Hermes Group Pension Scheme

Scheme funding report on the Actuarial Valuation as at 30 June 2020

May 2021

Executive summary

The Trustee has completed a valuation of the Scheme as at 30 June 2020. 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

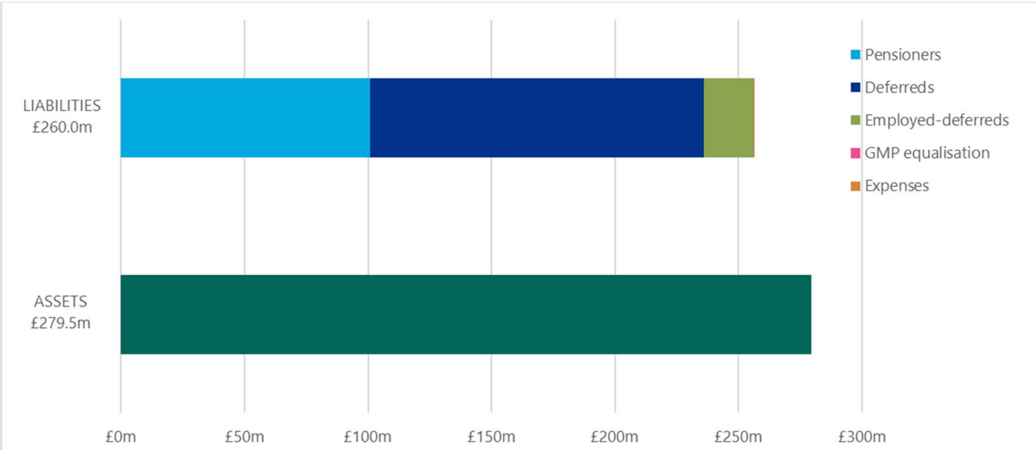
108%

Funding level

£19.5m

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

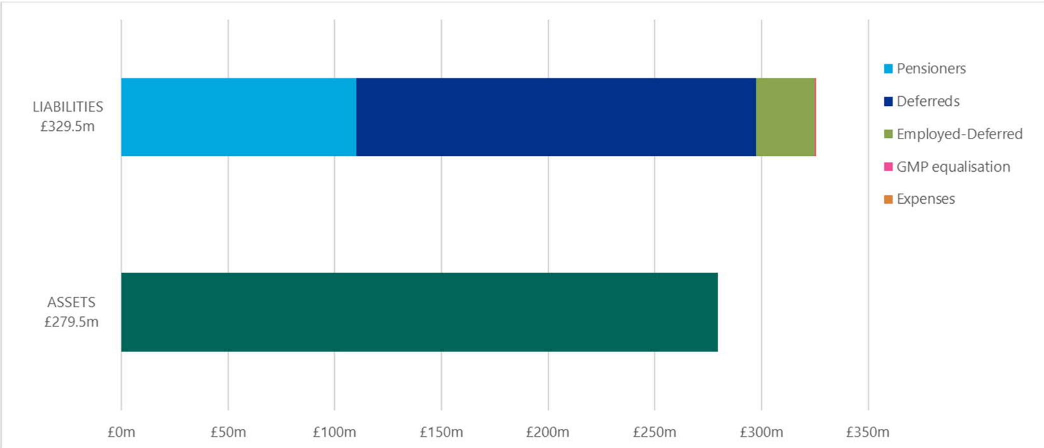
84%

Solvency funding level

£50.0m

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 108% funded with a surplus of £21.8m at 30 June 2020. 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**

Background

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

The Trustee of the Scheme has undertaken a formal valuation of the Scheme as at 30 June 2020.

