XPS Pensions

The YMCA Pension and Assurance Plan

Actuarial Report as at 1 May 2022

September 2022

Contents

Disclaimers and compliance

This report has been commissioned by and is addressed to the Trustee of YMCA Pension and Assurance Plan ("The Trustees"). The intended user of this report is the Trustee. Its scope and purpose is to provide the Trustee with information on the development of the technical provisions of the YMCA Pension and Assurance Plan over the period since the last formal actuarial valuation as at 1 May 2020. This report should be read in conjunction with the scheme funding report prepared for the Plan's actuarial valuation as at 1 May 2020, dated January 2021 and the Statement of Funding Principles dated December 2020. I am providing this report under the terms of our engagement and in my capacity as Scheme Actuary.

It is noted that this report will be shared with the Employer. This report may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustee may rely on or make decisions based on this report (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This report has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This report is up to date as at the date of writing and will not be updated unless we confirm otherwise.

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01 Introduction

This report provides an update of the funding position of the Plan as at 1 May 2022 and is the second update report following the 1 May 2020 actuarial valuation

01.01 Background and purpose

This report provides information on the development of the technical provisions of the YMCA Pension and Assurance Plan ("the Plan") over the period since the last formal actuarial valuation as at 1 May 2020 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'.

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. The previous update was carried out as at 1 May 2021 and is documented in my report dated August 2021.

This report provides a comparison of how the value of the Plan's assets compares to the value of its accrued liabilities (otherwise known as its technical provisions), using the scheme funding assumptions and so the information provided only relates to the progress made by the Plan towards meeting the statutory funding objective.

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

Legislation requires the Trustee to make this report available to Principal and Participating Employers of the Plan within seven days of them receiving it.

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 other follow up actions are taken.

02 Approach adopted

02.01 Asset data

I have used the market valuation of the assets as at 1 May 2022 as provided to me by Mercer Limited. The bank balance has been added to this, which was confirmed by Richard Lock. The asset value at 1 May 2022 amounts to £125,647,843.

In addition, there are a number of insured annuity contracts which I have valued on a consistent basis to the corresponding pension liabilities they are in respect of, giving a value of £6,363,000 as at 1 May 2022.

The asset figure used has not been audited.

02.02 Liability data and calculation 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 2020. 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 2022, and then adjusting the membership data for known member movements to 1 May 2022. The resulting liabilities have then been adjusted to reflect the different assumptions used. I have therefore relied heavily on the results of the 2020 valuation for the purposes of this funding update.

The results shown in section 3 are based on the same membership data as for the last formal actuarial valuation, updated for these member movements.

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.

A full summary of the membership data used for the valuation as at 1 May 2020 is provided in my report on that exercise dated January 2021.

02.03 Developments since the last valuation

GMP equalisation

Following the 26 October 2018 High Court judgment in the Lloyds Bank case, overall pension benefits need to be equalised to eliminate inequalities between males and females in Guaranteed Minimum Pensions ('GMPs') accrued between 17 May 1990 and 5 April 1997. This is generally known as 'GMP equalisation'. On 20 November 2020, the High Court gave its second judgment in the Lloyds Bank case, confirming that trustees of defined benefit pension schemes will need to revisit individual historic transfer payments to check if an additional amount is due as a result of GMP equalisation.

I have included a GMP equalisation reserve equivalent to 0.8% of the liabilities in the technical provisions, which is consistent with reserve included in the last formal actuarial valuation as at 1 May 2020 and the previous actuarial update as at 1 May 2021. This does not make any explicit allowance for the additional liability that may result from equalising historic transfer payments.

Approach adopted

RPI inflation will be aligned with CPIH inflation
In 2020 the Chancellor of the Exchequer launched a consultation on changing the RPI measure of inflation. In November 2020 the Chancellor announced the response to the consultation. The response set out that RPI inflation will be aligned with CPIH inflation by no earlier than 2030. No specific allowance for the potential impact of this was made as part of the last formal actuarial valuation as at 1 May 2020 or the previous actuarial update as at 1 May 2021. However, it is something that is likely to need to be discussed as part of the next formal actuarial valuation.

COVID-19 pandemic and high inflation
Throughout the COVID-19 pandemic and continuing today, market conditions have been volatile with significant movements in the equity and gilt markets.

In addition to this ongoing volatility, I am now also starting to see some longer-term impacts of the COVID-19 pandemic, such as market supply issues, which has led to high inflation levels. This has been compounded by the conflict in Ukraine. Higher inflation leads to higher costs for pension schemes due to pension benefits being linked to inflation. The impact of high inflation is likely to be offset to some degree, however, due to inflation hedging within the asset portfolio. In addition, a significant proportion of the Plan's pension benefits are not linked to inflation (either increasing as a fixed percentage or not increasing at all).

