XPS Pensions

The YMCA Pension and Assurance Plan

Annual Funding Update as at 1 May 2019

August 2019

Contents

01 Introduction

This report provides an update for the funding position of the Plan as at 1 May 2019 and is the second update report following the 2017 actuarial valuation

This report, addressed to the Trustee, provides an update of the funding position of the YMCA Pension and Assurance Plan ("the Plan") as at 1 May 2019 for the purposes of Section 224 of the Pensions Act 2004.

Under legislation, full actuarial valuations of the Plan have to be carried out at least every three years. Where such a valuation indicates a funding deficit, a Recovery Plan is required setting out the steps to be taken to clear the deficit and the period within which the deficit is to be cleared. The latest such valuation of the Plan was carried out as at 1 May 2017 and is documented in a report dated 18 January 2018. The next full valuation is due to be carried out with an effective date no later than 1 May 2020.

In each year between full valuations, the Trustee must obtain annual reports on developments affecting the Plan's funding position since the previous full actuarial valuation was prepared. This is the second such update.

Based on the information in this report, the Trustee can consider whether any action is warranted in relation to the funding of the Plan. Where, having taken advice from the Plan Actuary, it seems to the Trustee that the current funding plan is no longer appropriate, the Trustee may revisit elements of the funding plan or commission a new valuation.

The results outlined in this report will also form the basis of the annual Summary Funding Statement for Plan members.

The Trustee must ensure this report is made available to representatives of the Principal and Participating Employers of the Plan within seven days of receipt.

This report, and the work undertaken to produce it, is compliant with TAS 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply. The report has been written on the basis that decisions (other than simply deciding not to bring forward the effective date of the next valuation) will not be based on its contents. Appropriate advice should be obtained before any follow up actions are taken.

02 Methodology and assumptions

This report only gives an indication of the change in the funding position of the Plan and the results in this report should be used for indicative purposes only

Methodology

The actuarial method used for this update is the Defined Accrued Benefit Method. This is the same actuarial method as was used for the actuarial valuation as at 1 May 2017. Further details are available in the report to the Trustee on that valuation.

The liabilities have been calculated by rolling forward the valuation liabilities from the previous valuation date to 1 May 2019, and then adjusting the membership data for known member movements to 1 May 2019. The resulting liabilities have then been adjusted to reflect the different assumptions used. I have therefore relied heavily on the results of the 2017 valuation for the purposes of this funding update.

Financial assumptions

As part of the actuarial valuation as at 1 May 2017, the Trustee prepared a Statement of Funding Principles, the contents of which were agreed with the Employers. In carrying out this update, I have set the financial assumptions using the same principles as in that Statement but with allowance for changes in financial markets in the interim. This is not to say that if a formal actuarial valuation had been conducted at 1 May 2019, the assumptions would be those set out below. A formal valuation would involve a new discussion about the appropriate 'strength' of the assumptions.

Financial conditions

The gilt yields at 1 May 2019 are lower than at 1 May 2018 resulting in an increase in the liabilities

Price inflation at 1 May 2019 is higher than at 1 May 2018 resulting in an increase in the liabilities

The main financial assumptions we have used, based on market conditions as at 1 May 2019, are summarised in the table below (together with the assumptions used at 1 May 2017 and 1 May 2018):

	Annual Update as at 1 May 2019	Annual Update as at 1 May 2018	Actuarial Valuation as at 1 May 2017
Discount rate			
> before retirement	3.65%	3.85%	3.75%
> after retirement	2.15%	2.35%	2.25%
Future retail price inflation	3.35%	3.25%	3.40%
Future consumer price inflation	2.85%	2.75%	2.90%

We have used the same demographic assumptions for this update as adopted for the actuarial valuation as at 1 May 2017, being those set out in the Plan's Statement of Funding Principles.

03 **Data**

Membership data

The principal source of data on the Plan membership is the actuarial valuation as at 1 May 2017.

Changes to membership

This update requires me to comment on how I have taken membership changes into account. I have allowed for this by adjusting the membership data for all known member movements between 1 May 2017 and 1 May 2019. The updated member statuses were then used for the current annual update. The updated member statuses have been supplied to me by our administration department, Legal and General and other annuity providers. Having reviewed this data I believe that its quality and completeness are adequate for the purpose of this update.

