



# Pace DB Members' Report

Autumn 2020

The **co-operative** bank

# Welcome

## to your update from the Bank Section of Pace DB

Dear member

Since the last Members' Report was sent in December 2017, quite a lot has happened.

In 2018 we created two ring-fenced sections within Pace which we refer to in this Report as 'sectionalisation'. This was so we could separate the pension commitments of the Co-operative Bank (the Bank) from the Co-operative Group (the Co-op), which are now completely separate businesses. The first valuation that looked separately at the position of the Bank Section and the Co-op Section has now been completed, so this Report provides the results (on pages 6-9) for the Bank Section. Co-op members will receive a separate Report with funding details for their Section.

Last year, the Co-op, following consultation with the Bank, made some changes to the way the Trustee Board is arranged, with the result that Pace is now managed by four independent Trustees. You can read about this on pages 4-5.

Of course, all of these activities have been rather overshadowed by the events of 2020 and the global coronavirus pandemic. During these challenging times, please be assured that Pace continues to be run in an orderly manner, with pensions paid on time throughout this period. Our priority has been to ensure the normal running of Pace and to focus on managing its investments through this crisis, with the help of our professional advisers. The article on page 18 provides an update on our activities during 2020.

This Report includes the usual summary accounts, looking at the year to 5 April 2020, and an update on how the assets of Pace DB are invested. We continue to keep a close eye on the scheme's investments at this unsettled time, but current indications are that the investment strategy is doing its job to protect the assets in Pace from the worst extremes of market volatility. You can read more about the investments on page 10.

**Chris Martin (Independent Trustee Services Limited)**  
**Chair of the Pace Trustee Board**

# Inside

Changes to Pace	4
Funding update	6
Our investments	10
Our accounts	13
Who's in Pace?	14
Pensions news	15
Managing your pension during a pandemic	18
Member online	19
Get in touch	20



# Changes to Pace

In September 2017, the process to separate Pace into two ring-fenced sections was set in motion, with the Co-operative Bank setting out to become a completely separate company from the Co-op.

Following a consultation with active members, the process was formally completed on 6 August 2018. Members were written to and told which section they were in.

Pace continues to operate as a single pension scheme, overseen by a Trustee Board. However, it is now made up of two sections:

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

During 2019, the way the Trustee Board is set up changed, and Pace is now managed by four professional independent Trustees.

The Trustees, who all have extensive experience in the pensions industry, work together to seek to protect the best interests of all Pace members. They hold regular meetings, which are usually face to face but are currently being held online due to the coronavirus pandemic. The Trustees also frequently discuss urgent matters outside of their meetings by conference call.

Your current Trustees are:

- Chris Martin, Independent Trustee Services (Chair)
- Stuart Benson
- Anne Kershaw
- Christopher Wheeler, BESTrustees (chosen by the Bank)



# Funding update

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

Both the three-yearly valuation and the annual check-ups look at the financial strength of Pace DB on a particular day – in our case, usually 5 April. In addition, the Trustees and actuary regularly monitor the financial strength of Pace DB.

However, a special valuation of Pace was also carried out as at 31 December 2017 (the sectionalisation valuation) to help us work out how much of Pace DB's assets and liabilities should be placed into the Bank Section and the Co-op Section, following the split into two ring-fenced sections (as explained on page 4). This funding update shows how the position as at 5 April 2019 for the Bank Section compares to its sectionalisation valuation results as at 31 December 2017 and also the latest annual check-up as at 5 April 2020.

## Understanding the funding position

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

The money paid into the Bank Section by the Bank and members (before it closed to future pension build-up) 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 Bank Section's 'assets'.

The actuary compares the value of the Bank Section's liabilities with its assets to work out the funding position. If the Bank Section 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'.

## What was the funding position at 5 April 2019 and 5 April 2020?

	31 December 2017 (sectionalisation valuation)	5 April 2019 (valuation)	5 April 2020 (annual check-up)
Assets*	£2,012 million	£1,980 million	£2,101 million
Liabilities	£2,055 million	£1,908 million	£2,027 million
Surplus/(Shortfall)	(£43 million)	£72 million	£74 million
Funding level	98 %	104 %	104 %

\* excluding Additional Voluntary Contributions (AVCs)



# Funding update continued

## Why has the funding position improved since the 2017 sectionalisation valuation?

Between 31 December 2017 and 5 April 2019, the funding level increased from 98 % to 104 %. The main reasons for this positive change are:

- Investment growth on the Bank Section's assets
- The extra contributions paid in by the Bank
- The latest available information about how long people are living.

Based on the actuary's calculations and given the strong funding position, the Trustees and the Bank have agreed that no further contributions are currently expected to be paid into the Bank Section.

