The Scheme Funding Report as at 30 June 2020

TDL Retirement Benefits Scheme
30 September 2021

welcome to brighter

Contents

Copies of the following key documents are also attached and form part of this report:

- Actuary's certification of the calculation of ***technical provisions***
- Statement of funding principles
- Recovery plan
- Schedule of contributions
- Section 179 valuation certificate

Scheme Funding Report

Introduction and purpose of the report

This report is the ***scheme funding report*** of the TDL Retirement Benefits Scheme (the scheme) as at 30 June 2020 (the valuation date). We have prepared this report for the purpose of satisfying certain statutory requirements by summarising the results of the latest actuarial valuation. The ***scheme funding report*** was commissioned by and is addressed to the trustees of the scheme. Unless agreed otherwise in writing, we do not accept any liability or responsibility to any third party in respect of this report. This report has been produced after all the decisions in relation to the valuation have been made.

Appendix 1 sets out the statutory, regulatory and professional requirements covered by this report. The report contains the results of two funding assessments, the ***scheme funding valuation*** and the ***solvency valuation***. Terms in ***bold italics*** are described in the valuation glossary contained within the ***valuation guide*** (sent at the start of the valuation process), which should be referred to in conjunction with this report.

Unless otherwise stated, in preparing the report we have relied on the information, instructions, and data you (or your advisors) have supplied to us as well as information from other third party sources including our administration department as to the basis on which the scheme is being administered, the recent Annual Report issued to you and information sourced from previous valuations issued in respect of the scheme. These sources of information have not been independently verified. We will not be responsible for any inaccuracy in the report that is a result of any incorrect information provided to us. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by you or by any third party.

Should the trustees have any issue or concern with the appropriateness of the information sources referred to above please let us know.

Data

We have been provided with instructions as to the scheme benefits, membership and assets. Details of these are summarised in Appendices 4, 5 and 6. As with other instructions and information you have provided, these have not been verified and we will not be responsible for any losses (of any kind) arising from any incorrect instructions or information provided to us. I have not considered any AVC benefits and, apart from for the ***Section 179 valuation***, members whose benefits are secured by annuities.

Investment Strategy

The trustees' investment objective is set out in their statement of investment principles - to achieve an overall rate of return that is sufficient to ensure assets are available to meet all liabilities as and when they fall due. The asset allocation as at the valuation date is shown in Appendix 6. In particular this shows 82% in growth assets and 18.0% in matching assets, with assets expected to be moved from growth assets to matching assets as members retire. This report does not contain regulated investment advice in respect of actions you should take. No investment decision should be made based on this information without obtaining prior specific, professional advice relating to your own circumstances.

Results

Present value of the past service liabilities for:	Scheme funding valuation £'000s	Solvency valuation £'000s
Active Members	3,776	4,046
Deferred Pensioners	13,379	16,456
Pensioners	1,628	1,696
Expenses	0	1,124
Total Liabilities	18,783	23,322
Total Assets	15,567	15,567
Surplus / (Deficit)	(3,216)	(7,755)
Funding Level	83%	67%

The future service contribution rate calculated in accordance with the ***statement of funding principles*** is equal to the contribution rate in respect of the future accrual of benefits. At this valuation it is 35.4% of pensionable pay which includes the members contributions which average at 10.8% of pensionable pay at the valuation date.

Based on the results of the ***scheme funding valuation*****,** the trustees have agreed new contribution rates with the employer. The contributions agreed at this valuation are set out in the trustees' ***schedule of contributions*****.**

The estimated funding level as at 30 June 2023 is approximately 88% for the ***scheme funding valuation*** and 74% for the ***solvency valuation***. This assumes investment returns are 1.1% p.a., other economic and demographic experience is in line with the assumptions for the respective valuations and that the assumptions used for each valuation as at 30 June 2023 are the same as those used at this valuation.

Appendix 2 describes how the deficit has changed since the last valuation.

The liability figures in this report are calculated by projecting future benefit cash flows over the remaining lifetime of members and other beneficiaries of the scheme. The duration of these projected benefit cash flows is long and could extend for 60 or more years into the future. Each such potential cash flow is multiplied by an assumed probability of payment and then discounted to the valuation date to allow for potential investment returns between the valuation date and the time the payment is due.

Risks

The risks to the financial position of the scheme are described in the valuation guide. Key actions taken to mitigate them are :

Regularly monitoring the scheme's funding position and the strength of the covenant of the sponsoring employer and the ability of the employer to support the scheme and including margins for prudence in the scheme funding assumptions.

