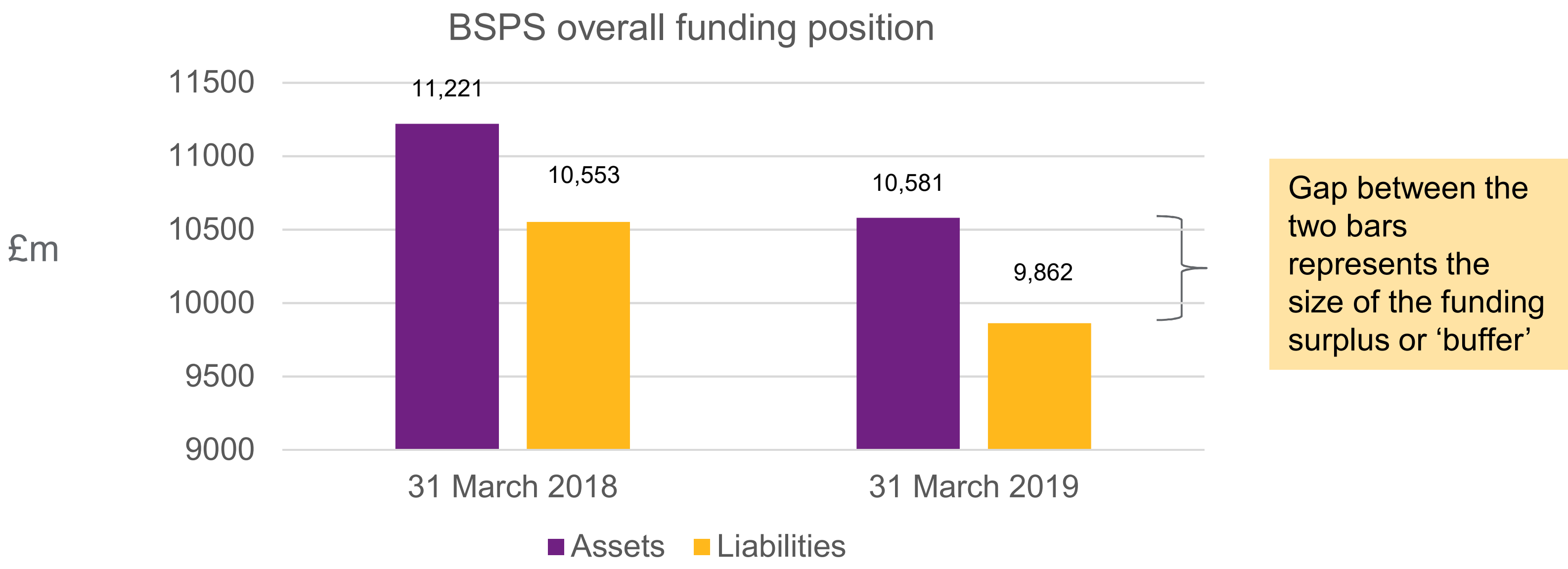
2019 update

Movements in funding position over the year to 31 March 2019



- In years where there is no formal actuarial valuation (such as 2019) the Scheme Actuary is required to prepare an annual report on developments affecting the Scheme's funding position.
- This annual report takes into account changes in market conditions (eg inflation) and views on future investment returns, as well as any differences between what we expected to happen to members compared with what actually happened over the year.
- My 2019 report shows that overall, both assets and liabilities reduced in value over the year to 31 March 2019 – but with liabilities reducing by a bit more than assets, so that overall the surplus (or 'funding buffer') increased slightly.

Key point: the Scheme's financial position improved slightly over the year to 31 March 2019. All other things being equal, this is what we would expect as the funding assumptions are intended to be prudent

So what happened to Scheme liabilities over the year to 31 March 2019?

Financial market conditions

- Long-term inflation expectations increased slightly – this increases the value of both Scheme liabilities (higher pensions expected to be paid to members in future) and Scheme assets (because the Scheme hedges its inflation risk).
- Gilt yields (which are the reference measure used to determine assumed investment returns) reduced slightly, reducing the discount rate and increasing the value placed on future benefit payments.

Benefit payments

- All other things being equal, we would expect the value of the Scheme liabilities (and the assets) to reduce gradually over time, as pensions are paid out (pensions paid in Scheme year 2018/19 £475m).
- In addition, there was an exceptional one-off reduction in liabilities (and assets) at the start of Scheme year 2018/19 as a significant volume of transfer values were paid out, representing the final tranche of payments to members who elected to transfer out in conjunction with the 'Time to Choose' exercise (TVs paid out in Scheme year 2018/19 £647m).

Member experience

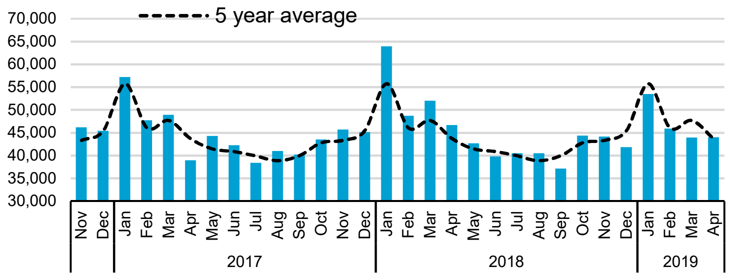
- We have analysed the mortality experience of Scheme pensioners over the year. This showed that there were fewer deaths amongst Scheme pensioners than we were expecting. Scheme liabilities therefore reduced by less than expected.
- This is consistent with more recent trends in wider population data, which have showed – for the first time in a while – a reduction in recorded deaths and a pick-up in life expectancy.

2019 mortality statistics (12 mths to April 2019)

6,000	4%
YTD reduction in death numbers (v 5-year average)	**Q1 mortality improvement*** (v Q1 2018)

**Age-standardised to allow for changes in the population*

England & Wales – monthly death registrations (Source: ONS)



Willis Towers Watson