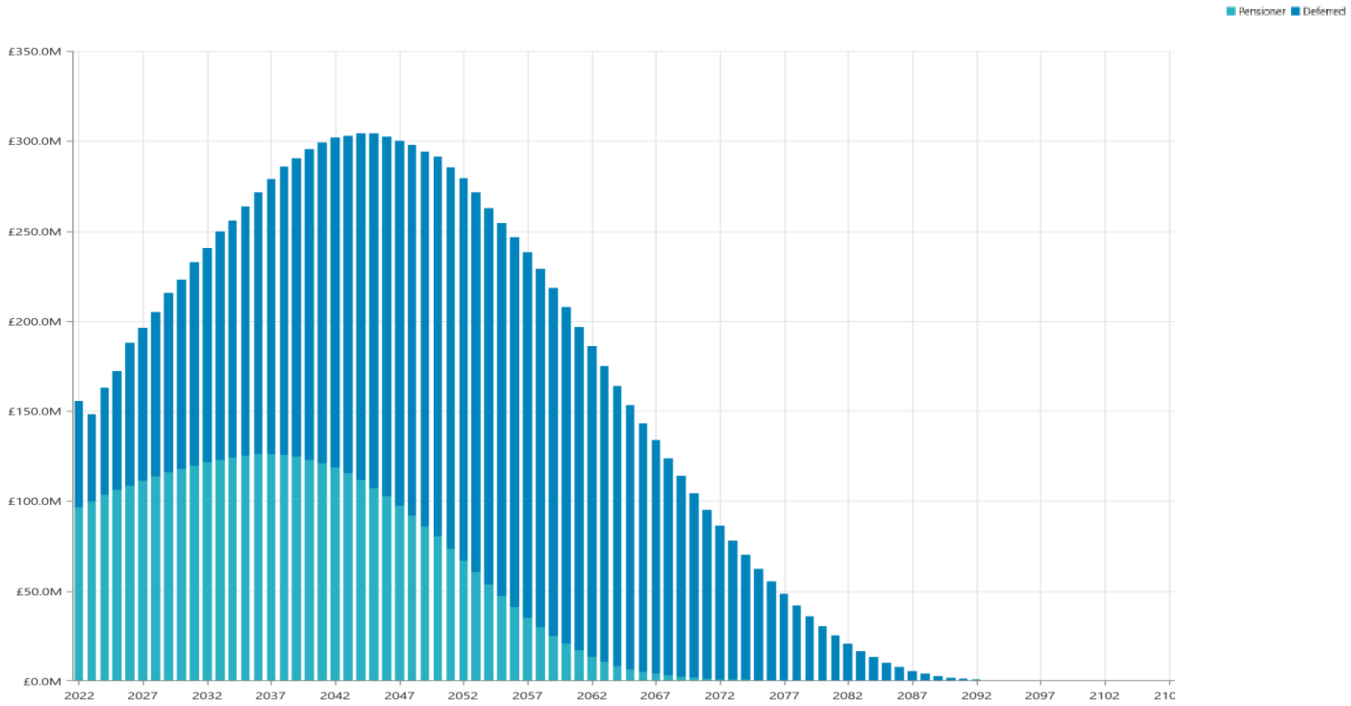
- Benefits corresponding to those covered by the PPF would be met first (either through the PPF or, if there were sufficient funds, by securing these benefits with an insurance company).
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

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

Funding and investment risks

The Section's funding level is likely to exhibit volatility.

The benefit payments from the 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 Section.



Key risks

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 risk

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 the assets held are not sufficiently liquid leading to the sale of assets at inopportune times.

Longevity risk

The risk that Section members live for longer than assumed and that pensions would therefore need to be paid for longer.

Inflation risk

The risk that the relevant inflation metric is higher than assumed, increasing the pensions that need to be paid (to the extent inflation is unhedged).

Sponsor risk

This is the risk that the sponsor is no longer willing or able to support the Section to fund any future losses that arise.

Other risks

The Section is exposed to other risks too, which may also impact on the funding, investments and sponsor covenant:

- **Member options risk**: The risk that members exercise options resulting in unanticipated extra costs.
- **Other risks:** For example, those relating to climate change and other environmental issues as well as long-term uncertainty around geopolitical, societal and technological shifts.

