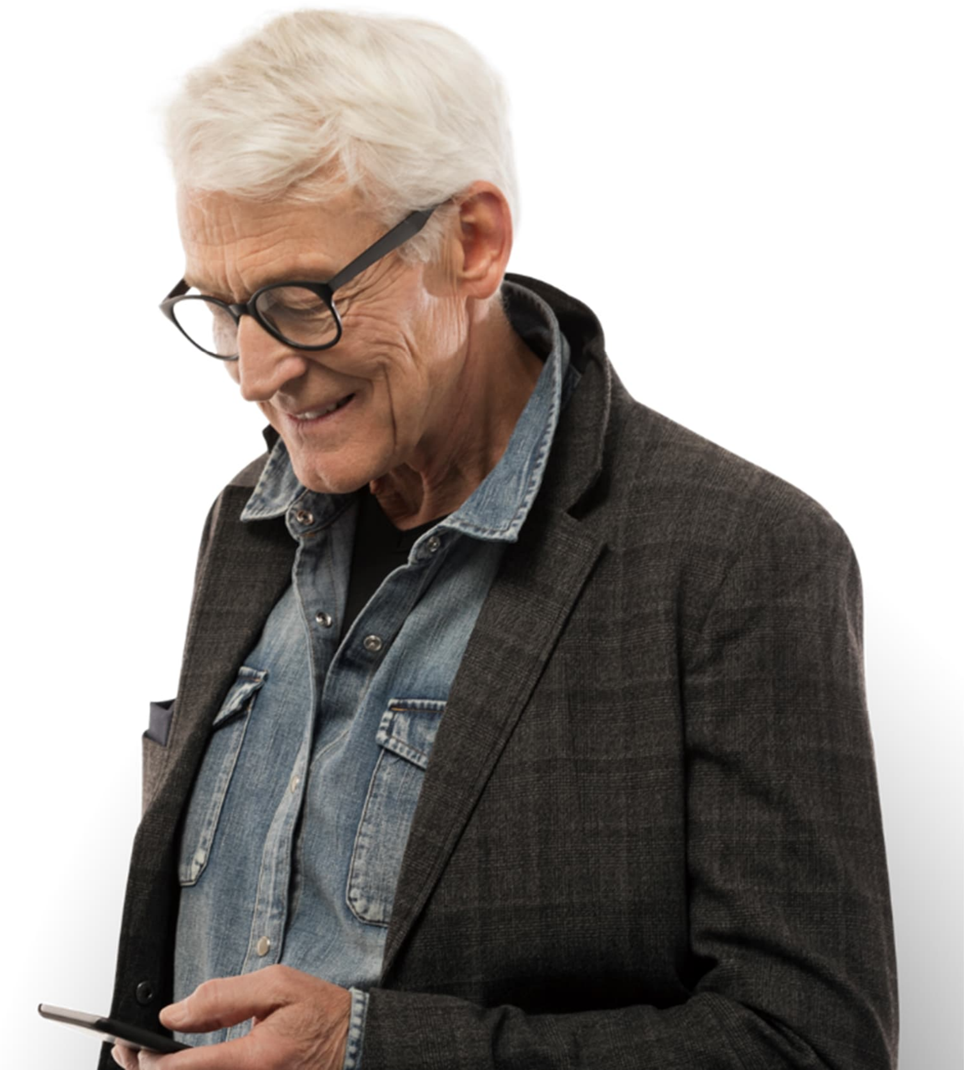
Scheme Funding Report of the Actuarial Valuation as at 31 December 2021

The Midcounties Co-operative Pension Scheme

7 February 2023



welcome to brighter

Contents

1

Introduction

This report is addressed to the Trustee of the Midcounties Co-operative Pension Scheme ("the Trustee") and is provided to meet the requirements of Section 224(2)(a) of the Pensions Act 2004. It describes the factors considered by the Trustee when carrying out the actuarial valuation as at 31 December 2021, and the decisions reached as a result.

The purpose of the actuarial valuation is for the Trustee to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Scheme (the "assets").
- An appropriate plan for making up the shortfall if the Scheme has less assets than liabilities.
- The contributions needed to cover the costs incurred in running the Scheme.

