# Hermes Group Pension Scheme

## Scheme funding report on the Actuarial Valuation as at 30 June 2023

March 2024

# Executive summary

**The Trustee has completed a valuation of the Scheme as at 30 June 2023. This report sets out the approach adopted by the Trustee, the results obtained, and the actions taken in the light of those results.**

**The key results are as follows.**

## Scheme funding assessment

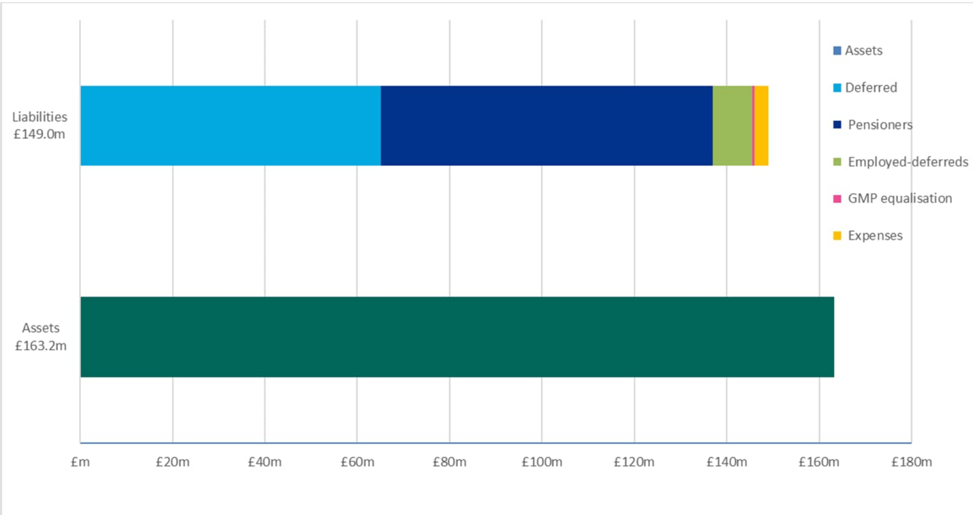
**110%**

Funding level

**£14.2m**

Estimated scheme funding surplus

In funding the Scheme, the Trustee's key objective is to ensure that there will be sufficient assets to meet all benefit payments as they fall due. With this in mind, the Trustee has set a target reserve for the Scheme based on a prudent estimate of the amount needed to meet all payments in respect of the benefits earned up to the valuation date.




## Employer contributions

Due to the scheme being in surplus, a recovery plan is not required.

The Trustee holds a reserve in the technical provisions to meet expenses incurred in managing the Scheme, excluding PPF levies.  As such no contributions are required in respect of these expenses.

PPF levies are paid directly by the Employer.

# Executive summary

## Solvency assessment

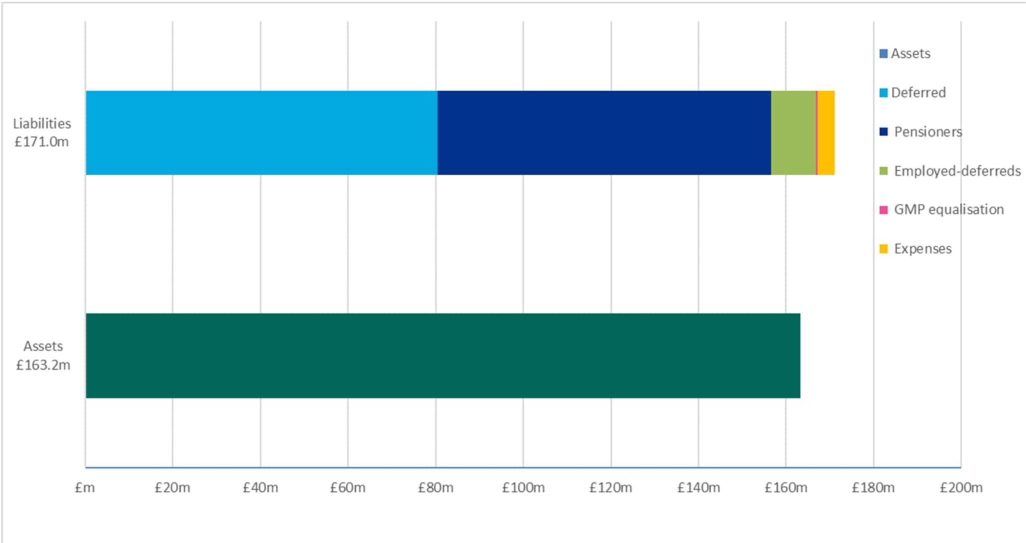
95%

Solvency funding level

£7.8m

Estimated solvency deficit

I have also completed a solvency assessment of the Scheme. This estimates the extent to which the Scheme's assets would be sufficient to secure members' benefits by the purchase of insurance policies if the Scheme were to be wound up at the effective date of the valuation.




## Section 179 assessment

I have completed a section 179 assessment of the Scheme. This shows that the Scheme was 139% funded with a surplus of £45.4m at 30 June 2023. Once submitted, the Pension Protection Fund (PPF) will base the Scheme's levy on the results of this valuation.

# Contents



Throughout the report:

'Scheme' refers to Hermes Group Pension Scheme

'Trustee' refers to Hermes Pension Trustees Limited, the Trustee of the Scheme

'Employer' refers to BT Pension Scheme Trustees Limited

# 01 **Introduction**

This report should be made available to the Employer within 7 days of receipt.

## Background

The Trustee of the Scheme has undertaken a formal valuation of the Scheme as at 30 June 2023.

I have already provided the Trustee with my advice in relation to the valuation, including the results, in a number of previous reports, letters and presentations. The purpose of this report is to set out in one place the final results of the valuation and to satisfy the legislative requirement for reporting and certifying the results of the valuation, within 15 months of its effective date.

The report is addressed to the Trustee. Legislation requires the Trustee to make it available to the Employer within 7 days of receipt.

The following documents are relevant to the results in this report:

> “Preliminary advice on setting actuarial assumptions”, dated May 2023

> “Preliminary results”, dated 30 October 2023

> My report “Scheme funding report for the actuarial valuation as at 30 June 2020” dated 21 May 2021.

# 02 Funding objectives and assumptions

The methodology used in deriving the assumptions are described in detail in the statement of funding principles, dated 21 March 2024

## The funding objective

The Trustee's key funding objective is to ensure that there will be sufficient and appropriate assets to cover the value of the liabilities on the Scheme's funding assumptions, also referred to as the technical provisions.

## Method and assumptions

In carrying out the valuation of the Scheme, a number of assumptions need to be made. For the scheme funding valuation the method and assumptions are set out in the Trustee's statement of funding principles dated 21 March 2024, which has been agreed with the Employer. The statement of funding principles is included in Appendix E.

