Merchant Navy Officers Pension Fund

Actuarial valuation as at 31 March 2018

26 March 2019

willistowerswatson.com

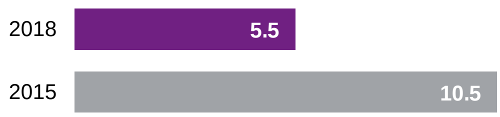
Summary

The main results of the Fund's actuarial valuation are as follows:

- Technical provisions funding level as at 31 March 2018 has increased to 98% (2015: 90%)

- Deficit of assets relative to technical provisions has decreased to £73 million (2015: £329 million)

- The recovery plan implemented to address the Fund's funding deficit is expected to achieve full funding on the technical provisions assumptions by 30 September 2023, which is 5.5 years following the valuation date (2015: 10.5 years)



- The Scheme Actuary's statutory estimate of solvency as at 31 March 2018 has increased to 92% (2015: 76%)

Contents

Throughout this report the following terms are used:

Fund
Merchant Navy Officers Pension Fund

Trustee
Merchant Navy Officers Pension Fund Trustees Limited

Participating Employers
The Participating Employers required to contribute to the Fund

Trust Deed & Rules
The Fund's Trust Deed and Rules dated 25 June 1999, as subsequently amended

Introduction

Scope

This report is the actuarial valuation of the Merchant Navy Officers Pension Fund as at 31 March 2018 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under the terms of Clause 26.0 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Participating Employers within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Fund relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Fund at 31 March 2018 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2015. It also describes the strategy that has been agreed between the Trustee and Participating Employers for financing the Fund in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Fund and the level of Participating Employers' contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out no later than 31 March 2021.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Fund's assets and technical provisions. The next such report, which will have an effective date of 31 March 2019, must be completed by 31 March 2020.

Kim Farnum

Kim Farnum
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
26 March 2019

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http://eutct.internal.towerswatson.com/clients/617531/MNOPFTRVal31Mar18/Documents/7.%20Reporting%20(CO)/7.1%20Valn%20report/MNOPF%202018%20Valuation%20Report%20v2.docx

Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Fund for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accept any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Participating Employers who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Fund, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Data Protection Act). Data controllers would include the Trustee of the Fund and may also include the Scheme Actuary and Towers Watson, so we have provided further details on the way we may use this data on our website at http://www.willistowerswatson.com/personal-data.

Assumptions

The choice of long-term assumptions, as set out in the Fund's Statement of Funding Principles dated 26 March 2019, is the responsibility of the Trustee, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Fund's experience from time to time to be better or worse than that assumed. The Trustee and the Participating Employers must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Fund is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has been made for climate-related risks.

Funding

Statutory funding objective

The Trustee's formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Fund’s technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Fund over the next 80 or so years. To a degree, these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2018 have been determined by the Trustee, having consulted the Participating Employers, and are documented in the Statement of Funding Principles dated 26 March 2019.

The tables below and overleaf summarise the main assumptions used to calculate the Fund’s technical provisions for this and the previous actuarial valuation.

Financial assumptions	**31 March 2018** **% pa**	31 March 2015 % pa
Discount rates	**Gilts + 1.0% pa to 2020, trending linearly down to gilts + 0.25% pa from 2025**	4.75% pa pre-retirement / 2.6% pa post-retirement
RPI inflation	**3.30%**	3.10%
CPI inflation	**2.30%**	2.10%
Deferred pension revaluation		
- Revaluation in "service"	**3.80%**	4.10%
- CPI revaluation in deferment	**2.30%**	2.10%
Pension increases in payment		
- RPI capped at 5% pa	**3.10%**	2.90%
- CPI capped at 3% pa	**1.90%**	1.80%
GMP equalisation	**0.5% of liabilities**	Nil