One risk is that the experience of the scheme differs to that assumed and contributions paid in by the employer need to change. Valuation results are particularly sensitive to key assumptions. The following table illustrates the sensitivity of the results of the ***scheme funding valuation*** to variations in these key assumptions. In particular, the table shows the impact of the assumptions made not being borne out in practice, with future experience instead being as illustrated. Each row of the table considers one change in isolation.

Change in assumption	Approximate increase in past service liabilities	Approximate increase in future service contribution rate
Pre retirement discount rate reduced by 0.25% per annum	323	0.1%
Post retirement discount rate reduced by 0.25% per annum	812	1.3%
Pensionable pay increase assumption increased by 0.25% per annum	9	0.1%
Inflation assumption increased by 0.25% per annum (includes impact on pensionable pay increase assumption)	1,072	1.3%
Members one year younger	705	1.4%
Cash commutation assumption decreased by 10%	17	0.0%

Impact of Scheme winding up at the valuation date

Using the results of the ***solvency valuation***, and ignoring the impact of annuity policies written in the trustees' name, I estimate that the scheme's assets only covered 85% of the value of the ***PPF compensation benefits*** had the scheme wound up on the valuation date with no further funds being available from the employer. We would need to obtain an actual quote to make an accurate assessment but in such a scenario the results suggest that the ***PPF*** would have taken on all of the scheme's assets and provided members with ***PPF compensation benefits***.

Next steps

The trustees must make a copy of this report available to the employer within seven days of receiving the report.

The trustees must provide a copy of the ***recovery plan***, valuation summary and ***schedule of contributions*** to the Pensions Regulator within ten working days from the date that I certify the ***schedule of contributions***. The valuation summary must be submitted through the Pensions Regulator's on line system ("Exchange"). Please find enclosed a summary of the key information required for this submission.

Unless an actuarial valuation is commissioned, the trustees must commission an ***actuarial report*** in each of the two years up to the next valuation.

Within a reasonable period of the date by which the actuarial valuation must be obtained, a ***summary funding statement*** must be issued to all members. The Pensions Regulator has indicated that a "reasonable period" for this purpose should not generally be more than three months.

The next actuarial valuation should be carried out as at 30 June 2023 or before.

Shona Bennett

Shona Bennett

Fellow of the Institute and Faculty of Actuaries
Scheme Actuary

Appendix 1 - Statutory, Regulatory and Professional Requirements

This report has been prepared by reference to or in accordance with:

- Information referred to in Appendices 4, 5 and 6, including instructions and data supplied by the trustees of the scheme (or their advisors), information from our administration department as to the basis on which the scheme is being administered, the most recent Annual Report issued to the trustees and previous valuation documents issued in respect of this scheme
- Part 3 of the Pensions Act 2004, The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)
- The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734)
- The Pensions Regulator's Code of Practice no 3 – "Funding defined benefits"
- This work is subject to and complies with the following Technical Actuarial Standards (TASs) issued by the Financial Reporting Council:
  - Principles for Technical Actuarial Work.
  - Technical Actuarial Standard 300: Pensions.

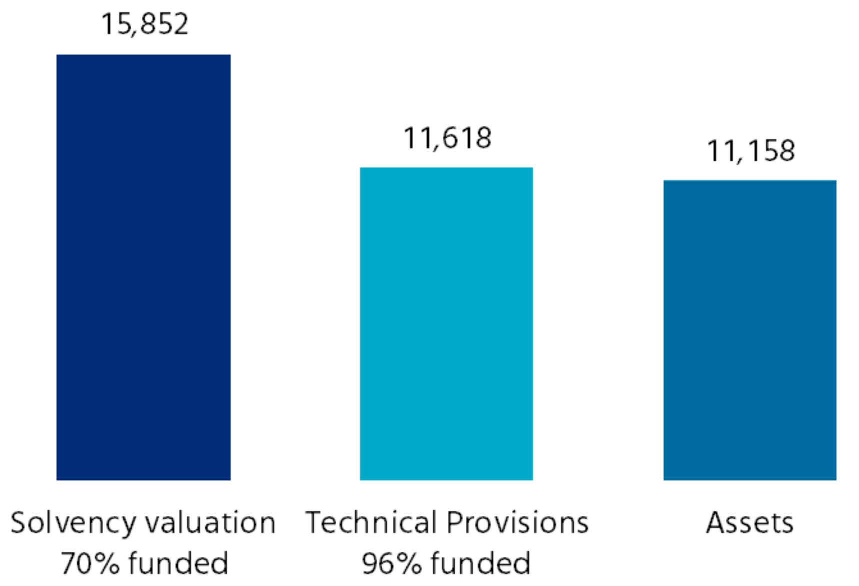
Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the trustees if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the trustees and Mercer consent, it may be disclosed to other third parties.