Signature	D McClure	Date of signing	7 February 2023
Scheme Actuary	Damian McClure	Qualification	Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with Technical Actuarial Standards TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions which are issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Trustee 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 Trustee and Mercer consent, it may be disclosed to other third parties.

2

Key results of the scheme funding assessment

Past service funding position

The table below compares the assets and liabilities of the Scheme at 31 December 2021. Figures are also shown for the last valuation as at 31 December 2018 for comparison.

	£m 31 December 2021	31 December 2018
Total Assets	281.4	214.2
Liabilities:		
Closure Members*	41.3	53.1
Deferred Pensioners*	178.5	149.9
Pensioners*	110.8	98.8
Expenses	1.5	1.0
Total Liabilities	332.1	302.8
Past Service Surplus / (Shortfall)	(50.7)	(88.6)
Funding Level	85%	71%

*An allowance of 0.2% of the liabilities has been made for GMP equalisation.

The table shows that at 31 December 2021 there was a shortfall of £50.7m. An alternative way of expressing the position is that the Scheme's assets were sufficient to cover 85% of its liabilities – this percentage is known as the funding level of the Scheme.

At the previous valuation at 31 December 2018 the shortfall was £88.6m, equivalent to a funding level of 71%. The key reasons for the changes between the two valuations are considered in Section 3.

The liability value at 31 December 2021 shown in the table above is known as the Scheme's "technical provisions". The technical provisions are calculated using assumptions that the Trustee has determined are appropriate based on the Trustee assessment of the strength of the Employer covenant, having agreed with the Employer over the approach. Throughout this report "Employer" means The Midcounties Co-operative Limited.

Further details of the way in which the technical provisions are calculated are set out in Appendix A.

Updated position as at 31 October 2022

Since 31 December 2021, changes in market conditions have meant that both the Scheme's assets and liabilities have decreased significantly. That meant that the size of the deficit decreased. The Trustee and the Employer agreed that the recovery plan for this valuation should allow for this experience to ensure the contributions payable reflect the most up to date position available.

My updated calculations at 31 October 2022 showed that the shortfall in the Scheme had decreased from £50.7m at 31 December 2021 to £31.8m at 31 October 2022.

£m	31 October 2022
Total assets	172.5
Total liabilities	204.3
Past service surplus / (shortfall)	(31.8)
Funding level	84%

You should note that the updated liability figure above is calculated on an approximate basis by rolling forward the results of the 31 December 2021 calculations and allowing for the impact of market conditions, so will not be as accurate as a full valuation at the same date. In particular, new membership data was not used.

The asset values shown in the update are estimated and were confirmed by the Scheme's investment managers as being a reasonable estimate at that date.

Correcting the shortfall

The Trustee and Employer have agreed a plan to pay off the shortfall of £31.8m which requires the Employer to make the following payments

Date	Payments
From 1 November 2022 To 31 January 2027	£7m p.a.

It is noted that since the effective date of the actuarial valuation, the Employer has paid shortfall contributions of £7m per annum.

Contributions required to meet Scheme expenses

The Employer has agreed to pay additional contributions to the Scheme of £450,000 per annum to cover administrative and other ongoing expenses, but excluding investment fees and the annual PPF levy. This amount will be reviewed on an annual basis and can be amended.

A reserve of £0.5m has been included in the technical provisions of the Scheme to meet the expected additional cost of business as usual administrative and other ongoing expenses over the next five years, above the Employer´s £450,000 per annum payment. The Scheme will meet these expected additional costs.

An additional reserve of £1m has been added to the technical provisions of the Scheme to meet the expenses incurred in the work equalising GMPs and for data cleanse work. The Scheme will meet the costs of these projects.

The Employer will also meet the cost of the PPF levy. The Trustee will estimate the PPF levy payable in the following calendar year. The Employer will then pay an amount into the Scheme equal to the estimate for that calendar year. Any difference between the estimate and the actual PPF levy payable will be added or subtracted to the estimate for the following year.

3

Experience since last valuation

Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 December 2018. Since the last valuation no significant events have occurred.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs)) were increased as guaranteed under the Scheme as follows:

- 1 April 2019
    - 2.7% for pension accrued before 1 July 2006
    - 2.5% for pension accrued after 1 July 2006
- 1 April 2020
    - 2.2% for pension accrued before 1 July 2006
    - 2.2% for pension accrued after 1 July 2006
- 1 April 2021
    - 1.2% for pension accrued before 1 July 2006
    - 1.2% for pension accrued after 1 July 2006

During the inter-valuation period, the investment return on the Scheme's assets has been c10% per annum.