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:

> "Advice on the assumption for post retirement mortality", dated June 2020

> "Member profiling dashboard", dated June 2020

> "Longevity analysis and accompanying technical appendices", dated June 2020

> "Regulatory background report", dated August 2020

> "Advice on setting actuarial assumptions", dated August 2020

> "Preliminary valuation results", dated August 2020

> "Further advice on setting an assumption for CPI", dated November 2020

> "Revised results using Sponsor proposal", dated January 2021

> The previous Scheme Actuary's report on the previous valuation, "Actuarial valuation as at 31 December 2017", dated November 2018

02 Funding objectives and assumptions

The methodology used in deriving the assumptions are described in detail in the statement of funding principles, dated May 2021

The funding objective

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

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 May 2021, 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.

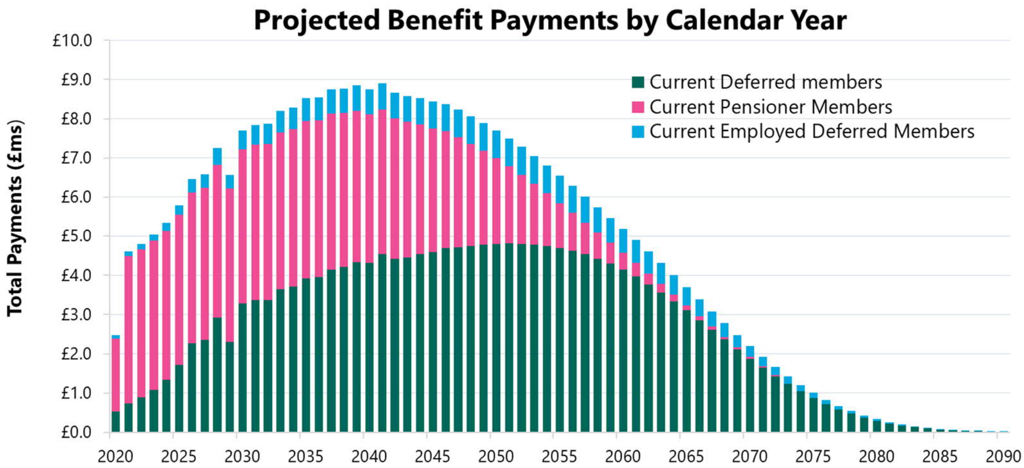
03 Scheme funding results

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 of benefits paid will depend on:

> the actual levels of future inflation compared to that assumed (which affects increases to pensions in deferment and in payment).

The timing of the cashflows will be dependent on factors such as:

> how long members and dependants live compared to assumed,

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

> whether members retire early or late (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.

£19.5m

Surplus at 30 June 2020

	As at 31 December 2017 £m	As at 30 June 2020 £m
Past service liabilities		
Employed-Deferred	22.2	20.1
Deferred	110.3	134.9
Pensioner	78.8	101.0
GMP equalisation	1.0	1.0
Expenses	3.0	3.0
Total past service liabilities (L) ('Technical provisions')	**215.3**	**260.0**
Assets		
Total assets shown in accounts	234.5	279.5
Total assets (A)	**234.5**	**279.5**
Funding surplus / (deficit) (A minus L)	**19.2**	**19.5**
Funding level (A as a percentage of L)	**109%**	**108%**

Reconciliation with the results of the previous valuation

The funding position has improved slightly since the last valuation. The most significant influences on the funding position have been as follows:

> The changes in financial conditions underlying the actuarial assumptions used to value the liabilities have placed a significantly higher value on the liabilities, however,

> Returns on the Scheme's investments were also significantly higher than expected, which has more than offset the increase in liabilities