Demographic assumptions	31 March 2018	31 March 2015
Mortality base tables	**SAPS 2 normal health pensioner tables with multiplier of 112.5% (normal health members and male spouses)** **SAPS 2 normal health pensioner heavy tables with multipliers of:** **- 100% (ill-health pensioners)** **- 105% (female spouses)**	SAPS 2 normal health pensioner heavy tables with multipliers of: - 85% (normal health members and male spouses) - 105% (ill-health pensioners) - 110% (female spouses)
Future improvements in longevity	**CMI 2017 projections with a 1.8% pa long term improvement rate and the default smoothing parameter**	CMI 2014 projections with a 1.8% pa long term improvement rate
Allowance for commutation	**Allowance for 50% of maximum lump sum, on commutation factors 20% below equivalent technical provisions factors**	Allowance for 50% of maximum lump sum, on commutation factors 20% below equivalent technical provisions factors
Expenses	**£106m (£46m operational expenses, £60m reinsurance fee)**	£50m

The table below compares the Fund's technical provisions as at the date of the actuarial valuation (31 March 2018) with the market value of the Fund's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2018 £m	31 March 2015 £m
Amount required to provide for the Fund's liabilities in respect of:		
Employed members	**-**	417
Deferred pensioners	**1,111**	886
Pensioners and dependants	**2,118**	1,871
GMP equalisation	**16**	-
Expenses	**106**	50
AVCs and other money purchase benefits	**-**	3
Technical provisions	**3,351**	3,227
Market value of assets	**3,278**	2,898
Funding level (assets ÷ technical provisions)	**98%**	90%
'Gross'[1] past service (deficit) (technical provisions less assets)	**(73)**	(329)
Value of future deficit contributions due after valuation date from previous valuations	**64**	320
Impact on (deficit) of closure to future accrual[2]	**n/a**	4
'Net' past service (deficit)	**(9)**	(5)

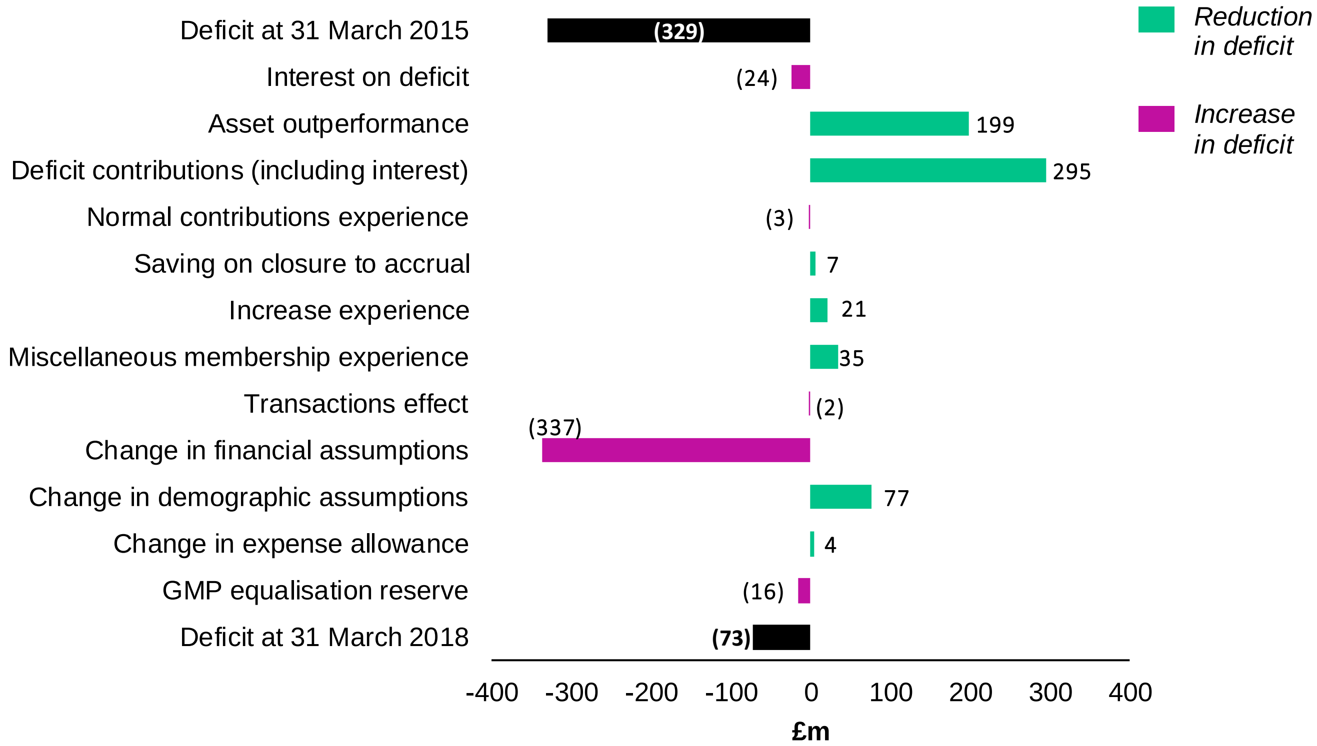
[1] Gross of the value of any deficit contributions from the 2003, 2006, 2009 and 2012 valuations to be paid after 31 March 2015 or 2018