Unless agreed otherwise, no additional work will be performed after the date of this report nor will it be updated to take account of any events or circumstances arising hereafter.

Appendix 2 - Review of the Intervaluation Period

Past service results at the previous valuation

The previous actuarial valuation was carried out as at 30 June 2017 and the funding position was:



Figures shown in £'000s

Contributions

Employer contributions have been paid at a rate of 25% of Pensionable Pay. In addition, deficit contributions of £30,000 each month, less 9.4% of pensionable pay to be paid towards the cost of future accrual, were paid each year.

Member contributions have also been paid.

Benefits changes

According to instructions and information passed to us by you (or your advisors), there have been no benefit changes since the last valuation.

Change in membership

	Previous valuation	Current valuation
Number of		
Active members	98	24
Deferred members	50	112
Non insured pensioners	18	30
Insured pensioners	1	1
Total number of members	167	167

Financial experience in inter-valuation period

Assumption	Assumed rate at last valuation (per annum)	Average rate during inter-valuation period (per annum)
Investment returns [1]	2.9% [1]	2.65%
Rate of increase in earnings	2.7%	0.77% [2]
Revaluation up to retirement		
in line with RPI up to 5% p.a.	3.4%	3.2%
in line with RPI up to 2.5% p.a.	2.5%	2.47%
in line with CPI	2.7%	2.37%
in line with CPI up to 2.5% p.a.	2.5%	2.2%
Pension increases in payment		
in line with RPI	3.4%	3.2%
in line with CPI	2.7%	2.37%

[1] Assumed investment return is a weighted average of the pre and post retirement discount rates.

[2] Members present at both valuations.

Impact of inter-valuation experience on the scheme funding valuation

Comparing actual experience against that allowed for within the ***scheme funding valuation*** assumptions provides a useful insight into:

- How the funding of the scheme on the scheme funding valuation basis has developed since the last valuation
- Some of the risks faced by the scheme
- How the funding of the scheme might develop if events were to repeat themselves

In order to illustrate the impact of the inter-valuation experience on the ***scheme funding valuation***, I have reconciled the assets and liabilities as at the previous valuation to those at the valuation date. In doing so I have calculated the value of the liabilities as at the valuation date using the same method and assumptions as at the previous valuation and then examined the impact of changes to financial conditions and, separately, the changes to assumptions and method underlying the proposed ***statement of funding principles***.

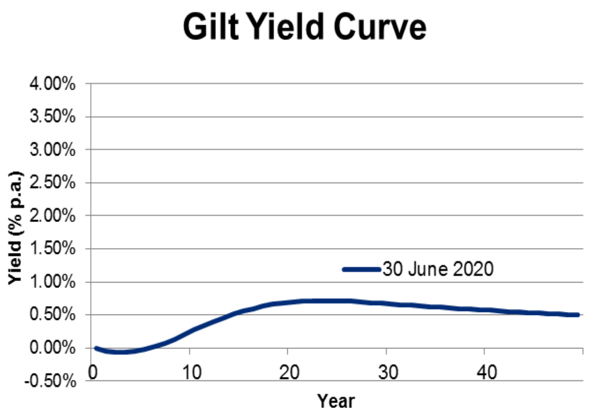
	£'000s
Value of past service liabilities at previous valuation date	11,618
Interest on the liabilities	1,191
Value of benefits accrued	3,431
Benefits paid	(365)
Actual salary and inflation increases being lower than expected	(749)
Impact of changes in financial conditions since previous valuation	3,160
Impact of changes to statement of funding principles	548
Mortality experience	38
Miscellaneous	(89)
Value of past service liabilities at current valuation date	18,783