Scheme funding results

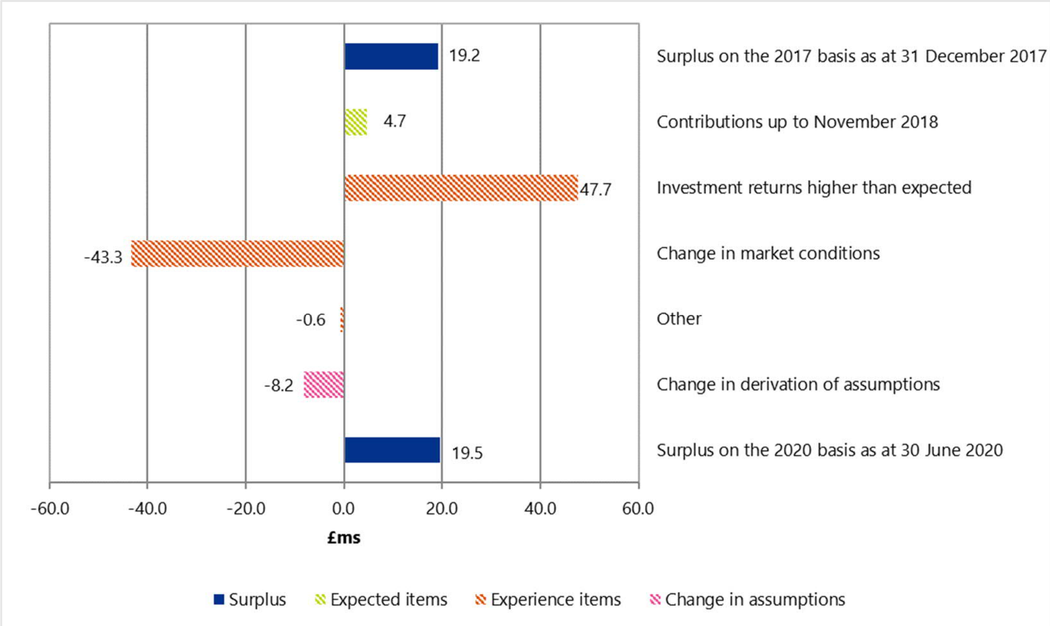
£47.7m

Asset gain over the valuation period due to investment returns being higher than expected

£43.3m

Net increase in Scheme liabilities over the valuation period due to changes in market conditions

The full reconciliation of the changes in the Scheme's funding position since the valuation carried out as at 31 December 2017:



Further information on the investment returns and the contributions paid 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 2020, to the date of this report, financial conditions have been volatile with significant movements in the equity and gilt markets. These movements may have had a material impact on the valuation results shown above. 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 2023 when the next formal valuation of the Scheme is due, when the funding position and future contributions are required to be reviewed again.

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 108%.

In practice the Scheme is exposed to a number of risks as set out in the next section, 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, additional contributions may be required from the Employer.

> Employer covenant – the Employer may become less able to continue 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.

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.

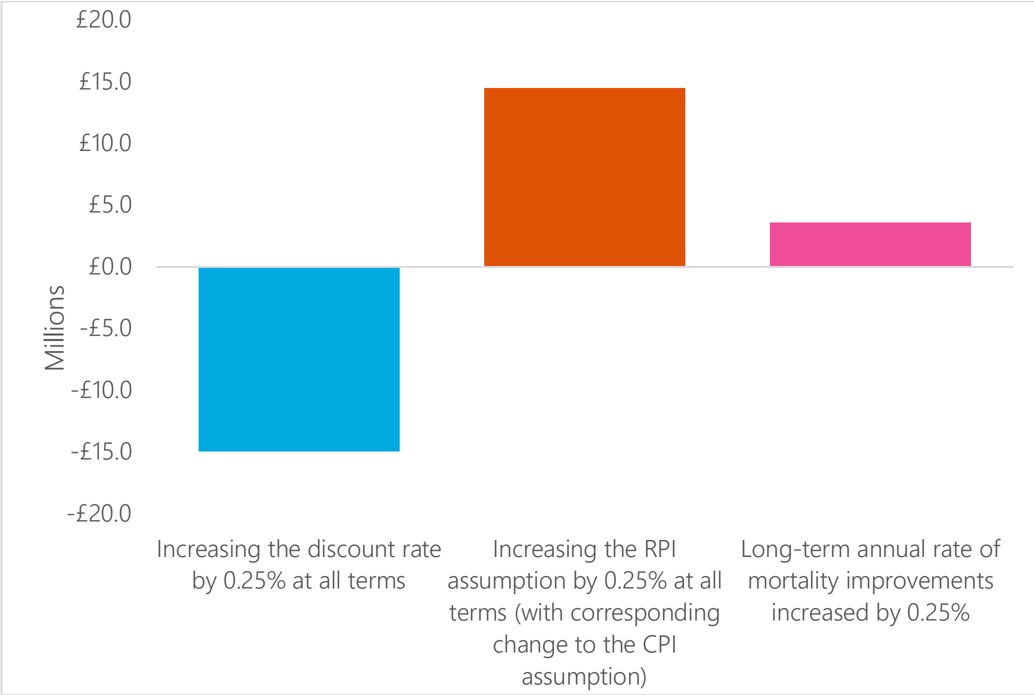
> Monitoring - regular updates are received by the Trustee to keep abreast of any changes in the funding position.