Instead, contributions are being paid into an escrow account and would be payable to the Bank Section under certain circumstances (including the insolvency of the Bank) to protect members' benefits. This position will be reassessed at the next valuation in April 2022.

## How has the funding position changed as a result of the coronavirus pandemic?

The Trustees' adviser reported a drop in the funding level in February and March, following the start of the coronavirus pandemic. However, the Bank Section was protected to some extent from the highly volatile investment conditions, thanks to the de-risked investment strategy that was put in place by the Trustees. Part of this involved moving from more risky assets (like company shares, also called equities) into safer assets that better match the liabilities (like bonds). Doing this can help to reduce the risk that the Bank Section's assets fall compared to its liabilities.

The actuary carried out an annual funding check-up at 5 April 2020, which shows that the funding level had remained steady at 104 % and the Bank Section's surplus had actually increased by £2 million to £74 million.



### Payments to the Bank

The Trustees must also tell you whether there have been any surplus payments to the Bank out of the Bank Section since the last funding update was issued to members. They confirm that no such payments have been made.

### Bank guarantee

As part of the agreement to split Pace DB into two sections in 2018, the Bank agreed to provide contingent support for the Bank Section by pledging security which could be paid into the Bank Section in certain circumstances; as at 5 April 2020 the value of the security provided was around £191m. The Trustees continue to monitor the value and quality of these assets.

### Shortfall on winding up

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

If the Bank Section had wound up as at 5 April 2019, the actuary estimated that the Trustees would have had to pay an insurance company £2,224m to provide all the benefits in full. This would have left the Bank Section with a shortfall of

around £244m, and a funding level of 89 % (sectionalisation valuation 2017: 80 %). The Trustees and the Bank are continuously evolving their long-term funding and investment plans to ensure that all pensions and benefits continue to be paid when they are due (see pages 10-11).

### Pension Protection Fund (PPF)

The PPF ([www.ppf.co.uk](http://www.ppf.co.uk)) 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, are required to pay a levy to the PPF each year.

### 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 over the last year, for example, by changing the way future benefits build up, or the way the funding target is set, or amending the employer contribution rate. The Regulator has not used its powers in relation to Pace.

# Our investments

In 2017, the Trustees and their advisers implemented a de-risking strategy to reduce the level of risk within Pace DB, to improve the security of members' benefits and to move Pace towards being self-sufficient.

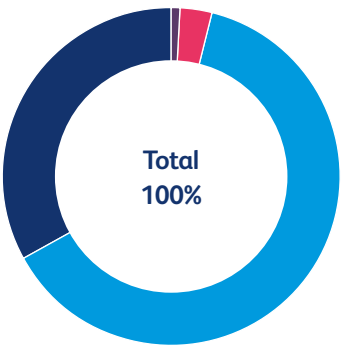
Being self-sufficient means that the Trustees can invest the Bank Section's assets very conservatively and still expect to pay members' benefits as they fall due, with a low probability of requiring further funding from the Bank.

The Bank Section has maintained this strategy, which involved moving from more risky assets (like company shares, also called equities) into safer assets that better match the scheme's liabilities (like bonds).

Now that the 2019 valuation has been completed, the Trustees and the Bank will review the investment strategy, to make sure it continues to work in the best interests of members.

## Where were the Bank Section's DB assets invested during the year?

This chart shows the Bank Section's investments as at 31 March 2020.



● Alternatives	1 %
● Asset-backed securities	3 %
● Liability driven investment & cash	63 %
● Investment grade credit	33 %

Over recent years, the Trustees' focus has been on working with the Co-op and the Bank to reduce risk within Pace's investments and improve the security of members' benefits. As part of this journey, the Trustees entered into an insurance policy with Pension Insurance Corporation plc (PIC) on 8 April 2020, worth £400 million. This investment covers pension payments due to some members of Pace for as long as Pace remains in existence, no matter what happens to the cost of providing pensions in the future. This was after the scheme year-end and so isn't included in the chart on page 10.

The Trustees remain responsible for paying pensions to all members, and the Bank remains committed to the Bank Section of Pace. The insurance contract is just part of our investments. It will provide improved security for all members as it reduces the risk of there being insufficient assets to meet future benefit payments.

If an opportunity arises in the future to enter into more of these insurance contracts with regulated insurers, this is something the Trustees would consider. They would look carefully at the benefits and costs of doing so at the time, with a view to strengthening member security. The Trustees may be in touch with you in the future to ask for further details to help them with these exercises.



# Our investments continued

## How the assets performed

Over the 12 months to 31 March 2020, the Bank Section assets grew by 7.2 %, thereby matching its benchmark return. (The benchmark is a target set by the Trustees.) Three-year returns aren't available yet for the Bank Section because not enough time has passed since the sectionalisation in 2018.