## Employer covenant

The Scheme is supported by the covenant of the Employer. Generally speaking, covenant is the extent of a sponsor's obligation and financial ability to support its pension scheme now and in the future. The sponsor's covenant underwrites the risks to its pension scheme.

In agreeing the scheme funding valuation assumptions with the Employer, the Trustee took into account the strength of the Employer's covenant, in particular when setting the discount rate assumption.

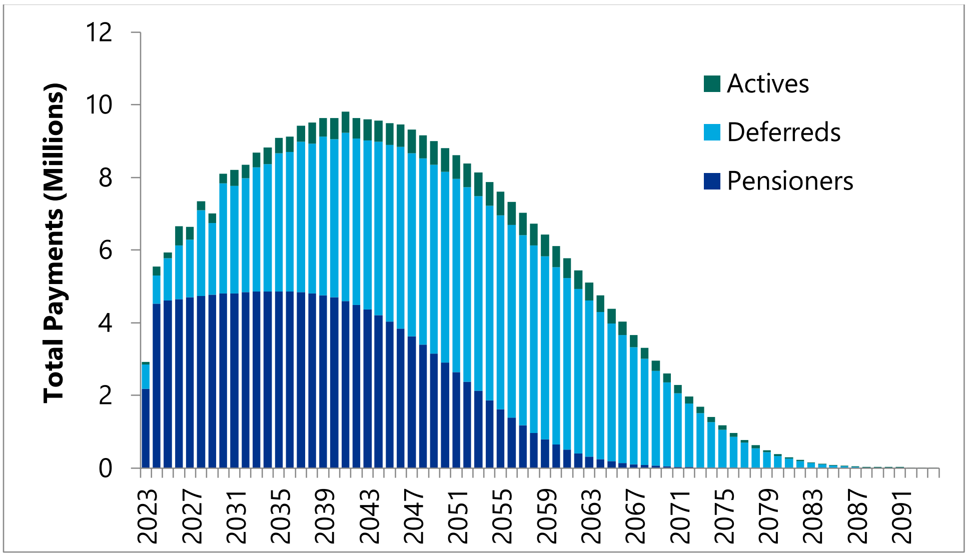
# 03 Scheme funding results

**2041**

Projected peak of Scheme benefit payments

## Projected benefit payments

I have used the scheme funding assumptions to project the estimated benefits that will be paid to all members in respect of their entitlements at the valuation date. These projections are set out in the chart below and represent all cash payments expected to be made over the lifetime of the Scheme.




**2047**

Last member expected to retire

The Scheme is made up of those members who have already retired (pensioner members) and those who have not yet retired (employed-deferred and deferred members). The last deferred member is expected to retire in 2047 at which point the benefits of all members will be in payment.

The projected cashflows are calculated on the scheme funding assumptions and are therefore dependent on these assumptions being realised.

The actual level and timing of benefits paid will depend on:

> the actual levels of future inflation;.

> how long members and dependants live;

> whether members take cash at retirement (it is assumed that 15% of the member’s pension is commuted);

> whether members retire early (which is not allowed for in the assumptions); and

> members transferring out their benefits from the Scheme (which is not allowed for in the assumptions).

# Scheme funding results

## The funding position

The technical provisions are compared to the present value of the assets to give the funding position at the valuation date below. The corresponding results of the last valuation are shown for comparison purposes.

**£14.2m**

Surplus at 30 June 2023

| | As at 30 June 2020 £m | As at 30 June 2023 £m |
|---|---|---|
| **Past service liabilities** | | |
| Employed-Deferred | 20.1 | 8.4 |
| Deferred members | 134.9 | 65.2 |
| Pensioners | 101.0 | 71.9 |
| GMP equalisation | 1.0 | 0.5 |
| Expenses | 3.0 | 3.0 |
| **Total past service liabilities (L)** ('Technical provisions') | **260.0** | **149.0** |
| **Assets** | | |
| Total assets shown in accounts | 279.5 | 163.2 |
| **Total assets (A)** | **279.5** | **163.2** |
| **Funding surplus / (deficit) (A minus L)** | **19.5** | **14.2** |
| **Funding level (A as a percentage of L)** | **108%** | **110%** |

## Reconciliation with the results of the previous valuation

The funding level has improved since the last valuation. The most significant influences on the funding level have been a strain as a result of the change in market conditions and returns on the Scheme's non-hedging assets being lower than expected. However, this was more than offset by changes made to the assumptions, in particular the post-retirement mortality assumption.

# Scheme funding results

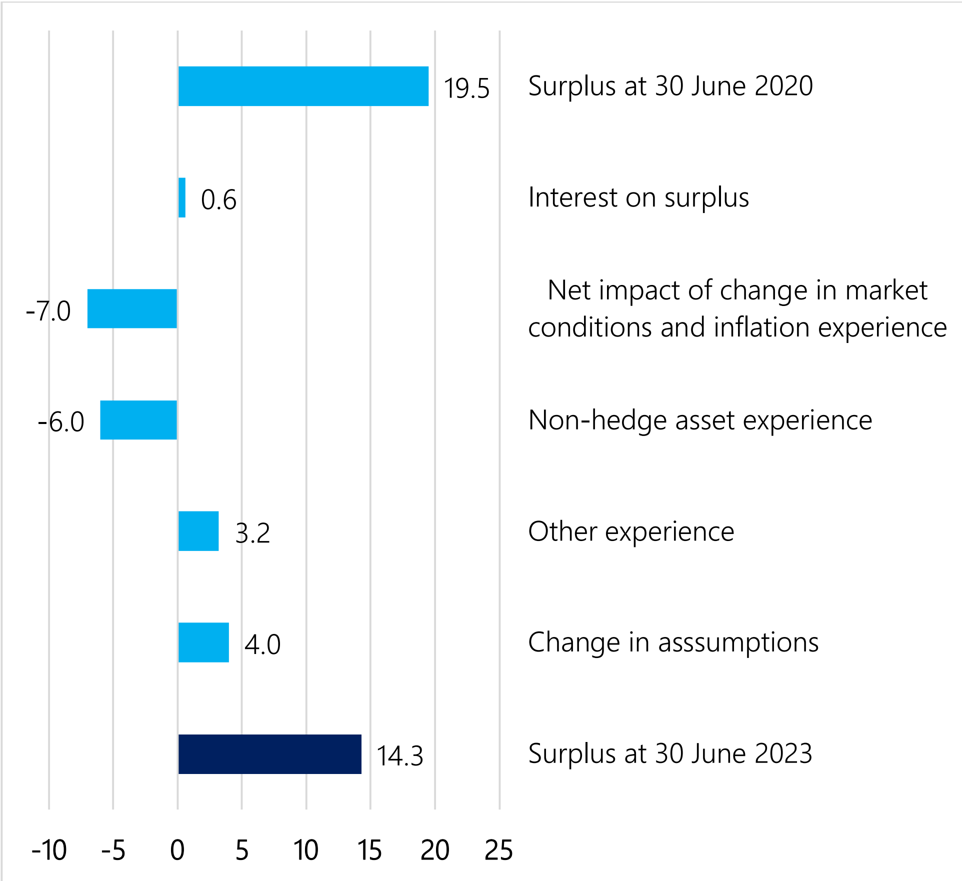
**£6.0m**

Asset loss over the valuation period due to non-hedge asset experience

**£7.0m**

Net decrease in the surplus of the Scheme over the valuation period due to changes in market conditions and inflation experience

The full reconciliation of the changes in the Scheme's funding position since the valuation carried out as at 30 June 2020:




Further information on the investment returns in the period between the two valuations can be found in Appendix C.