[2] The fund closed to future accrual from 31 March 2016. Employed members became deferred pensioners from that date but are entitled to revaluation while they remain in service with their employer of 1.5% pa in excess of standard deferred revaluation. In addition, the cost of future accrual from 31 March 2015 was higher than the contribution rates paid at the time and the Trustee decided not to collect the shortfall over the year to 31 March 2016. The total impact on the deficit of these two factors was a reduction in the net deficit of £4 million.

Developments since the previous valuation

In December 2017, the Fund entered into a buy-in insurance contract covering the majority of the pensioner liabilities at that date which were not already covered by the longevity swap. The buy-in reduces the Fund's exposure to various risks, as reflected in the sensitivity information on the following page.

The funding level has increased to 98% from 90% at the previous valuation. The main factors contributing to this increase are shown below.



Contribution requirements

Recovery plan

As there were insufficient assets to cover the Fund's technical provisions at the valuation date, the Trustee and the Participating Employers are required to agree a recovery plan. This specifies how, and by when, the statutory funding objective is expected to be met.

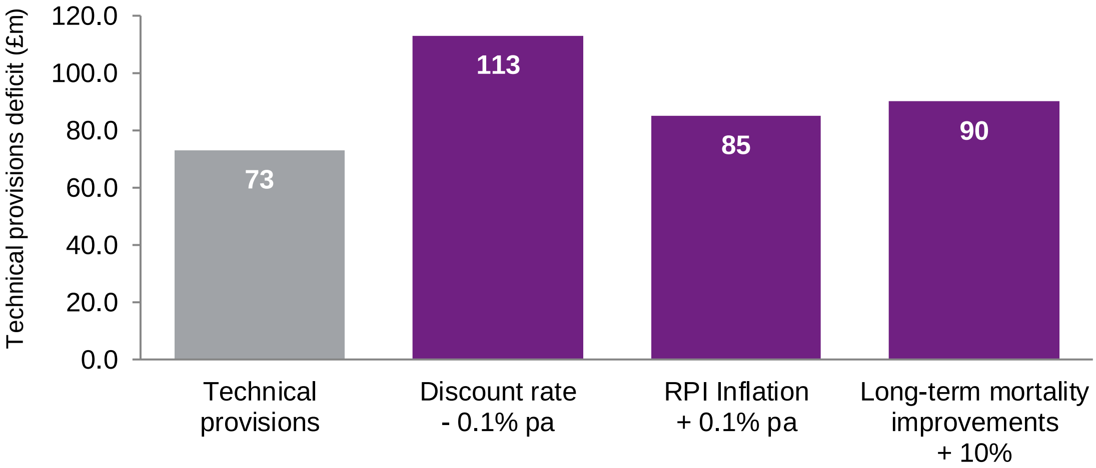
The gross deficit as at 31 March 2018 on the Technical Provisions basis is £73 million. Allowing for the present value of deficit contributions due after this date from the Recovery Plans agreed at the 2009 and 2012 valuations leads to a net deficit of £9 million to be met by the Recovery Plan from the 2018 valuation.