The table summarises the contributions paid over the inter-valuation period. These figures are from the audited accounts and are in line with the rates agreed at the last actuarial.

Date	Employer contributions
1 January 2019 To 31 December 2019	£6.6m
1 January 2020 To 31 December 2020	£7.9m
1 January 2021 To 31 December 2021	£8.4m

Reasons for the change in funding position since the last actuarial valuation

The shortfall at the last valuation date was £88.6m. The table below sets out the main reasons for the change in the shortfall between 31 December 2018 and 31 December 2021.

	£m
Shortfall at 31 December 2018	(88.6)
Interest On Liabilities	(14.3)
Expected Return On Assets	17.3
Actual Investment Return Over Expected	55.0
Deficit Contributions	20.7
Loss On Expenses	(0.7)
Gain On Withdrawals	1.6
Actual Inflation Lower Than Expected	3.5
Mortality Experience	1.0
Transfer Value Profit	0.8
Movement In Liabilities Owing To Changes In Market Conditions	(63.1)
Change to Demographic Assumptions	15.1
Additional Expense Reserve	(0.5)
Other	1.5
Shortfall At 31 December 2021	(50.7)

4

Projected future funding level and volatility

Projected funding position at next actuarial valuation

As part of this valuation, the Trustee has agreed with the Employer to put in place a recovery plan to pay off the shortfall by 31 January 2027. The next actuarial valuation will take place with an effective date no later than 31 December 2024. If experience up to that date is in line with the assumptions made for the recovery plan and contributions are paid at the agreed amounts, the shortfall at 31 December 2024 would be around £16m, equivalent to a funding level of around 92%.

Material risks faced by the Scheme

The Scheme is subject to some potentially material risks that are, to an extent, outside the Trustee's control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Scheme – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Trustee manages them, are:

- If the Employer becomes unable to pay contributions or to make good deficits in the future, the Scheme's assets will be lower than expected and the funding level will be worse than expected. The Trustee regularly monitors the financial strength of the Employer. They have taken the following actions to mitigate (but not fully remove) the risk:
  - The Employer has provided contingent security in the form of a first charge over £10m worth of property assets which will remain in place until 1 September 2026;
  - The Trustee has a first charge over an additional £12m worth of property assets that will remain in place until the Trustee and the Employer agree it is no longer required;
  - The Trustee reviews the Employer strength on, at least, a quarterly basis and discusses if any further actions are required.
- If future investment returns on assets are lower than assumed in the valuation, the Scheme's assets will be lower, and the funding level worse, than expected. The Trustee has a process in place to monitor investment performance quarterly, and they review the Scheme's investment strategy alongside each actuarial valuation. They have taken the following actions to mitigate (but not fully remove) the risk:
  - Their investment strategy takes the make-up of the Scheme's membership into account (for example investing in liability matcing assets), which reduces the effect of market movements on funding levels.
- If gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding level against the technical provisions and on the wind-up basis (see section 5)

will be worse than expected. The Trustee has taken the following actions to mitigate (but not fully remove) the risk:

  — A proportion of the Scheme's assets is invested in liability matching assets, which will help to offset some of the risk associated with movements in gilt yields and price inflation.

- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Trustee regularly reviews the Scheme's experience and ensures that the assumptions they make about members' life expectancy take the most recent information available into account.
- If members make decisions about their options, which increase the Scheme's liabilities, the funding level will be worse than expected. An example would be if members do not commute the maximum possible pension for cash, as is being assumed. The Trustee reviews the Scheme's experience at each valuation to ensure that their treatment of member options remains appropriate.

Sensitivity of funding position to changes in key assumptions

The value placed on the Scheme's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Trustee has agreed after consulting with the Employer, then the projected future funding level will be different from the level described above.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 December 2021 would have differed given small changes in the key assumptions.