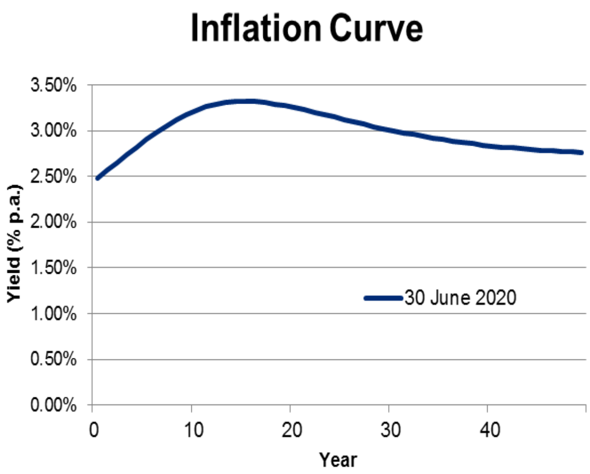
	£'000s
Value of assets at previous valuation date	11,158
Expected return on assets	1,171
Contributions and other income received	4,059
Benefits paid	(365)
Expenses	(342)
Investment under performance	(114)
Value of assets at current valuation date	15,567

Appendix 3 - Valuation Assumptions

Scheme Funding and Solvency Valuations

The key financial data (spot rates) used to determine the financial assumptions are:





Financial data	Measure at previous valuation date	Measure at current valuation date
Fixed interest Gilt Yield over 15 year	1.81%	0.58%
Market-Implied RPI Price inflation	3.43%	3.03%

Scheme funding valuation

Financial assumptions

	Previous valuation (p.a.)	Current valuation (p.a.)
Return on assets over deficit recovery period	The return on assets over the deficit recovery period will be calculated in line with the assumptions used to value the technical provisions	The return on assets over the deficit recovery period will be calculated in line with the assumptions used to value the technical provisions
Pre retirement discount rate	Gilt Yield plus 1.2% p.a. (3.0%)	Nominal Gilt Yield curve plus 1.2% p.a. at each term
Post retirement discount rate	Gilt Yield plus 0.2% p.a. (2.0%)	Nominal Gilt Yield curve plus 0.2% p.a. at each term

	Previous valuation (p.a.)	Current valuation (p.a.)
Retail Prices Index (RPI) inflation	Difference between the FTSE Actuaries' Government Securities over 15 Year Fixed Interest Yield Index and the average of the Over 5 year Index Linked Gilt (0% and 5% inflation) (3.4%)	Gilt Inflation Curve without adjustment
Consumer Prices Index (CPI) inflation	RPI inflation less 0.7% p.a. (2.7%)	RPI Inflation less 0.7% p.a. at each term until 2030 and without adjustment after 2030
Rate of increase in earnings	CPI Inflation	CPI Inflation
Revaluation up to retirement:		
In line with RPI up to 5% p.a.	RPI Inflation, maximum 5% p.a.	RPI Inflation, maximum 5% p.a.
In line with RPI up to 2.5% p.a.	RPI Inflation, maximum 2.5% p.a.	RPI Inflation, maximum 2.5% p.a.
In line with CPI	CPI Inflation	CPI Inflation
In line with CPI up to 2.5% p.a.	CPI Inflation, maximum 2.5% p.a.	CPI Inflation, maximum 2.5% p.a.
Pension increases in payment:		
In line with RPI	RPI Inflation	RPI Inflation
In line with CPI	CPI Inflation	CPI Inflation

Demographic assumptions

	Previous valuation	Current valuation
Mortality before retirement	As per post retirement mortality	None
Mortality after retirement – base mortality table	90% of S2PMA (males) and 90% of S2PFA (females) projected to the valuation date using the method shown below.	100% of 2019 Vita Curves (males) and 100% of 2019 Vita Curves (females) projected to the valuation date using the method shown below.
Mortality after retirement - mortality improvements	CMI_2015 [1.50%]	CMI_2020 [1.50%; S=7.5]

	Cohort Life expectancy at age 65 Current valuation	Period Life expectancy at age 65 Current valuation
65 year old male	87.2	86.1
45 year old male	88.8	-
65 year old female	89.5	88.2
45 year old female	91.2	-

	Previous valuation	Current valuation
Allowance for commutation of pension for cash	Section B members are assumed to exchange 50% of their pension for cash (ignoring the effect of protection of cash)	Section B members are assumed to exchange 50% of their pension for cash (ignoring the effect of protection of cash)
Withdrawal rates	A proportion leave each year using specimen rates per 100 lives	No allowance
Age at retirement	All members will be assumed to retire at their normal retirement date (NRD). Members older than their NRD are assumed to retire immediately.	All members will be assumed to retire at their normal retirement date (NRD). Members older than their NRD are assumed to retire immediately.
Allowance for dependants' pensions		
% married at retirement	Males 75%, Females 75%	Males 80%, Females 80%
Age difference	Males 3 years older than females	Males 3 years older than females
Discretionary benefits	None	None

