

The **co-operative** bank

Pace DB Members' Report

Autumn 2021



Chair's welcome

It's been another busy period for the Pace Trustees, with frequent meetings as we navigated our way through the lockdowns that followed our last update in Autumn 2020.

This Report includes a round-up of news from the pensions world, including the Government's plans to raise the minimum retirement age – something to bear in mind if you are thinking of retiring early. We also have our usual summary of the financial ins and outs of Pace (page 9), and an update on the investments that support the scheme (pages 7-8).

Finally on pages 4-6, we have a light-touch funding update, which we hope will help you understand how we measure the security of your benefits in Pace DB.

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

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Your Trustees

Pace is managed by four professional independent Trustees, who are all highly experienced pensions professionals. One of the Trustees is chosen by the Co-operative Bank and three are selected by the Co-op.

There have been no changes to the Trustee Board since the last Report was sent out to members, so your current Trustees are:

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

You can find out more about each Trustee on the pensions website, at <https://bank.pacepensions.co.uk/about-pace/the-trustees/>

Members' voices

Although Pace DB no longer has Trustees who are directly elected by the members, it's still important to get feedback from the people who rely on Pace to provide an income in later life. That's why we set up a Members' Consultation Committee, which includes our former member-nominated Trustees – John Buckingham and Geoff Hayzelden. This Committee has met throughout the year with representatives from the Trustee Board, Co-op and the Co-op Pensions Department to discuss current issues and strategic plans. The Trustee Board also listens to Pace members through various colleague and pensioner forums.

Funding update

Last year we reported on the results of the 2019 actuarial valuation and 2020 annual check-up, which showed that the Bank Section of Pace was in a good position with an estimated surplus of £74m as at 5 April 2020. Our assets then more than covered our pension promises to members – but how has the past year (and Covid-19) affected things?

Our latest annual check-up looked at the Bank Section's funding position on 5 April 2021. Despite all the market uncertainty since the start of 2020, the good news is that the low-risk investment strategy we have in place means the funding position withstood the pressures caused by the pandemic. The scheme is largely protected against changes that increase the value of the liabilities – so if the liabilities go up, then the assets go up too. Over the last year, the liabilities went down by more because of changes in bond yields which are used to estimate the cost of providing future pension payments – so the gap between what we have (our assets) and what we need (our liabilities) was even bigger (our surplus).

How have things changed since last year?

Assets are down



£53m

Surplus is up



£71m

Funding level is up 4%



108%

Assets*:

how much money is in the Bank Section on this date

2019 valuation
£1,980m

2020 update
£2,101m

2021 update
£2,048m

Liabilities:

how much the Bank Section needs now to pay out all the pensions in the future

2019 valuation
£1,908m

2020 update
£2,027m

2021 update
£1,903m

Surplus:

The gap between the assets and the liabilities

2019 valuation
£72m

2020 update
£74m

2021 update
£145m

Funding level:

The gap between the assets and the liabilities

2019 valuation
104%

2020 update
104%

2021 update
108%

* This doesn't include Additional Voluntary Contributions paid in by members

Mind the gap!

If the Bank Section's liabilities were bigger than its assets, it would have a funding shortfall – in which case the Bank would have to pay in extra money to fill the gap. Instead, because of the strong funding position and the estimated surplus identified in 2020, the Trustees and the Bank agreed that contributions could be paid into an escrow account and would be payable to the Bank Section under certain circumstances. This will be reassessed next year when the 2022 valuation is carried out. Together with the Bank, we're continuing to look for opportunities to reduce risk and ensure the ongoing security of your Pace pension.

Shortfall on winding up

When we did the 2019 valuation, we also had to look at what would happen if the Bank Section was wound up (that is, if for any reason we transferred all our assets and liabilities to an insurance company). We have to include this information in our annual funding update, so the fact we're telling you about it doesn't mean we're planning to wind up the Bank Section. If the Bank Section had wound up as at 5 April 2019, it's estimated that we would have had to pay an insurance company £2,224m to provide all the benefits

in full. This would have meant that we had a shortfall of around £244m and a funding level of 89%. 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.