Date	Change in liabilities at 31 December 2021 £m
Pre-Retirement Investment Return Is 0.25% Lower Than Assumed	+6.0
Post-Retirement Investment Return Is 0.25% Lower Than Assumed	+10.9
Long-Term Inflation Is 0.25% Higher Than Assumed	+9.3
Members Live One Year Longer Than Assumed	+12.5

Interest rate and inflation risks are hedged to some extent by the investment strategy, and so the impact on the deficit would be lower than the increase in the liabilities above.

Climate Change

Climate change has the potential to be a material financial risk to the Scheme – whether that be the costs of moving to a low carbon economy, the cost of physical damages caused as a result of climate change or even as a result of litigation/regulation to address past practices. Climate change is expected to affect most if not all of the risks highlighted above, however, the extent of and interaction between these impacts are uncertain. As part of the valuation the Trustee considered a climate change “shock” scenario and received further training from their investment consultants on potential impacts on investments. The Trustee agreed to continue to receive regular reporting and training on the potential impact of climate change on the Scheme’s investment strategy and to consider further the potential future impact on covenant.

5

Wind-up position

If the Employer were to become insolvent or decide not to support the Scheme, the Trustee could decide to wind up the Scheme and secure the benefits built up with an insurance company. Insurance companies use different assumptions to the Trustee technical provisions when calculating the value of the Scheme's liabilities and the price they would charge to provide the benefits.

The table below shows an estimate of the funding level of the Scheme at 31 December 2021 assuming all benefits were bought out with an insurer. The wind-up position at 31 December 2018 is also shown for comparison. The wind-up position is shown for information only, and does not mean that the Trustee or Employer are considering winding up the Scheme.

	£m	
	31 December 2021	**31 December 2018**
Total Assets	281.4	214.2
Liabilities:		
Closure Members*	46.2	60.0
Deferred Pensioners*	233.0	202.3
Pensioners*	117.9	102.3
Expenses	5.1	8.4
Total Liabilities	402.2	373.0
Past Service Surplus / (Shortfall)	(120.8)	(158.8)
Funding Level	70%	57%

*An allowance of 0.2% of the liabilities has been made for GMP equalisation.

As the table shows, the Scheme would have had a shortfall of £120.8m if it had been wound up at 31 December 2021. This means that, on average, members could only expect to receive around 70% of the benefits earned to date (although the percentage coverage would differ between members depending on age and when their benefit was earned).

In practice, if the Scheme was wound up due to the Employer becoming insolvent, the members may be eligible for compensation from the Pension Protection Fund (PPF) if the Scheme's assets were less than needed to buy that compensation from an insurance company. If this was the case, members could receive a higher proportion of the benefits they have earned to date. Further details of the compensation payable from the PPF are given in Appendix E.

If experience is in line with the assumptions underpinning the agreed recovery plan, and contributions are paid at the agreed rates or amounts, the shortfall at 31 December 2024 on a wind-up basis would be around £55m, equivalent to a funding level of 77%.

Appendix A

Assumptions

How the benefits are valued

In order to calculate the liabilities, the Trustee needs to make assumptions about various factors that affect the cost of the benefits provided by the Scheme – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the Trustee invests the funds held by the Scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting". The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the "discount rate" is higher. The Trustee's investment policy is to invest the funds held in respect of retired members in lower risk assets (which therefore have a lower expected return) than those held for members who are still some way from retirement. Therefore, the discount rate assumption is split into pre and post-retirement rates (with pre-retirement being higher).
Inflation	Pensions in payment typically increase in line with price inflation, subject to a cap. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.

The liabilities of the Scheme are calculated projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; and then summing up all of these discounted amounts. The liabilities for the whole Scheme are calculated by summing the liabilities for each of the individual members.

Funding objective and investment strategy

The assumptions for the technical provisions have been selected by the Trustee to reflect their funding objective, after reaching agreement with the Employer. The Trustee's stated funding objective (which has also been agreed with the Employer) is to reach a position where the assets are sufficient to fully cover the technical provisions by 31 January 2027. Further details are available in the Scheme's Statement of Funding Principles dated 29 November 2022.

In addition, as part of their process for choosing the assumptions and determining the size of the margins to include, the Trustee has taken into account their objective assessment of the Employer's covenant and the level of risk present in the investment strategy of the Scheme. The Trustee's current investment strategy is set out in the Scheme's Statement of Investment Principles dated May 2021.