> Investment – the Trustee has invested around 70% 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.

The approximate level of prudence allowed for in the technical provisions can be seen by the difference between the technical provisions and the best estimate basis. The assumptions for the best estimate basis are summarised in Appendix D and the results on this basis are approximately £56m lower than the technical provisions.

For simplicity, only the key assumptions which contain an explicit margin for prudence have been amended, namely the discount rate assumption and the post retirement mortality assumption. The best estimate basis assumes that the current expected best estimate asset returns continue indefinitely, i.e. makes no allowance for any future de-risking of the investment strategy as the Scheme matures. This contrasts with the technical provisions assumption that the Scheme will be invested in a low risk position by 2030.

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 2017 and 2020 valuation dates (for comparison) is set out below.

£51.4m

Estimated Solvency deficit at 30 June 2020

	Solvency Assessment as at 31 December 2017 £m	**Solvency Assessment as at 30 June 2020** £m
Solvency liabilities		
Employed-Deferreds	34.7	27.9
Deferred	182.8	188.5
Pensioners	95.2	110.0
GMP equalisation	1.0	1.0
Solvency and payment expenses	4.1	3.5
Total Solvency liabilities (L)	**317.8**	**330.9**
Assets		
Total assets shown in accounts	234.5	279.5
Total assets (A)	**234.5**	**279.5**
Solvency surplus / (deficit) (A minus L)	**(83.3)**	**(51.4)**
Solvency funding level (A as a percentage of L)	**74%**	**84%**

Comparison to scheme funding results

The funding level on the solvency basis is much 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.

Projected results

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

	Valuation as at 30 June 2020	Projection to 30 June 2023
Solvency funding level	84%	87%

I would expect that the estimated solvency funding level would have improved by 30 June 2023 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 member's benefits

If the Scheme had begun winding up as at 30 June 2020, 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. If the Scheme were unable to secure benefits at least as great as the compensation levels paid by the PPF, the Scheme would, in theory, be eligible to enter the PPF. In this situation, members' benefits would be reduced to the compensation levels paid by the PPF.

The "compensation" paid by the PPF is based on the benefits accrued by each member within their own pension scheme, but with some adjustments. For example:

> Members yet to reach their Normal Pension Age have their benefits reduced by 10% and restricted so that they are no greater than a cap set by the PPF.

> No increases are applied to pension accrued before April 1997.

> Increases to pension accrued after April 1997 are limited to a maximum of 2.5% each year (or the increase in the Consumer Prices Index if lower).

05 Section 179 valuation

Background

I have carried out a Pension PPF levy (section 179) valuation of the Scheme as at 30 June 2020 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. We 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 G8 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 2020 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 £1m 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

108%

Section 179 funding level

On the section 179 basis, as at 30 June 2020, the Scheme had assets of £279.5m and liabilities of £257.7m, equivalent to a funding level of 108% and surplus of around £21.8m. Further details are provided in Appendix F. This compares with assets of £234.5m and liabilities of £209.5m assessed at 31 December 2017, equivalent to a funding level of 112% and surplus of £25.0m.

Experience analysis since the previous valuation

The deterioration in the surplus on the section 179 basis is primarily due to changes in financial market conditions and the methodology resulting in lower discount rates. However, this has been partially offset by actual investment returns being higher 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, we will arrange for 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 2023. 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.

Signature	**Date** 21 May 2021
Name Adam Stanley Scheme Actuary	**Qualification** Fellow of the Institute and Faculty of Actuaries
Address XPS Pensions Group Tempus Court Onslow Street Guildford GU1 4SS	**Employer** 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 £1m 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 2017 valuation

There have been no amending deeds implemented since the 2017 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 2017 valuation. These developments are covered in my 'Regulatory background report' dated August 2020 and are covered in this report where they are relevant to the valuation.

Appendix B
Membership data

586

Total Scheme membership at current valuation date

601

Total Scheme membership at previous valuation date

I have been provided with membership data as at 30 June 2020 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	31 December 2017	30 June 2020
Number	52	35
Total annual pension at date of valuation (£000s)	662	455
Average age*	49.2	50.9

Deferred members	31 December 2017	30 June 2020
Number	369	357
Total annual pension at date of valuation (£000s)	3,197	3,087
Average age*	49.5	50.1

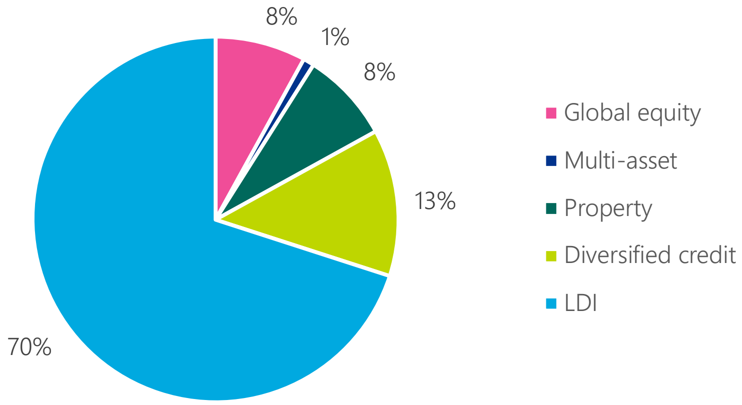
Pensioner members	31 December 2017	30 June 2020
Number	180	194
Total annual pension at date of valuation (£000s)	3,214	3,741
Average age*	69.1	70.4

* 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 2020. The accounts state that at that date the Scheme had invested assets of £278.3m (excluding AVCs). 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 31 December 2017 £m	**Assets as at 30 June 2020** £m
Invested assets (excluding AVCs)	234.5	278.3
Net current asset / (liability)	-	1.2
Total available assets	234.5	279.5

Assets and investment strategy

7.1% pa

Actual average return on Scheme investments over the valuation period

0.7%

Anticipated return on Scheme investments in scheme funding assumptions over the valuation period

£4.583m

Total contributions paid by the Employer over the valuation period

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 dated September 2019. This strategy consists of investing approximately 35% of the assets in return-seeking asset classes, such as equities, and approximately 65% 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 adverse 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 31 December 2017 actuarial valuation anticipated returns on the fund assets averaging around 0.7% per annum over the inter-valuation period. The actual returns on the Scheme's assets during the period were 7.1% per annum (although much of this return was due to increases in the assets matching the liabilities and so was offset by a corresponding increase in those liabilities).

Contributions paid to the Scheme

The Employer paid £4.583m between 1 January 2018 and 30 November 2018 in line with the schedule of contributions in force following the valuation as at 31 December 2014. As the valuation as at 31 December 2017 had a surplus on the technical provisions basis it was agreed that no further contributions would be paid by the Employer after 1 December 2018.

Appendix D Summary of key assumptions

Key financial assumptions – scheme funding basis

	As at 31 December 2017	As at 30 June 2020
Discount rate -Reference yield -Outperformance	 Willis Towers Watson Gilt curve 0.75%	 Bank of England Gilt curve 1.0% p.a. reducing linearly to 0.6% p.a. from 2030
Future price inflation (RPI)	Willis Towers Watson implied RPI inflation curve	Bank of England implied RPI inflation curve
Future price inflation (CPI)	RPI less 1% p.a.	RPI less 1.0% p.a. up to 2030, then RPI less 0.4% p.a. from 2030[1]

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

Pension increase assumptions – scheme funding basis

	As at 31 December 2017	As at 30 June 2020
Pension increases pre retirement: ➢ Former HPS members ➢ Excess over GMP ➢ GMP	 CPI inflation CPI inflation RPI inflation + 1% p.a.	 CPI inflation (uncapped, floor 0% p.a.)[2] CPI inflation RPI inflation + 1% p.a.
Revaluation for career average benefits	RPI inflation capped at 5% p.a. with fixed volatility of 2.4% p.a.	RPI curve capped at 5% p.a. [2]
Pensionable salary increases	CPI inflation	CPI inflation.
Pension increases post retirement: ➢ Former HPS members ➢ Other members ➢ Post 88 GMP	 CPI inflation (uncapped, floor 0% p.a.), volatility 1.9% p.a. RPI inflation capped at 5% p.a. with volatility 2.4% p.a. CPI inflation capped at 3% p.a. with volatility 1.9% p.a.	 CPI inflation (uncapped, floor 0% p.a.) [2] RPI inflation capped at 5% 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 31 December 2017	As at 30 June 2020
Mortality pre retirement		AC00 tables
Mortality post retirement: Base table	S2PA_L	S3PA
Adjustment to base table	95% (M), 85% (F)	86% (M), 93% (F)
Projection	CMI 2017 with a long term rate of 1.5% p.a.	CMI 2019 with default smoothing parameter of 7, long term rate of 1.5% p.a. and initial addition of 0.7% p.a.
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 a proxy best estimate factor
Expenses		
➢ Administration	£3.0m at valuation date	£3.0m at valuation date
➢ PPF levies	Nil, met by the Employer	Nil, met by the Employer
➢ Investment	No explicit allowance	No explicit allowance
➢ GMP equalisation	£1.0m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women	£1.0m 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 31 December 2017	As at 30 June 2020
Discount rate for non-pensioners	Gilts –0.4% p.a.	Bank of England Gilts curve - 0.35% p.a.
Discount rate for pensioners	Gilts +0.2% p.a.	Bank of England Gilts curve + 0.25% p.a.
Future price inflation (RPI)	Inflation curve	Inflation curve
Future price inflation (CPI)	RPI inflation -0.7% p.a.	RPI inflation -0.6% p.a.
Pension increase assumptions	As per scheme funding basis	As per scheme funding basis

Summary of key assumptions

Demographic assumptions – Solvency basis

	As at 31 December 2017	As at 30 June 2020
Base table	S2NA_L for males S2NA for females	S3PA
Adjustment to base table	99% (M), 88% (F)	86% (M), 93% (F)
Projection	CMI 2016 with long term rate 1.5% p.a.	CMI 2019 with default smoothing parameter of 7, long term rate of 1.50% p.a. and initial addition of 0.7% p.a.
Commutation	No allowance	No allowance
Expenses	Estimate of winding up expenses	Fixed initial expense of £250,000 and 2% of liabilities
GMP equalisation	Reserve of £1.0m	Reserve of £1.0m

Key financial assumptions – Best estimate basis

	As at 30 June 2020
Discount rate -Reference yield -Outperformance	 Bank of England Gilts curve 1.40%
Future price inflation (RPI)	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]
Pension increase assumptions	As per scheme funding basis

Demographic assumptions – Best estimate basis

	As at 30 June 2020
Mortality pre retirement	AC00 tables
Mortality post retirement: Base table	 S3PA
Adjustment to base table	86% (M), 93% (F)
Projection	CMI 2019 with default smoothing parameter of 7, long term rate of 1.25% p.a. and initial addition of 0.4% p.a.
Commutation	Members assumed to commute 15% of their pensions at retirement, using a proxy best estimate factor

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 2020 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 17 May 2021.