Pension Protection Fund

If the Bank Section were to wind up and the Bank didn't have enough money to pay off the shortfall, the Pension Protection Fund (PPF) might help. The PPF was set up by the Government 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. Find out more at: www.ppf.co.uk

Other things we have to tell you

As part of this funding update, we also have to tell you that:

- There haven't been any payments to the Bank from Pace during the last 12 months
- The Pensions Regulator hasn't used its powers in relation to Pace over that period.

Our investments

The Bank Section has a buy-in policy with Pension Insurance Corporation (PIC). As at 5 April 2021, the policy was valued at approximately £378m by the actuary. This insurance policy is considered to be an asset of the Bank Section but it's not included in the performance figures on page 8.

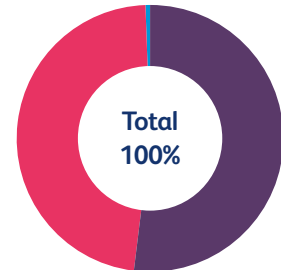
Investment strategy

The Pensions Regulator is encouraging (and may soon require) trustee boards to aim for a funding position which minimises any potential dependence on the sponsoring employer should the investment strategy go wrong. The Trustees have therefore set an investment strategy that aims for an expected return of around 0.5% p.a. (net of fees) above the return on gilts. This is a low-risk, low-return approach, and if the funding level improves, then the Trustees may look to use the opportunity to reduce investment risk further.

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

This chart shows the Bank Section's investments (excluding the insurance policies) as at 5 April 2021. The investment managers have been briefed to disinvest from some of the smaller legacy investments like property and alternative growth assets, but this change will be gradual.

- Liability Matching Investments **52.2%**
- Corporate Bonds and other asset backed securities **47.3%**
- Alternative growth assets (e.g. property, private equity, hedge funds) **0.5%**



How the assets performed

The total return on Bank Section's assets for the 12 months to 31 March 2021 was approximately 2.5 % compared with a benchmark return of 2.1 % . (The benchmark is a target set by the Trustees.) Allowing for benefits paid out over the year, the Section's DB assets fell in value very slightly from £2.11bn at 5 April 2020 to £2.07bn at 5 April 2021.

Responsible investment

As long-term investors, making sure Pace's assets are invested responsibly and sustainably is important to the Trustees, and we want to pay benefits in a way that takes into account broader social and environmental concerns. We've published a responsible investment policy on our website setting out our current priorities:

- climate change and the protection of the environment
- labour conditions and equal pay
- how the businesses we invest in are run.

In 2020 we revisited Pace's exposure to climate risk – our exposure in the DB Section is relatively limited because of the low-risk nature of our investments. But we're building climate risk into our wider risk assessment framework, and we're working on quantifying our carbon footprint in detail and setting objectives for how this will move over time to meet our target of being Net Zero on carbon emissions by 2050 or earlier. We'll be publishing a detailed report of our findings later in 2022.

We've also recently signed up to be a member of the Department for Work and Pensions' Occupational Pensions Stewardship Council, to work with other pension schemes to encourage best practice on sustainability and engagement with the companies we invest in.

Finally, the Bank are supportive of joining the Make My Money Matter campaign to 'Green Your Pension' (www.makemymoneymatter.co.uk/green-your-pension/), and will be engaging with the Trustees to understand what their priorities are on sustainability. We are also looking to improve visibility on where Pace's assets are invested.

Our accounts

Between 2020 and 2021, despite the difficulties caused by the pandemic, the value of the Bank Section's assets maintained their value at around £2.1 billion.

Every year, the Trustees produce a formal report and set of accounts for Pace, which are independently audited by Deloitte. The information on this page is a summary of the report for the year ending 5 April 2021. You can download a copy of the full report from www.co-operativebank.co.uk/pensions under Useful information/Pace DB.