Allowing for the return on Fund assets to exceed the average discount rate by 0.1% pa, if the assumptions documented in the Statement of Funding Principles are borne out in practice, no additional contributions beyond those agreed at previous valuations would be required from the Participating Employers in order to remove this net deficit of £9 million over the period to the end of the current Recovery Plans (30 September 2023).

Projections and sensitivities

Based on the assumptions underlying the calculation of the Fund's technical provisions as at 31 March 2018 and allowing for contributions to be paid to the Fund as described above, the funding level is expected to increase to 100% by the end of the recovery period.

The chart below illustrates the sensitivity of the technical provisions as at 31 March 2018 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Solvency

Discontinuance

If the Fund's discontinuance is not the result of the insolvency of the Employers, the Employers would ultimately be required to pay to the Fund any deficit between the Scheme Actuary's estimate of the full cost of securing Fund benefits with an insurance company (including expenses) and the value of the Fund's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Fund as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Fund's discontinuance is a result of the Employers' insolvency, the "employer debt" would be determined as above and the Fund would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Employers) were not sufficient to secure benefits equal to the PPF compensation then the Fund would be admitted to and members compensated by the PPF. Otherwise the Fund would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Fund at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Fund at the valuation date. For this purpose I have assumed that no further payments are received from the Participating Employers.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson at around the valuation date. I have assumed winding-up costs of £66 million.

The table below summarises how the main assumptions used to estimate the Fund's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

Financial assumptions	**31 March 2018** **% pa**	31 March 2015 % pa
Pensioner discount rate*	**Gilts + 0.25%**	2.05%
Non-pensioner discount rate	**Gilts - 0.35%**	1.65%
CPI inflation	**2.60%**	2.80%
Pension increases in payment		
- RPI capped at 5% pa	**3.30%**	2.90%
- CPI capped at 3% pa	**2.60%**	2.20%

*For members covered by the swap, we discounted the swap's fixed leg cashflows assuming a discount rate of gilts + 0.5% pa

Demographic assumptions	31 March 2018	31 March 2015
Future improvements in longevity	**CMI 2016 projections with a long-term improvement rate of 1.5% pa**	CMI 2014 projections with a long-term improvement rate of 1.8% pa
Allowance for commutation	**No allowance for future commutation savings**	No allowance for future commutation savings

My estimate of the solvency position of the Fund as at 31 March 2018 is that the assets of the Fund would have met 92% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2018 £m	31 March 2015 £m
Total estimated cost of buying insurance policies	**3,549**	3,819
Market value of assets	**3,278**	2,898
Solvency (deficit)/surplus (total estimated cost less assets)	**(271)**	(921)
Solvency level (assets ÷ total estimated cost)	**92%**	76%

The change in the solvency level from 76% to 92% is the result of a number of factors, including the investment performance of the Fund's assets being better than assumed, the deficit contributions paid and the softening of insurance company pricing over the period.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Fund's own rules and would normally be that they are secured in full before any other benefits. In any event, there are no longer AVCs in the Fund as at 31 March 2018.

- category 1 – benefits relating to certain pension annuities secured by the Fund before 6 April 1997 (of which I understand there are none for the Fund);
- category 2 – the cost to the Fund of securing the compensation that would otherwise be payable by the PPF if the Participating Employers became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above (of which I understand there are none for the Fund);
- category 4 – all other pensions and benefits due under the Fund, including pension increases (where these exceed those under the PPF).

