The CARE Scheme

Summary of the 2022 Valuation Results

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Introduction

This summary provides confirmation of the final outcome of the 30 September 2022 actuarial valuation following the consultation exercise undertaken with participating employers.

What is a valuation?

An actuarial valuation of the CARE Scheme (“the Scheme”) is undertaken every three years to determine the funding position of the Scheme, in which we compare the value of members’ benefits already earned (the liabilities) against the value of the assets held.

It is also used to inform decisions on the Scheme’s investment strategy.

The Trustee seeks advice from the Scheme Actuary to decide the approach and actuarial assumptions used.

Where a funding deficit is identified as part of the valuation process, the Trustee must put in a place a Recovery Plan. This sets out the contributions payable by employers to remove the deficit over time.

Any contributions needed are recorded in a Schedule of Contributions, which also set out how the expenses of running the Scheme will be met.

Scheme Funding Position

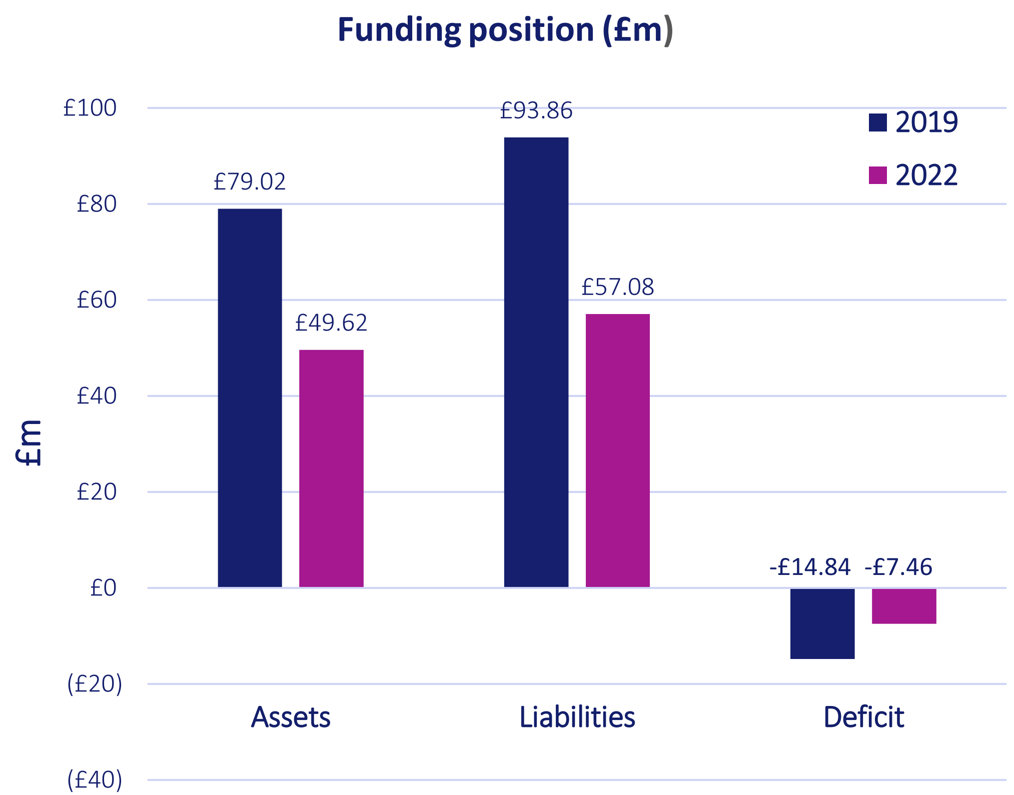
2019 and 2022 Comparison

The Technical Provisions basis is used for calculating the Scheme's ongoing funding position. The Scheme liabilities are compared to the value of the assets to establish whether the Scheme is in surplus or deficit, and if a Recovery Plan is needed

