

# Pace Complete **Members' Report**

Summer 2016

The **co-operative** bank



# Welcome

## Welcome to the Pace Complete Members' Report.

This report provides a summary of the Pace Complete accounts over the year to 5 April 2015. It also includes a summary of how the assets of Pace Complete are invested (page 6) and the latest funding update from the actuary (pages 8-11).

The 2015 funding update showed that Pace Complete had a funding level of 97%, compared to the 99% recorded in 2014. Although members no longer pay contributions into Pace Complete, the Bank and other employers participating in Pace, including the Co-operative Group, (the employers), will continue to make payments to address the funding shortfall.

The next report will be sent to you when the next funding update on Pace Complete is available towards the end of 2017. In the meantime, the Pace Complete accounts over the year to 5 April 2016 will be available on the Bank's pensions website, [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank), from November 2016.

With best regards

**The Trustees of Pace**



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## Help for visually impaired members

A large print version of this report is available on the Bank's pensions website:

[www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank).



# Our accounts

**Between 2014 and 2015, Pace Complete increased in value by almost £2 billion. As at 5 April 2015, it was worth £9.6 billion and remains one of the UK's largest workplace pension schemes.**

The Trustees produce formal accounts, which are audited by Deloitte, an independent company. Deloitte has confirmed that the 2014/15 accounts give an accurate picture of the money paid into and out of Pace during the financial year to 5 April 2015. You can see a full copy of the accounts at: [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)

<b>Value of Pace Complete as at 6 April 2014</b>	<b>£7,812m</b>
<b>Plus income</b> (including contributions from the employers and members of £144m and investment income of £224m)	<b>£369m</b>
<b>Less expenditure</b> (including pensions and other benefits of £261m)	<b>(£287m)</b>
<b>Change in market value</b> (an increase in the value of the assets during the year)	<b>£1,778m</b>
<b>Value of Pace Complete as at 5 April 2015</b>	<b>£9,672m</b>

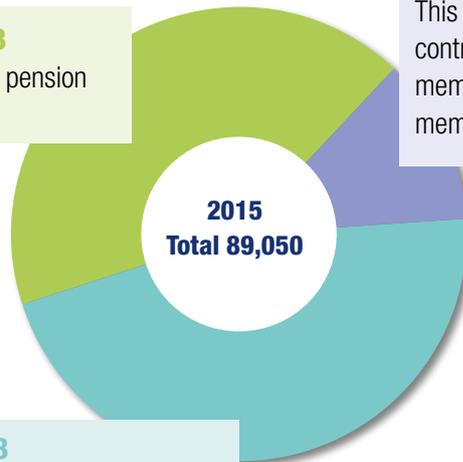


# Who's in Pace Complete?

**As at 5 April 2015, Pace Complete had over 89,000 members.**

## **Pensioner members 37,268**

These members are receiving a pension from Pace Complete.



## **Deferred members 41,073**

These members haven't yet started to receive their pension but have a pension in Pace Complete.

## **Contributing members 10,709**

This figure includes 2,294 Bank employees who were still contributing to Pace Complete as at 5 April 2015. The 2016 members' report won't have 'contributing members' in the membership chart as Pace Complete is now closed.

## **Controls**

The Trustees looked at the controls in place to manage risks and make sure members receive a high quality service. Deloitte also checks the controls as part of the annual audit.

# Our investments

**The Trustees monitor how the money in Pace Complete is invested on a regular basis. The way the money is invested means that Pace Complete can pay out all the pensions that have been promised to members.**

## Investment performance

Over the year to 5 April 2015, the overall value of assets in Pace Complete increased to £9,672m. This included investment growth of 26% which was better than the target set by the Trustees of 24%.

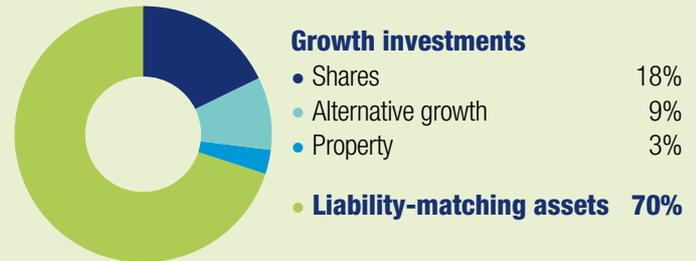
Over the three-year period to 5 April 2015, Pace Complete's investments grew by 15.3% a year, which was better than the target of 13.1% a year.

## Investment strategy

In the second half of 2014, the Trustees changed the investment strategy so that 30% of Pace Complete is invested in 'growth' investments (such as company shares and property). The remaining 70% is invested in 'liability-matching' investments, including bonds, gilts and assets designed to grow in the same way as the amounts Pace Complete pays out in benefits.