Assumptions used to calculate technical provisions

The tables below summarise the key assumptions used in the calculation of the technical provisions and those used for the 31 December 2018 actuarial valuation.

Financial assumptions	31 December 2021*	31 December 2018*
Discount Rate:		
Pre-Retirement	2.05% p.a.	2.75% p.a.
Post-Retirement	1.55% p.a.	2.25% p.a.
Price Inflation (RPI)	3.64% p.a.	3.30% p.a.
Price Inflation (CPI)	3.32% p.a.	2.80% p.a.
Deferred Increases: - RPI (5% Cumulative cap) - CARE (5% Maximum) - CARE (2.5% Maximum)	 3.64% p.a. 3.34% p.a. 2.10% p.a.	 3.30% p.a. 3.10% p.a. 2.05% p.a.
Pension Increases: - CPI (3% Maximum) - RPI (5% Maximum) - RPI (2.5% Maximum)	 2.40% p.a. 3.34% p.a. 2.10% p.a.	 2.15% p.a. 3.10% p.a. 2.05% p.a.

** A full yield curve has been used to value the liabilities, so the financial assumptions shown above are the single equivalent rates and are for information only. Further details of the yield curve assumptions are set out in the Statement of Funding Principles dated 29 November 2022.*

Demographic assumptions	31 December 2021	31 December 2018
Retirement	A range of ages as set out in the Statement of Funding Principles.	A range of ages as set out in the Statement of Funding Principles.
Mortality – Base Table	S3PMA for males and S3PFA_Middle for females (Year of Birth) tables with age weighting of 104% (male) and 105% (female) for non-pensioners and 100% for pensioners (to reflect the membership profile of the Scheme)	S3PMA for males and S3PFA_Middle for females (Year of Birth) tables with age weighting of 98% (male) and 96% (female) for non-pensioners and 94% for pensioners (to reflect the membership profile of the Scheme)

Demographic assumptions	31 December 2021	31 December 2018
Mortality – Future Improvements:	CMI 2021 projections with a long term trend in improvement of 1.5% p. a. and a smoothing factor of 7.5.	CMI 2018 projections with a long term trend in improvement of 1.75% p. a. and 1.50% p.a. for males and females respectively, both with a smoothing factor of 7.5.
Commutation	90% of members commute 25% of their pension at retirement with conversion terms of 90% of the technical provisions value	90% of members commute 25% of their pension at retirement with conversion terms of 90% of the technical provisions value
Proportion Married	A proportion of members have an eligible spouse/civil partner/ dependent in line with 2011 Census Married or Cohabiting tables weighted by 100% for non-pensioners and 99%/98% for male/female pensioners. The recipient will be of the opposite sex to the member, with females being three years younger than males.	90% of males and 80% of females at age 65 are expected to leave a qualifying spouse, civil partner or other financial dependent on death, with the proportions reducing at older ages. The recipient will be of the opposite sex to the member, with females being three years younger than males.
Expenses	£1m to meet the costs of carrying out GMP equalisation and data cleanse. £0.5m to meet the expected additional cost of business as usual administrative and other ongoing expenses over the next five years, above the Employer´s £450,000 p.a expense payment into the Scheme.	£1m to meet the costs of carrying out GMP equalisation and data cleanse.
GMP Equalisation reserve	0.2% of liabilities	0.2% of liabilities

The mortality assumptions used for the 31 December 2021 valuation result in the following life expectancies. This information may be useful to the Trustee when completing the annual scheme return.

	COHORT	PERIOD
Life Expectancy For A Male Aged 65 Now	22.3	21.2
Life Expectancy At 65 For A Male Aged 45 Now	23.6	n/a
Life Expectancy For A Female Aged 65 Now	24.0	22.7
Life Expectancy At 65 For A Female Aged 45 Now	25.4	n/a

In setting the assumptions, the Trustee has assumed that the Scheme is ongoing (it is not in the process of being wound up).

Assumptions used to calculate the wind-up position

The wind-up position looks at the Scheme's funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company. In doing this, it is assumed that no further benefits accrue, no further contributions are paid and active members are entitled to benefits on the basis they had left service on the valuation date. There is no allowance for any discretionary benefits being paid in the future.

The wind-up position has been estimated using Mercer's experience of recent buyout quotations and our understanding of the factors affecting this market.