## Responsible investment

Pace takes its role as a large investor seriously and aims to invest responsibly. The Trustees have set a 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 and companies that are involved in mining or fossil fuel production where they have poor environmental records. You can download a copy of the Responsible Investment Policy from [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions)

## Statement of Investment Principles available online

New regulations have come into force over the year which introduced new requirements for pension schemes setting out the policies they need to explicitly include in their Statement of Investment Principles (SIP) – the document that governs the way the scheme's assets are invested. In particular, the SIP needs to set out the Trustees' policies on how they take account of Environmental, Social and Corporate Governance considerations when setting investment strategy, and how they engage with the companies they invest in. This year they have also published a statement on how Pace has complied with the policies in the SIP. These documents are available on the website at [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions)

# Our accounts

Between 2019 and 2020, the Bank Section increased in value by £121 million. As at 5 April 2020, it was worth over £2 billion.

The Trustees produce formal accounts, which are audited by Deloitte, an independent company. Deloitte has confirmed that the 2019/20 accounts have been correctly prepared in line with the appropriate accounting standard.

You can see a full copy of the 2019/20 accounts at [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions) under Useful information/Pace DB, and also previous years' reports (2017/18 and 2018/19).

<b>Value of Bank Section as at 6 April 2019</b>	<b>£1,986m</b>
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## Changes in the year

### Plus income

(this is income from the investments; the Bank Section has a funding surplus which means that currently the Bank does not need to pay contributions into the scheme)	+ £51m
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### Less expenditure

(including member transfers of £41m and pensions and other benefits of £37m)	- (£83m)
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### Change in market value

(an increase in the value of the assets during the year)	+ £153m
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<b>Value of Bank Section as at 5 April 2020*</b>	<b>£2,107m</b>
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\* This includes AVCs so is slightly different to the value used in the funding update on page 7.

# Who's in Pace?

As at 5 April 2020, the Bank Section of Pace DB had 11,206 members.

**Closure members**  
**795**

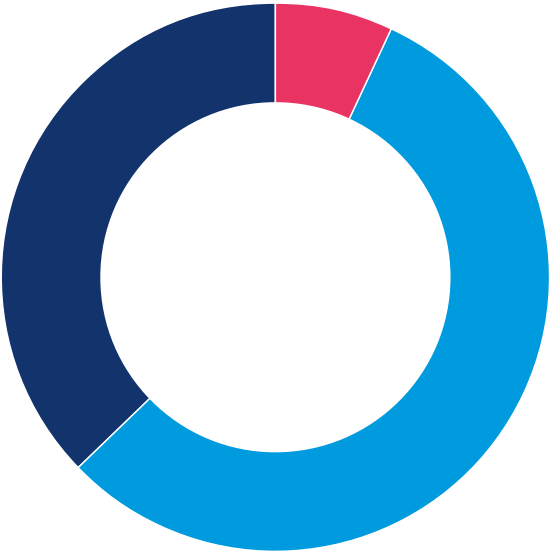
These members were paying contributions into Pace DB before it closed in October 2015 and are now paying contributions to Pace DC.

**Deferred members**  
**6,245**

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

**Pensioner members**  
**4,166**

These members are receiving a pension from Pace DB.



# Pensions news

## Lifetime Allowance increases

The Lifetime Allowance is the maximum amount of pension savings you can have at retirement from all pension schemes without incurring an additional tax charge. It increases annually in line with inflation as measured by the Consumer Prices Index. The Lifetime Allowance for the 2020/21 tax year is £1,073,100.

## Tapered Annual Allowance

In April this year, a change was introduced to the limit on the amount of tax-free pension contributions you can make in one year if you are a high earner. Known as the Annual Allowance, the standard amount is set at £40,000. However, for anyone with a high income (over £240,000), the Annual Allowance will be reduced by a tapered amount and could be as low as £4,000.

## How much will you need in retirement?

The Pensions and Lifetime Savings Association (PLSA) has launched 'Retirement Living Standards' to help people picture their future retirement and understand what they need to save to achieve that.

The PLSA's research shows that only 23 % of people understand how much they need to save. As part of their research, they asked consumers for their views on how much they would need to live on in retirement. This suggested that a single person will need £10,000 each year as a minimum income, £20,000 for a moderate standard of living and £30,000 to be comfortable. For couples, the equivalent numbers are £15,000, £30,000 and £45,000 each year.

The PLSA's website lets you explore the different categories in more detail to picture what life in retirement could look like.