Assets

£144.8m
Total value of Plan assets at 1 May 2019

We have used the market valuation of the assets as at 1 May 2019 and an estimate of the net current assets as provided in the Plan's draft Trustee Report and Accounts, which amounts to £135,653,000.

In addition, there are a number of insured annuity contracts which I have valued on a consistent basis to the corresponding pension liabilities, giving a value of £9,191,000 as at 1 May 2019.

Please note that the nature of some of the funds means that calculating an accurate fund value can take time. Noting this, and the fact that the figures quoted above are from the draft Trustee Report and Accounts (rather than audited accounts), the figures above could be subject to change.

04 Results

£29.4m
Deficit at 1 May 2019

83%
Funding level at 1 May 2019

Past service position

I have compared the assets held at 1 May 2019 with the value of the benefits earned by members. The following table shows the results of this calculation together with the comparative figures from the 2018 annual update and the 2017 valuation:

	Annual Update as at 1 May 2019 £m	Annual Update as at 1 May 2018 £m	Valuation as at 1 May 2017 £m
Technical Provisions (i.e. liabilities) (L)	174.2	168.5	174.8
Value of Assets (A)	144.8	140.9	141.2
Surplus/(Shortfall) (A-L)	(29.4)	(27.6)	(33.6)
Funding Level (A/L)	83%	84%	81%

The table shows that the deficit of £27.6m as at 1 May 2018 has increased to an estimated deficit of £29.4m as at 1 May 2019. The main factors which influenced the funding position over the year were:

- ▼ A fall in gilt yields, which has increased the value placed on the liabilities.
- ▼ A rise in the outlook for future price inflation, which has increased the value placed on the liabilities.
- ▲ Employer contributions in relation to the Plan's Recovery Plan and to the s75 debt payments.

Results

£ 1.0m
Asset gain over the period due to investments being higher than expected

£ 6.3m
Increase in liabilities over the period due to changes in market conditions

The following table summarises the financial effects of the above and other factors which have influenced the changing financial position.

	Year to 1 May 2019 £m
Surplus/(shortfall) at start of year	**(27.6)**
Interest on liabilities less expected return on assets	(0.2)
Contributions in respect of deficit repair and full buyouts less expenses	3.0
Investment returns higher than assumed	1.0
Inflation lower than assumed	0.2
Trivial commutations and transfer values	0.3
Other	0.2
Change of market conditions and resulting impact on financial assumptions used	(6.3)
Surplus/(shortfall) at end of year	**(29.4)**

Implications for the Recovery Plan

The funding valuation as at 1 May 2017 revealed a funding deficit of £33.6m. To address the deficit, the Trustee and Employers agreed a Recovery Plan. This required additional Employer contributions of £3.04m pa, payable in equal monthly instalments from 1 May 2018 and increasing by 3% per annum each 1 May thereafter. Based on the assumptions set out in the Recovery Plan and Statement of Funding Principles, these payments were estimated to be sufficient to clear the funding shortfall by 1 May 2027.

Based on conditions as at 1 May 2019, we estimate that payments in accordance with the Plan's current Schedule of Contributions would still be expected to clear the funding shortfall by May 2027.

The Recovery Plan will be due for formal review as part of the next full valuation of the Plan. The Trustee should consider whether, in light of the information presented in this report, they wish to review the Recovery Plan before that date.

Experience since 1 May 2019

Since 1 May 2019, to the date of this report, financial conditions have been volatile with significant falls in the gilt markets. As a result, we would expect that the funding position of the Plan has deteriorated in the interim. However whilst the markets remain volatile, we would not recommend any precipitate actions at this stage.

05 Next steps

Next steps

1 May 2020

Next formal valuation due

The Trustee will need to decide what, if any, action to take as a result of this funding update. In reaching this decision, the Trustee should consider the strength of the Employers' covenant and the affordability of the contributions. Given that this report identifies an improvement in the funding position since 1 May 2017, with the Recovery Plan remaining on track to clear the deficit within the agreed timescales, I do not suggest that the Trustee revisits the Recovery Plan unless they have reason to believe the Employers' covenant has deteriorated materially.

In any event, the Recovery Plan will be due for formal review as part of the next full actuarial valuation of the Plan, which is to have an effective date no later than 1 May 2020.

Signature

Date
23 August 2019

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