

December 2017

# Pace Complete **Members'** **Report**

The **co-operative** bank



# Welcome to your update from Pace Complete



Dear member

**On behalf of the Trustee Board,  
I'm very pleased to introduce  
your annual Members' Report  
for Pace Complete.**

It's been a busy time for Pace over the past year, and the Trustee continues to work hard on your behalf to ensure that the

Scheme is well run and your future benefits remain secure.

This Report includes summary accounts for the year to 5 April 2017 and an update on how the assets of Pace Complete are invested.

On pages 4 to 5, we also give an update on plans to create two sections within Pace following the announcement on 28 June 2017 about the Bank's capital-raising plans. This will ensure that the pension obligations of the Co-operative Group and the Bank are separate in the future.

These changes won't have any effect on the benefits you've built up in Pace.

The 2016 valuation has now been completed and we're pleased to confirm that the funding position of Pace has improved since the last valuation. Please see page 6.

We've taken steps to lower risk in our investment strategy, as part of our wider approach to risk management. We've also updated our Responsible Investment Policy to better align it with the views of the Trustee, Pace members and the Co-op, and the risks the Scheme faces. See page 10 for more details.

I hope you find this Members' Report useful.

**Harry Baines**

Chair of the Pace Trustee Board



## Don't forget that Pace Complete also provides death benefits.

Death benefits are payable from Pace, so it's important you keep your Nomination form up to date so the Trustee knows who you would like any death benefits to be paid to if you die. To obtain a copy of the Nomination form, go to [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)

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## Looking after your data

In May next year, the law on data protection will be changing. Under the new law, much will remain the same, but we'll be taking extra steps to protect member data. We'll also help you to understand more about what we do with it and what your rights are when requesting it. We will provide you with more information about these changes and what they mean for you on the pensions website, [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank), in advance of the changes happening.

# Important changes to Pace

**In September, the Co-operative Bank, one of the participating employers of Pace, confirmed that it had completed an exercise to raise capital in order to secure its long-term plans.**

Following detailed discussions between the Trustee, the Co-op and the Bank, it was agreed that there will be some important changes to Pace to ensure that the future pension obligations of the Bank and the Co-op are managed separately.

The Trustee has been very active in representing members' interests during these discussions, and we can confirm that the changes will not have any impact on the amount of benefits you've built up or on any pension that you're already receiving from Pace.

The changes mean that Pace will continue to operate as a single pension scheme, overseen by the same Trustee Board, however there will be two separate sections within it:

- A Co-op Section, with the Co-operative Group and other participating employers
- A Co-operative Bank Section, with the Co-operative Bank as the sole participating employer.

We anticipate that the two sections of Pace will be created by mid-2018 and we'll be in contact with you before then to let you know what this will mean for you. To bring this change about, the members of Pace will be allocated to either the Co-op Section or the Co-operative Bank Section and the Scheme assets will be split accordingly.



Members will move into one of the two sections based on their current employer or their employer when they left Pace. Members who were employed by a different employer when they left Pace (i.e. not one of the current employers, or where records are not available) will be allocated to one of the two sections.

Please note that we'll only be able to confirm which section of Pace you'll be a member of when the Trustee and its advisers have finalised the allocation for all members. We anticipate that this will be completed no earlier than mid-May 2018.

In the meantime, further information is available on the Pace website, including a Question and Answer document. Go to **[www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)** and follow the links to 'Bank Recapitalisation - Changes to Pace'.

**These changes will not affect your benefits and you don't need to take any action.**



# Funding **update**

## **Pace's funding has improved**

Every three years the actuary, an adviser to the Trustee, looks at Pace Complete's finances to undertake a formal valuation of the Scheme. The actuary also carries out less detailed 'annual check-ups' on Pace Complete.

