The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited

Actuarial valuation as at 31 December 2020

24 March 2022

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Summary

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

- Technical provisions funding level as at 31 December 2020 has decreased to 95% (2017: 102%)

- Surplus of assets relative to technical provisions at 2017 of £28.3 million has changed to a deficit at 2020 of £67.1 million

- The recovery plan implemented to address the Scheme's funding deficit is expected to achieve full funding on the technical provisions assumptions by 31 May 2030, which is 9 years and 5 months from the valuation date (2017: not applicable)

- Following the closure of the DB section of the Scheme to future accrual from 31 December 2016, no ongoing contributions are required in respect of the DB section.

- The Scheme Actuary's statutory estimate of solvency as at 31 December 2020 has increased to 88% (2017: 85%)

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Throughout this report the following terms are used:

Scheme
The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited

Trustee
NFUM Pension Trustee Company Limited

Principal Employer
The National Farmers Union Mutual Insurance Society Limited

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 18 June 2002 as subsequently amended

Introduction

Scope

This report is the actuarial valuation of the The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited as at 31 December 2020 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 10 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Principal Employer within seven days of its receipt.

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

The report explains the financial position of the Scheme at 31 December 2020 using several different measures of its liabilities and how it has changed since the previous valuation at 31 December 2017. It also describes the strategy that has been agreed between the Trustee and the Principal Employer for financing the Scheme 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 Scheme and the level of contributions to be paid by the Principal Employer will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 December 2023.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 December 2021, must be completed by 31 December 2022.

Martin Faulkner

Martin Faulkner
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
24 March 2022

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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 Scheme 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 accepts 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 Principal Employer 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 Scheme, 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 Scheme 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 https://www.willistowerswatson.com/en-GB/Notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 24 March 2022, is the responsibility of the Trustee, in agreement with the Principal Employer, 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 Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Principal Employer 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 Scheme 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.

The structure of the Willis Towers Watson investment model, used to determine the spread of likely future outcomes for the Scheme's finances, is based on an historical analysis of investment returns, although Willis Towers Watson has incorporated its subjective judgement to complement the information provided by historical returns. The model is designed to illustrate the future range of returns stemming from different asset classes and their inter-relationship and the consequent uncertainty in the future financial development of the Scheme. It should be noted that no economic model could be expected to capture future uncertainty perfectly or to be precise about the risk of extreme events. In particular, it should be noted that the timeframe in establishing our asset model and the assumptions used in this investigation are intentionally long-term, and are not meant to be reflective of the possible, or even likely, course of the investment markets in the short term.

Funding

Statutory funding objective

The Trustee's only formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme'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. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). 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 Scheme over the next 90 or so years. Most of 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 December 2020 have been agreed between the Trustee and the Principal Employer and are documented in the Statement of Funding Principles dated 24 March 2022.

The tables below and overleaf summarise the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation:

Financial assumptions	**31 December 2020** **% pa**	31 December 2017 % pa
Discount rate	**Gilt curve + 91 bps moving to gilt curve + 70 bps in 7 steps over 7 years**	Gilt curve + 100 bps moving to gilt curve + 70 bps in 10 steps over 10 years
RPI inflation	**Gilt-implied break-even inflation curve**	Gilt-implied break-even inflation curve
CPI inflation	**RPI curve - 1.00% up to 2030; RPI curve after 2030**	RPI curve - 1.00%
Salary increases	**RPI curve + 1.50%**	RPI curve + 1.50%
Deferred pension revaluation		
- Revaluation (CPI)	**CPI curve with relevant cap and floor applied**	CPI curve with relevant cap and floor applied
- Revaluation (Avon Harvest)	**RPI Curve + 1.75%**	RPI Curve + 1.75%
Pension increases in payment		
- Discretionary / RPI (0,2.5)	**RPI curve with relevant cap and floor applied**	RPI curve with relevant cap and floor applied
- RPI (0,5)	**RPI curve with relevant cap and floor applied**	RPI curve with relevant cap and floor applied