## Developments since the effective date

Since the effective date of the valuation, 30 June 2023, to the date of this report, financial conditions have not changed materially. The Trustee monitors the approximate funding level on a quarterly basis, however, the Trustee and the Employer have agreed that they will not explicitly take any account of any post-valuation experience when agreeing the valuation. I have therefore, as agreed, certified the schedule of contributions as at the effective date of the valuation, which can be found in Appendix E.

# Scheme funding results

## Projected funding level to the next valuation

I have projected the funding position to 30 June 2026 when the next formal valuation of the Scheme is due.

I have assumed that experience is in line with the assumptions as set out in the statement of funding principles and that there will be no contributions paid over the period, in line with the newly agreed schedule of contributions.

The results of my estimated projection is that the funding level is expected to remain at the current level, i.e. around 110%.

In practice the Scheme is exposed to a number of risks as set out below, which mean that the funding level at the next valuation date is uncertain.

## Risk and prudence

**Key Risks**

There are a number of risks which might ultimately affect the Trustee's ability to pay benefits to members. Foremost among these are the risks relating to:

> Funding risks – if experience turns out to be less favourable than was assumed for the funding assessment, for example members living longer than assumed, inflation higher than assumed or legislation introduces unanticipated liabilities.

> Employer covenant – the Employer may become less able to make contributions or unwilling to support the Scheme, therefore leading to a loss of long-term security.

> Investment risks – where future investment returns are below those assumed or there is an asset/liability mismatch where an increase in liabilities (e.g. from decrease in bond yields) is not matched by an increase in asset values.

> Climate risks – climate change introduces physical, transition, regulatory and legal risks which for a pension scheme can increase uncertainty and manifest as funding, investment and covenant risks.

**Risk mitigation measures**

The Trustee has taken a number of actions to mitigate the risks. These include:

> Funding - the assumptions used in the funding assessment have been chosen prudently, making it less likely that experience will turn out to be worse than assumed.

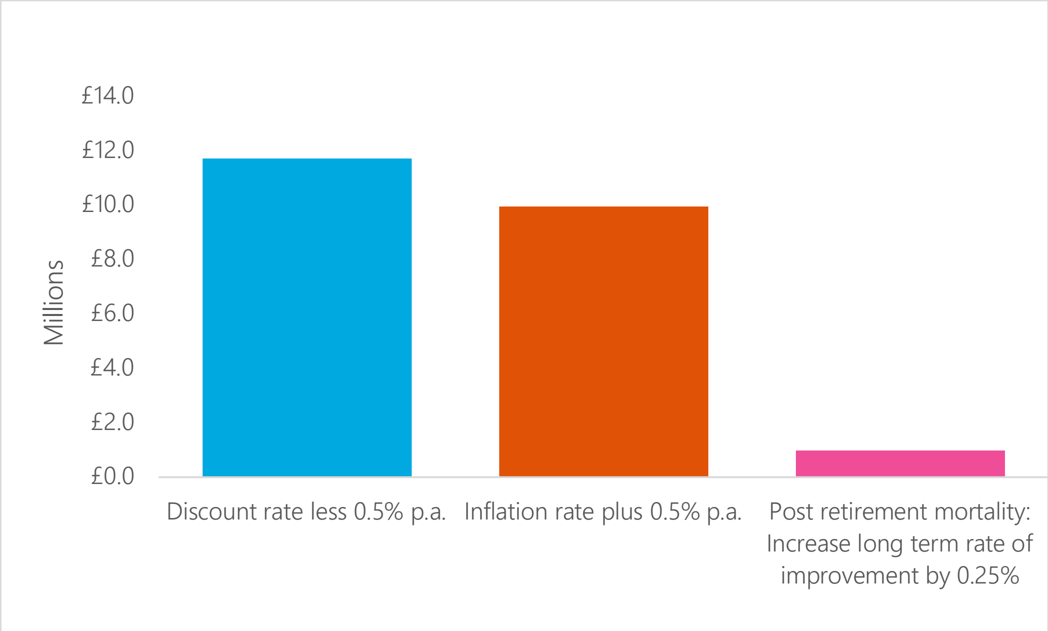
> Monitoring - regular updates are received by the Trustee to keep abreast of any changes in the funding position.

> Investment – the Trustee has invested around 75% of the Scheme assets in Liability Driven Investment funds, including buy and maintain credit. Movements in the value of these assets act to offset movements in the funding target when bond yields change to mitigate the risk of an asset/liability mismatch. The Scheme's investments are also diversified across a range of different asset classes and investment managers to help mitigate the risk of investment returns being below the expectations.

## Sensitivity to assumptions

To give an idea of the extent of some of the key risks, I set out below the sensitivity of the technical provisions to some of the key assumptions. These show the impact on the technical provisions of changing each assumption in isolation. Please note that these calculations are approximate and intended for illustration only.

**Impact of change in assumptions on technical provisions**



# Scheme funding results

## Level of prudence in funding results

The assumptions used in calculating the technical provisions must be chosen prudently, usually including an appropriate margin for adverse deviation.

Prudence has been allowed for in the technical provisions by adding explicit margins to the following assumptions:

- Discount rate; and
- Post-retirement mortality assumption.

If these margins are removed the technical provisions would decrease by approximately 5%. The level of prudence in the assumptions overall has reduced since the 2020 valuation, but the level or risk in the investment strategy has also reduced over this period.

# 04 **Solvency assessment**

## Background

I am required to assess the winding-up or "solvency" position of the Scheme assuming that it ceases at the valuation date, where all benefits would be secured by the purchase of insurance policies. This differs from the scheme funding valuation, which assumes that the Scheme operates until its last member dies.

## Methodology

The only accurate way to assess the true cost of winding up would be to obtain quotations from a number of insurance companies. I have not done this, but instead have estimated the cost using assumptions that have been derived with reference to general pricing information received from insurers.

Clearly, this approach will not be as accurate as obtaining actual quotations, but I am satisfied that it is sufficient for the present purpose. An actual wind-up, at a different date, could have a significantly different funding position and would depend on investment market conditions and the terms available from insurance companies at the date of securing benefits or obtaining a firm quotation.