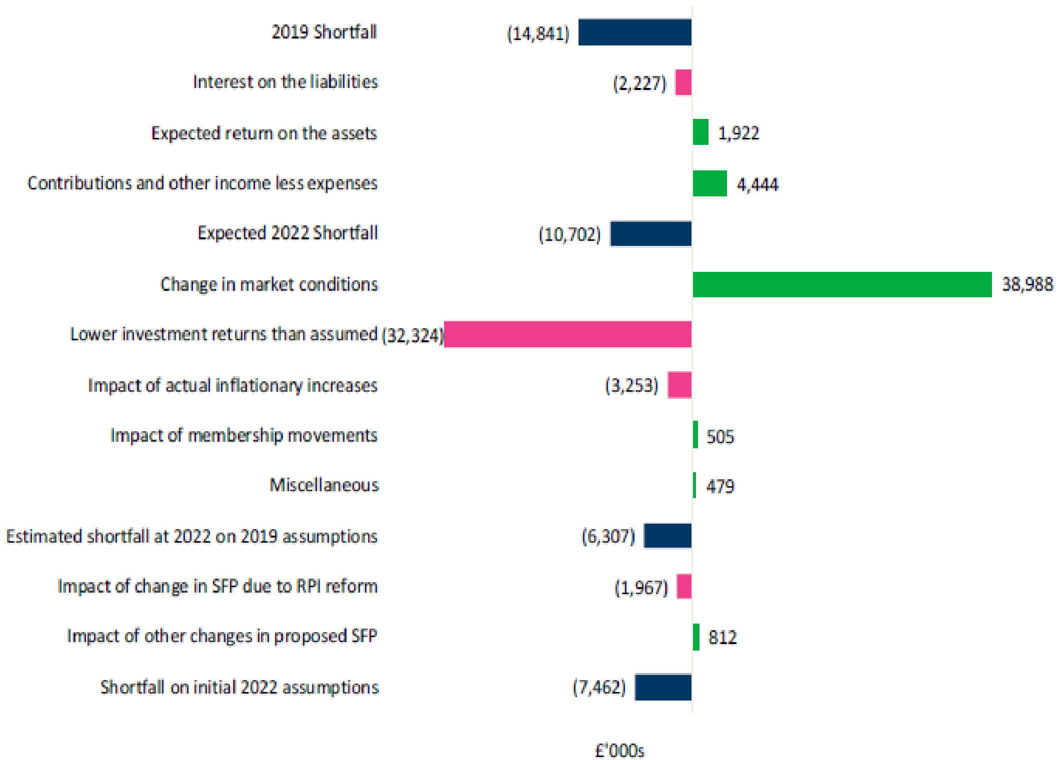
The chart shows the funding position at 2022 compared to the last valuation in 2019.

The 2019 funding level was **84%**; the 2022 funding level was **87%** - both on the Technical Provisions basis.

The contributing factors to the change in funding position are shown on the next page.



Changes in funding position since the 2019 valuation



A key point to note is the significant impact of the 'Change in market conditions' and the 'Lower investment returns than assumed' at the 2019 valuation.

Both the assets and liabilities have fallen significantly over the valuation period due to the significant market movements and the large rise in gilt yields since the 2019 valuation. This has reduced both the value placed on the liabilities and the value of the LDI assets held by the Scheme.

The overall increase in yields has outweighed the lower investment returns assumed at the 2019 valuation helping reduce the overall deficit compared to the 2019 valuation.

Changes to the 2022 valuation assumptions have also been made to allow for the Government's RPI reforms, which have increased the liabilities, but these have been offset to some extent by a reduction in the rate of future mortality improvements based on the latest mortality projections.

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Recovery Plan

The recovery plan is the schedule of payments which are expected to restore the Scheme to full funding on the agreed funding target by a given date.

Given the deficit of £7.5m as at 30 September 2022, the Trustee will maintain the current aggregate deficit contribution of £1.672m p.a. (increasing by 3% p.a.); this will shorten the recovery plan by 6 months as shown in the table below:

	Current Recovery Plan	Revised Recovery Plan
Annual contributions from 1 April 2024	£1,672,000 p.a	**No change**
Annual increase	3%	**No change**
Deficit contributions payable until	30 September 2027	**31 March 2027**

Although the same aggregate level of deficit contributions is being maintained, each participating employer's share may change from the amount currently being paid.

This means some employers may see an increase and some may see a decrease depending on how their membership experience has affected their liabilities in the Scheme such as:

- Changes to an employer's membership (for example transfers out, death of a member).
- The size of any employer's membership and liabilities in the Scheme – for example, an employer with larger liability will see less impact as a result of a small number of membership changes compared to an employer with a smaller liability.
- The maturity of individual employer's membership - for example, an employer with more mature membership will see their liability reduce over time as members take tax free cash on retirement and as pensioner members pass away, but an employer with immature members with a number of years before retirement will see their liability increase.

Scheme Expenses

Employers currently pay an allowance of £169k per annum towards the expenses of running the scheme. Expenses include member administration costs, the costs of external advice, support for employers and also includes an allowance to cover the Pension Protection Fund (PPF) levy.

TPT has recently carried out an in-depth review of administration costs and service provision. Our costs were last reviewed in 2018 and TPT was keen to make sure that the services provided continue to meet employer requirements and continue to represent good value for money.

At this review there is an increase in TPT's costs, which reflects the challenging inflationary environment, plus new governance and regulatory requirements affecting the running of pension schemes. The expenses, agreed for the Scheme as a whole, as part of the 2022 valuation reflect this increase, as set out opposite.

- Year commencing 1 April 2024 - £188,000 p.a
- Year commencing 1 April 2025 - £215,000 p.a
- Year commencing 1 April 2026 – £242,000 p.a
- Year commencing 1 April 2027 (onwards) - £249,260 p.a, increasing by 3% p.a on each 1 April, with the first increase on 1 April 2028

Scheme expenses are payable via monthly lump sums.

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Investment Strategy

At the 2019 valuation, the Trustee agreed to adopt a long-term lower risk investment strategy to reduce the likelihood that the funding level reduces materially in the event of significant market volatility.