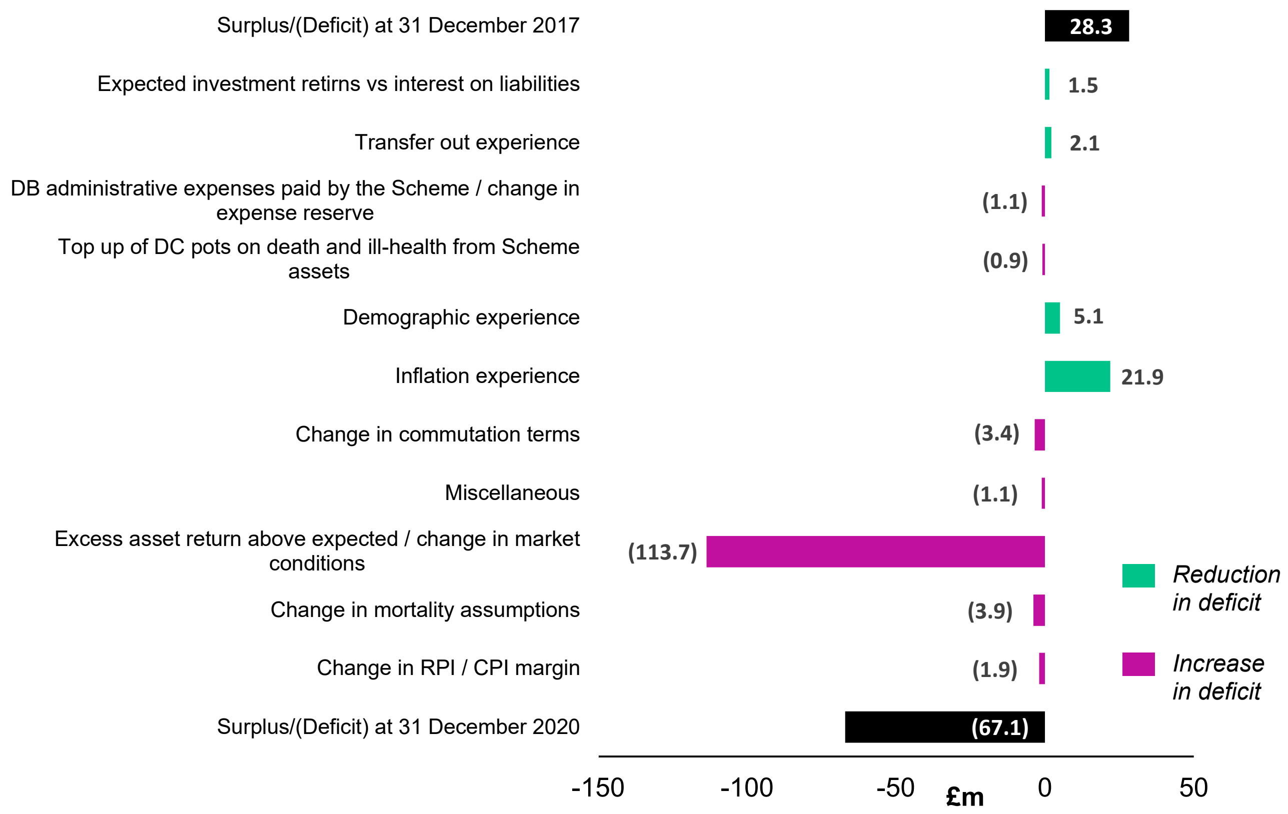
Demographic assumptions	**31 December 2020**	31 December 2017
Mortality base tables		
– Male pensioners	**95% of SAPS S2 'light' normal pensioners**	95% of SAPS S2 'light' normal pensioners
– Female pensioners	**85% of SAPS S2 normal pensioners**	85% of SAPS S2 normal pensioners
Future improvements in longevity	**CMI 2020 from 2007 with a long term trend of 1.50% pa, smoothing parameter of 7.0, an initial addition parameter of 0.5% and 2020 weighting of 0%**	CMI 2017 from 2007 with a long term trend of 1.50% pa
Proportion of pension exchanged for a lump sum at retirement	**15% on current terms**	15% on current terms
Expenses	**1.5% of past service reserve**	1.5% of past service reserve

The table below compares the Scheme's technical provisions as at the date of the actuarial valuation (31 December 2020) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	**31 December 2020 £m**	31 December 2017 **£m**
Amount required to provide for the Scheme's liabilities in respect of:		
Employed members (DB)	**343.8**	383.7
Deferred pensioners (DB)	**201.1**	173.4
Pensioners and Dependants	**642.3**	496.2
DC Actives and Deferred Pensioners	**208.9**	133.1
Expenses	**17.8**	15.8
AVCs	**5.5**	8.2
Technical provisions	**1,419.4**	1,210.4
Market value of assets	**1,352.3**	1,238.7
Past service (deficit)/surplus (technical provisions less assets)	**(67.1)**	28.3
Funding level (assets ÷ technical provisions)	**95%**	102%

Developments since the previous valuation

The funding level has decreased to 95% from 102% at the previous valuation. The main factors contributing to this fall are shown below.