As the Fund assets covered the Section 179 liabilities as at 31 March 2018 but were less than the estimated cost of securing benefits with an insurer, the Fund would probably not have qualified for entry to the PPF had the Participating Employers become insolvent at 31 March 2018, in which case members would have received more than the PPF compensation but only 92%, on average, of the entitlements described above.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £3,549 million is £198 million higher than the Fund's technical provisions of £3,351 million.

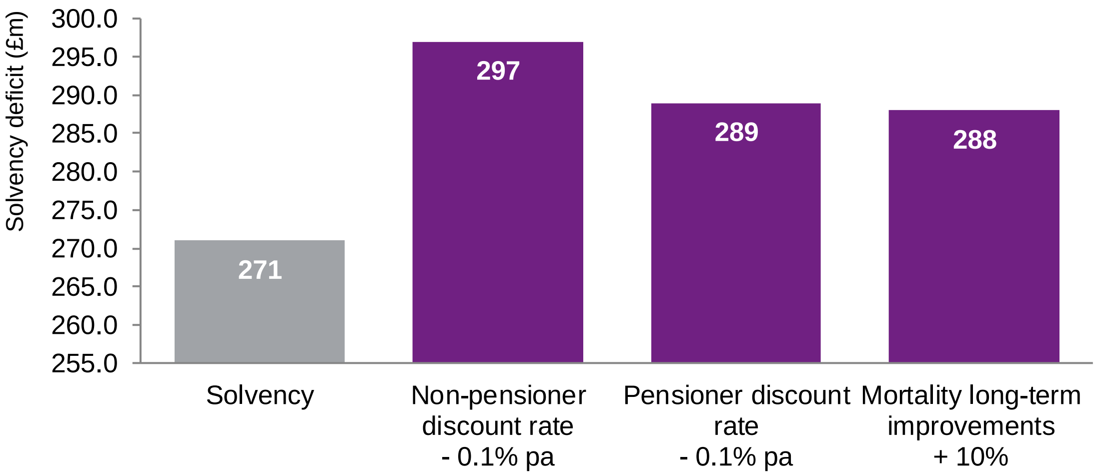
The technical provisions are intended to be a prudent assessment of the assets required under the Fund's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Participating Employers being able to support the Fund in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Fund without having recourse to future contributions from the Participating Employers.

If the statutory funding objective had been exactly met on 31 March 2018 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Fund would have been 94%. This compares with 84% at the 31 March 2015 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Fund's technical provisions as at 31 March 2018 and allowing for contributions to be paid to the Fund as summarised in the Funding section of this report, the solvency level is projected to increase over the recovery period, and will increase by a slightly greater extent than the technical provisions funding level.

The table below illustrates the sensitivity of the solvency position as at 31 March 2018 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the main risks to the financial position of the Fund and the actions taken to manage them:

Risk	Approach taken to risk
Participating Employers unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Participating Employers to pay contributions to the Fund and, in particular, to make good any shortfall that may arise if the experience of the Fund is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Participating Employers' financial strength regularly.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Fund's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Fund assets. The Trustee is able to agree further contributions with the Participating Employers at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Fund's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Fund currently hedges a significant element of its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. The Fund currently hedges part of its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Fund's liabilities	The Trustee considers this risk when determining the Fund's investment strategy. It consults with the Participating Employers in order to understand the Participating Employers' appetite for bearing this risk and takes advice on the Participating Employers' ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Participating Employers would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Fund members live longer than assumed	The Fund currently hedges part of its exposure to longevity risk in respect of pensioner members. For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.
Options exercised by members could lead to increases in the Fund's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Fund's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Fund's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Participating Employers, where relevant.