The lower-risk investment strategy, also known as self-sufficiency, aims to have sufficient Scheme assets to pay benefits in full as they fall due over the long term.

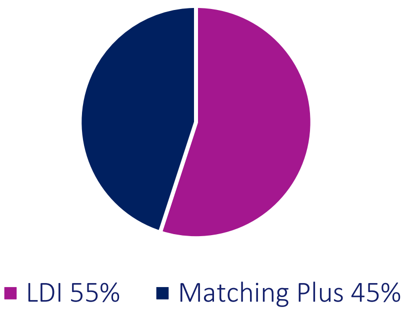
The self-sufficient strategy targets an Expected Return of Gilts +0.85% p.a. and the discount rate used in the valuation to place a value on the current liabilities, allowing for prudence, is Gilts +0.50% p.a.

The Long-Term Funding Target (LTFT) is for the Scheme to have a high probability of paying benefits without additional contributions from employers in the future.

The assets are invested entirely in a mix of Liability Driven Investment (LDI) and investments in TPT's Matching Plus Portfolio (MPP).

The chart opposite shows the current target allocation under the investment strategy.

Investment strategy - Expected Return - Gilts +0.85%



Liability Driven Investment (LDI)

Funds that combine physical bonds (cash, gilts and corporate bonds) with derivative instruments called Swaps.
These investments protect against (or hedge) the interest rate and inflation risks within the Scheme.

Matching Plus Portfolio (MPP)

Based on an investment philosophy that aims to generate the cash-flows required to pay pension benefits.
By generating returns with greater certainty and reducing risk, the MPP aims to maximize the probability of meeting liability cash-flows.
This means that cash-flows from the assets can be used to pay out members' benefits when they fall due, without the need to liquidate assets..

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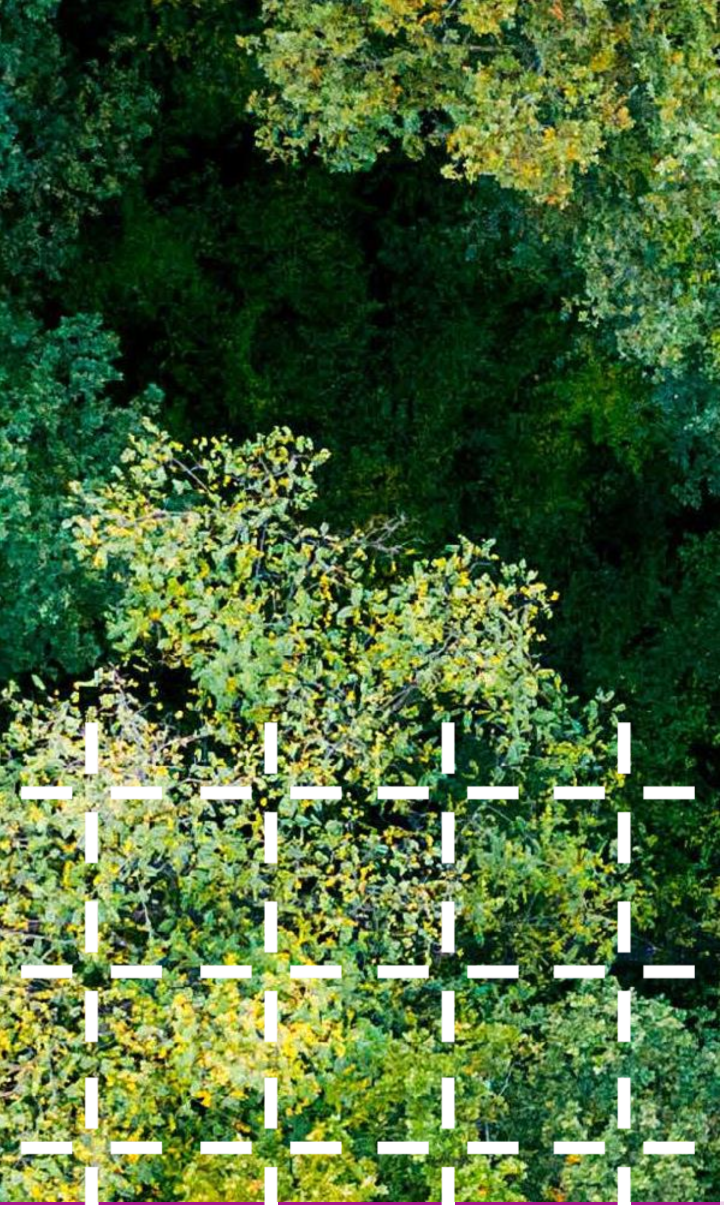

Further Information

The covering email issued to all participating employers in the CARE Scheme includes specific details of the contribution towards the deficit contributions and Scheme expenses payable from 1 April 2024.

If you would like some further information, or to discuss the content of this document in more detail, please contact our Employer Relationship Team.

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