Risk mitigation

The Trustee takes an integrated approach to managing the Section's risks. The key actions taken to mitigate the risks include:

Investment

- Adopting a diversified investment strategy
- Investing in liability-driven investments (LDI), so that changes in the value of the liabilities will be largely matched by changes in the asset values, thus reducing the funding volatility

Covenant

- Securing a contingent asset from the Society.
- As well as obtaining a covenant review at the time of a triennial valuation, the Trustee monitors the covenant position between valuations by receiving regular updates from the Society.

Funding

- Setting a funding and investment strategy under which the Section aims to reduce its dependence on the sponsor's continuing financial support.
- Considering a longevity swap to reduce mortality risk.
- Making prudent assumptions in the technical provisions.

Future contributions

Agreed contributions

As a result of this valuation, the Society has agreed a new contribution schedule.

Society contributions

As the Section is in surplus no contributions are payable by the Society, other than the cost of augmentations (if any).

Currently, the expenses of running the Section (including the PPF and other levies) are met by the assets of the Section.

Schedule of contributions

These contributions are set out in the schedule of contributions.

As agreed, my certification of the schedule is based on the position at the valuation date.

A full review of the Society's contributions will be completed no later than following the next valuation, which is due to take place at 31 March 2025.

Projections

I have illustrated below how I expect the Section's funding position to develop over the future.

Projected future funding levels

I estimate that, by the next valuation, which will be due with an effective date of 31 March 2025:

- The **technical provisions** funding level will remain at the current level of around 110%, and
- The **solvency** level will have improved to around 80%.

Assumptions

These estimates assume that:

- The experience of the Section between the two valuation dates is in line with the assumptions underlying the technical provisions.
- The assumptions underlying the technical provisions and solvency bases remain unchanged.

Rationale

The main reasons for the expected improvement in the solvency position are:

- The solvency assumptions typically containing more prudence.
- The Section maturing, particularly members retiring which removes uncertainty and so improves the terms of annuity purchase.
- Investment growth on the assets, above the discount rates assumed in the solvency calculations.

Certificate

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 2022 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 Fund and set out in the statement of funding principles dated 20 March 2023.

Keith Poulson

22 March 2023

Signature **Date**

Name	Keith Poulson FIA
Employer	Aon Solutions UK Limited
Qualification	Fellow of the Institute & Faculty of Actuaries
Address	Aon Solutions UK Limited, Verulam Point, Station Way, St Albans, Hertfordshire, AL1 5HE

Further information

Reference appendices and glossary

Membership data

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

The administration team supplied membership data as at 30 September 2021.

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.

The average ages shown in these tables are unweighted.

Active members	Number	Average age	Total Pensionable Salaries (£000 p.a.)	Average Pensionable Salaries (£ p.a.)	Average Pensionable Service (years)
2019	5,130	47.3	188,257	36,697	22.1
2022	-	-	-	-	-

Deferred members	Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
2019	15,215	47.4	77	4,461
2022	18,720	49.5	121	6,450

Note: The deferred pension amounts include revaluations up to the valuation date.

Pensioners	Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
2019	7,449	67.9	73	9,757
2022	8,443	69.1	87	10,344

Dependants	Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
2019	657	70.2	8	12,052
2022	751	71.9	9	12,646

Note (pensioners and dependants): The pension amounts exclude the increase awarded in 1 April 2022.

We have allowed for the time difference between the date of the data extract and the valuation date by allowing approximately for any cashflows out of the plan (eg CETVs and cash commutation) and pensioner and dependants deaths over the period.

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 closed to future accrual on 31 March 2021.

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 certain members can retire from age 60 unreduced if they remain in employment until retirement / redundancy)

Early Retirement Pension

A pension is provided on retirement after the age of 55 with Society consent. This is normally reduced to allow for early payment. Note members who remain in active service may take their post 1 April 2011 CARE benefits from age 60 without reduction as a result of the Rule amendments made on closure at 31 March 2021.

Death Benefits

Pre 1 April 2011; 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 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 was contracted out of the State Second Pension (S2P).

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.