....

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

Appendix A
Technical Provisions Assumptions

Financial Assumptions

Item	Derivation
Discount interest rate pre and post retirement	Bank of England Gilt curve plus 1.0% p.a. in 2020 reducing linearly to 0.6% p.a. from 2030
Price inflation (RPI)	Bank of England implied RPI Curve
Price inflation (CPI)	RPI less 1.0% p.a. up to 2030, then RPI less 0.4% p.a. from 2030[1]
Pensionable salary increases	CPI inflation
Revaluation for career average benefits	RPI curve capped at 5% p.a.[2]
Pension increases pre retirement: > former HPS members (Pension Increase Review Orders) > excess over GMP (other members) > GMP	 CPI curve (uncapped, floor 0% p.a.)[2] CPI curve RPI curve + 1% p.a.
Pension increases post retirement: > former HPS members (Pension Increase Review Orders) > other members > post 88 GMP	 CPI curve (uncapped, floor 0% p.a.)[2] RPI curve capped at 5% p.a.[2] CPI curve capped at 3% p.a.[2]

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

[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.*

Market Conditions at 30 June 2020

Year	Annual forward rate on curve			
	Bank of England Gilt curve	Discount rate	Bank of England Gilt implied RPI curve	CPI inflation
2020	-0.01%	0.99%	2.70%	1.70%
2025	0.02%	0.86%	3.31%	2.31%
2030	0.76%	1.36%	3.65%	3.25%
2035	1.22%	1.82%	3.41%	3.01%
2040	1.08%	1.68%	2.88%	2.48%

Demographic Assumptions

Item	Assumption
Mortality pre retirement	AC00 tables
Mortality post retirement	86% of the S3PA table for males and 93% of the S3PA table for females projected from 2013 in line with the CMI 2019 core projections with the default smoothing parameter of 7 and an initial addition of 0.7% and with a long term improvement rate of 1.5% per annum for both males and females.
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	15% of pension at retirement using a proxy best estimate factor
Proportion married	75% at retirement or earlier death
Expenses:	
> Administration	£3.0m at the valuation date, being a reserve of 5 years of Scheme expenses with expenses assumed to be £600,000 p.a.
> Pension Protection Fund Levies	Nil, met by the Employer
> Investment Expenses	No explicit allowance. Discount rates are set net of investment expenses
> GMP Equalisation	£1.0m reserve in respect of the estimated impact of the requirement to equalise GMPs between men and women

Sample rates for key assumptions 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	88.6	90.4
65	88.7	90.4
70	89.2	90.6
75	89.8	91.0
80	90.9	91.8

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.

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 2020 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 17 May 2021.

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.

Signature

Date
21 May 2021

Name
Adam Stanley

Qualification
Fellow of the Institute
and Faculty of Actuaries

Address
Tempus Court
Onslow Street

Guildford

GU1 4SS

Employer
XPS Pensions

Appendix F
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 2020. 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 First Floor, 42-48 Victoria Street St. Albans Hertfordshire AL1 3HZ

S179 Valuation

Effective date of this valuation	30/06/2020

Guidance and Assumptions

S179 Guidance used for this valuation	G8
S179 Assumptions used for this valuation	A9

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)	£279,500,000
Date of relevant accounts	30/06/2020
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)	£20,821,000
Deferred members (excluding expenses)	£148,001,000
Pensioner members (excluding expenses)	£84,365,000
Estimated expenses of winding up	£4,022,000
Estimated expenses of benefit installation/payment	£531,000
External liabilities	£0
Total protected liabilities	£257,740,000

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	5.8%	65.0%	29.2%
Deferred members	12.9%	72.6%	14.5%
Pensioner members	43.4%	56.6%	

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	35	50
Deferred members	357	50
Pensioner members	194	67

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.

Signature

Date
21 May 2021

Name
Adam Stanley

Qualification
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