Expense assumptions

	Previous valuation	Current valuation
Allowance for the costs of levies to the Pension Protection Fund, insurance premiums for death in service benefits and management and administration expenses	None	None

Solvency valuation

Key financial assumptions	(p.a.)
Pre retirement discount rate	Nominal Gilt Yield curve less 0.3% p.a. at each term
Post retirement discount rate	Nominal Gilt Yield curve without adjustment
Inflation: RPI	Gilt Inflation Curve without adjustment
Inflation: CPI	RPI Inflation less 0.8% p.a. at each term until 2030 and without adjustment after 2030

Pension increases in payment	
In line with RPI	Derived at each term using Black Scholes Methodology with a volatility assumption of 1.75% p.a.
In line with CPI	

Demographic assumptions	
Mortality after retirement	100% of 2019 Vita Curves (males) and 100% of 2019 Vita Curves (females).projected using CMI_2020 [1.75%; S=7.5] (males) and CMI_2020 [1.75%; S=7.5] (females).
Allowance for commutation of pension for cash	None
Withdrawal	All active members are assumed to leave active service as at the valuation date.
Age at retirement	All members will be assumed to retire at their normal retirement date (NRD). Members older than their NRD are assumed to retire immediately.
Allowance for dependants' pensions	
% married at retirement	Males 80%, Females 80%
Age difference	Males 3 years older than females
Discretionary benefits	None

Expense assumptions	
Allowance for wind up expenses	3% of the first £50m of liabilities plus 2% of the next £50m of liabilities plus 1% of the remaining liability plus PPF member expenses plus £300,000.

Section 179 valuation

I have used the method G8 and basis A9 prescribed by the ***PPF*** for the current valuation.

Appendix 4 – Scheme Benefits

This summary is based on our current understanding of the scheme's benefits and should not be relied on as a definitive summary. The summary may not cover details of smaller categories or individual variations. The source of the information is the trust deed and rules and those subsequent deeds of amendment in my possession. We are not lawyers. We are unable to give legal advice. If you think such advice is appropriate you are responsible for obtaining your own legal advice.

<u>Original members and Section A members</u>

Normal retirement age	60
Members pension	1/80th of final pensionable pay for each year of pensionable service before 1 March 2017 1/89th of final pensionable pay for each year of pensionable service after 28 February 2017 (The change in accrual rate for Original members has not yet been confirmed)
Cash Sum at retirement	Three times members annual pension.
Partner's pension (death after retirement)	50% of members pension (including pension given up for tax free cash).
Partner's pension (on death in service)	Original members - 25% of the member's pensionable pay at the date of death Section A members – 50% of the upper tier ill health pension
Lump sum death benefit	Original members - three times pensionable salary at date of death. Section A - two and a half times pensionable salary at date of death.
Increases to pension	pension earned after July 2011 increases in line with CPI pension earned before July 2011 increases in line with RPI
Leavers revaluation	pension earned before 6 April 2009 revalues at RPI capped at 5% pa, pension earned after 5 April 2009 is capped at 2.5% pa. Pension earned on or after 1 July 2011 revalues at CPI, with a maximum of 2.5% pa for original members.

Members contribution	Contributions are paid on a sliding scale depending on the amount of member's pensionable pay. For the tax year 2020/2021 they range from 5% pa to 14.5% pa.

<u>Section B members</u>

Normal retirement age	65
Members pension	1/60th of final pensionable pay for each year of pensionable service before 1 March 2017 1/67th of final pensionable pay for each year of pensionable service after 28 February 2017
Partner's pension (death after retirement)	37.5% of members pension (including pension given up for tax free cash).
Partner's pension (on death in service)	37.5% of the upper tier ill health pension
Lump sum death benefit	Two and a half times pensionable salary at date of death.
Increases to pension	In line with CPI.
Leavers revaluation	In line with CPI.
Members contribution	Contributions are paid on a sliding scale depending on the amount of member's pensionable pay. For the tax year 2020/2021 they range from 5% pa to 14.5% pa.

Notes:-

The scheme is used for contracting-out of the State Scheme.

Pensionable salary is defined as basic annual salary or wage plus any other element of pay which would have been pensionable under the previous scheme.

Final Pensionable Pay is defined as the highest annual amount of pensionable pay over any 12 month consecutive period in the three years before exit. For Section B members it is defined as the highest average of 3 consecutive years pensionable pay in the last 10 years before exit, where pensionable pay in earlier years increases with CPI to date of exit.