While it is difficult to say if my estimate is prudent relative to buy-out terms which might have been available at the valuation date, I have not added explicit margins for prudence. Full details of the assumptions used are set out in Appendix D.

The solvency valuation is also my statutory estimate of the Scheme as required under section 7 of the Occupational Pension Scheme (Scheme Funding) Regulations 2005 and I have set the assumptions for the estimate based on the principles set out above.

# Solvency assessment

## Results

A breakdown of the solvency assessment results at the 2020 and 2023 valuation dates (for comparison) is set out below.

**£7.8m**

Estimated Solvency deficit at 30 June 2023

| | Solvency Assessment as at 30 June 2020 £m | Solvency Assessment as at 30 June 2023 £m |
|---|---|---|
| **Solvency liabilities** | | |
| Employed-Deferreds | 27.9 | 10.2 |
| Deferred members | 188.5 | 80.4 |
| Pensioners | 110.0 | 76.1 |
| GMP equalisation | 1.0 | 0.5 |
| Solvency and payment expenses | 3.5 | 3.8 |
| **Total Solvency liabilities (L)** | **330.9** | **171.0** |
| **Assets** | | |
| Total assets shown in accounts | 279.5 | 163.2 |
| Total assets (A) | **279.5** | **163.2** |
| Solvency surplus / (deficit) (A minus L) | **(51.4)** | **(7.8)** |
| Solvency funding level (A as a percentage of L) | **84%** | **95%** |

## Comparison to scheme funding results

The funding level on the solvency basis is lower than the scheme funding basis set out in Section 3 of this report. This is due to the different assumptions used to reflect the difference between the anticipated cost of providing the benefits from the Scheme on an ongoing basis and the cost of securing those benefits through the purchase of insurance policies.

The cost of winding-up the Scheme is larger than the expected cost of running the Scheme on an ongoing basis, due principally, to the more conservative assumptions insurers are required to adopt and the profit margins expected to be targeted by the insurance market.

# Solvency assessment

## Projected Solvency funding level to the next valuation

The method and approach taken to projecting the estimated solvency funding level to the next valuation is the same as that used for the projection of the scheme funding level as set out in the 'projected funding level to the next valuation' section on page 9.

The results of my projection of the solvency funding position are as follows.

| | Valuation **as at 30 June 2023** | Projection to **30 June 2026** |
|---|---|---|
| Solvency funding level | 95% | 97% |

I would expect that the estimated solvency funding level will have improved by 30 June 2026 if the assumptions as set out in the statement of funding principles are borne out in practice and insurance pricing remains unchanged. This is largely because investments are expected to achieve a return in excess of the discount rate used to value benefits on a solvency basis.

## Effect on members' benefits

If the Scheme had begun winding up as at 30 June 2023, and the Employer was unable to pay all of the Employer's wind-up debt due to insolvency i.e. the difference between the assets and the liabilities on the solvency basis, as the Scheme is over 100% funded on the PPF's section 179 basis, the Scheme would, in theory, be required to purchase benefits with an insurance company. In this situation, members' benefits would be reduced and secured in line with the Scheme's rules.

# 05 Section 179 valuation

## Background

I have carried out a Pension PPF levy (section 179) valuation of the Scheme as at 30 June 2023 and enclose, in Appendix F, a copy of my certified results. The assumptions are set by the PPF and are designed to broadly reflect the cost of buying out the PPF benefits with an insurance company. Details on the assumptions used are set out in Appendix D. I will arrange for the information shown in the certificate to be entered onto Exchange. From there it will be shared with the PPF who will use it to calculate the Scheme's annual PPF levy.

## Methodology

The PPF prescribes the calculation methodology to be used for the section 179 valuation. This can be found in version G10 of its paper "Guidance for undertaking the valuation in accordance with section 179 of the Pensions Act 2004". I have followed these prescriptions in my valuation. Details of the assumptions used are set out in Appendix D.

I have estimated the value of the Scheme's section 179 liabilities as at 30 June 2023 using the same data as used for the scheme funding assessment.

For the purposes of the section 179 valuation I have made an allowance for the potential impact of Guaranteed Minimum Pension ("GMP") equalisation.

The PPF has confirmed that in isolation the allowance for GMP equalisation can be calculated on a best estimate basis but the principle of prudence should still apply to all other elements of the section 179 liabilities. In my opinion, it is proportionate to use the same allowance for GMP equalisation in the Scheme's section 179 report as was used for the scheme funding valuation. I have therefore included an allowance of £0.5m of the Scheme's liabilities in the section 179 valuation to allow for the impact of GMP equalisation. The PPF has also acknowledged that if the GMP equalisation allowance has been calculated on a best estimate approach, then the certification should be amended to reflect this. I have therefore amended the certificate in Appendix F accordingly.

## Results

**139%**

Section 179 funding level

On the section 179 basis, as at 30 June 2023, the Scheme had assets of £163.2m and liabilities of £117.8m, equivalent to a funding level of 139% and surplus of around £45.4m. Further details are provided in Appendix F. This compares with assets of £279.5m and liabilities of £257.7m assessed at 30 June 2020, equivalent to a funding level of 108% and surplus of £21.8m.

## Experience analysis since the previous valuation

The improvement in the surplus on the section 179 basis is primarily due to changes in financial market conditions and the methodology resulting in higher discount rates reducing the value of the liabilities. The over hedging of the assets on the Section 179 basis has reduced the assets by less than the liabilities, serving to increase the surplus. However, this has been partially offset by actual investment returns on non-hedged assets being lower than expected.

# 06 **Next steps**

## Next steps

The signing of this document, the statement of funding principles and the schedule of contributions concludes the valuation formalities. As the Scheme has a surplus there is no requirement to submit the recovery plan to tPR, however, I will arrange for the Pensions' Regulator's system, Exchange, to be updated and to complete the schemes in surplus section.

## Between now and the next valuation

The next valuation is due on 30 June 2026. Between now and then I will provide the statutory annual reports to the Trustee, setting out how the funding position has evolved and the key reasons for any changes.

These reports will enable the Trustee to monitor the funding of the Scheme.

| | |
|---|---|
| | **Date**<br>March 2024 |
| **Name**<br>Adam Stanley<br>Scheme Actuary | **Qualification**<br>Fellow of the Institute<br>and Faculty of Actuaries |
| **Address**<br>XPS Pensions Group<br>Tempus Court<br>Onslow Street<br>Guildford<br>GU1 4SS | **Employer**<br>XPS Pensions Limited |

# Appendix A
# Scheme benefits

The Scheme benefits are described in the Scheme's definitive trust deed and rules dated 1 November 2011 and subsequent amending deeds and announcements for the Scheme. A summary of the benefits is set out in the members' booklet.