Contribution requirements

Future accrual of benefits

Defined Benefit (DB) accrual under the Scheme ceased with effect from 31 December 2016 and therefore no contributions in respect of future DB service are required at this valuation.

The Trustee and the Principal Employer have agreed that the Principal Employer will continue to pay the DC contributions payable by the Principal Employer, subject to review at future valuations.

Where a DC Member dies in service and is survived by a spouse, there is a potential enhancement to the Member's account to purchase an annuity for the spouse. Similarly, when a DC member is granted ill-health early retirement an enhancement to the Member's account may also apply. The cost of these enhancements for the year to 31 December 2021 have been met out of the assets of the Scheme. The Trustee has agreed with the Principal Employer that for the calendar years 2022 and 2023 the Scheme will meet such enhancements up to a maximum of £1.2m in each year. Should the cost of these enhancements exceed £1.2m in either year, and for the total cost of such enhancements in subsequent years over the period covered by the Schedule of Contributions dated 24 March 2022, the Trustee will consider whether an additional contribution from the Principal Employer should be paid into the Scheme.

If any augmentations are made to benefits payable from the Scheme, the Trustee will consider whether an additional contribution from the Principal Employer should be paid into the Scheme.

Recovery plan

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

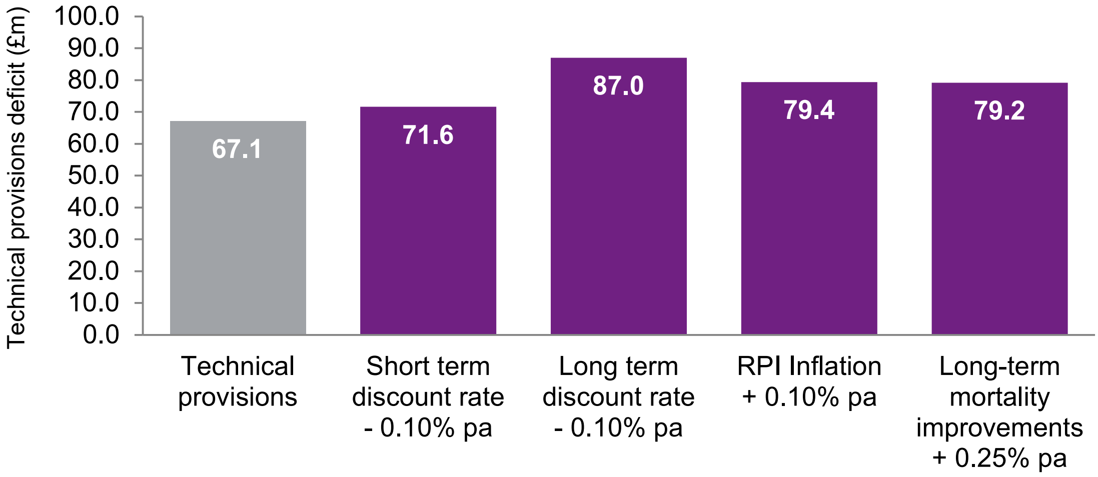
The Trustee and the Principal Employer have agreed that the recovery plan will rely on investment returns only under the assumptions set down in the Statement of Funding Principles dated 24 March 2022, and that the Principal Employer will pay no additional contributions to the Scheme.

If the assumptions documented in the Statement of Funding Principles dated 24 March 2022 are borne out in practice, the deficit is expected to be removed by 31 May 2030 (i.e. 9 years and 5 months from the valuation date).

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 December 2020, the funding level is expected to improve over the recovery period due to higher expected investment returns.

The chart below illustrates the sensitivity of the technical provisions as at 31 December 2020 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

In the event that the Scheme is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Scheme. This would mean that the continued salary linkage applied to the benefits of employed members would cease and be replaced by statutory deferred revaluation.

If the Scheme's discontinuance is not the result of the Principal Employer's insolvency, the Principal Employer would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme'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 Scheme 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 Scheme's discontinuance is a result of the Principal Employer's insolvency, the "employer debt" would be determined as above and the Scheme 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 Principal Employer) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Under Section 179 of the Pensions Act 2004, the Trustee is required to provide the PPF with a valuation of the Scheme that the PPF can use to determine the levy it charges. This valuation uses assumptions specified by the PPF and covers only benefits similar to the PPF compensation benefits. I calculate that at 31 December 2020 the Scheme's assets covered 112% of the Section 179 liabilities. The valuation for this purpose ignores money purchase benefits and AVCs. A summary of the Section 179 valuation is set out at the end of this report together with my certification of the liabilities.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme 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 Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Principal Employer.

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 the cost of implementing the winding-up to be 1% of the past service reserve, broadly in line with the PPF expenses allowance at 31 December 2020, leading to assumed winding-up costs of £12.8 million.

The table below summarises the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation.

Financial assumptions	31 December 2020 % pa	31 December 2017 % pa
Pensioner discount rate	**Gilt curve + 15 bps**	Gilt curve + 20 bps
Non-pensioner discount rate	**Gilt curve - 35 bps**	Gilt curve - 40 bps
Increases in deferment (subject to statutory revaluation limits)	**RPI curve - 0.7% up to 2030; RPI curve after 2030**	RPI curve - 0.7%
Pension Increases - Discretionary - RPI (0,2.5) - RPI (0,5)	 **0.00** **RPI curve with relevant cap and floor applied**	 0.00 RPI curve with relevant cap and floor applied

Demographic assumptions	31 December 2020	31 December 2017
Mortality base tables		
▪ Male members	**100% of SAPS S2 ‘light’ normal pensioners**	95% of SAPS S2 ‘light’ normal pensioners
▪ Female members	**90% of SAPS S2 normal pensioners**	85% of SAPS S2 normal pensioners
Future improvements in longevity	**CMI 2019 from 2007 with a long term trend of 1.50% pa, smoothing parameter of 7.5 and an initial addition parameter of 0.5%**	CMI 2017 from 2007 with a long term trend of 1.50% pa
Proportion of pension exchanged for a lump sum at retirement	**None**	None

My estimate of the solvency position of the Scheme as at 31 December 2020 is that the assets of the Scheme would have met 88% 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. Again, money purchase benefits and AVCs are excluded for this purpose.

Valuation statement	31 December 2020 £m	31 December 2017 £m
Solvency liabilities	**1,297.0**	1,288.4
Market value of assets	**1,137.9**	1,097.4
Solvency (deficit)/surplus (total estimated cost less assets)	**(159.1)**	(191.0)
Solvency level (assets ÷ total estimated cost)	**88%**	85%

The change in the solvency level from 85% to 88% is mainly due to the investment performance of the Scheme’s assets being better than assumed under the solvency basis, partially offset by adverse changes in market conditions.

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 Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Principal Employer became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

As the Scheme assets covered the Section 179 liabilities as at 31 December 2020 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Principal Employer become insolvent at 31 December 2020, in which case members would have received more than the PPF compensation. The actual allocation of assets beyond the PPF level is complicated by the fact that the DB and DC sections are not segregated. If DC assets are excluded then members would receive only 88% 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 £1,297.0 million is £92.0 million higher than the Scheme's technical provisions of £1,205.0 million (excluding money purchase benefits and AVCs).

The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Principal Employer being able to support the Scheme 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 Scheme without having recourse to future contributions from the Principal Employer.

If the statutory funding objective had been exactly met on 31 December 2020 (i.e. there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 93%. This compares with 83% at the 31 December 2017 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provision as at 31 December 2020, the solvency level is projected to broadly uniformly increase over the recovery period, and will increase by a slightly greater extent than the technical provisions funding level.

The chart below illustrates the sensitivity of the solvency position as at 31 December 2020 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.)


Solvency deficit (£m)
185.0
180.0
175.0
170.0
165.0
160.0
155.0
150.0
145.0
159.1
179.7
168.0
172.6
Solvency
Non-pensioner discount rate - 0.10% pa
Pensioner discount rate - 0.10% pa
Long-term improvements + 0.25% pa

Additional Information

Risks

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

Risk	Approach taken to risk
Principal Employer unable to pay contributions or make good deficits in the future	At each valuation the Trustee considers whether it wishes to take advice from an independent specialist on the ability of the Principal Employer to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. At this and prior valuations, the Trustee has agreed that the information provided by the Principal Employer in relation to its covenant, in particular the various capital adequacy measures submitted to the PRA (Bank of England – Prudential Regulation Authority) and the Trustee's own knowledge have been sufficient. This is taken into account when determining the level of technical provisions. Between valuations the Trustee monitors the Principal Employer's 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 Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Principal Employer 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 Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme does not currently have an explicit hedging policy for changes in interest rates. However, the Scheme holds a substantial proportion of bonds within its Defined Benefit assets (c45% at the valuation date) as part of the investment strategy.
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. Such assets include equities, property and index-linked bonds. The Scheme does not currently have an explicit hedging policy for changes in inflation rates. However, the Scheme holds real assets (e.g. index linked bonds and others expected to retain their real value such as property) as part of the investment strategy.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Principal Employer in order to understand the Principal Employer's appetite for bearing this risk and its 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 Principal Employer would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	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 Scheme'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 Scheme'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 Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Principal Employer, where relevant.
Changing patterns of weather, temperature or disease could adversely affect the funding of the Scheme	The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the Scheme the key ways these risks could manifest themselves are through unmatched falls in asset values, Scheme members living longer than assumed or a reduction in the strength of the Principal Employer covenant. Each of these particular risks are separately addressed above.

