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Scheme Actuary

Scheme funding update – final salary sections

Every three years the Trustee board run a formal review of the scheme's funding position to check whether contributions are at the right level and whether there is enough money to pay benefits as they fall due. We always run this at the end of the scheme year – 30 June – and follow it up every year with a less detailed review. The last formal review was undertaken in 2019 – the summary below also shows the updated position as at 30 June 2020 and how this compares with recent years:

ZPensionBuilder	30 June 2018 £ million	30 June 2019 £ million	30 June 2020 £ million
Assets (excluding AVCs/APCs)	6,548	6,849	7,600
Amount needed to provide benefits	7,177	7,666	8,460
(Shortfall)	(629)	(817)	(860)
Funding level excluding Scottish Limited Partnership (SLP)	91%	89%	90%
Asset backed contribution (SLP)	845	880	867
(Shortfall)/surplus including SLP	216	63	7
Funding level including SLP	103%	101%	100%

ESExec	30 June 2018 £ million	30 June 2019 £ million	30 June 2020 £ million
Assets (excluding AVCs/APCs)	195.8	199.4	210.5
Amount needed to provide benefits	186.2	181.5	184.8
(Shortfall)	9.6	17.9	25.7
Funding level	105%	110%	114%

Although it is important to remember that the figures shown at 30 June 2020 are not calculated with the same rigour that applies to the triennial Actuarial Valuation, the results have been generated by the Actuary on an appropriate basis and in accordance with the requirements of the Pensions Regulator. The main reason for the change in the funding position of the ZPen section of the scheme between 2019 and 2020 has been a reduction in government bond yields, which increases the value placed on the liabilities. This has been offset to a large extent by higher than assumed returns on the scheme's assets. Whilst market conditions up to 30 June 2020 and then onwards include significant financial market and wider uncertainty due to the COVID pandemic and other issues, the Scheme Actuary still believes the assumptions and methodology used remain appropriate for the purposes of the actuarial report.

If a new full actuarial valuation were to be undertaken as at 30 June 2020 or as at the date of signing of the actuarial report, it should not be assumed that the same methodology would be used as there are various events that have occurred between 30 June 2019 and the date of signing the report that would be likely to lead to a review of the approach and the agreement of a revised Statement of Funding Principles

The SLP arrangement involves loans guaranteed by Zurich Insurance Company in Switzerland and should generate an annual income stream for the ZPen section of the Scheme of £60 million until 2038 (or earlier if certain funding conditions are met or if certain prescribed events occur).

What happens if the scheme winds up?

Pension regulations require us to tell members what would happen if the scheme were to wind up. Our scheme is supported by a strong company but if the scheme were to wind up the law requires the principal and participating employers to make sure that there is enough money in the scheme to enable the Trustee to secure members' benefits with an insurance policy.

There is a safety net set up to protect pension schemes where employers go out of business. First of all the company itself has to try and pay the amount needed to top up the funds required to secure the benefits. If the company was insolvent and could not pay this debt, the government's Pension Protection Fund (PPF) might be able to take over the scheme and pay compensation to members.

As part of the 2019 valuation, our actuary estimated that, if the scheme had wound up at 30 June 2019, there would still be enough money to secure 68% of members' benefits in ZPen and 98% in the ES Exec section. You can get the full picture by logging onto the Trustees' secure website www.zpen.info where you will be able to read the full valuation report.

Payments to the company

The company settles all administration costs and invoices as the Trustees' agent and the Trustee reimburses the company accordingly. No other payments have been made to the company out of scheme funds over the last year. The scheme is not subject to any directions by the Pensions Regulator.