



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

## Actuarial report as at 31 December 2022

4 April 2023

### Purpose

This is the actuarial report in respect of the Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited (the “Scheme”) as at 31 December 2022 and I have prepared it for the Trustee of the Scheme (the “Trustee”). As noted in the limitations section of this report, others may not rely on it.

The actuarial report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Society within seven days of its receipt.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the latest actuarial valuation and any subsequent actuarial reports. It should be considered in conjunction with my report on the actuarial valuation at 31 December 2020, the subsequent actuarial report as at 31 December 2021 and our accompanying note on the background to this report, which form component communications for the purposes of this funding update.

### Summary of results

I estimate that the technical provisions funding level as at 31 December 2022 has increased to 122% over the year.



This increase is principally due to a significant increase in nominal gilt yields offset by investment returns being lower than assumed in the discount rate over the year and, to a lesser extent, by higher than expected inflation and benefit increase experience over the year, a slight increase in market expectations of future inflation, and an increase in the commutation terms in force.

Details of the assumptions and approach used to produce this update are set out in the appendices. Further details on the assumption derivation can be found in our accompanying note to this report.

## Next steps

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

The financial position of the Scheme and the level of Society contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 December 2023 and which must be completed by 31 March 2025.

Martin Faulkner

**Martin Faulkner**  
**Fellow of the Institute and**  
**Faculty of Actuaries**

**4 April 2023**

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## Appendix 1: 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 method and assumptions for calculating the technical provisions as at 31 December 2020 were agreed between the Trustee and Society and documented in the Statement of Funding Principles dated 24 March 2022. The table below summarises the main financial assumptions used to estimate the Scheme's technical provisions for this actuarial report, the previous actuarial report and the latest actuarial valuation.

Financial assumptions	31 December 2022 % pa	31 December 2021 % pa	31 December 2020 % pa
Discount rate	<b>Gilt curve + 85bps moving to gilt curve + 70 bps in 5 steps over 5 years</b>	<b>Gilt curve + 88bps moving to gilt curve + 70 bps in 6 steps over 6 years</b>	<b>Gilt curve + 91bps moving to gilt curve + 70 bps in 7 steps over 7 years</b>
RPI price Inflation	<b>Gilt-implied break-even inflation curve</b>		
CPI price Inflation			
Salary increases	<b>RPI curve – 1.0% up to 2030; RPI curve after 2030</b>		
Deferred pension revaluation	<b>RPI curve + 1.5%</b>		
- Revaluation (CPI)	<b>CPI curve with relevant cap and floor applied</b>		
- Revaluation (Avon Harvest)			
Pension increases in payment	<b>RPI Curve + 1.75%</b>		
- Discretionary / RPI (0,2.5)	<b>RPI curve with relevant cap and floor applied</b>		
- RPI (0,5)			

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Scheme's technical provisions at 31 December 2020, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 December 2020, as set out in the Scheme's Statement of Funding Principles dated 24 March 2022.

However, if the Trustee and Society were to consider all the assumptions in detail as part of a formal valuation process it is likely that some of these assumptions would change - for example, this report makes no allowance for any updates to the mortality assumptions that the Trustee and Society might choose to make as part of a detailed review of assumptions as a result of COVID-19 and the latest available CMI mortality improvement tables.

The assumptions underlying the technical provisions continue to make allowance for future discretionary pension increases to be paid on benefits earned prior to 6 April 1997 in line with RPI up to a maximum of 2.5% pa as set out above.

