

Nationwide Pension Fund

2017/2018 ANNUAL REVIEW



Building Society



Message from the Chairman

Welcome to this year's Annual Review.

In last year's Annual Review I shared our desire to make better use of online communications. With this in mind, this year's paper version focuses primarily on the financial aspects of the Fund. A more comprehensive, digital version of the Annual Review can be found on the Fund website.

Whilst we're not scheduled to undertake a formal Actuarial Valuation of the Fund until next year, we have completed an interim financial health check. This shows that for the Nationwide Section the shortfall continues to reduce as planned and the Cheshire & Derbyshire Section remains in surplus. There's a simple explanation about what this means in our new video on the website called 'Managing the funding'.

We launched the Member Portal earlier in the year and already nearly 9,000 members have registered. Registering not only allows you access to secure online functionality, such as being able to update your address or Expression of Wish details, but it also means that we can communicate with you directly in a timely way and

in a digital format. We'll keep you updated on what you can do on the Portal over time.

We're very keen to encourage online communications. We'll be writing to all members again in the next couple of weeks, to either confirm your chosen communications preference or to provide more information to those who haven't yet decided.

I hope you enjoy reading this update from the Trustee. We'd certainly welcome any comments or suggestions you may have which could help us improve how we communicate with you in the future. You can share your views by contacting the Employee Pensions team whose contact details are on page 7.

Thank you

Pete Wilkin

Chairman of the Nationwide Pension Fund Trustee Board



Scheme Finances

Each year the Trustee produces a report and a set of accounts. A full copy of the latest accounts, for the period 1 April 2017 to 31 March 2018, can be found on the Fund website. A summary of the money paid in and out of the Fund is shown below:

Total assets at 1 April 2017		£5,474.5m	
Money paid in	+	Money paid out	-
Employer contributions	£250.7m	Pension payments	£77.2m
Member contributions*	£0.2m	Lump sums on retirement	£20.0m
Other income	£0.1m	Lump sum death benefits	£0.6m
Member additional contributions	£1.8m	Leavers	£38.4m
Return on investments	£285.7m	Administration & investment expenses	£35.7m
Total income	£538.5m	Total outgoings	£171.9m
Total assets at 31 March 2018		£5,841.1m	

* Excludes salary sacrifice contributions of £12.0m (included in employer Contributions).

Scheme assets between April 2017 and March 2018 **increased** from **£5,474.5m** to **£5,841.1m**.

Member Portal – new functionality

We launched the Member Portal, our secure interactive section of the Fund website, in early 2018. This initially provided you with the facility to:

- Update your address*[‡]; and
- Update your Expression of Wish details.

This was just the first step; since the launch the following functionality has been added:

- If you're an Active member, you can now view your latest Annual Benefit Statement (in previous years you did this on Fruitful);
- If you're a Deferred member, you'll soon be able to view a current estimation of the pension payable to you at your Normal Retirement Date*[‡]; and
- If you're already a Pensioner (or you're in receipt of a Dependent's pension), you can now change the bank account you'd like your pension paid into.

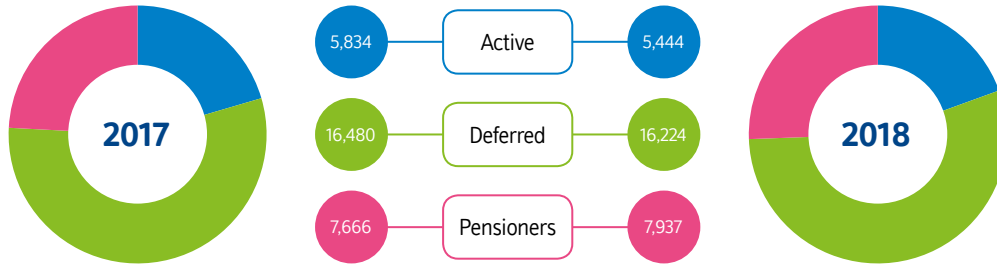
This isn't the end of the journey, and we'll keep you informed of further new functionality as it becomes available.

* Active members should still update their address details using My Details on PeopleSoft.