Go to [www.retirementlivingstandards.org.uk](http://www.retirementlivingstandards.org.uk)



## Pension news continued

### Is it time to take a mid-life MOT?

The Department for Work and Pensions (DWP) has launched a website to help people carry out a 'mid-life MOT' – basically a check-up on your finances, much as someone might receive a health check-up from their GP.

The website offers free online support to help you make decisions that will ensure the future retirement you want, looking specifically at work, health and wealth.

It includes information on the State pension and caring responsibilities and links to the Pensions Advisory Service, the Money Advice Service and Pension Wise, which have merged into the Money and Pensions Service. You can check it out at: [www.yourpension.gov.uk/mid-life-mot](http://www.yourpension.gov.uk/mid-life-mot)

### Protect your pension: be aware of scams

A major event like the coronavirus crisis can lead to new types of scams. You may have already seen reports of fraudulent activity around the sale of face masks and hand sanitiser. When it comes to financial services, scams often appear after the initial shock of a major event. With that in mind, we urge you to be vigilant for scams that could appear over the coming months. These could be about insurance policies, pension transfers or high-return investment opportunities, including investments in crypto-assets.

Scammers are sophisticated, opportunistic and will try to get personal details or money from victims in many ways. They tend to target people who are feeling vulnerable, particularly in the current climate with many people isolating at home.



### *Could you spot a pension scam?*

Pension scams can be hard to spot but their effects are devastating, with many people losing their life savings. While promising high returns and low risk, in reality, pension scams can leave you with nothing. In addition, you could then face a high tax bill from HM Revenue & Customs if you withdraw your pension before age 55.

Scams often involve unusual, high-risk investments like overseas property, renewable energy bonds, forestry, parking or storage units. If it sounds too good to be true, it probably is. Anyone can be a victim of a scam, no matter how savvy you think you are.

For more information about pension scams and how to avoid them, please see the FCA website, [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

### *Things to watch out for*

- Unexpected contact – cold calling about pension transfers is illegal, so just hang up. Similarly, if you get unexpected texts or emails, ignore them.
- Time pressure – time-limited offers such as bonuses or discounts.
- Social proof – beware of fake reviews.
- Unrealistic returns – if it sounds too good to be true, it probably is.
- False authority – scammers may claim to be regulated. You can check if the firm you're dealing with is authorised by the Financial Conduct Authority (FCA) by searching the Financial Services Register on the FCA website.
- Flattery and being friendly with you – scammers will try to build a friendship with you to lull you into a false sense of security.

# Managing your pension during a pandemic

During the coronavirus pandemic, the Co-op Pensions Department has been working from home wherever possible. The team has more than exceeded the Trustees' expectations and continued to deliver an excellent service to members. They continue to respond to all enquiries and deliver all elements of their service as usual, and you can still contact them by email and telephone using the contact details on page 20.

The Trustees' business continuity plan has worked well during the pandemic and continues to be kept up to date, including monitoring of key advisers.

As you would expect, the Trustees have also reviewed their investment strategy and it is working as intended to reduce the impact of market volatility on the funding level, even during these difficult times. A further review of investment strategy is also under way following the completion of the 2019 funding valuation, as mentioned on page 10.

# Member online

Since April 2020, the majority of Pace pensioner members have been able to access their pension information online, with the launch of Member Online, our secure member area. The Trustees and the Co-op Pensions Department have been working on this project behind the scenes for some time, and its launch could not have come at a better time.

If you're a pensioner member, the site provides important information about your pension and makes it easier for the Co-op Pensions Department and the Trustees to communicate with you during these unusual times.

- View P60s and payslips as soon as they're generated by the payroll system
- Manage your personal details, including bank account and address changes
- Update the people you want to nominate to receive benefits when you die

The autumn edition of the Co-op's pensioners' magazine, *Evergreen*, includes details of how pensioner members can register for Member Online. If you're having trouble

completing the registration process, please get in touch via email at [pensionsregistrationqueries@coop.co.uk](mailto:pensionsregistrationqueries@coop.co.uk) and the team will assist you.

In the future, the Trustees hope to extend the rollout of Member Online to include members with deferred benefits in the Bank Section. We will write to you when it's available – so please do let us know if you change address so we can reach you with this important update.

## Check the website for updates

The pensions website at [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions) remains your first port of call for the latest news about Pace or your pension. If service is disrupted by another lockdown, we will post service updates on the website as they are confirmed – making this the quickest way to keep in touch with your scheme. It's also a good idea to check the website regularly anyway, as it has lots of useful information about Pace and how your pension works.

# Get in touch

Please get in touch by email if you can.  
If not, you can also call or write to us.

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

**Phone us:** 0330 606 1000

**Find us online:** [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions)

**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 Useful information/Pace DB at [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions)