



The YMCA Pension and Assurance Plan

Annual Funding Update as at 1 May 2018

August 2018

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This report is solely for the purpose of advising the Trustee on the matters referred to in the Introduction. It should not be relied upon for any other purpose and it should be noted that neither I nor Xafinity Consulting accept liability to any third party in respect of the contents of this report.

This update should be read in conjunction with my Scheme Funding Report as at 1 May 2017, dated 18 January 2018, and the Trustee' Statement of Funding Principles, dated 18 January 2018.

This report and the work carried out in connection with it fall within the scope of the Technical Actuarial Standards 100 and 300, issued by the Financial Reporting Council. I confirm that this work complies with these standards.

01 Introduction

This report provides an update for the funding position of the Plan as at 1 May 2018 and is the first 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 2018 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 my 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 first 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 next update report will need to be commissioned by the Trustee with an effective date no later than 1 May 2019.

The Trustee must ensure this report is made available to the Employers within seven days of receipt.

02 Methodology and assumptions

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 my report to the Trustee on that valuation, dated 18 January 2018.

The liabilities have been calculated by rolling forward the valuation liabilities from the previous valuation date to 1 May 2018, and then adjusting the membership data for known member movements to 1 May 2018. 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 2018, 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 following table sets out the principal changes in financial markets since the previous actuarial valuation, as they relate to setting the financial assumptions:

	Annual Update as at 1 May 2018	Actuarial Valuation as at 1 May 2017
20 year fixed interest gilt yield	1.85%	1.76%
Implied market price inflation	3.45%	3.61%

Factoring these changes into the agreed principles, I have carried out this update using the financial assumptions summarised in Appendix A to this report.

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

+0.09%

Increment in gilt yields over the period resulting in a decrease in the value placed on the Plan liabilities

-0.16%

Increment in price inflation over the period resulting in a decrease in the value placed on the Plan liabilities

Methodology and assumptions

Discount rates

The above table shows that, over the year to 1 May 2018, fixed interest government bond yields increased by approximately 0.09% pa.

The discount rates are set directly by reference to government bond yields and so, all else being equal, this change in gilt yields over the year increases the discount rates. This change will **reduce** the value placed on the Plan's liabilities.

Future inflation

The above table also shows that, over the year to 1 May 2018, market-implied inflation fell by approximately 0.16% pa.

Revaluation of some deferred pensions before retirement and increases to some pensions in payment are linked to inflation. All else being equal, the lower future inflation expectations will **reduce** the value placed on the Plan's liabilities.

Effect of investment strategy

Overall, the net effect of these changes in market conditions is a **reduction** in the value placed on the Plan's liabilities.

The matching investments held by the Plan are designed to achieve a broadly equivalent movement in that part of the Plan assets, so as to offset the movement in the liabilities. However, the Plan is not wholly invested in matching assets and so is not afforded full protection against adverse changes in financial conditions.

Demographic assumptions

I 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 dated 18 January 2018. These are summarised in Appendix B to this report.

03 Data

Membership data

The principal source of data on the Plan membership is the actuarial valuation as at 1 May 2017. For example, that valuation recorded each member against their status at the time and ensured that the total membership corresponded with the numbers shown in the audited Plan accounts.

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 2018. 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

£140.9m
Total value of Plan
assets at 1 May 2018

I have been supplied with a value of the Plan investments as at 1 May 2018 of £130,845,325, from the Plan's investment managers; I have also taken account of estimated net current assets of £625,027, based on the Plan's draft Trustee Report and Accounts.

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 £9,435,000 as at 1 May 2018. Adding in that value to the rest of the Plan's assets gives a total asset value for this funding update of £140,905,352.

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, the figures above could be subject to change.

04 Results

£ 27.6m
Deficit at 1 May 2018
84%
Funding level at
1 May 2018

Past service position

I have compared the assets held at 1 May 2018 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 2017 valuation:

	Annual Update as at 1 May 2018 £m	Valuation as at 1 May 2017 £m
Technical Provisions (i.e. liabilities)	168.5	174.8
Assets	140.9	141.2
Deficit	(27.6)	(33.6)
Funding Level	84%	81%

The table shows that the deficit of £33.6m as at 1 May 2017 has decreased to an estimated deficit of £27.6m as at 1 May 2018. The main factors which influenced the funding position over the year were:

- ▲ A rise in bond yields, which has reduced the value placed on the liabilities.
- ▲ A fall in the outlook for future price inflation, which has reduced the value placed on the liabilities.
- ▲ Employer contributions in relation to the Plan's Recovery Plan and to the S75 debt payments.

In setting the Plan's funding programme, the Trustee has had regard to 20 year Fixed Interest Gilt yields. Allowance has also been made for an investment risk premium of 2% when setting the pre-retirement discount rate and 0.5% when setting the post-retirement discount rate. It should be noted that equity markets and bond yields vary over the short term, and this can lead to either a positive or negative impact on the financial position.

Results

£ 1.1m
Asset loss over the period due to investments being lower than expected
£ 3.9m
Decrease 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 2018 £m
Surplus/(deficit) at start of year	(33.6)
Interest on liabilities less expected return on assets	(0.4)
Contributions in respect of deficit repair and full buyouts less expenses	3.6
Investment returns lower than expected	(1.1)
Inflation higher than expected	(0.1)
Bulk trivial commutation exercise and transfer values	0.4
Other	(0.3)
Change of basis	3.9
Surplus/(deficit) at end of year	(27.6)

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.

This report identifies an improvement in the existing funding position of the Plan. This will have a positive influence on the time taken to clear the deficit if there are no changes made to the contributions being paid to the Plan.

Based on conditions as at 1 May 2018, I 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, which must be carried out with an effective date no later than 1 May 2020. The Trustee should consider whether, in light of the information presented in this report, they wish to review the Recovery Plan before that date.

05 Further considerations

I have adopted a working assumption that the Employers' covenant remains strong as per the valuation

Employer covenant

The Employer's covenant is the risk that the Employers could prove unable to continue future contributions to the Plan, or that the Plan is unable to recover any deficit from the Employers in the event of Employer insolvency.

This update is based on the Statement of Funding Principles adopted for the last valuation, which reflected the Trustee's assessment of the Employers' covenant at that time.

Consequently, I have not allowed for any change in the Employers' covenant in this funding update. If the Trustee feels that the Employers' covenant has weakened since the previous valuation then it may be appropriate to review the Recovery Plan and Schedule of Contributions. In particular, a deterioration in the Employers' covenant may cause the Trustee to reconsider the degree of prudence adopted within the funding assumptions and the structure / length of the Recovery Plan.

Investment strategy

Some of the Plan's liabilities are linked to inflation via either pension increases in payment or revaluation in deferment. The assets that would most closely match the liabilities are a combination of index-linked gilts to match these inflation-linked liabilities and fixed-interest gilts to match the fixed liabilities of the Plan.

The Trustee has delegated the day to day investment decisions to Mercer, having agreed a framework which enables some assets to match the regular payment nature of the liabilities and others to provide scope for additional returns.

It is important that the Trustee continues to review their investment strategy as the Plan matures. The strategy should also be reconsidered in the event of any weakening in the Employer's covenant.

Sensitivity of results

The results are highly sensitive to the assumptions used. Quantification of the sensitivity of the funding position to key financial and demographic assumptions can be found in my Scheme Funding Report on the previous full valuation of the Plan as at 1 May 2017, dated 18 January 2018.

Buyout cost

I have not recorded the estimated buyout position as at 1 May 2018 in this report, but will provide this information to the Trustee separately.

06 Summary and next steps

Summary

I have calculated the funding position of the Plan as at 1 May 2018. My calculations reveal a funding deficit of £27.6m at that date. This compares with a funding deficit of £33.6m as at 1 May 2017.

The main reasons for the improvement in the funding position were the deficit reduction contributions paid and favourable changes in market conditions over the period.

As part of the 2017 valuation process, the Trustee and Employer agreed a Recovery Plan to clear the funding deficit by 1 May 2027. The improvement in funding position is such that the Recovery Plan remains on track to clear the deficit by that date.

Next steps

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

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 Employer's covenant and the affordability of the contributions. Given that this report identifies an improvement in the funding position, 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 Employer's 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

30.8.18

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Appendix A

Financial assumptions

This Appendix summarises the key financial assumptions used in the 2018 annual update, with a comparator from the 2017 valuation also shown.

	Annual update as at 1 May 2018	Actuarial valuation as at 1 May 2017
Discount rate		
> before retirement	3.85%	3.75%
> after retirement	2.35%	2.25%
Future retail price inflation	3.25%	3.40%
Future consumer price inflation	2.75%	2.90%
Pension increases		
> LPI max 5% min 3%	3.55%	3.60%
> LPI max 5%	3.25%	3.35%
Deferred pension revaluation (CPI)	2.75%	2.90%
Expected return on assets	3.70%	3.65%

* The Institute and Faculty of Actuaries' model for inflation assumptions with caps and floors, using a volatility assumption of 1% per annum, has been used to determine the pension increase assumptions where the increases are linked to inflation.

Appendix B

Demographic assumptions

I 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 dated 18 January 2018.

These are summarised in the table below.

Demographic assumption	
Mortality before retirement	SAPS S2PxA CMI 2016 tables with 1.5% long term improvement
Mortality after retirement	SAPS S2PxA CMI 2016 tables with 1.5% long term improvement
Cash commutation	75% of members commute 25% of their pension
Retirement	All members are assumed to retire at the earliest age at which they are entitled to all or part of their pension unreduced
Marital statistics	80% of male members and 70% of female members are assumed to be married at retirement with husbands 3 years older than their wives.



Contact us
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