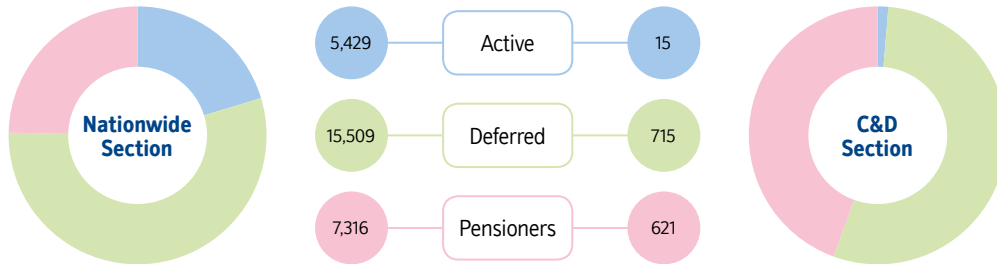
[‡] We expect this to be available for most Deferred members from November 2018.

Our Members

Although the Fund is closed to new members, the Trustee remains responsible for almost 30,000 members. The reported membership figures are shown below:



Breakdown of the **2018** membership:



Summary

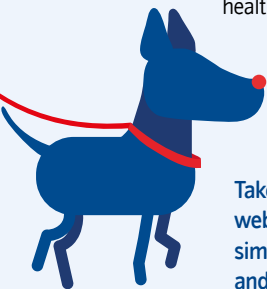
Funding update

One of the main responsibilities of the Trustee is to monitor the finances of the Fund to ensure there's enough money to pay all of the benefits promised to members, both now and for many years into the future.

In part, this is achieved through a review of the funding position. A comprehensive review, known as a full Actuarial Valuation ('Valuation'), is completed every three years by a qualified and independent Actuary. The next Valuation of the Fund is due at 31 March 2019. In between these Valuations, annual interim funding reviews are carried out.

This Summary Funding Statement updates you on the financial health of the Fund and provides important information regarding the security of your pension. It summarises the interim funding review of the Nationwide and Cheshire & Derbyshire Sections as at 31 March 2018.

Take a look at the new video on the Fund website called 'Managing the funding' which simply explains how the Trustee monitors and manages the finances of the Fund.



What does the Valuation look at?

The aim of the Valuation is to assess the funding position of the Fund. To do this the Actuary has to determine:

- **How much money each Section needs to cover the benefits members have built up.** If the Fund has more invested money (assets) than money needed to pay promised benefits (liabilities) it has a 'surplus'. If the Fund has more liabilities than assets it has a 'shortfall'. Where a shortfall exists at a full Valuation it is up to the Trustee and the Society to agree how this will be cleared and over what timescale.
- **What contributions need to be paid to cover the cost of providing future benefits.** The Society's contributions are worked out by deducting contributions made by Active members from the estimated amount needed to pay future benefits promised. These contributions are then paid until the next full Valuation is carried out.

How is the funding position calculated?

The funding position is calculated on an ongoing basis and on a solvency basis:

- **The ongoing basis** assumes that the Society will continue to support the Fund. Certain assumptions are made by the Actuary about future economic and financial conditions and the Fund's membership. While the assumptions cannot be guaranteed, they are agreed by the Trustee and the Society as being suitable.
- **The solvency basis** assumes that the Fund is ended (wound up) on the Valuation date and looks at whether there is enough money in each Section of the Fund to buy individual pensions for every member.

The funding position is a 'snapshot' of the Fund on a single day. However, in practice the liabilities are paid over a very long period of time. In fact some of the liabilities may not be paid for another 30 or 40 years. Several factors can affect the funding position, including life expectancy, investment performance, interest rates and inflation levels. The Fund's assets are invested over the long term, and therefore, fluctuations in funding levels are to be expected.

What is the interim funding position at 31 March 2018?

Nationwide Section



Cheshire & Derbyshire (C&D) Section



The interim funding position is not a formal Valuation; it's an estimate of the financial health of the Fund which uses the 2016 Valuation assumptions, and then updates them to allow for the changes in market conditions between

31 March 2016 and 31 March 2018. You should be aware that the funding level of both Sections will vary over time and the Trustee will continue to regularly monitor the funding positions.

The Nationwide Section's shortfall reduced from £593m at 31 March 2017 to £286m at 31 March 2018. The main reasons for this improvement are the significant contributions made by the Society over the year and higher than expected returns on the assets.

The C&D Section's surplus decreased slightly from £21m at 31 March 2017 to £19m at 31 March 2018. The reduction in surplus was a result of the assets returns being slightly lower than assumed.

Why does the Nationwide Section have a shortfall and the C&D Section have a surplus?

The C&D Section was created in 2010, following the merger of the Nationwide Pension Fund with the previous Cheshire and Derbyshire pension schemes.

The Cheshire and Derbyshire pension schemes had a more positive funding position than the Nationwide Pension Fund prior to the merger and this position has been safeguarded post-merger.