The Scheme was closed to new members with effect from 1 June 2008 and to accrual of new benefits on and from 31 October 2011, employed-deferred members retain a link to their pensionable salary for final salary benefits.

**Equalisation**

The Scheme appears to comply with the main equal treatment requirements of the European Court, as far as these are known, and the valuation has been prepared on this basis. I have assumed that these requirements have been validly incorporated in the trust deed and rules and the benefits supplied by the administrators reflect the rules.

Like many UK pension schemes, however, the Scheme's benefits still differ between men and women as a result of differences in Guaranteed Minimum Pension (GMP). My valuation allows for an estimate of the additional liabilities that would arise if benefits were to be equalised to remove these differences for the members with GMP by including a £0.5m increase on the liabilities which I deem to be sufficient whilst the calculations are taking place.

No allowance has been made for the 20 November 2020 judgement on equalising historic cash equivalent transfer values, however I do not think that this will materially impact the calculated liabilities.

**Discretionary practice**

There has been no recent history of discretionary increases or discretionary benefits being awarded under the Scheme. In line with this past practice, I have therefore made no allowance in the valuation for discretionary increases or benefits being granted in future.

## Scheme and legislative developments since the 2020 valuation

There have been no amending deeds implemented since the 2020 valuation. Any changes that are material to the valuation are covered above.

A number of legislative developments have occurred or have been proposed since the 2020 valuation. These developments are covered in this report where they are relevant to the valuation. In addition, there is currently the Virgin Media section 37 judgement. As this is being appealed and the outcome is not yet known, no allowance has been made in the valuation for this.

# Appendix B
# Membership data

**579**

Total Scheme membership at current valuation date

**586**

Total Scheme membership at previous valuation date

I have been provided with membership data as at 30 June 2023 by the XPS administration team. I have performed a number of checks on the data and I am satisfied that it is sufficiently accurate for the purposes of this valuation. A summary of the data is set out below.

| **Employed-Deferred members** | **30 June 2020** | **30 June 2023** |
|---|---|---|
| Number | 35 | 26 |
| Total annual pension at date of valuation (£ms) | 0.5 | 0.4 |
| Average deferred pension (£000s) | 13.0 | 14.7 |
| Average age* | 50.9 | 54.1 |

| **Deferred members** | **30 June 2020** | **30 June 2023** |
|---|---|---|
| Number | 357 | 321 |
| Total annual pension at date of valuation (£ms) | 3.1 | 3.1 |
| Average deferred pension (£000s) | 8.6 | 9.8 |
| Average age* | 50.1 | 52.9 |

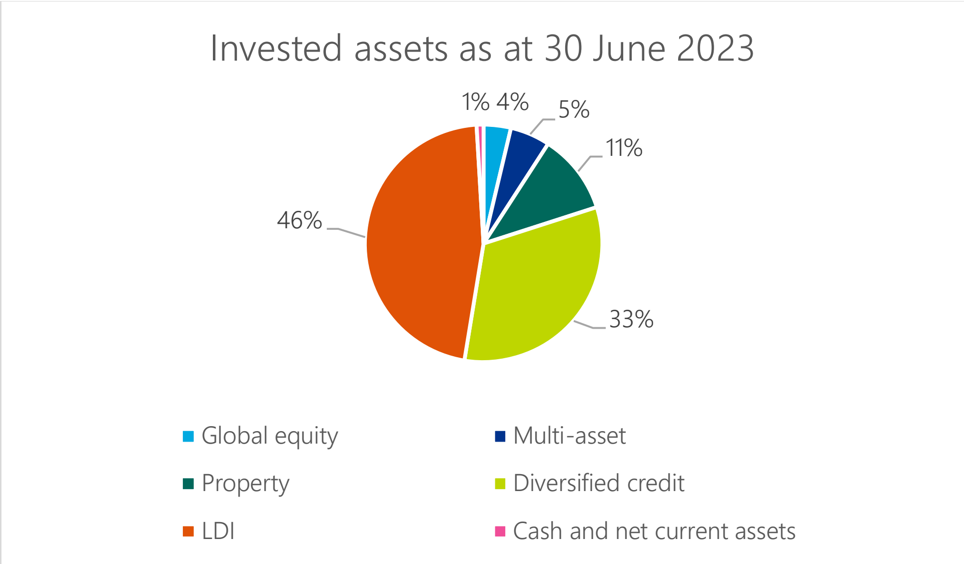
| **Pensioner members** | **30 June 2020** | **30 June 2023** |
|---|---|---|
| Number | 194 | 232 |
| Total annual pension at date of valuation (£ms) | 3.7 | 4.4 |
| Average pension in payment (£000s) | 19.3 | 18.9 |
| Average age* | 70.4 | 71.3 |

* Average ages are weighted by pension at date of valuation

# Appendix C
# Assets and investment strategy

## Assets held at the valuation date

I have taken the value of the Scheme's assets from the Trustee's audited Report and Accounts as at 30 June 2023. The accounts state that at that date the Scheme had invested assets of £163.2m. The following chart illustrates how those assets were invested.




In addition to the assets set out above, the accounts show that there were net current assets. This gives a total asset value (excluding AVCs) for use in my assessment, as follows.

| | **Assets as at 30 June 2020** £m | **Assets as at 30 June 2023** £m |
|---|---|---|
| Invested assets | 278.3 | 161.6 |
| Net current asset / (liability) | 1.2 | 1.6 |
| **Total available assets** | 279.5 | 163.2 |

# Assets and investment strategy

## Investment strategy

The assets held at the effective date of the valuation broadly reflected the Trustee's investment strategy, as set out in the Trustee's statement of investment principles. This strategy consists of investing approximately 30% of the assets in return-seeking asset classes, such as equities, and approximately 70% of assets in matching assets such as bonds and Liability Driven Investments (LDI).

As part of the matching fund, the Scheme has liability hedging in place. This aims to ensure that movements in the Scheme's liabilities due to changes in interest rates and inflation expectations are matched by corresponding movements in the value of the Scheme's assets.

## Investment returns

The scheme funding assumptions adopted for the 30 June 2020 actuarial valuation anticipated returns on the fund assets averaging around 0.9% per annum over the inter-valuation period. The actual returns on the Scheme's assets during the period were -13.9% per annum (although much of this return was due to decreases in the assets matching the liabilities and so was offset by a corresponding decrease in those liabilities).

## Contributions paid to the Scheme

As the valuation as at 30 June 2020 had a surplus on the technical provisions basis no contributions were due.

# Appendix D Summary of key assumptions

## Key financial assumptions – scheme funding basis

| | As at 30 June 2020 | As at 30 June 2023 |
|---|---|---|
| Discount rate<br>-Reference yield | Bank of England Gilt curve | Bank of England Gilt curve |
| -Outperformance | 1.0% p.a. reducing linearly to 0.6% p.a. from 2030 | 0.88% p.a. reducing linearly to 0.5% p.a. from 2030 |
| Future price inflation (RPI) | Bank of England implied RPI inflation curve | Bank of England implied RPI inflation curve |
| Future price inflation (CPI) | RPI less 1.0% p.a. up to 2030, then RPI less 0.4% p.a. from 2030[1] | RPI less 1.0% p.a. up to 2030, then RPI less 0.1% p.a. from 2030 |

*[1]For valuation updates after November 2020, the post 2030 CPI assumption used was RPI less 0.1% p.a.*

## Pension increase assumptions – scheme funding basis

| | As at 30 June 2020 | As at 30 June 2023 |
|---|---|---|
| Pension increases pre retirement: | | |
| ➢ Former HPS members | CPI inflation (uncapped, floor 0% p.a.)[2] | CPI inflation (uncapped, floor 0% p.a.)[2] |
| ➢ Excess over GMP | CPI inflation | CPI inflation |
| ➢ GMP | RPI inflation + 1% p.a. | RPI inflation + 1% p.a. |
| Revaluation for career average benefits | RPI curve capped at 5% p.a. [2] | RPI curve capped at 5% p.a. [2] |
| Pensionable salary increases | CPI inflation | CPI inflation |
| Pension increases post retirement: | | |
| ➢ Former HPS members | CPI inflation (uncapped, floor 0% p.a.) [2] | CPI inflation (uncapped, floor 0% p.a.) [2] |
| ➢ Other members | RPI inflation capped at 5% p.a. [2] | RPI inflation capped at 5% p.a. [2] |
| ➢ Post 88 GMP | CPI inflation capped at 3% p.a. [2] | CPI inflation capped at 3% p.a. [2] |

*[2]Caps and floors for pension increases are allowed for using Black-Scholes methodology with an annual inflation volatility of 1.3% for both RPI and CPI.*

# Summary of key assumptions

## Demographic assumptions – scheme funding basis

| | As at 30 June 2020 | As at 30 June 2023 |
|---|---|---|
| Mortality pre retirement | AC00 tables | AC00 tables |
| Mortality post retirement:<br>Base table<br>Adjustment to base table<br>Projection | <br>S3PA<br>86% (M), 93% (F)<br>CMI 2019 with default smoothing parameter of 7, long term rate of 1.5% p.a. and initial addition of 0.7% p.a. | <br>S3PA<br>87% (M), 97% (F)<br>CMI 2022 with default smoothing parameter of 7, long term rate of 1.5% p.a. and initial addition of 0.7% p.a., default core data weightings of 0% 2022 and 2021, 25% 2022. |
| Commutation | Members assumed to commute 15% of their pensions at retirement, using a proxy best estimate factor | Members assumed to commute 15% of their pensions at retirement, using the factors in force at the valuation date |
| Expenses<br>➢ Administration<br>➢ PPF levies<br>➢ Investment<br>➢ GMP equalisation | <br>£3.0m at valuation date<br>Nil, met by the Employer<br>No explicit allowance<br>£1.0m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women | <br>£3.0m at valuation date<br>Nil, met by the Employer<br>No explicit allowance<br>£0.5m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women |

A description of all the assumptions including their derivation for the scheme funding assumptions is included in the statement of funding principles.

## Key financial assumptions – Solvency basis

| | As at 30 June 2020 | As at 30 June 2023 |
|---|---|---|
| Discount rate for non-pensioners | Bank of England Gilts curve - 0.35% p.a. | XPS buyout curve |
| Discount rate for pensioners | Bank of England Gilts curve + 0.25% p.a. | XPS buyout curve |
| Future price inflation (RPI) | Inflation curve | Swap RPI curve |
| Future price inflation (CPI) | RPI inflation -0.6% p.a. | RPI less 0.6% p.a. up to 2030, then RPI from 2030 |
| Pension increase assumptions | As per scheme funding basis | As per scheme funding basis |

# Summary of key assumptions

## Demographic assumptions – Solvency basis

| | As at 30 June 2020 | As at 30 June 2023 |
|---|---|---|
| Base table | S3PA | S3PA |
| Adjustment to base table | 86% (M), 93% (F) | 87% (M), 97% (F) |
| Projection | CMI 2019 with default smoothing parameter of 7, long term rate of 1.50% p.a. and initial addition of 0.7% p.a. | CMI 2022 with default smoothing parameter of 7, long term rate of 1.50% p.a. and initial addition of 0.7% p.a., default core data weightings of 0% 2022 and 2021, 25% 2022 |
| Commutation | No allowance | No allowance |
| Expenses | Fixed initial expense of £250,000 and 2% of liabilities | Fixed initial expense of £500,000, 1% insurer expenses and 1% wind-up expenses |
| GMP equalisation | Reserve of £1.0m | Reserve of £0.5m |

# Appendix E
# Documents and certificates

## Actuary's certificate of the calculation of technical provisions

Name of Scheme: Hermes Group Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 30 June 2023 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 21 March 2024.

.................................................................................

Adam Stanley
Fellow of the Institute and Faculty of Actuaries
XPS Pensions
Tempus Court
Onslow Street
Guildford
GU1 4SS

# Statement of Funding Principles

## Hermes Group Pension Scheme ("the Scheme")

This statement was prepared by Hermes Pension Trustees Limited, the Trustee of the Scheme on 21 March 2024 for the purposes of the actuarial valuation as at 30 June 2023 after obtaining the advice of Adam Stanley, the actuary to the Scheme. This statement has been agreed by BT Pension Scheme Trustees Limited ("the Employer").

## The Statutory Funding Objective

This statement sets out the Trustees' policy for securing that the statutory funding objective, namely that the Scheme must have sufficient and appropriate assets to cover its technical provisions, is met.

## Technical Provisions

**Method**
The actuarial method used to calculate the technical provisions is the Projected Unit Method.

**Assumptions**
A full list of all assumptions that have been used to calculate the technical provisions can be found in Appendix A.

An explanation of the most significant assumptions is set out below.

*Discount interest rate*
Following discussions between the Trustee and Employer, it was agreed that some allowance for additional expected returns above those available on the Bank of England nominal gilt curve would be anticipated on the Scheme's assets. To allow for the intended de-risking of the Scheme's investment strategy, the allowance for these additional expected returns reduces linearly from 0.88% per annum initially to 0.5% per annum from 2030 onwards.

*Retail Prices Index ("RPI") price inflation*
RPI price inflation affects the assumptions for increases to pensions in payment for some members as well as revaluation for career average benefits and revaluation of GMP in deferment. RPI price inflation has been derived from market expectations, using the Bank of England implied RPI inflation curve.