## **Understanding the funding position**

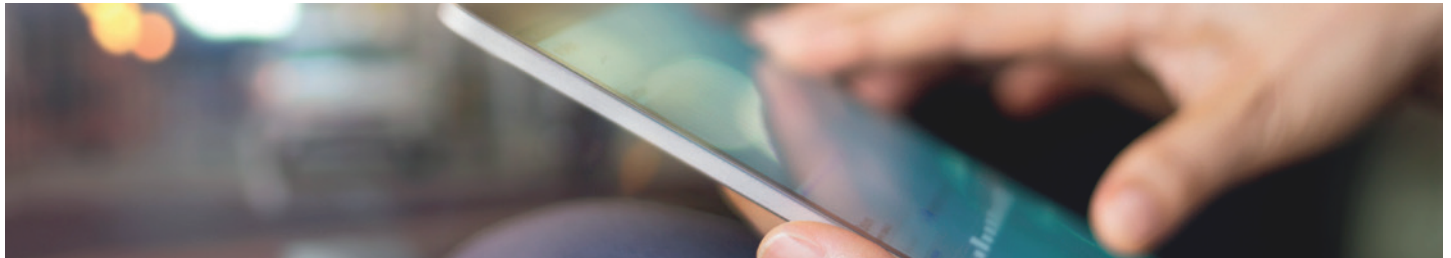
The estimated cost of providing the benefits built up in Pace Complete to date is known as the 'liabilities'.

The money paid into Pace Complete by members, the Co-op and the Bank 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 money invested is known as the 'assets'.

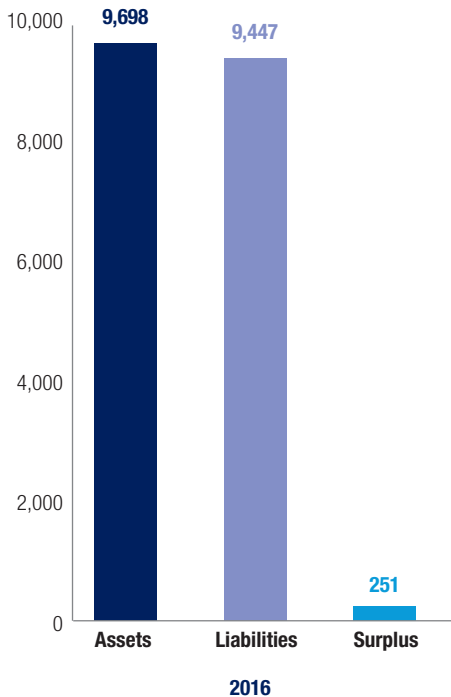
The actuary compares the value of Pace Complete's liabilities with its assets to work out the funding position. If Pace Complete has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities, it is said to have a 'surplus'.

Both the three-yearly valuation and the annual check-ups look at the position of Pace Complete on a particular day – in our case, 5 April. The most recent valuation of Pace Complete was carried out as at 5 April 2016 and the results are shown opposite.



## What was the funding position at 5 April 2016?

As at 5 April 2016, the value of Pace Complete's assets was £9,698m and the liabilities were valued at £9,447m, so there was a surplus of £251m. The funding level was therefore 103%, which means the assets were more than enough to cover the liabilities and Pace Complete is strongly funded.



## Funding update continued

### Why has the funding position improved since the 2015 annual check-up?

Between 5 April 2015 and 5 April 2016, the funding level increased from 97% to 103%. The reasons for this positive change are:

- Contributions paid by the Co-op and the Bank over the year
- Investment growth on the Scheme assets
- The latest available information about how long people are living.



### Will the Co-op and the Bank continue to pay contributions into Pace Complete, given that there is no shortfall?

Based on the actuary's calculations, the Trustee and the Co-op have agreed that no additional contributions are required at this time. The Co-op is committed to providing extra funding if needed and this position will be reassessed at the next valuation in April 2019. The Bank will continue to contribute into Pace Complete and contributions will continue as part of the agreement to create two separate sections in Pace during 2018 (see pages 4 to 5). Further information about each section, including how they will be funded, will be provided during 2018.

The 2017 funding update for Pace Complete, which will show Pace's funding position at 5 April 2017, will be available on the website at [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank) early in the new year.



## Payments to the Co-op

The Trustee must also tell you whether there have been any surplus payments to the Co-op out of Pace Complete in the last 12 months. We can confirm that no such payments have been made.