What is being done about the shortfall in the Nationwide Section?

Following negotiations between the Society and the Trustee, a plan was agreed to clear the shortfall revealed at the 31 March 2016 Valuation, by the Society paying additional lump sum contributions of:

- £49m paid in March 2016;
- £100m paid in April 2017;
- £49m paid in July 2017;
- £37m paid in August 2017;
- £61m paid in July 2018;
- £61m to be paid July 2019;
- £61m to be paid in July 2020; and
- £61m to be paid in July 2021.

Unless otherwise agreed by the Trustee and the Society, the amounts due in July 2019, and beyond, will only be paid if the Nationwide Section still has a funding shortfall in early 2019.



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

As part of the full Valuation the Actuary estimates how much money needs to be paid into the Fund to meet the cost of future benefits being built up by Active members. This cost is expressed as a percentage of Active members' pensionable salaries.

Following the 2016 Valuation, the Society increased its ongoing contribution rate from 22.1% to 31.5% of pensionable salaries with effect from 1 September 2017. Active members continue to contribute at 7%.

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

As part of the full Valuation and interim funding reviews, the Actuary works out what would have happened if the Fund had been wound up on the relevant dates. This is known as a solvency Valuation where the Actuary estimates if there's enough money to buy individual insurance policies to provide full pensions for every member.

How has the solvency position changed since the 31 March 2016 Valuation?

The following table shows the solvency positions of both Sections of the Fund at 31 March 2016 and

31 March 2018, with the shortfall figures being the money that would've been required from the Society had the Fund wound up on the dates indicated.

31 March 2016

Nationwide Section

Shortfall £5,107m

Funding level 45%

C & D Section

Shortfall £133m

Funding level 68%

31 March 2018

Nationwide Section

Shortfall £3,495m

Funding level 61%

C & D Section

Shortfall £58m

Funding level 85%

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

In the unlikely event that the Society was unable to pay any further money into the Fund, for example

because it became insolvent, additional security is provided through the Pension Protection Fund (PPF), set up by the Government to assist schemes in such circumstances. The PPF would normally take over the Fund and pay compensation to members. More information is available on their website at www.pensionprotectionfund.org.uk.

Other information required by legislation

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

Take a look at the Fund website for more information.

Including solvency information within this Funding Update is a legal requirement. It doesn't mean the Society is thinking of winding up the Fund, or that the Trustee has any reasons to expect the Society to become insolvent.

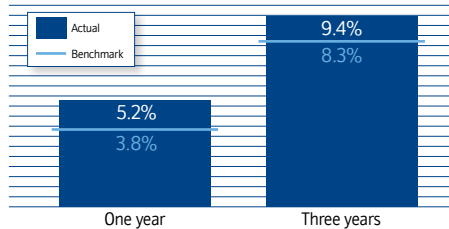
Update from the Chief Investment Officer

During the year the investment activity for the Nationwide Section remained focussed on continuing the slow but steady risk reduction activities that are key to the long term strategy of improving the funding position of the Fund. This included additional inflation and interest rate hedging, as well as reductions in the allocation to return seeking assets as the Fund hit out-performance triggers within the Flight Plan.

The year saw strong performance from the Fund's equity portfolio and also from its private markets portfolio, both of which outperformed their benchmark for the year. The private markets portfolio had a particularly strong year, and over the last three years is above benchmark by more than 8% annualised. It was this out-performance which led to the Fund hitting a de-risking trigger as part of the Flight Plan, following which the Trustee took the decision to reduce the exposure to equities by approximately £136m and increase the allocation to matching assets by an equivalent amount.

The Society made further contributions under the recovery plan which also aided the improvements in the funding level; you can see the contributions made and planned on page 5. Accounting for the contributions and the out-performance of return seeking assets, the Nationwide Section was 95% funded on a 'technical provisions' basis as at March 2018.

The annualised returns for the Fund for one year and three years are shown below.




The Cheshire & Derbyshire Section remains fully funded on a 'low dependency' basis. This Section is fully hedged for both interest rates and inflation and has de-risked so that less than 10% of its assets are in equities, with the rest invested in high quality government and AAA rated bonds. In line with the desire to continue to reduce risk within the Fund, the Cheshire & Derbyshire Section took the decision to fully hedge the currency risk of its remaining equity allocation.

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Contact the Payroll team

If you're a Pensioner and have a query on the payment of your pension, you can telephone **ASK HR** on **01793 556808** and select 'option 1'.