Economic risk | Demographic risk | Legal risk | Climate risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004. The section below sets out a summary of the benefits awarded under the DB Section of the Scheme.

Definitions	
Normal Retirement Date (NRD)	For the vast majority of members this is 60th birthday or the date of completion of 40 years' Continuous Contributing Membership (CCM), if earlier. For this purpose, CCM shall include a Closure Member's continuous pensionable service as a DC Member after Closure Date.
Salary	Basic annual salary excluding bonuses, overtime and other additional payments.
Final Pensionable Salary	The greater of the average Salary during the twelve months immediately preceding retirement or exit, and the yearly average of the Salary during any period of three consecutive years ending on 30 April out of the previous ten years.
Closure Date	31 December 2016
Closure Member	A Member who immediately before Closure Date was a DB Member in Continuous Contributing Membership and who on the day after the Closure Date became a DC Member. A Member ceases to be a Closure Member on the earliest of leaving Service, ceasing to be a DC Member, transferring their DB benefits out of the Scheme, commencing receipt of their benefits or death.
Continuous Contributing Membership	Continuous period of Service not exceeding 40 years during which a member contributed to the Scheme. For the purpose of calculating benefits, each complete consecutive period of 10 months of Service prior to 1 April 1992 counts as eleven months, subject to a maximum period of 40 years. Continuous Contributing Membership ceases with effect from Closure Date.
Retirement benefits	
Normal retirement	1/60th of Final Pensionable Salary per year of Continuous Contributing Membership. Members may commute part of this pension for a cash sum at retirement.
Ill health retirement	An immediate pension calculated as for normal retirement but based on Final Pensionable Salary at date of retirement and assuming Continuous Contributing Membership is extended to the Member's Normal Retirement Date, pro-rated by the proportion of the Member's potential pensionable service that fell prior to Closure Date.

Early retirement	At or after age 55 having completed two years' service, and with the consent of the Principal Employer, an immediate pension calculated as for normal retirement, based on service to date of leaving and Final Pensionable Salary at the same date, reduced for early payment. No such reduction is applied where Continuous Contributing Membership (including any period as a Closure Member) is 40 years.
Late retirement	The greater of (a) pension calculated as for normal retirement but based on service to, and salary at, date of leaving or (b) a pension equal to that payable had the member retired at NRD increased for each complete month of service completed after NRD.
Death after retirement benefits	
Lump sum	On death within five years after retirement, the balance of five years' pension is paid as a lump sum.
Spouse's pension	A pension calculated as a percentage of Final Pensionable Salary based on the member's Continuous Contributing Membership and potential pensionable service to NRD.
Child's pension	A pension calculated as a percentage of Final Pensionable Salary based on the member's Continuous Contributing Membership and potential pensionable service to NRD, payable to a maximum of three children.
Death in service benefits	
Lump sum	Nil
Spouse's pension	A pension calculated as a percentage of Final Pensionable Salary, based on the member's pensionable service prior to Closure Date and the member's Potential Service to NRD.
Child's pension	A pension calculated as a percentage of Final Pensionable Salary, based on the member's pensionable service prior to Closure Date and the member's Potential Service to NRD, payable to a maximum of three children.
Withdrawal benefits	
Two or more years' Pensionable Service	Deferred pension payable from NRD based on Continuous Contributing Membership to date of withdrawal. The deferred pension that a Closure Member is entitled to from NRD will not be any less than would have been the case if the member had withdrawn at Closure Date.

Pension increases	
Deferred pensions	In line with statutory requirements, with the exception of Closure Members who retain the linkage to the change in Final Pensionable Salary for the period that they remain a Closure Member. Closure Members are also subject to the underpin detailed under "withdrawal benefits" above.
Pensions in payment	Rules provide for an annual review with discretionary increases in line with inflation. Underpinning are guaranteed increases in line with statutory requirements

Contributions	
Member	Following the closure of the DB Section of the Scheme to future accrual no contributions are payable.
Employers	Following the closure of the DB Section of the Scheme to future accrual no ongoing contributions are payable. However, the Principal Employer meets the balance of cost of providing benefits and meeting administration expenses.

Discretionary benefits

No future discretionary benefits have been allowed for in the statutory estimate of solvency, other than our understanding of established practices in benefit calculations. The same approach has been adopted in the calculation of the technical provisions except that allowance has been made for discretionary pension increases.

Changes to the benefits

No changes have been made to the Scheme's benefits since the last valuation.

Uncertainty about the benefits

There are no material uncertainties about benefits that we are aware of as at the valuation date.

Membership data

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

Number of members

Number	31 December 2020			31 December 2017		
	Males	**Females**	**Total**	Males	Females	Total
Employed members	199	205	404	271	294	565
Deferred pensioners	380	530	910	435	583	1,018
Pensioners and Dependants	784	882	1,666	732	797	1,529
Total	1,363	1,617	2,980	1,438	1,674	3,112

Annual salary or pension

£000s	31 December 2020			31 December 2017		
	Males	**Females**	**Total**	Males	Females	Total
Pensionable salaries	11,123	8,818	19,941	14,592	11,294	25,886
Deferred pensions	2,202	2,524	4,726	2,631	2,563	5,194
Pensioners' and Dependants' pensions	15,881	8,395	24,276	14,313	7,021	21,334

Average ages

Years	31 December 2020			31 December 2017		
	Males	**Females**	**All**	Males	Females	All
Employed members	53.0	51.6	52.4	51.8	50.4	51.2
Deferred pensioners	52.2	51.6	51.8	51.5	49.8	50.7
Pensioners and Dependants	71.7	72.9	72.1	70.9	72.9	71.5

Notes on data tables:

- Figures in respect of pensioners and dependants include children
- Deferred pension amounts include revaluation to the valuation date.
- Average ages are weighted by amount

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 December 2020 show that the market value of the Scheme's assets was £1,352.3 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £5.5 million and assets in respect of DC section members that amounted to £208.9 million.

The change in the Scheme's assets (including AVCs and DC assets) from £1,238.7 million as at 31 December 2017 to £1,352.3 million as at 31 December 2020 is detailed in the Trustee's Report and Financial Statements over that period. The table below summarises a broad reconciliation of the change (including AVCs and DC benefits):

	£m	£m
Assets at 31 December 2017		**1,238.7**
Contributions paid:		70.4
- Principal Employer's normal contributions	63.9	
- Principal Employer's AVC contributions	3.9	
- Principal Employer's DC expenses contributions	2.0	
- Members' normal contributions	0.1	
- Members' AVC contributions	0.5	
Transfer values received from other funds		2.6
Benefits paid:		(115.4)
- Pension payments	68.6	
- Commutation lump sums	14.0	
- Transfer values paid to other funds	30.6	
- Lump sum death benefits and refund of contributions	1.9	
- Purchase of annuities	0.2	
- Tax on annual / lifetime allowance	0.1	
Administrative expenses		(3.9)
PPF levies		(0.2)
Other income		0.6
Changes in market value of investments and investment income		159.5
Assets at 31 December 2020		**1,352.3**

Investment strategy

The assets, including AVCs and DC assets, were invested as summarised below as at 31 December 2020 and 31 December 2017:

	Market value as at 31 December 2020		Market value as at 31 December 2017	
	£m	%	£m	%
UK Equities	190.9	14.1%	266.0	21.5%
Overseas Equities	311.9	23.1%	235.7	19.0%
Property	102.2	7.6%	91.3	7.4%
Corporate Bonds	386.1	28.5%	357.1	28.8%
Index-Linked Gilts	126.6	9.4%	108.4	8.8%
Cash / AVCs	25.7	1.9%	47.1	3.8%
DC Assets	208.9	15.4%	133.1	10.7%
Total	1,352.3	100.0%	1,238.7	100.0%

Strategic asset allocation

Since October 2012 the Trustee has had a Scheme-specific strategic investment policy in the form of a dynamic benchmark (with an accompanying allowable investment range derived from the dynamic benchmark), which is updated on a quarterly basis. The above asset allocation as at 31 December 2020 broadly reflects the dynamic benchmark applicable at that date.

Statistory Certificate

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

Name of scheme: **The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2020 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 24 March 2022.