*Consumer Prices Index ("CPI") price inflation*
CPI price inflation affects the assumptions for pension increases in deferment for benefits in excess of GMP, increases to pensions in payment for former HPS members and increases in payment to GMP accrued post 5 April 1988. CPI price inflation at the valuation date has been derived based on the RPI price inflation assumption less 1.0% per annum up to 2030 and 0.1% per annum from 2030.

*Pension increases*
The pension increase assumptions have been derived by applying the Black Scholes model to the appropriate inflation assumption, with a volatility of 1.3% per annum.

*Salary inflation*
In line with the previous valuation, salary inflation is assumed to be in line with CPI price inflation.

No allowance has been made for promotional salary escalation above and beyond normal salary escalation.

*Mortality*
The base tables adopted for the post-retirement mortality assumptions are 87% of the SAPS Series 3 ("S3PA") tables for males and 97% of the S3PA tables for females.

The Trustee and the Employer have agreed a prudent allowance for future improvements in longevity in line with the CMI 2022 core projections with the default smoothing parameter and default data weightings, an initial addition of 0.7% and with a long-term rate of improvement of 1.5% per annum for both males and females.

The AC00 tables have been used for the pre-retirement mortality assumptions.

Discretionary Benefits and benefit enhancement on redundancy

At the request of the Employer and upon payment of any contributions that the Trustee (with the advice of the Scheme Actuary) may consider appropriate, the Trustee will increase any benefit or provide additional benefits under the Scheme. The Trustee and the Employer have agreed that only discretionary benefits actually granted will be taken into account in the calculation of technical provisions.

Under the Scheme rules, some employed-deferred members are entitled to enhanced retirement benefits on redundancy and some other cases of early retirement. The Trustee has agreed with the Employer that advance provisions for future redundancy and early retirement cases will not be made and that the Employer will meet the cost of such enhancements when they arise, as certified in each case by the Scheme Actuary, unless the Employer and the Trustee agree otherwise, based on actuarial advice and having regard to the Scheme's funding levels and its funding and investment strategy at the time.

## Eliminating a shortfall

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a Recovery Plan will be put in place. A Recovery Plan is not required for the 30 June 2023 valuation as the assets of the Scheme exceed the technical provisions at that date.

## Frequency of Valuations

The Scheme's latest valuation under Part 3 of the Pensions Act 2004 was carried out as at 30 June 2023 and subsequent valuations are expected to be obtained every 3 years after that. An actuarial report on developments affecting the funding level of the Scheme will be obtained at each intermediate anniversary of that date.

The Trustee may obtain a full valuation instead of an actuarial report if they believe that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for the current level of contributions. However, the Trustee will consult the Employer before doing so.

## Further information

Information on payments to the Employer, contributions to the Scheme by other parties and Cash Equivalent Transfer Values is set out in Appendix C.

| Signed on behalf of the Trustee, Hermes Pension Trustees Limited | Date |
|---|---|
| | 21/3/2024 |

| Signed on behalf of the Employer, BT Pension Scheme Trustees Limited | Date |
|---|---|
| | 21/3/2024 |
| **Signed on behalf of the Employer, BT Pension Scheme Trustees Limited** | **Date** |
| | 21/3/2024 |

# Appendix A
# Technical Provisions Assumptions

## Financial Assumptions

| Item | Derivation |
|---|---|
| Discount interest rate pre and post-retirement | Bank of England Gilt curve plus 0.88% p.a. at 30 June 2023 reducing linearly to 0.5% p.a. from 30 June 2030 |
| RPI price inflation | Bank of England implied RPI curve |
| CPI price inflation | RPI price inflation less 1.0% p.a. up to 2030, then RPI less 0.1% p.a. from 2030 |
| Salary inflation | CPI price inflation |
| Pension increases pre-retirement: | |
| > Former HPS members (Pension Increase Review Orders) | CPI price inflation (uncapped floor 0% p.a.)[1] |
| > excess over GMP | CPI price inflation |
| > GMP | RPI price inflation + 1% p.a. |
| Pension increases post-retirement: | |
| > Former HPS members (Pension Increase Review Orders) | CPI price inflation (uncapped floor 0% p.a.) [1] |
| > other members | RPI price inflation capped at 5% p.a.[1] |
| > Post 88 GMP | CPI price inflation capped at 3% p.a. [1] |

[1]*Caps and floors for pension increases are allowed for using Black-Scholes methodology with an annual inflation volatility of 1.3% for both RPI and CPI price inflation.*

## Market Conditions at 30 June 2023

| Year | Annual forward rate on curve | | | |
|---|---|---|---|---|
| | Bank of England Gilt Curve | Discount Rate | Bank of England Gilt implied RPI Curve | CPI inflation |
| 2023 | 5.44% | 6.32% | 3.54% | 2.54% |
| 2028 | 3.84% | 4.45% | 3.59% | 2.59% |
| 2033 | 4.47% | 4.97% | 3.61% | 3.51% |
| 2038 | 4.91% | 5.41% | 3.57% | 3.47% |
| 2043 | 4.48% | 4.98% | 3.13% | 3.03% |

## Demographic Assumptions

| Item | Assumption |
|---|---|
| Mortality pre-retirement | AC00 tables |
| Mortality post-retirement<br>- Base table<br>- Future improvements<br>- Initial addition<br>- Smoothing parameter<br>- Long term rate of improvement<br>- Data weighting (w2020, w2021, w2022) | <br>- 87% (males) / 97% (females) of the S3PA tables<br>- projected from 2013 in line with the CMI 2022 core model<br>- initial addition of 0.7%<br>- default (7.0)<br>- 1.5% p.a. for both males and females<br>- default (w2020 0%, w2021 0%, w2022 25%) |
| New entrants | No allowance |
| Withdrawals | No allowance |
| Ill health retirements | No allowance |
| Early retirement | No allowance |
| Late retirement | No allowance |
| Age difference of dependants | Males 3 years older than females |
| Commutation | Members assumed to commute 15% of their pensions at retirement using the factors in force at the valuation date |
| Proportion married | 75% at retirement or earlier death, reducing over time in line with agreed mortality assumptions |
| Expenses:<br>> Administration | <br>£3.0m at the valuation date |
| > Pension Protection Fund Levies | Nil, met by the Employer |
| > Investment Expenses | No explicit allowance. Discount rates are set net of investment expenses |
| > GMP Equalisation | £0.5m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women |

Sample rates for each assumption can be found in Appendix B.

# Appendix B
# Sample Rates for Standard Tables used

## Mortality in retirement

| Age | Male life expectancy | Female life expectancy |
|---|---|---|
| 60 | 88.1 | 89.9 |
| 65 | 88.3 | 89.9 |
| 70 | 88.7 | 90.1 |
| 75 | 89.5 | 90.6 |
| 80 | 90.7 | 91.5 |

# Appendix C
# Additional information required to meet Scheme Funding Regulations

## Payments to the Employer

There is no power to make payments to the Employer out of funds held whilst the Scheme is ongoing.  On winding up, however, if surplus assets remain once all beneficiaries have had their benefits secured in full (and after the requirements of the Pensions Act 1995 have been complied with) these will be paid to the Employer.

## Contributions to the Scheme by Other Parties

No party may contribute to the Scheme other than the Employer or a Scheme member.

## Cash Equivalent Transfer Values ("CETVs")

At each valuation the Trustee will ask the actuary to advise them of the extent to which the assets are sufficient to provide CETVs for all members without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% of benefits, the Trustee will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent and taking into account other material considerations such as the strength of the Employer's covenant.

If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may materially worsen the security of the benefits of other members and beneficiaries, the Trustee will consider commissioning an insufficiency report from the actuary and will decide whether, and to what extent, CETVs should be reduced.

The insufficiency report may also take into consideration to what extent and in what way the liabilities should be divided having regard to different priorities on winding up, with the highest priority being given to the benefits that would apply were the Scheme to enter the PPF.

# Schedule of contributions

## Hermes Group Pension Scheme ("the Scheme")

This schedule of contributions has been prepared by Hermes Pension Trustees Limited, the Trustee of the Scheme after obtaining the advice of Adam Stanley, the actuary to the Scheme. It sets out the contributions which BT Pension Scheme Trustees Limited ("the Employer") must pay and the dates these contributions must be paid to the Trustee and has been agreed by the Employer.

This schedule covers contributions payable in the period from 1 April 2024 to 31 March 2029.

### Shortfall in funding

As the statutory funding objective was met at the 30 June 2023 valuation date, no deficit contributions are due to the Scheme from the Employer.

### Expenses

The Trustee holds a reserve in the technical provisions to meet expenses incurred in managing the Scheme, excluding PPF levies. As such no contributions are required in respect of these expenses.

### PPF levies

The Employer will pay within the time periods required by the PPF all levies payable to the Pension Protection Fund as they fall due.

### Enhanced benefits on redundancy or early retirement

In respect of enhanced benefits granted on redundancy or early retirement under the Rules, the Employer will pay an amount equal to the funding strain on each redundancy or early retirement as calculated by the Scheme Actuary using the method and assumptions set out in the Statement of Funding Principles dated 21 March 2024. The funding strain is the difference, at the date of retirement, in the value of the member's past service liabilities as an employed-deferred member and value of the member's retirement benefits. These contributions will be paid to the Scheme within one month of certification by the Scheme Actuary of the amount due, unless the Employer and Trustee agree a later date or such other amount.

**Notes**

Nothing in this Schedule shall prevent the Employer paying contributions in addition to those payable in accordance with this Schedule.

In particular, in respect of any augmentations granted at the request of the Employer, the Employer will pay any additional contributions that the Trustee considers appropriate, on the advice of the Scheme Actuary. These shall be paid into the Scheme at dates to be agreed between the Employer and the Trustee.

| Signed on behalf of the Trustee, Hermes Pension Trustees Limited | Date |
|---|---|
| | 21/3/2024 |
| **Signed on behalf of the Employer, BT Pension Scheme Trustees Limited** | **Date** |
| | 21/3/2024 |

| **Signed on behalf of the Employer, BT Pension Scheme Trustees Limited** | **Date** |
| --- | --- |
| | 21/3/2024 |

# Actuary's certification of schedule of contributions

## Hermes Group Pension Scheme

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected on 30 June 2023 to continue to be met for the period for which the schedule is to be in force.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 21 March 2024

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

| | |
|---|---|
| | **Date**<br>March 2024 |
| **Name**<br>Adam Stanley | **Qualification**<br>Fellow of the Institute and Faculty of Actuaries |
| **Address**<br>Tempus Court<br>Onslow Street<br>Guildford<br>GU1 4SS | **Employer**<br>XPS Pensions |

# Appendix B
# Section 179 valuation

**This certificate summarises the key data used in, and the results of, the section 179 ("s179") valuation of the Scheme as at 30 June 2023. The results are required by the Pensions Regulator and are used in the calculation of the Scheme's PPF levy.**

## Scheme / Section details

| | |
|---|---|
| Full name of Scheme | Hermes Group Pension Scheme |
| Name of section, if applicable | n/a |
| Pension Scheme Registration Number | 10243702 |
| Address of Scheme (or section, where appropriate) | Inside Pensions Ltd<br>First Floor, 42-48 Victoria Street<br>St. Albans<br>Hertfordshire<br>AL1 3HZ |

## S179 Valuation

| | |
|---|---|
| Effective date of this valuation | 30/06/2023 |

## Guidance and Assumptions

| | |
|---|---|
| S179 Guidance used for this valuation | G10 |
| S179 Assumptions used for this valuation | A11 |

## Assets

| | |
|---|---|
| Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below) | £163,188,000 |
| Date of relevant accounts | 30/06/2023 |
| Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts | 0.0% |

## Liabilities

| | |
|---|---|
| Active members (excluding expenses) | £6,807,000 |
| Deferred members (excluding expenses) | £52,044,000 |
| Pensioner members (excluding expenses) | £57,328,000 |
| Estimated expenses of winding up | £1,205,000 |
| Estimated expenses of benefit installation/payment | £381,000 |
| External liabilities | £0 |
| Total protected liabilities | £117,765,000 |

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts:

| | |
|---|---|
| Active members | 0.0% |
| Deferred members | 0.0% |
| Pensioner members | 0.0% |

## Proportion of Liabilities

Please show the proportion of liabilities which relate to each period of service for:

| | Before 6 April 1997 | 6 April 1997 to 5 April 2009 (inclusive) | After 5 April 2009 |
|---|---|---|---|
| Active members | 8.0% | 64.0% | 28.0% |
| Deferred members | 11.9% | 74.8% | 13.3% |
| Pensioner members | 43.1% | 56.9% | |

## Number of Members & Average Ages

For each member type, please show the number of members and the average age (weighted by protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

| | Number | Average Age |
|---|---|---|
| Active members | 26 | 54 |
| Deferred members | 321 | 53 |
| Pensioner members | 232 | 71 |

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund.

I have taken account of the 'Information note to assist schemes preparing to submit section 179 valuations and certify Deficit-Reduction Contributions' (DRCs)' published by the Board of the Pension Protection Fund in December 2019. This states that, where a section 179 valuation includes an interim allowance for GMP equalisation, such allowance (and such allowance only) may be calculated using a best estimate basis rather than applying the principle of prudence. With the exception of the allowance for GMP equalisation as described above, I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

**Date**
March 2024

**Name**
Adam Stanley

**Qualification**
Fellow of the Institute
and Faculty of Actuaries

**Address**
XPS Pensions
Tempus Court
Onslow Street
Guildford
GU1 4SS

Contact us
xpsgroup.com