Value of Bank Section as at 6 April 2020	£2,107m
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Changes in the year

Plus income

(this is income from the investments; currently the Bank does not need to pay contributions into the DB Section of the Scheme)	+ £45m
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Less expenditure*

(including member transfers of £25m and pensions and other benefits of £38m)	- £67m
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Change in market value

(a decrease in the value of the assets during the year)	- £15m
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Value of Bank Section as at 5 April 2021**	£2,070m
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* This includes administrative and investment management expenses.

** This includes Additional Voluntary Contributions so is slightly different to the value used in the funding update on page 5.

Who's in the Bank Section of Pace?

As at 5 April 2021, the Bank Section of Pace DB accounted for around 14% of the total membership, with 10,907 members.

Closure members 776

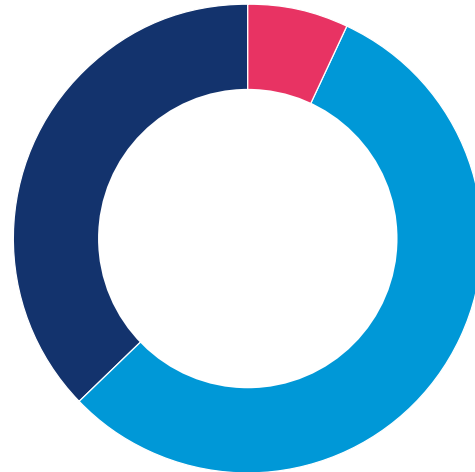
These members were paying contributions into Pace DB before it closed in October 2015 and are now paying contributions to Pace DC. As at 5 April 2021, the Bank Section of Pace DC had over 3,600 members.

Deferred members 6,016

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

Pensioner members 4,115

These members are receiving a pension from Pace DB.



Beat the scammers

In these challenging times, we'd like to remind members to stay alert to the danger of scams of all types. Action Fraud estimates that £2 million was lost to pension scammers in the first three months of 2021.

If you're facing financial difficulties because of the pandemic, you may be tempted by offers to transfer your pension into 'guaranteed' or 'high-return' investment opportunities. In many cases, the money will be stolen outright. And, if you try to access your pension before age 55 (unless you have a long-term illness and can't work or have a protected early retirement age), you will face a huge tax bill on top of that!

The Trustees will soon be signing The Pensions Regulator's 'scam pledge', whereby we promise to follow the principles of the Pension Scams Industry Group's Code of Good Practice to help protect members' benefits. The Co-op Pensions Department will carry out checks on pension transfers and flag up where they think something looks suspicious – but you also need to play your part in protecting your pension by following these four simple steps:

Check who you're dealing with

Go to <https://register.fca.org.uk> to make sure that anyone offering you advice or other financial services is authorised by the Financial Conduct Authority (FCA).

Reject unexpected offers

If someone you don't know contacts you to talk about your pension, chances are it's a scam.

Don't be rushed or pressured

Take your time to make all the checks you need – even if this means turning down an 'amazing deal'.

Get impartial information and advice

You can use the new Government-backed website, www.moneyhelper.org.uk to get help and advice with your pension. If you prefer to use an independent financial adviser, be sure to use one that is regulated by the FCA. Visit www.pension-scams.com or www.fca.org.uk/scamsmart to find out how to protect yourself. You can also download a copy of the FCA/The Pensions Regulator's ScamSmart leaflet, 'Don't let a scammer enjoy your retirement', which can be found here: <https://bit.ly/3BXCieg>

Pace noticeboard

Paid-for financial advice for deferred members

The Trustees believe that it is in everyone's interests for members to take appropriate support and advice when considering their retirement, so they have decided to provide paid-for, impartial financial advice to our deferred DB members aged 55 or over.

The Trustees have appointed a specialist retirement firm called WPS Advisory, to support members through the retirement process and help them make the right choices for their individual circumstances.