Martin Faulkner

Martin Faulkner
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
24 March 2022

Floor 2, The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

Section 179 Valuation Certificate

Scheme /Section details:

Full name of Scheme:	The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited
Name of Section, if applicable:	
Pension Scheme Registration Number:	10006102

Address of Scheme (or Section, where appropriate):

The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited, Tiddington Road, Stratford Upon Avon, Warwickshire, CV37 7BJ

Section 179 valuation

Effective date of this valuation (dd/mm/yyyy)	31/12/2020

Guidance and assumptions

Section 179 guidance used for this valuation	G8
Section 179 assumptions used for this valuation	A9

Assets

Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£ 1,137,847,000
Date of relevant accounts (dd/mm/yyyy)	31/12/2020
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	0.0%

Liabilities

Please show liabilities for:

Active members (*excluding expenses)*	£ 0
Deferred members (*excluding expenses)*	£ 518,015,000
Pensioner members (*excluding expenses)*	£ 485,129,000
Estimated expenses of winding up	£ 11,531,000
Estimated expenses of benefit installation/payment	£ 2,446,000
External liabilities	£ 0
Total protected liabilities (including external liabilities)	£ 1,017,121,000

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:

Active members	0.0%
Deferred members	0.0%
Pensioner members	0.0%

Proportion of liabilities

Please show the percentage 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	0.0%	0.0%	0.0%
Deferred members	14.3%	56.1%	29.6%

	Before 6 April 1997	After 5 April 1997
Pensioner members	52.5%	47.5%

Number of members and average ages

For each member type, please show the number of members and the average age (weighted by 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	1,314	51
Pensioner members	1,666	68

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.

I have taken account of the 'Information note to assist schemes preparing to submit s179 valuations and certify Deficit-Reduction Contributions (DRCs)' published by the Board of the Pension Protection Fund in December 2019. This states that, where a s179 valuation includes an interim allowance for GMP equalisation, such allowance (and such allowance only) may be calculated using a best estimate basis rather than applying the principle of prudence.

Signature	Martin Faulkner	Date	24 March 2022
Name	Martin Faulkner		
Qualification	Fellow of the Institute and Faculty of Actuaries	Employer	Towers Watson Limited, a Willis Towers Watson Company

As required, under Part 6 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 as part of the annual scheme return via the Pension Regulator's system "Exchange".

This certificate should not be sent directly to the Pension Protection Fund.

Supplementary information for PPF certification

Scope

The purpose of this certificate is to provide the Trustee with the Section 179 valuation required by the Board of the PPF so that it can determine the levy payable by the Scheme. The work is subject to and complies with the Financial Reporting Council's Technical Actuarial Standard TAS 100.

All eligible schemes (as defined by Section 126 of the Pensions Act 2004) are required to complete a Section 179 valuation every three years, and submit the results to the Pensions Regulator within 15 months of the valuation date. The last Section 179 valuation submitted had an effective date of 31 December 2017, and the next valuation will need to be carried out with an effective date no more than three years after 31 December 2020.

Information sources

I have been provided with a copy of the latest audited Trustee Report and Financial Statements for the year ended 31 December 2020. In accordance with Section 179(6) of the Pensions Act 2004, the figure to be submitted to the PPF should exclude any assets in respect of money purchase benefits, including additional voluntary contributions (AVCs) and DC assets which are used to provide benefits wholly on a money purchase basis. The Scheme's AVC assets and DC assets amounted to £5.473 million and £208.936 million respectively at that date. The total asset value to be submitted is therefore £1,137.847 million.

I have based my calculations for this certificate on the data supplied for the Technical Provisions calculations and I would draw your attention to the comments on membership data earlier in this report.

Methodology

The assumptions and methodology used in my calculations are based on my understanding of Section 179 of the Pensions Act 2004 and associated regulations together with material published by the Pension Protection Fund. In particular I have used "Guidance for undertaking the valuation in accordance with Section 179 of the Pensions Act 2004 – version G8" dated April 2018 and "Guidance on assumptions to use when undertaking a valuation in accordance with Section 179 of the Pensions Act 2004 – version A9" dated November 2018.

Approximations made

Approximations may be made in calculating the PPF liabilities which do not prevent the Section 179 certificate being granted, as long as, in the opinion of the actuary, the liabilities are unlikely to have been understated. Other things remaining the same, any overstatement will result in a higher levy.

Beaton judgment

The Beaton judgment relates to members who transferred in and were given a fixed pension credit where PPF compensation should be calculated separately in relation to this entitlement. We understand that there are no members for whom additional pension (rather than additional service) was granted in respect of transferred-in benefits, and therefore there is no allowance in this valuation to allow for the impact of the Beaton case on the protected liabilities.

Hampshire and Bauer judgments

In addition, in September 2019, the PPF issued guidance that no allowance should be made in Section 179 valuations as a result of the Hampshire judgment. The PPF has stated that this is its initial position and it will be reviewed as the PPF works through the impact of the judgment. The PPF has also stated that it believes the approach it is adopting to allow for Hampshire meets the requirements of the judgment in the Bauer case. As such no further allowance has been made in these calculations for the impact of Bauer. If such an allowance were to be made, it would be expected to increase the PPF liabilities.

In the case of this valuation, no further material approximations have been made in calculating the PPF liabilities.