Assets

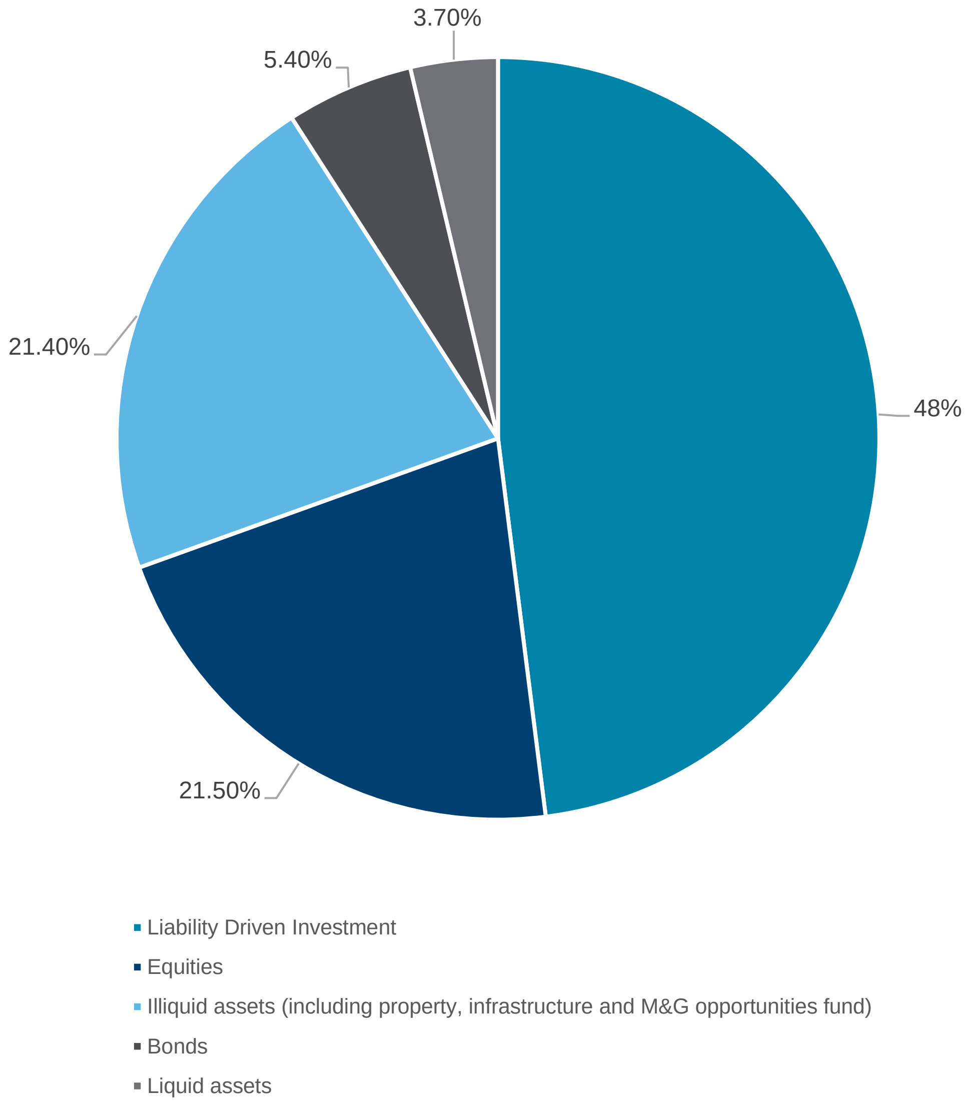
Information on the assets used in this valuation is covered here.

The audited accounts for the Nationwide Section for the year ended 31 March 2022 show the assets were £7,015M, of which:

- Total net assets of the £7,027M from the audited accounts
- Less the value of AVC investments £12M 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 £7,015M was broadly invested at 31 March 2022.

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



Previous valuation results

This page sets out the results and conclusions of the previous actuarial valuation of the Nationwide Section at 31 March 2019.

Key results

The key results from the previous valuation at 31 March 2019 were:

- There was a deficit of £180M relative to the **technical provisions**, which corresponded to a funding level of 97%.
- There was an estimated deficit of £3,425M relative to **solvency**, which corresponded to a funding level of 63%.

Recovery plan

The Society paid a deficit reduction contribution of £61M in July 2019. In light of the improved funding position, and a significant contingent asset, no further contributions were payable other than the cost of accrual of benefits.