## 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 Co-op, or the Trustee is planning to wind up Pace Complete. The Trustee is required by law to give you this information.

If Pace Complete had wound up as at 5 April 2016, the actuary estimated that the Trustee would have had to pay an insurance company £12,076m to provide all the benefits in full. This would have left Pace Complete with a shortfall of around £2,378m, and a funding level of 80%. The Trustee aims 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, including Pace Complete, 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 Trustee needs 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.

# Our **investments**

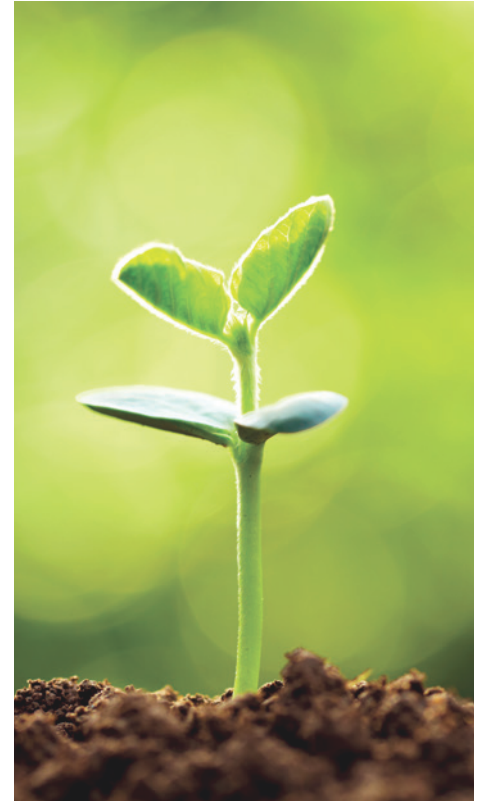
## **Risk in Pace Complete has been reduced**

### **At a glance**

The Trustee and the Co-op have been looking to manage the level of risk within Pace Complete over a number of years to improve the security of members' benefits and to move Pace towards being self-sufficient.

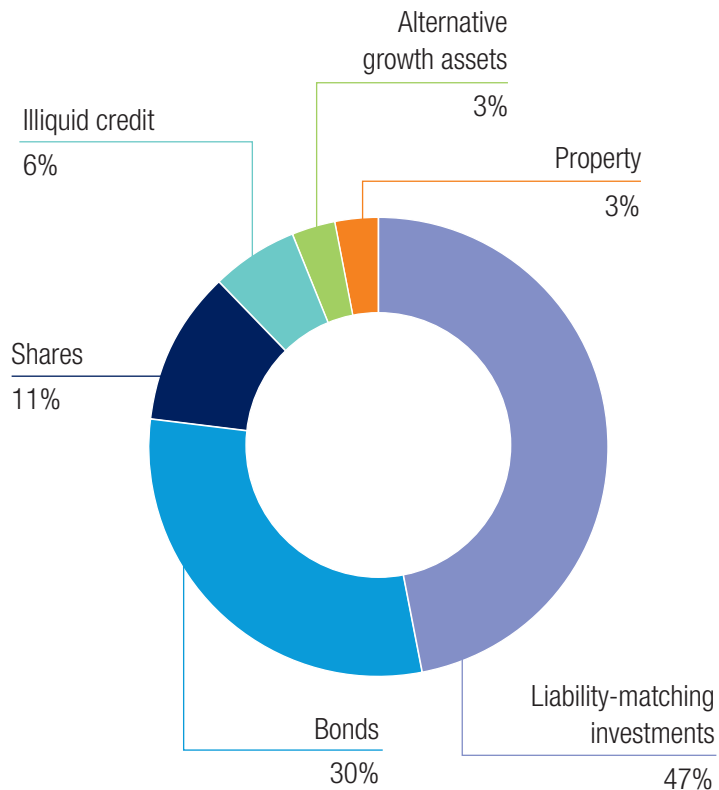
Part of this has involved moving from more risky assets (like company shares, also called equities) into safer assets that better match the Scheme's liabilities (like bonds), in order to reduce the risk that the Scheme's assets fall compared to its liabilities, requiring additional money from the Co-op.