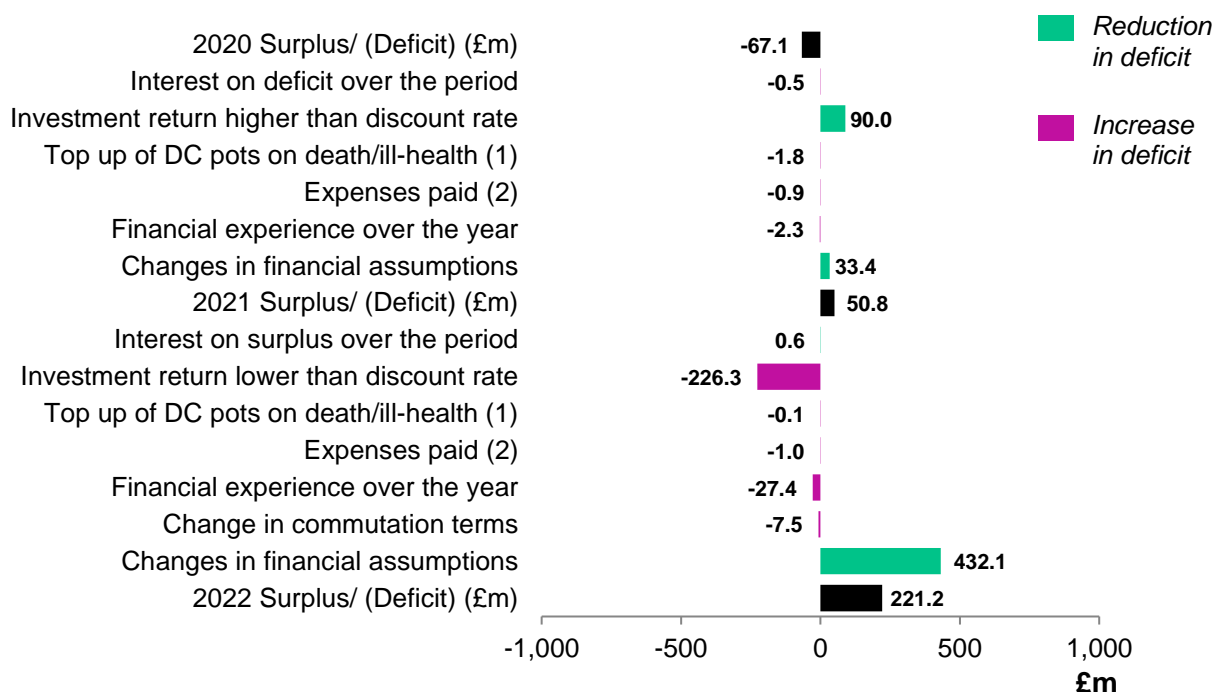
The table overleaf compares the estimated technical provisions as at the effective date of this actuarial report with the market value of the Scheme's assets and the corresponding figures from the previous actuarial report and latest actuarial valuation:

Valuation statement	31 December 2022 £m	31 December 2021 £m	31 December 2020 £m
Amount required to provide for the Scheme's liabilities in respect of:			
Defined benefits (excluding expenses)	720.2	1,130.3	1,187.2
Expenses	10.8	17.0	17.8
AVCs and other money purchase benefits	260.5	265.8	214.4
Technical provisions	991.5	1,413.1	1,419.4
Market value of assets	1,212.7	1,463.9	1,352.3
Past service surplus/(deficit) (assets less technical provisions)	221.2	50.8	(67.1)
Funding level (assets ÷ technical provisions)	122%	104%	95%

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. Furthermore, as detailed in the Recovery Plan dated 24 March 2022, whilst there was a deficit at the latest actuarial valuation date the Trustee and Society agreed as part of the 31 December 2020 valuation that no deficit reduction contributions would be paid by the Society. This is subject to review at future valuations.

### Developments since the latest valuation

Whilst the overall Scheme funding level is estimated to have increased to 122% from 95% at the previous valuation, the coverage for DB section liabilities has increased to approximately 130% (surplus of £221.2m) from around 94.5% (deficit of £67.1m) over the same period. The main factors contributing to the change from a deficit to a surplus, for each year since the previous valuation, are:



(1) This is in respect of an enhancement to the DC fund values of some DC members who either died or took ill-health retirement, the cost of which was met by the Scheme.

(2) The expenses shown are in respect of Defined Benefit expenses only. Defined Contributions expenses are met directly by Society contributions and therefore the net impact on the Scheme's funding position is zero.

## Appendix 2: Data, calculation approach and limitations

### Cashflow data

Cashflow data for the year to 31 December 2022 was provided by the Scheme's Administrators (THPA) and the Society.

### Asset information

The provisional (unaudited) investment information as at 31 December 2022 provided to us by the Scheme's Administrators (THPA) and the NFUM Pensions Team shows that the market value of the Scheme's assets was £1,212.7 million. This includes assets relating to the Defined Contribution section membership and Additional Voluntary Contributions (AVCs) which together amounted to £260.5 million.

### Calculation approach

In preparing an estimate of the updated financial position of the Scheme I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 31 December 2022 using approximate methods based on the data provided to us for the purposes of the 31 December 2020 actuarial valuation, the 31 December 2021 actuarial report and the cashflow data noted above.

The approach taken to calculate the estimated position will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonable indication of how the funding position might have moved.

### Compliance

This report and the work involved in preparing it are within the scope of and comply with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) published by the Financial Reporting Council. However, as this report has been produced solely to meet a legislative requirement and no decisions are expected to be taken on the basis of the information set out in it, I have taken a proportionate approach when considering and applying the requirements contained within TAS 100 and TAS 300.

### General limitations

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.

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 Society 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 report and takes no account of developments after that date except where explicitly stated otherwise. 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.