No allowance has been made for future discretionary benefits or increases. There has been no recent practice of granting these.

Appendix 5 - Membership Details

A summary of the membership data as at 30 June 2020 is given below. The data has been obtained from our administration department. Checks on data for consistency have been made as far as practicable. The results are obviously dependent on the accuracy of the data.

Active members	Number	24
	Total pensionable pay (£ p.a.)	882,442
	Average age	64
Deferred members	Number	112
	Total deferred pensions at date of leaving (£ p.a.)	264,228*
	Average age	49
Pensioners	Number	30
	Total pensions payable (£ p.a.)	53,425
	Average age	67
Insured Pensioners	Number	1
	Total pensions payable (£ p.a.)	1,019
	Average age	71

*Please note that deferred pensions for the members to be included in a transfer back to the NHS pension scheme were not available as at the date of this report. Estimated benefits have been used. The liabilities in respect of these members are therefore subject to change once their deferred benefits have been calculated and are available in a suitable format.

Appendix 6 - Summary of Assets

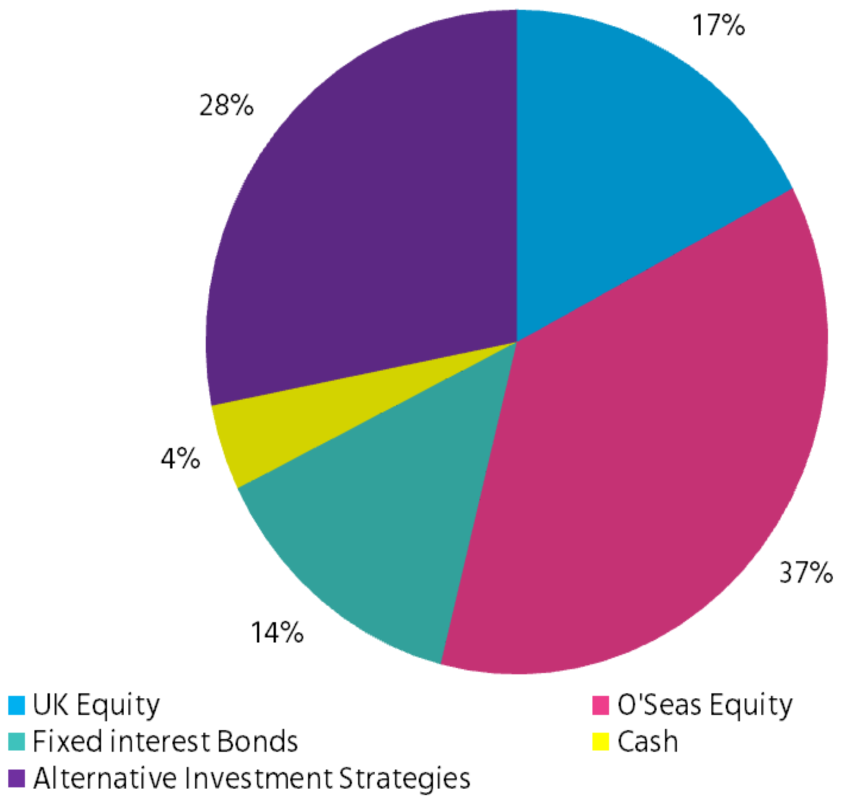
A summary of the assets of the scheme at the valuation date (taken at their market values) is set out below:

	£'000s	%
Pooled investments vehicles	14,915	96%
Investment cash	222	1%
Net current assets	430	3%
Total	**15,567**	**100%**

The above summary is based on the audited scheme accounts for the year ending 30 June 2020.

It excludes assets held in respect of members' additional voluntary contributions. These assets and the corresponding liabilities have been excluded from this valuation. It also excludes assets in respect of insured pensioners.

The split of the actual assets held at the valuation date is shown below.



Source: Audited scheme accounts as at 30 June 2020

Mercer Limited
7 Lochside Avenue
Edinburgh
EH12 9DJ

www.mercer.com

Certificate of Technical Provisions

Name of the Scheme	TDL Retirement Benefits Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme’s technical provisions as at 30 June 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the statement of funding principles dated (i.e. signed on behalf of the trustee on 13 September 2021) .

Signature	Shona Bennett
Name	Shona Bennett
Date of signing	30 September 2021
Name of employer	Mercer Limited
Address	7 Lochside Avenue, Edinburgh EH12 9DJ
Qualification	Fellow of the Institute and Faculty of Actuaries