Detailed analysis of the reserves that would need to be held by an insurance company has not been carried out. Consideration has been given to the market terms for the financial instruments in which insurance companies would be expected to invest. An approximate allowance has been made for the reserves an insurance company would maintain to cover the risks involved and the statutory reserving requirements. The results are, therefore, only a guide to the wind-up position and should not be taken as a quotation. Market changes, both in interest rates and in supply and demand for buyout business, mean that if a buyout ultimately proceeds, actual quotations may differ.

The wind-up funding level is only an estimate since it is not based on an actual quotation. The true position could only be established by completing a buyout.

The tables below set out the assumptions used to assess the funding level in the event of the Scheme being wound up. The assumptions used at 31 December 2018 are also shown for comparison.

Financial assumptions	31 December 2021*	31 December 2018*
Discount Rate:		
Pre-Retirement	0.75% p.a.	1.50% p.a.
Post-Retirement	1.05% p.a.	2.00% p.a.
Deferred increases: - RPI (5% Cumulative cap) - CARE (5% Maximum) - CARE (2.5% Maximum)	 3.56% p.a. 3.34% p.a. 2.12% p.a.	 3.50% p.a. 3.60% p.a. 2.40% p.a.
Pension Increases:		
- Rpi (5% Maximum)	3.34% p.a.	3.60% p.a. for non-pensioners 3.50% p.a. for pensioners
- Rpi (2.5% Maximum)	2.12% p.a.	2.40% p.a. for non-pensioners 2.20% p.a. for pensioners
Expense Allowance	In line with PPF formula plus an additional £300,000	In line with PPF formula

* A full yield curve has been used to value the liabilities at this valuation, so the financial assumptions shown above are the single equivalent rates and are for information only.

Demographic assumptions	31 December 2021	31 December 2018
Retirement	All At Age 65	All At Age 65
Mortality – Base Table	S3PMA for males and S3PFA_Middle for females (Year of Birth) tables with age weighting of 109% (male) and 110% (female) for non-pensioners and 105% for pensioners (to reflect the membership profile of the Scheme)	S3PMA for males and S3PFA_Middle for females (Year of Birth) tables with age weighting of 104% (male) and 102% (female) for non-pensioners and 100% for pensioners (to reflect the membership profile of the Scheme)
Mortality – Future Improvements:	CMI 2021 projections with a long term trend in improvement of 1.75% p. a. and a smoothing factor of 7.5	CMI 2018 projections with a long term trend in improvement of 2.00% p. a. and 1.50% p.a. for males and females respectively, both with a smoothing factor of 7.5
Commutation	No allowance	No allowance
Proportion Married	A proportion of members have an eligible spouse/civil partner/ dependent in line with 2011 Census Married or Cohabiting tables weighted by 100% for non-pensioners and 99%/98% for male/female pensioners. The recipient will be of the opposite sex to the member	90% of males and 80% of females at age 65 are expected to leave a qualifying spouse, civil partner or other financial dependent on death, with the proportions reducing at older ages. The recipient will be of the opposite sex to the member
Spouse's Age	Males are 3 years older than their female spouses, with females being 3 years younger than their male spouses	Males are 3 years older than their female spouses, with females being 3 years younger than their male spouses

As the Trustee's current investment policy includes investment in different assets than would typically be held by an insurer, the wind-up position on a given date may be significantly different from the position estimated at the valuation date.

Appendix B

Summary Membership Data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Scheme were supplied by the Trustee, via the Scheme's administrator. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

	31 December 2021	31 December 2018
Employed Deferred members		
Number	206	320
Total accrued pension revalued to valuation date (£000s p.a.)	1,095	1,645
Average accrued pension revalued to valuation date (£ p.a.)	5,316	5,140
Average Age (weighted by pension)	53.0	51.0
Deferred pensioners		
Number	2,022	2,184
Total Deferred Pensions Revalued To Valuation Date (£000s p.a.)	5,007	4,895
Average Deferred Pension (£ p.a.)	2,476	2,241
Average Age (weighted by deferred pension)	53.6	51.9
Pensioners		
Number	1,171	1,058
Total Pensions Payable (£000s p.a.)	5,027	4,595
Average Pension (£ p.a.)	4,293	4,343
Average Age (weighted by pension)	73.8	72.9

Appendix C

Assets

The market value of the Scheme's assets was £281,400,000 at the valuation date.