The new investment strategy is expected to produce lower overall returns than the old strategy, but with a lower chance of the funding level reducing.

## Target investment split – April 2015



You can download a copy of the updated Statement of Investment Principles (SIP), which describes the investment strategy, from [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)

# Changes to **State pensions**

Your Pace Complete pension is paid on top of any State pension you may receive. From 6 April 2016, anyone reaching State pension age will receive the new State pension. The new State pension replaces the basic State pension and additional State pension (S2P/SERPS). The new State pension is an individual benefit, so spouses will not be able to inherit State pension from their partner's National Insurance record.

**6 April 2016**

If you reached State pension age before this date, the maximum weekly basic State pension amount is

**£119.30**

After this date, the maximum weekly amount of State pension is

**£155.65**



reduced for the period you were in Pace Complete or another scheme which was contracted out of the additional State pension.

To get the full State pension, you need to have paid National Insurance (NI) for 35 years.

That's an increase of 5 years.

To get any State pension, you need at least 10 years of NI payments.

## **Important changes to GMP for members reaching State pension age after 5 April 2016**

If you were a member of one of the Co-op's Former Group, CIS or Bank Schemes between 6 April 1978 and 5 April 1997, part of your pension may represent your Guaranteed Minimum Pension or 'GMP'. Once this GMP comes into payment, the increases applied to that part of your pension are different to the increases applied to the other parts of your pension. Pace Complete pays increases in line with Consumer Price Inflation (CPI) up to a maximum of 3% on any GMP earned after 6 April 1988 (and this is not changing).

Under the old State pension system, the Government paid increases on GMP earned before 6 April 1988 and topped up increases on GMP earned after 6 April 1988. The new State pension will no longer provide increases on your GMP. However, the loss of these increases may be balanced out by the new State pension. Members who reached State pension age before 6 April 2016 are not affected by this change.

More information about the new State pension can be found here: [www.gov.uk/new-state-pension](http://www.gov.uk/new-state-pension)

# Funding update

**Every three years the actuary, an adviser to the Trustees, looks at Pace Complete's finances. This is called a valuation.**

The valuation calculations, and discussions with the employers on how to address any shortfall, can take around 15 months to complete. The actuary also carries out less detailed but more regular 'annual check-ups' on Pace Complete.

The estimated cost of providing the benefits built up in Pace Complete to date is known as the 'liabilities'.

The money paid into Pace Complete by members and the employers is invested so that it will grow and can provide members' benefits as they become payable. The money is held in a communal fund, not separate funds for each individual (with the exception of members' Additional Voluntary Contributions). The amount of money invested is known as the 'assets'.

The actuary compares the value of Pace Complete's liabilities to its assets. If Pace Complete has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities it is said to have a 'surplus'.

Both the valuation and the annual check-ups look at the position of Pace Complete on a particular day – in our case, 5 April.

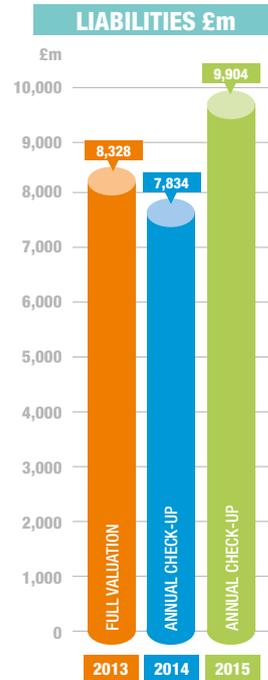
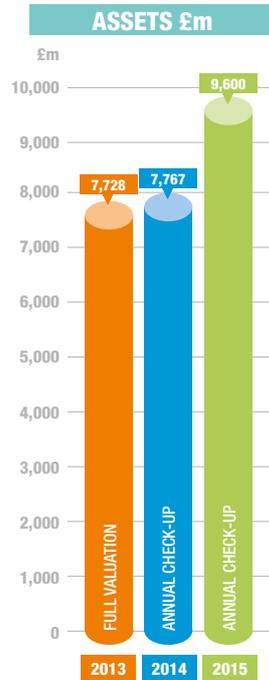
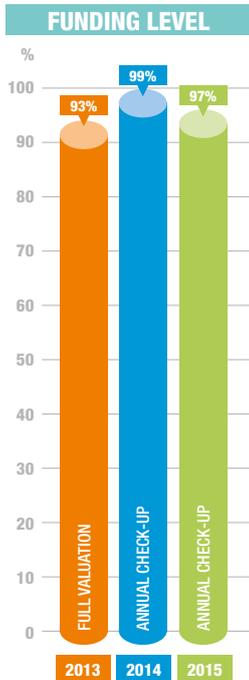
Pensions are not all paid out on one day but over a very long period of time. A shortfall does not mean that Pace Complete won't be able to pay members' benefits.