It was agreed that the Society would pay 31.5% of Pensionable Salaries in respect of the cost of future accrual of benefits. These contributions ceased on the closure of the Section to future accrual on 31 March 2021.

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

Notable changes since the previous valuation

There have been some significant changes to the Section since the previous valuation, which have impacted the funding assessment.

Fund closure

The Section's final salary section closed to future accrual on 31 March 2021.

Contingent Asset

Following the 2019 valuation the Society put in place a contingent asset to provide additional security to the Fund.

Analysis of the change since the previous valuation

The table below sets out the key reasons for the change in funding position since the previous valuation.

Past service changes

The past service results show that the deficit of £180M in the Section at the previous valuation has become a surplus of £698M at this valuation.

The table below quantifies the key reasons for this change:

Key factors

The analysis shows that the main factor affecting the funding position since the previous valuation is the material gain on investments.

	£M
Deficit at previous valuation	**(180)**
Interest on deficit	(10)
Gain from investment returns higher than expected	1,050
Deficit reduction contributions	61
Gain from inflation: deferred revaluations / pension increases being lower than expected	60
Impact of change in financial market conditions	(260)
Impact of RPI reform (ie higher assumed future CPI)	(90)
Impact of closure of the fund to future accrual	150
Changes to demographic assumptions	(110)
Miscellaneous	27
Surplus / (deficit) at current valuation	**698**

Solvency estimate: assumptions

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

Statutory solvency estimate

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

The solvency estimate considers the position if:

- The Section were discontinued on the valuation date.
- Member benefits were crystallised.
- 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 relative prudence of other funding measures.

The basis used is described below.

Estimate vs actual cost

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 Section.

Assumption	Solvency
Discount rate for current pensioners in payment	Aon's Bulk Annuity Market Monitor yield curves for pensioners, which is constructed from swap and UK corporate bond market curves
Discount rate for current non-pensioners in payment (both before and after retirement)	Aon's Bulk Annuity Market Monitor yield curves for non-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 0.75% p.a. to 2030 and 0.1% p.a. after 2030
Pension increases	Derived from the price inflation assumptions with allowance for caps and floors and with the aim of approximately reflecting the cost of hedging these increases using LPI-linked swaps
Post-retirement mortality	As for the technical provisions except using CMI_2020 projections with A=0.5 and Sk=7.0 and a long-term rate of improvement of 1.75% p.a. for both men and women
Commutation and discretionary benefits	No allowance
GMP equalisation	The same percentage addition to the liabilities is included as in the technical provisions calculation
Expenses of winding-up	Allowance made to cover the estimated forced sale of assets where shown plus expenses and insurance company charges associated with winding-up

Legal framework and compliance

Legal framework

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 Scheme Actuary Agreement between the Trustee and me, on the understanding that it is solely for the benefit of the addressee.

TAS compliance

This document, 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 document, please let me know and I will consider what further information I need to provide to help you make those decisions.

This document should be read in conjunction with:

- The Statement of Funding Principles dated 9 September 2020
- My report "Actuarial Valuation at 31 March 2019", dated 9 September 2020
- My report "Initial Assumptions Advice – 31 March 2022 Valuation" dated 15 March 2022
- My report "Nationwide Pension Fund 31 March 2022 valuation – Initial results", dated 22 June 2022
- My report "Nationwide Pension Fund 31 March 2022 valuation – Summary of initial results and key decisions – Nationwide Section", dated 16 August 2022
- My report "Nationwide Pension Fund 31 March 2022 valuation – assumptions advice and initial results", dated 17 August 2022
- The Aon document "Actuarial valuations handbook", provided along with my report of 17 August 2022

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

Shorthand in this report

Fund: Nationwide Pension Fund

Trustees: Directors of Nationwide Pension Fund Trustee Limited

Sponsor: Nationwide Building Society

Rules: The Consolidated Trust Deed and Rules dated 30 March 2012

Glossary

This glossary explains some common terms from the actuarial valuation process. Not all of them may be used in your report.

Best estimate assumption

It is equally likely that actual experience will be better-than or worse-than such an assumption. Best estimate assumptions are subjective and therefore those referenced in one report may differ from best estimate assumptions derived elsewhere.

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.