I have allowed for known inflation up to May 2022 when calculating the liabilities, meaning that some allowance has been made for the recent levels of high inflation.

2.16% p.a.

The Bank of England gilt yield at a duration of 17 years is higher at 1 May 2022 than it was at 1 May 2021 resulting in a decrease in the value of the liabilities

02.04 Actuarial assumptions

The Trustee's statement of funding principles dated December 2020 sets out how the assumptions to calculate the technical provisions are to be derived.

The main financial assumptions I have used, based on market conditions as at 1 May 2022, are summarised in the table below (together with the assumptions used at 1 May 2020 and 1 May 2021):

4.11% p.a.

Future expected price inflation at 1 May 2022 is higher than at 1 May 2021 resulting in an increase in the value of the liabilities

Funding assumptions (p.a.)	At 1 May 2020	At 1 May 2021	At 1 May 2022
Discount rate			
> before retirement	2.59%	3.30%	4.16%
> after retirement	1.09%	1.80%	2.66%
Future retail price inflation	3.00%	3.67%	4.11%
Future consumer price inflation	2.50%	3.17%	3.61%

No explicit allowance for climate-related risk is made in the assumptions in the statement of funding principles, and therefore is not allowed for explicitly in the figures in this report.

03 Results

03.01 Results of funding update

£21.3m

Deficit at 1 May 2022

86%

Funding level at 1 May 2022

An estimate of the Plan's funding level as at 1 May 2022 is given below with the results of the last formal actuarial valuation and actuarial report as at 1 May 2021 shown for comparison.

Funding position (£m)	At 1 May 2020	At 1 May 2021	At 1 May 2022
Technical Provisions (L)	185.0	168.6	153.3
Value of Assets (A)	146.1	145.8	132.0
Surplus/(Shortfall) (A – L)	(38.9)	(22.8)	(21.3)
Funding Level (A / L)	79%	86%	86%

The table shows that the deficit of £22.8m as at 1 May 2021 has decreased to an estimated deficit of £21.3m as at 1 May 2022. The main factors which influenced the change in funding position over the year were:

- ▲ A rise in gilt yields, which has decreased the value placed on the liabilities.
- ▼ A rise in the outlook for future price inflation, which has increased the value placed on the liabilities.
- ▲ The paying of Employer contributions in relation to the Plan's Recovery Plan.

Results

03.02 Reconciliation with the results of the last valuation

Since 1 May 2021, the Plan's shortfall has decreased from £22.8m to £21.3m. The main factors that have combined to produce this decrease since the last formal actuarial valuation are shown in the table below:

£16.1m

Asset loss due to investment returns being lower than expected

£15.3m

Net gain from changes in market conditions

	1 May 2020 to 1 May 2021 £m	1 May 2021 to 1 May 2022 £m
Surplus/(deficit) at the start of the year	**(38.9)**	**(22.8)**
Interest on liabilities less assumed return on assets	(0.0)	0.1
Contributions in respect of deficit repair and full buyouts less expenses	3.1	3.8
Investment returns lower than assumed	(0.4)	(16.1)
Actual inflation lower than assumed	0.8	0.2
Gain from members taking transfer values	0.2	0.0
Removal of Huddersfield members' liabilities	n/a	0.5
Net impact of change in market conditions	12.8	15.3
Update of Plan's factors*	n/a	(3.0)
Miscellaneous experience	(0.4)	0.7
Surplus/(deficit) at the end of the year	**(22.8)**	**(21.3)**

*The factors were updated as proposed in my report 'Actuarial Factors Review' dated May 2021

03.03 Implications for the Recovery Plan

The funding valuation as at 1 May 2020 revealed a funding deficit of £38.9m. To address the deficit, the Trustee and Employers agreed a Recovery Plan. This required additional Employer contributions of £3.277m pa, payable in equal monthly instalments from 1 May 2021 to 1 May 2029, increasing by 3% per annum each 1 May.

Based on conditions as at 1 May 2022, I estimate that payments in accordance with the Plan's current Schedule of Contributions would be expected to clear the funding shortfall sooner than the scheduled end date of May 2029.

The Recovery Plan will be due for formal review as part of the next full valuation of the Plan.

04 Formal reassessment of funding

1 May 2023

Next formal valuation due

The next formal actuarial valuation of the Plan is due no later than 1 May 2023.

Signature

H R Webster

Date

29 September 2022

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