The Trustees and the employers are working together to remove the shortfall and to reduce the risk of the shortfall increasing significantly, for example, by changing the investment strategy so that the shortfall is less likely to change suddenly and unexpectedly.

The next valuation of Pace Complete at 5 April 2016 is under way and the results will be sent to you towards the end of 2017. In the meantime, this report includes the details of the last valuation in 2013 and the annual check-ups in 2014 and 2015.



# What did the 2013 valuation and 2014 and 2015 annual check-ups show?



The 2015 value of the assets does not include members' additional voluntary contributions, which are not taken into account when valuing Pace Complete. There was also a positive adjustment to the valuation of the invested assets of £23m after the valuation date. This is why the 2015 asset value shown here is different from that shown on pages 4 and 6.

# Funding update continued

## What has changed?

Between 2014 and 2015, the assets increased by £1,833m because of higher than expected investment growth. However, liabilities increased by over £2,070m, mainly as a result of interest building up on the liabilities and falling long-term interest rates, which increased the value placed on the liabilities. This meant that there was a fall in the funding level, from 99% to 97%. This is still higher than the funding level of 93% at the last full actuarial valuation – but please remember that the annual check-ups are estimates only.

## What is being done about the shortfall?

After each valuation, the Trustees and the employers discuss what contributions may be required from the employers to remove the shortfall.

Under the Recovery Plan agreed after the 2013 valuation, the employers pay £25m a year into Pace Complete (of which the Bank is paying a share) up to 30 June 2019 when the shortfall was expected to be removed. However, the actual funding level is

below the level we expected it to be at 5 April 2015. It is likely that the Trustees and the employers will need to agree a new Recovery Plan as part of the 2016 valuation.

## What are the Trustees doing to manage Pace Complete's funding level?

The Trustees have revised Pace Complete's investment strategy to help reduce the likelihood of large changes in the funding level. This includes investing in assets that grow in a similar way to the liabilities. The Trustees monitor the funding level and investment strategy regularly.

The Trustees rely on the employers for extra support if Pace Complete needs additional contributions. The Trustees monitor the Co-op's and the Bank's finances regularly to make sure they understand what support they could provide to Pace Complete.

## Payments to the employers

The Trustees must also tell you whether there have been any surplus payments to the employers out of Pace Complete in the last 12 months. Pace Complete does not currently have a surplus (see page 9) and no surplus payments have been made to the employers.

## Shortfall on winding up

As part of the valuation, the actuary also looks at the funding level if Pace Complete was wound up. Including this information does not mean that the employers or the Trustees are planning to wind up the Fund. The Trustees are required to give you this information.

If Pace Complete had wound up as at 5 April 2013, the actuary estimated that the Trustees would have had to pay an insurance company £10,417m to provide all the benefits in full. This would have left Pace Complete with a shortfall of around £2,689m, and a funding level of 74%. The Trustees aim to have enough money to pay pensions and other benefits to members as they fall due, rather than having to pay an insurance company to provide the benefits, which can be very expensive.

## Pension Protection Fund

The Pension Protection Fund (PPF) was set up in 2005 to compensate members of eligible UK pension schemes which are wound up when the employer is insolvent and the scheme does not have enough assets to cover members' benefits.

All eligible pension schemes are required to contribute to the PPF by paying a levy each year. Further information is available at: **[www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)**

## The Pensions Regulator

The Pensions Regulator regulates work-based pension schemes in the UK. Its aims include protecting members' benefits and promoting good scheme administration. You can find more details at: **[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)**

The Trustees need to tell you if the Regulator has used its powers in relation to Pace Complete over the last year, for example, by changing the way future benefits build up, or the way the funding target is worked out, or amending the employer contribution rate. The Regulator has not used its powers in relation to Pace Complete.

## Get in touch

Please remember to update your nomination form if your circumstances change, and tell us if you move house so we can keep in touch.

Email us

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Phone us

**0843 751 1700**

Find us online

**www.legalandgeneral.com/coopbank**

Write to us

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**Dept. 10406**

**Co-operative Group Limited**

**1 Angel Square**

**Manchester**

**M60 0AG**

**Please note: your Pace benefits are determined by and subject to the Pace Rules as amended from time to time (the Rules). If there is any conflict between any information in this members' annual report and the Rules, the Rules will be overriding and will determine the benefits you receive. You can request a copy of the Rules from the Pensions Department (contact details above).**

**Please note that the Co-op reserves the right to amend the future benefits provided under Pace from time to time and will notify members of any proposed changes.**



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