The distribution of assets by asset class at the valuation date (supplied by the Scheme's investment consultants) is shown in the table below. The distribution of assets will vary over time due to changes in financial markets.

	Actual market value of assets at 31 December 2021	
	£m	**%**
Bonds	36.8	13.1
Equities	40.9	14.5
Private Equity	2.5	0.9
Property	35.5	12.6
Infrastructure	11.1	4.0
Diversifying strategies	45.8	16.3
Liability driven investment (LDI)	81.4	28.9
Other	27.4	9.7

The Trustee also holds additional voluntary contributions (AVCs), which are also separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Scheme.

Appendix D

Benefit summary

The benefits valued are as set out in the benefit summary provided to the Trustee dated 27 May 2022. This broadly reflects the benefits communicated to members via membership booklets, announcements and correspondence outlining special terms where applicable.

An allowance has been made within the calculation of the technical provisions for closure members to retire on favourable terms under the Employer's current penalty-free early retirement policy if eligible. It is assumed that these favourable terms are only offered to members retiring from active employment with the Employer. No allowance has been made for any other discretionary increases to benefits.

An approximate allowance has been made within the valuation for the impact of the expected costs of benefit changes arising from the Lloyds judgment on Guaranteed Minimum Pension (GMP) equalisation.

The benefits that will emerge from AVCs paid by members have been excluded from the valuation, as have the corresponding assets, since the value of these liabilities is exactly matched by these assets.

Appendix E

Summary of PPF benefits valued

If the Scheme winds up when the Employer is insolvent, its members may be eligible for compensation from the Pension Protection Fund. Normally, a scheme's assets and liabilities would only transfer to the PPF if the assets were insufficient to buy out the benefits provided by the PPF. The compensation that the PPF could provide would be broadly 100% of the pension in payment for members over pension age and 90% of the pension built up for members under pension age.

Since the Court of Appeal's ruling in July 2021, the PPF compensation cap no longer applies. The PPF's latest valuaton guidance, version G9 which has been used for this valuation, reflects this fact.

Under the current PPF provisions:

- Pensions in payment will be increased annually, at the lower of 2.5% and the change in the Consumer Price Index (CPI), in respect of service after 5 April 1997 only. Pensions accrued before April 1997 are not increased.
- Benefits in deferment are revalued in line with the scheme's rules for any period between the member's exit and the scheme's entry into the PPF. With limited exceptions, revaluation between the entry date and the member's normal pension age will be in line with increases in the CPI subject to a maximum of 5% per annum compounded over the revaluation period in respect of service pre-6 April 2009, and CPI subject to a maximum of 2.5% per annum for service post-5 April 2009.
- With limited exceptions, spouses' pensions will be 50% of members' PPF compensation.
- The PPF does not cover defined contribution benefits and these would be bought out separately with an insurer.

Normal pension age is the normal retirement date under the scheme rules or such earlier age specified where the only condition for the member to retire without actuarial reduction is the attainment of a particular age or length of service. It is possible for different tranches of benefits to have different normal pension ages.

Appendix F

Section 179 certificate

This appendix includes a copy of the section 179 valuation certificate which sets out the information required to complete the section 179 section of the scheme return. The certificate is in the format required by the PPF; the terminology used in the certificate reflects the wording used in the section 179 valuation guidance.

In summary, the results of the valuation disclose a shortfall of £20,296,894, equivalent to a funding level of 93% on the PPF funding basis.

SCHEME / SECTION DETAILS		**S179 VALUATION**	
Full name of scheme:	The Midcounties Co-operative Pension Scheme	Effective date of this valuation (dd/mm/yyyy)	31/12/2021
Name of section of applicable:	n/a	**GUIDANCE AND ASSUMPTIONS**	
Pension Scheme Registration Number	10005498	s179 guidance used for this valuation	G9
Address of scheme (or section, where appropriate)	Co-operative House Warwick Technology Park Gallows Hill Warwick Post code: CV34 6DA	s179 assumptions used for this valuation	A10