As part of this, because Pace Complete is well funded, the Trustee and the Co-op recently agreed to reduce the Scheme's investments in company shares from approximately 11% of the Scheme's total assets to zero. This was completed in September 2017, and the charts opposite show Pace Complete's investments before and after this latest change.

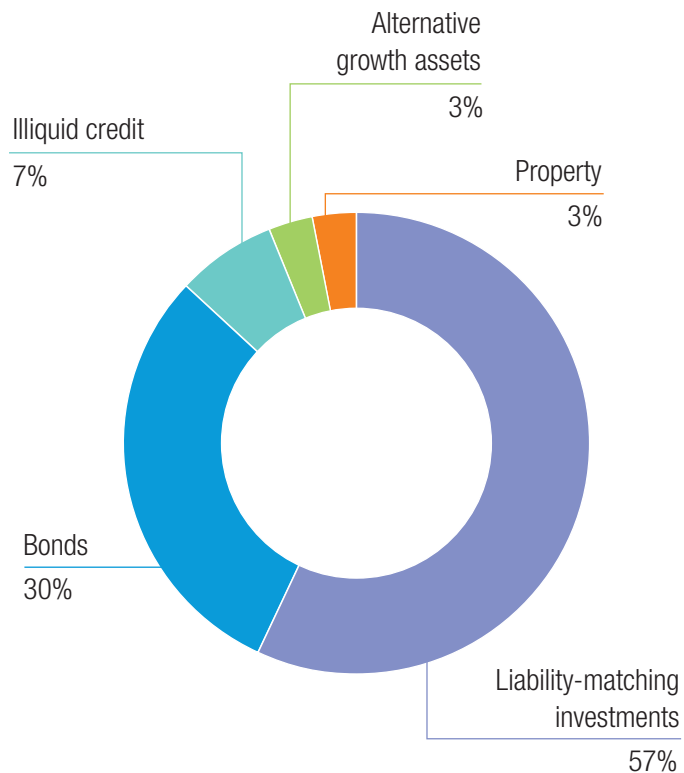


## Where were Pace Complete's assets invested during the year?

31 August 2017



30 September 2017 (after reducing risk)



# Our investments continued

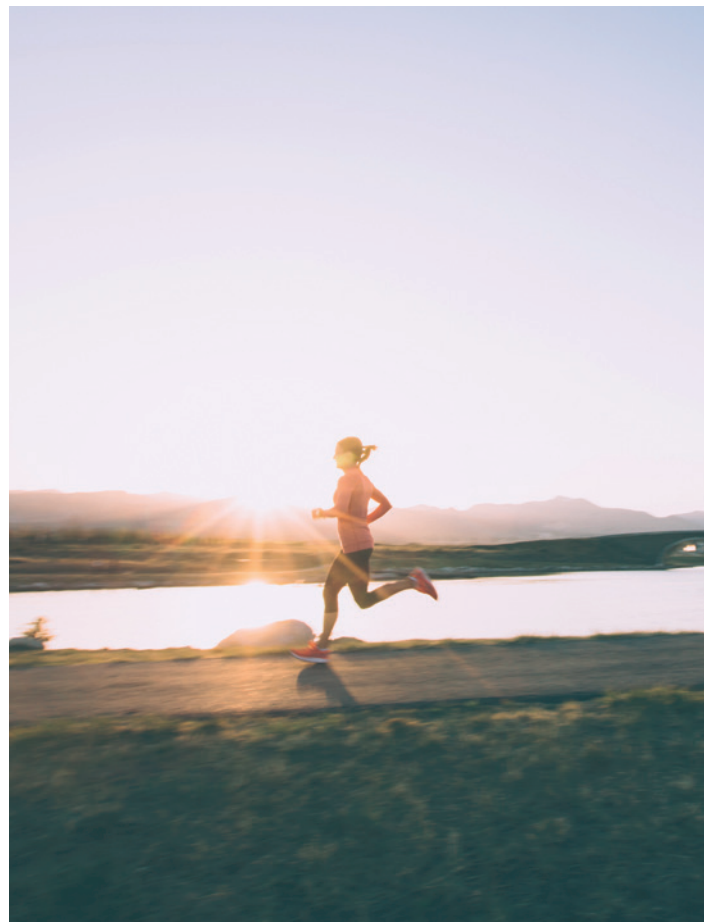
## Responsible investment

The Trustee takes its role as a large investor seriously and aims to invest responsibly. The Trustee has updated the Scheme's Responsible Investment Policy and put restrictions in place to minimise investment in:

- Governments with poor human rights records
- Companies that manufacture or sell controversial weapons
- Companies that are involved in mining or fossil fuel production where they have poor environmental records.

We also worked with our investment advisers to understand the Scheme's exposure to climate change risk. The analysis showed that the Scheme has a very low exposure to climate-related risks compared to most pension schemes. More detail is available on the website.

You can download a copy of the Scheme's Responsible Investment Policy and other key documents from [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)





# Our accounts

**Between 2016 and 2017, Pace Complete increased in value by almost £1.7 billion. As at 5 April 2017, it was worth £11.3 billion and remains one of the UK's largest workplace pension schemes.**

The Trustee produces formal accounts, which are audited by Deloitte, an independent company. Deloitte has confirmed that the 2016/17 accounts give an accurate picture of the money paid into and out of Pace during the financial year to 5 April 2017.

You can see a full copy of the accounts at [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)

## Controls

The Trustee 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.

<b>Value of Pace Complete as at 6 April 2016</b>	<b>£9,745m</b>