You can access this paid-for advice twice in total: once any time between the ages of 55 and 60 if you'd like to consider

early retirement or transferring out of the scheme, and once as you approach your retirement date and receive your retirement quotation pack. There's no obligation to follow WPS Advisory's recommendations, but it's worth knowing that if you wish to take a transfer value of £30,000 or more from Pace DB, you're required by law to seek financial advice.

You can contact WPS Advisory to set up a consultation using these details:

Address:

WPS Advisory
Unit 7-8 Delta Bank Road
Metro Riverside Park
Gateshead
NE11 9DJ

Telephone: 0808 145 3591

Website: www.wpsadvisory.com

Email: info@wpsadvisory.com

Resilience and technology

Over the last year, the Co-op Pensions Department and the Trustees have continued to look for opportunities to improve our services. This has included changes to ensure members of the team can easily and securely work from home. We have introduced a cloud-based telephone solution which also enables homeworking. These technology changes allow the team more flexibility to work from home and make our service more resilient to any future disruptions.

Member Online update

In April 2020, we let our pensioner members know that they were able to view their P60s (annual tax certificates) and payslips online through our secure member area, Member Online.

We've now made the move to online only, so from April 2021 our pensioners will need to log in to Member Online to view their P60s and payslips, rather than having them come in the post. These changes make our communications with

pensioners more secure, meaning your P60s/payslips won't get lost or intercepted in the post – with the added benefit of being available whenever you want them.

Pensioner members can also change their address, bank details and nomination information through their Member Online account. By the end of 2021 we expect to be able to offer online services to all Pace DB members, so keep checking the website (www.co-operativebank.co.uk/pensions) for more details.

Check the website for updates

The pensions website at 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 future Covid-19 lockdowns, 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.

Pensions news

Changing how inflation is measured

You may have heard about a Government consultation on reforming the way the Retail Prices Index (RPI) is calculated.

RPI is used to measure changes in the cost of living (inflation), and many pension schemes use it to work out their annual pension increases. However, RPI isn't perfect and some people think it doesn't accurately measure inflation.

It has since been confirmed by the Government that, from 2030, the way RPI is calculated will change to align it with another measure of inflation – the Consumer Prices Index including owner occupiers' housing costs (CPIH). This means that some Pace DB benefits which are calculated using RPI, such as increases to deferred pensions and pensions in payment, may be lower in the future than would previously have been the case.

Did you pay the small stamp?

A computer error at the Department for Work & Pensions (DWP) means that married women who paid a lower rate of National Insurance (NI) contributions before 1977 (known as the 'small stamp') may be due a top-up to their State Pension. The DWP says it first became aware of the issue last year. Where underpayments are identified, the DWP will contact the person to inform them of the changes to their State Pension amount and of any arrears payment they will receive, but you may still want to check with them if you think you're affected. LCP, the company that first brought this issue to the DWP's attention, has created a free online calculator that you can use to see if this might apply to you. You can find it here: pensionunderpaid.lcp.uk.com



Minimum retirement age to increase

The Government has confirmed that the minimum retirement age (the earliest age at which you can draw your pension unless you are in ill health) is set to increase from age 55 to age 57 in 2028. This won't apply to pension savers who already have a protected early retirement age below 55, and in some cases members may be able to 'lock in' early retirement at age 55 as long as it's set out in the rules of their scheme. The Trustees will review the Government's proposals once the details are released in full.



Did you know?

Not many people know it's possible to defer the payment of your State pension. In fact, recent research showed that almost half (47%) of 55 to 64 year olds don't know about this option.

Putting off the age you claim the State pension means the amount you receive eventually can go up significantly. State pension is not paid automatically, so you need to make a claim to start receiving it. You can delay when this happens, known as deferring your State pension. With the new State pension now £179.60 a week, deferring for one year can increase the amount you receive by £10.42 a week or £541.84 a year. It is also possible to start deferring your State pension after you start receiving it. To do this, you need to contact the Pension Service on 0800 731 0469. You can only defer your State pension once during your retirement.

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

Phone us: 0330 606 1000

Find us online: 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