Economic risk | Demographic risk | Legal risk

Benefits summary

The Fund is a registered pension scheme under the Finance Act 2004 and was contracted-out of the State Second Pension until 31 March 2016. The main provisions of the Fund as at 31 March 2018 are summarised as follows:

Normal Pension Age (NPA)	61
Retirement at NPA	A pension based on pensionable service and salary, calculated in accordance with the Fund Rules
Retirement before NPA	An immediate pension calculated as for retirement at NPA but reduced to reflect early payment, on the consent of the Trustee.
Death after retirement	A spouse's pension of 50% of the member's pension (calculated as if no commutation for lump sum has taken place at retirement and as if no reduction had been applied on early retirement) together with a cash sum if death occurs within 5 years of retirement, plus children's allowances.
Leaving Service	A deferred pension, a transfer to another registered pension arrangement or, if the member has less than two years' service, a refund of contributions. Members still in pensionable service as at the closure of the Fund to future accrual on 31 March 2016 are entitled to enhanced revaluation at 1.5% pa higher than normal deferred revaluation while they remain in service.
Pension increases	**Pension in respect of service before 1 April 1997** Pension in payment, in excess of the GMP, has no guaranteed increases, although the Trustee may exercise its discretion to award increases. GMPs in respect of service between 6 April 1988 and 5 April 1997 increase in line with the Consumer Prices Index subject to a maximum of 3% each year. **Pension in respect of service after 31 March 1997** Pension increases in line with the Retail Prices Index subject to a maximum of 5% each year.

Discretionary benefits

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency, other than our understanding of established practices in benefit calculations.

Changes to the benefits

The Fund closed to future accrual from 31 March 2016. Employed members became deferred pensioners from that date but are entitled to revaluation while they remain in service with their employer of 1.5% pa in excess of standard deferred revaluation.

We are not aware of any other changes to the Fund's benefits since the valuation as at 31 March 2015.

Uncertainty about the benefits

An allowance of 0.5% of liabilities has been made in the calculation of the technical provisions and statutory estimate of solvency to reflect the potential cost of changes to the benefits that may be required to ensure that the Fund provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Number	31 March 2018 Males	Females	Total	31 March 2015 Males	Females	Total
Active members	-	-	**-**	659	12	**671**
Deferred pensioners	7,626	644	**8,270**	9,549	714	**10,263**
Pensioners	13,849	369	**14,218**	12,974	294	**13,268**
Dependants	20	3,922	**3,942**	20	3,887	**3,907**
Children	46	55	**101**	52	71	**123**
Total	**21,541**	**4,990**	**26,531**	**23,254**	**4,978**	**28,232**

Annual salary or pension

£k	31 March 2018 Males	Females	Total	31 March 2015 Males	Females	Total
Pensionable salaries	-	-	**-**	37,966.4	413.8	**38,380.2**
Deferred pensions	33,874.2	1,835.5	**35,709.8**	30,696.7	1,589.1	**32,285.8**
Pensioners' pensions	104,195.6	1,625.5	**105,821.0**	94,036.7	1,300.1	**95,336.8**
Dependants' pensions	95.0	12,562.9	**12,657.9**	83.8	11,181.4	**11,265.2**
Children's pensions	80.4	85.2	**165.6**	76.2	104.2	**180.4**

Average age

Years	31 March 2018 Males	Females	All	31 March 2015 Males	Females	All
Active members	-	-	**-**	56.6	55.7	**56.5**
Deferred pensioners	58.6	54.6	**58.5**	57.3	52.3	**57.3**
Pensioners	71.0	68.3	**71.0**	69.7	67.1	**69.6**
Dependants	61.0	74.2	**74.1**	57.7	72.3	**72.2**
Children	17.8	19.1	**18.5**	15.7	19.7	**18.0**

Notes on data tables:

- Figures in respect of dependants exclude children
- Deferred pension amounts include revaluation to the valuation date.
- Amounts as at 31 March 2018 exclude the 1 April 2018 pension increase
- Average ages are weighted by amount.

Summary of significant membership events

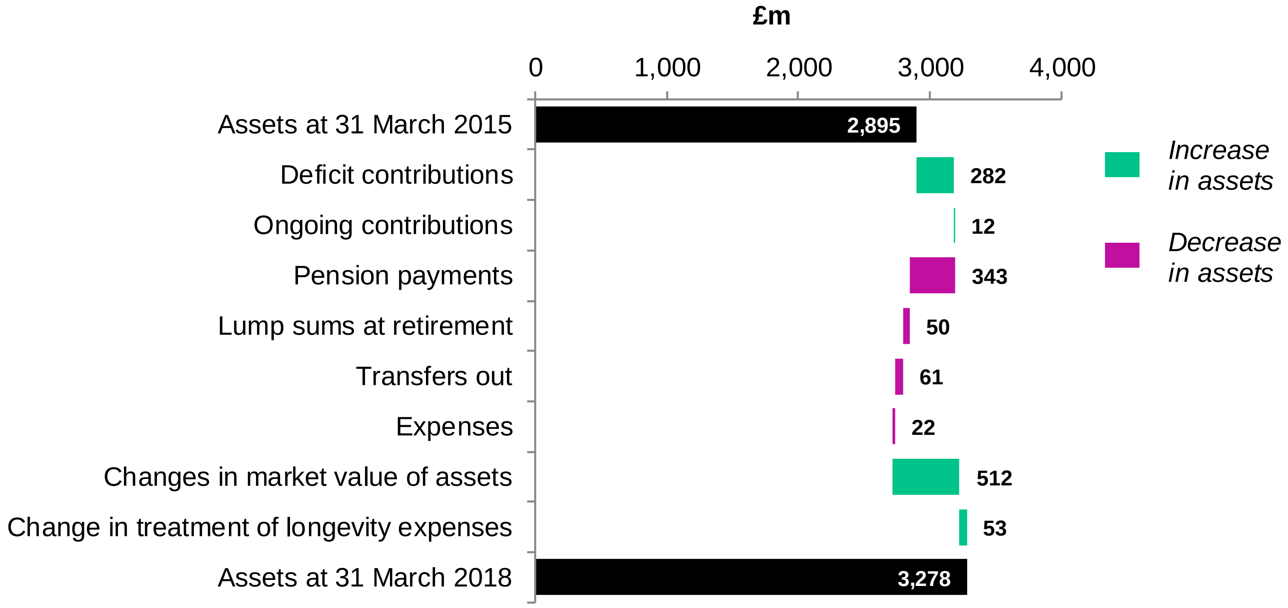
We are not aware of any significant membership events since the last valuation as at 31 March 2015.

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 March 2018 show that the market value of the Fund's assets, excluding the assets of the Money Purchase Section of the Fund, was £3,278 million.

The change in the Fund's assets from £2,898 million as at 31 March 2015 to £3,278 million as at 31 March 2018 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (excluding AVCs):



Investment strategy

The assets, excluding AVCs, were invested as summarised below as at 31 March 2018 and 31 March 2015:

	Market value as at 31 March 2018		Market value as at 31 March 2015	
	£m	%	£m	%
Equities	293	9%	510	18%
Bonds	1,422	43%	1,643	57%
Hedge funds	269	8%	176	6%
Private equity	72	2%	98	3%
Property	15	0%	55	2%
Absolute return funds	351	11%	421	14%
Derivatives	122	4%	53	2%
Buy-in policy	474	15%	-	-
Cash, and net current assets	260	8%	(61)	-2%
Total	3,278		2,895	

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Merchant Navy Officers Pension Fund**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund's technical provisions as at 31 March 2018 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 Fund and set out in the Statement of Funding Principles dated 26 March 2019.

Kim Farnum

Kim Farnum
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
26 March 2019

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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Fund's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The Trustee's assessment of the employers' covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Fund members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Fund and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Fund. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Fund, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Fund. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to the Fund by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Fund.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Fund's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Fund (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Fund's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Fund.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the Fund. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.