Financial and statistical assumptions

The effective date of the Section 179 valuation is 31 December 2020 and the calculations are based on financial conditions at that date. The assumptions adopted are prescribed by the PPF Board and are summarised below.

	% per annum
Net yield in deferment	
- compensation increasing in deferment and accrued prior to 6 April 2009	-2.67%
- compensation increasing in deferment and accrued after 5 April 2009	-1.96%
Net yield in payment – compensation with no increases in payment	
- Non-pensioners	0.50%
- Pensioners	0.54%
Net yield in payment – compensation increasing in payment	
- Non-pensioners	-1.90%
- Pensioners	-1.26%

Mortality rates (specified in the guidance) are in line with the tables S2PMA (for males) and S2PFA (for females) applying for each individual's year of birth, in each case with the CMI 2016 improvement rates with a long term trend rate of 1.5% for males and 1.25% for females applying to the annual improvements, all improvements applying from the year 2007. Other statistical assumptions are also in accordance with the published guidance.

As the Scheme makes provision for pensions to be paid to survivors other than just legal spouses or civil partners, the proportion of members whose death would give rise to a survivor's pension is (in accordance with the PPF's guidance) assumed to be consistent with 85% for males and 75% for females at normal pension age.

Benefits valued

The benefits valued for the purpose of this valuation are those provided by the Scheme under the Trust Deed and Rules subject to the adjustments applied for the purposes of preparing a Section 179 valuation. The key adjustments are summarised below:

- The benefits for active members are those leaving service benefits that would have been paid from the Scheme's normal pension age (NPA) assuming pensionable service had terminated at 31 December 2020. For this purpose, normal pension age is determined as prescribed in paragraph 34 of Schedule 7 to the Pensions Act 2004, and is essentially the earliest age from which benefits are payable without reduction. At this valuation, the NPA applicable to the largest proportion of pre-6 April

wtw

1997 liabilities was 60 and the NPA applicable to the largest proportion of post-5 April 1997 liabilities was 60; currently, these NPAs need to be entered on the Exchange system at or before the next annual Scheme Return.

- Pensions attributable to service before 6 April 1997 are assumed to receive no further increases in payment.
- Pensions attributable to service after 5 April 1997 are assumed to increase each year in line with price inflation subject to an upper limit of 2.5%.
- The future revaluation rates applying to deferred benefits are implicitly assumed to be in line with price inflation up to 5% pa for service up to 5 April 2009 and 2.5% pa for service thereafter. Revaluation from date of leaving to the effective date of the Section 179 valuation is assumed to be in line with the provisions of the Scheme.
- Benefits attributable to members who have not yet reached normal pension age and who have not retired on ill-health grounds, are restricted to 90% of the lower of their accrued benefits and the compensation cap (normally £41,461 pa for valuation dates from 1 April 2020 to 31 March 2021 at age 65, and lower at younger ages). The Department for Work and Pensions has announced that the compensation cap will remain at the same level until further announcement. For the purpose of the Section 179 valuation, the compensation cap is implicitly assumed to increase in line with the average revaluation rate in deferment.
- The contingent spouses' benefit on death in retirement is based on 50% of the pension in payment (restricted by the compensation cap and the 90% limit, where appropriate) rather than the level that would be provided under the provisions of the Scheme. The benefit on death before retirement is 50% of 90% of the lower of the member's accrued pension and the compensation cap at the date of the member's death rather than the level that would be provided under the provisions of the Scheme.
- Pre-retirement lump sum death benefits (including refunds of contributions) are not valued.

I am not aware of any external liabilities of the Scheme.

Money purchase benefits, insured benefits and other adjustments to the assets

Liabilities (and corresponding assets) in respect of AVCs and other benefits provided on a wholly money purchase basis are ignored.

I am not aware of any of the following items and therefore no adjustment to the assets has been made in respect of these items:

- any partially completed transfers to or from the Scheme;
- any amounts treated as a debt due to the trustees or managers under Section 75 of the Pensions Act 1995 (deficiencies in the assets);
- any amounts treated as debt under Section 228(3) of the Act (failure to make payments);
- any resources invested (or treated as invested) in contravention of Section 40 of the Pensions Act 1995 (restriction on employer-related investments); and

- any amounts treated as a debt due to the trustees or managers which are unlikely to be recouped without disproportionate cost or unlikely to be recovered within a reasonable time.

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 Scheme'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 trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme 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 Scheme 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 Scheme. 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 Scheme, 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 Scheme. 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 a scheme 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 Scheme.

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 Scheme'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 Scheme (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 Scheme'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 Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. 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.