Assets		Liabilities	
Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£281,941,619	Please show liabilities for:	
		Active members (excluding expenses)	£0
		Deferred members (excluding expenses)	£212,124,193
Date of relevant accounts (dd/mm/yyyy)	31/12/2021	Pensioner members (excluding expenses)	£85,553,482
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts.	0.2%	Estimated expenses of winding up	£1,763,388
		Estimated expense of benefit installation /payment	£2,797,450
		External liabilities	£0
		Total protected liabilities	£302,238,513

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:		Please show the proportion of liabilities which relate to each period of service for:			
			Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	0%	Active members	n/a	n/a	n/a
Deferred members	0%	Deferred members	24.2%	61.0%	14.8%
Pensioner members	0.7%	Pensioner members	47.6%	52.4% (all post 6 April 1997)	n/a

Number of members and average ages		
For each member type. Please show the number of members and the average age (weighted by the protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.		
	Number	**Average age**
Active members	0	n/a
Deferred members	2,228	52
Pensioner members	1,171	66

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature	DM'Clure	**Qualification**	Fellow of the Institute and Faculty of Actuaries
Name	Damian McClure	**Employer**	Mercer Limited
Date	7 February 2023		

As required, under Part 9 of the Guidance on undertaking a section 179 valuation, the section 179 certificate should form part of the scheme actuary's section 179 valuation report. The details contained in this certificate should be separately submitted to the PPF via the Pension Regulator's system "Exchange" within 15 months of the valuation effective date. **This certificate should not be sent directly to the Pension Protection Fund.**

The key assumptions used to calculate the section 179 liabilities are set out in the table below.

Key assumptions	
Investment Return:	
In Deferment (Allowing For Revaluation In Deferment): Pre 5 April 2009 Benefits	-2.61%
In Deferment (Allowing For Revaluation In Deferment): Post 5 April 2009 Benefits	-1.35%
For Pensions In Payment (Flat) :	1.00% for non-pensioners 1.28% for pensioners
For Pensions In Payment (Increasing):	-1.30% for non-pensioners -0.92% for pensioners

Mortality	First Life: Males: S3PMA with future changes in line with CMI_2019_M [1.50 per cent; S=7.5] from 2013 Females: S3PFA with future changes in line with CMI_2019_F [1.25 per cent; S=7.5] from 2013 Contingent Life: Males: S3DMA with future changes in line with CMI_2019_M [1.50 per cent; S=7.5] from 2013 Females: S3DFA with future changes in line with CMI_2019_F [1.25 per cent; S=7.5] from 2013
Proportions "Married"	85% (males) / 75% (females) for pensioners at normal pension age 85% (males) / 75% (females) for non-pensioners at assumed date of retirement or earlier death
Age Differences Between Member And Dependent	Female 3 Years Younger Than Male
Children's Pensions	Children's Pensions Already In Payment Assumed To Stop At 18 (Or 23 If Already Over 17) No Other Allowance
Expenses: Wind-Up (% Of Liabilities) Benefit Installation/Payment	4% Up To £5m; Plus 1% Between £5m And £25m; Plus 0.5% Between £25m and £545m (i.e. subject to a maximum of £3m) Per Non-Pensioner Member: £950 Per Pensioner (Dependent On Age): Under 60 £800 60 To 70 £650 70 To 80 £550 80 Or Over £450

The benefits valued for the section 179 valuation are in line with the benefit summary provided to the Trustee dated 27 May 2022 except as follows:

- The provisions outlined in Appendix E (Summary of PPF benefits) are assumed to override the Scheme's own benefit provisions for the purpose of the section 179 valuation only.
- Revaluation of benefits in deferment after the effective date of the valuation has been ignored as revaluation is allowed for implicitly by the yield in the section 179 assumptions which takes account of increases between the valuation date and NPA.
- Money purchase benefits have been ignored.

The data used for the section 179 valuation is as set out in Appendix B and the assets used are as set out in Appendix C.

Appendix G

Certificate of Technical Provisions

Name of the Scheme	The Midcounties Co-operative Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2021 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 29 November 2022.

Signature	
Name	Damian McClure
Date of signing	29 November 2022
Name of employer	Mercer Limited
Address	Belvedere 12 Booth Street Manchester M2 4AW
Qualification	Fellow of the Institute and Faculty of Actuaries

welcome to

brighter

Mercer Limited
1 Tower Place West
London
EC3R 5BU
www.mercer.com