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### Changes in the year

<b>Plus income</b>	<b>+ £309m</b>
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(including contributions from the employers of £28m and investment income of £277m)

<b>Less expenditure</b>	<b>- (£465m)</b>
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(including member transfers of £206m and pensions and other benefits of £239m)

<b>Change in market value</b>	<b>+ £1,717m</b>
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(an increase in the value of the assets during the year)

<b>Value of Pace Complete as at 5 April 2017</b>	<b>£11,306m</b>
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# Who's in **Pace Complete**?

**As at 5 April 2017, Pace Complete had over 87,000 members.**

## Closure members

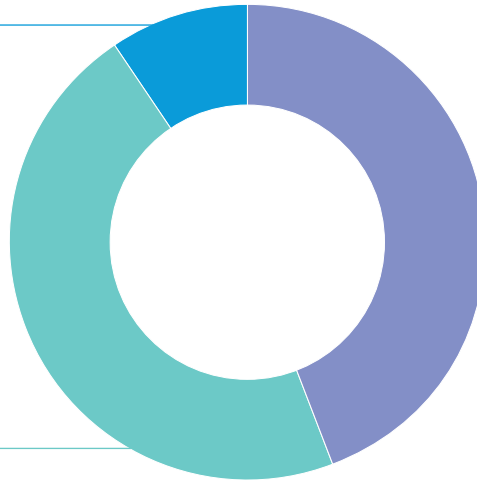
**8,140**

These members were paying contributions into Pace Complete before it closed in October 2015 and are now paying contributions to Pace DC. As at 5 April 2017, Pace DC had over 61,000 members.

## Deferred members

**40,505**

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



## Pensioner members

**38,848**

These members are receiving a pension from Pace Complete.

# Get in touch

**Email us:** [staffpensions@coop.co.uk](mailto:staffpensions@coop.co.uk)

**Phone us:** 0330 606 1000

**Find us online:** [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)

**Write to us:**

Pensions Department  
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' Report and the Rules, the Rules will be overriding and will determine the benefits you receive. You can download a copy of the Rules under the 'Docs & tools' section of [www.legalandgeneral.com/coopbank](http://www.legalandgeneral.com/coopbank)



## **Update your details**

It's important to let us know if you change your address so we can keep in touch. If you're still employed by the Co-op, your HR Department will automatically tell us when you update your address. If you're no longer employed by the Co-op or the Bank, you can call or write to the Pensions Department.

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.