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 from investing in assets other than gilts.

Forward rate

A forward rate is a rate which is expected to apply over a future time period. For example, to discount a single payment from one future date (say, five years from now) back to a closer future date (say, three years from now).

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 are extended by Aon for years beyond those published.

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 (e.g. interest rates or inflation). Gilts and swaps are examples of investments which are commonly used to hedge liabilities.

Consumer Prices Index (CPI)

Measure of UK price inflation published monthly by the Office of National Statistics. It is the Government's preferred measure of inflation. It is based on different items and weightings to the Retail Prices Index (RPI) and is also calculated using a different formula.

Discretionary benefits

These are benefits which 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.

Duration of liabilities

The duration of a scheme’s liabilities represents the average term to payment of the liabilities. In broad terms, if a scheme has a duration of 20 years, then it will respond to changes in discount rate in the same way that a single cashflow which is payable in 20 years' time would. In practice, there are several different technical definitions of duration.

Funding level (or funding ratio)

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

Future service contribution rate (FSCR)

Only relevant for schemes still open to accrual; this is the cost of benefits accruing expressed as a percentage of the members’ pensionable pay.

Guaranteed Minimum Pension (GMP)

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.

Inflation risk premium (IRP)

The difference between the best estimate of future inflation and its market price.

Inflation uncertainty

Whilst, over the medium to long term, inflation is often considered to be reasonably stable, and a simple single assumption is often used for projections, in reality inflation can vary up and down significantly from one year to the next. This variation is sometimes referred to as inflation uncertainty.

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.

Long term objective

A target agreed between the Society and the Trustee where by 2037 the liabilities are discounted at gilts + 0.5% p.a.

Low dependency funding level

The ratio of Total Net Assets to the liabilities discounted at gilts + 0.5% p.a.

Mortality rate

A mortality rate measures the likelihood that an individual will die between one birthday and the next.

Mortality table

Mortality tables summarise mortality rates across all ages.

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.

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 sponsor 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.

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.

Prudent assumption

It is more likely that actual experience will be better than a prudent assumption than that it will be worse. The value of the liabilities will be higher when measured using prudent assumptions than using best estimate assumptions.

RPI inflation curve

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

Retail Prices Index (RPI)

Measure of UK price inflation published monthly by the Office of National Statistics. It is no longer the Government's preferred measure of inflation. As well as being based on different items and weightings to the Consumer Prices Index (CPI), it is also calculated using a different formula. However, it is the index that pension benefits have historically tended to be linked to and is the index used to determine increases in index-linked gilt coupons.

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 sponsor and members. Under the Pensions Act 2004, the schedule must be put in place within 15 months of the valuation date.

Scaling factor

Differences in life expectancy between schemes are typically allowed for by multiplying the chance of dying at each age by a scaling factor. Scaling factors of less than 100% mean that people are assumed to live longer than under the standard tables. For example, a scaling factor of 90% means that a member has a 10% less chance of dying each year than is assumed in the standard mortality tables. Similarly, scaling factors of more than 100% mean that people are assumed to live for less time than under the standard tables.

Solvency estimate

This represents an estimate of the cost of buying out a scheme's benefits with an insurance company at the valuation date. Supply and demand factors also mean that no single solvency estimate can be relied on and so this estimate is unlikely to be the same as the actual cost of buying out the benefits. Assumptions are set by the Scheme Actuary.

Sponsor covenant

A sponsoring employer's 'covenant' is their legal obligation and financial ability to support the pension scheme, both now and in the future.

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.

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 their pensionable service to the valuation date and assessed using the assumptions agreed between a scheme's trustees and the sponsor. It generally allows for projected future increases to pay through to retirement or date of leaving service.

Trustee funding target

A target of achieving a funding level of 109% on the Low Dependency basis.

Section 179 valuation

An actuarial valuation of a pension scheme in accordance with section 179 of the Pensions Act 2004. The Pension Protection Fund will take the results of a section 179 valuation into account when calculating a scheme's PPF levy.

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.

Spot rate

A rate which is expected to apply between now and a future date. For example, to discount a single payment at a future date (say, five years from now) all the way back to time 0.

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.

Swap yield curve

The term-dependent yields on fixed-interest swaps derived by Aon from market data.

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.

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