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Plumbing & Mechanical Services (UK) Industry Pension Scheme

Actuarial report as at 5 April 2022

5 October 2022



Summary

The main results of this actuarial report and those from the latest actuarial valuation and the intervening actuarial report are as follows:

- Technical provisions funding level as at 5 April 2022 is estimated to have increased to 99.7% over the year.



- Shortfall of assets relative to technical provisions is estimated to have improved to £7 million over the year



Contents

Summary

Introduction

Scope
Next steps
Limitations

Funding

Statutory funding objective

Glossary

Throughout this report the following terms are used:

Scheme

Plumbing & Mechanical Services (UK)
Industry Pension scheme

Trustee

Plumbing Pensions (UK) Limited

Employers

All participating employers

Trust Deed & Rules

The Scheme's Trust Deed and Rules
dated 20 September 2007 and
subsequent amendments

Introduction

Scope

This is the actuarial report in respect of the Plumbing Mechanical Services (UK) Industry Pension scheme as at 5 April 2022 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Employers within seven days of its receipt.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the latest actuarial valuation. It should be considered in conjunction with the report dated 28 April 2021 on the actuarial valuation as at 5 April 2020 and the actuarial report as at 5 April 2021 dated 7 October 2021, which form component communications for the purposes of this funding update.

This report and the work involved in preparing it are within the scope of and comply with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) published by the Financial Reporting Council. However, as this report has been produced solely to meet a legislative requirement and no decisions are expected to be taken on the basis of the information set out in it, I have taken a proportionate approach when considering and applying the requirements contained within TAS 100 and TAS 300.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial report within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme will be reviewed at the next actuarial valuation, which is expected to be carried out as at 5 April 2023.



Nicola MacKay
Fellow of the Institute and Faculty of Actuaries
5 October 2022

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Employers who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me for the 5 April 2020 actuarial valuation as at the effective date of the actuarial report and takes no account of developments after that date except where explicitly stated otherwise. In particular, no allowance is made for any data received as part of the 5 April 2021 section 75 valuation.

Methodology

In carrying out the estimates of the updated financial position of the Scheme, I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 5 April 2022 using approximate methods.

The approach taken to calculate the estimates will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonable indication of how the funding position might have moved since the last assessment.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, in line with the actuarial valuation as at 5 April 2020, no explicit allowance has been made for climate-related risks.

Funding

Statutory funding objective

The Trustee's formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The method and assumptions for calculating the technical provisions as at 5 April 2020 were agreed between the Trustee and Employers and documented in the Statement of Funding Principles dated 16 April 2021.

A significant proportion of the Scheme's liabilities in respect of benefits payable to pensioner and dependant members are secured with Legal & General via a bulk "buy-in" annuity. Pension payments in respect of the insured benefits are payable from Legal & General to the Scheme. The value of liabilities in respect of the insured benefits is taken to be equal to the value of the buy-in as shown in the Scheme's annual accounts.

The table below summarises the main financial assumptions used to estimate the Scheme's technical provisions in respect of the non-insured benefits.

Financial assumptions	
Discount rate	WTW's GBP Zero Coupon Gilt Nominal Yield curve plus 0.5% per annum at all durations.
RPI inflation	WTW's gilt-based RPI inflation curve RPI inflation curve with a reduction of 1.0% per annum to 2030 and 0.5% per annum thereafter
CPI inflation	
Increases pre-retirement	In line with the RPI inflation curve In line with the RPI inflation curve In line with the CPI inflation curve
- Credits accrued before 6 April 2004	
- Credits accrued after 5 April 2004	
- Credits accrued on the 2017 Scale	Nil CPI inflation curve capped at 5% in each year CPI inflation curve capped at 2.5% in each year
Pension increases in payment	
- Credits accrued before 6 April 1997 ¹	
- Credits accrued between 6 April 1997 and 5 April 2005	
- Credits accrued after 5 April 2005	

¹ Guaranteed Minimum Pensions receive statutory increases once in payment

The below table summarises the financial assumptions for this actuarial report, the actuarial report as at 5 April 2021 and the latest actuarial valuation.

Financial assumptions ¹	5 April 2022	5 April 2021	5 April 2020
	% pa	% pa	% pa
Discount rate	2.20	1.70	1.20
RPI inflation	3.90	3.40	2.70
CPI inflation	2.50	2.50	1.90
Increases pre-retirement			
- Credits accrued before 6 April 2004	4.40	3.60	3.00
- Credits accrued after 5 April 2004	4.00	3.50	2.90
- Credits accrued on the 2017 scale	3.10	2.80	2.10
Pension increases:			
- Credits accrued before 6 April 1997 ²	Nil	Nil	Nil
- Credits accrued between 6 April 1997 and 5 April 2005	2.70	2.70	1.90
- Credits accrued after 5 April 2005	2.30	2.40	1.80

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Scheme's technical provisions at 5 April 2020, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 5 April 2020, as set out in the Scheme's Statement of Funding Principles dated 16 April 2021.

However, if the Trustee and Employers were to consider all the assumptions in detail as part of a formal valuation process it is likely that some of these assumptions would change. In particular, following the Government and UK Statistics Authority consultation on future changes to RPI, it was announced in November 2020 that RPI would be aligned with CPIH from 2030 onwards. The impact of this development on the method for setting the CPI assumption will be incorporated in the Statement of Funding Principles as part of the actuarial valuation at 5 April 2023.

There is no allowance in the assumptions underlying the technical provisions for any future discretionary increases to benefits.

I have included an allowance of 1.8% of the total liabilities in my calculations for the potential cost of equalising GMPs. This is consistent with the approach adopted for the previous valuation. As such, please note that this estimate makes no explicit allowance for the cost of equalising GMPs for historic transfers out, which will be incorporated as part of the actuarial valuation at 5 April 2023.

¹ Curve-based assumptions expressed as single-equivalent rates based on the Scheme's projected cashflows. These assumptions may not be directly comparable with each other as the single-equivalent rates are based on the underlying cashflows relating to each assumption.

² Guaranteed Minimum Pensions receive statutory increases once in payment

The table below compares the estimated technical provisions as at the effective date of the actuarial report with the market value of the Scheme's assets and the corresponding figures from the actuarial report as at 5 April 2021 and the latest actuarial valuation:

Valuation statement	5 April 2022 £m	5 April 2021 £m	5 April 2020 £m
Technical provisions*	2,164	2,233	2,246
Market value of assets*	2,157	2,222	2,215
Past service surplus/(deficit) (assets less technical provisions)	(7)	(11)	(31)
Funding level (assets ÷ technical provisions)	99.7%	99.5%	98.6%

*It should be noted that the value of both the assets and liabilities include an allowance of £461 million, £516 million and £498 million in respect of the buy-in policy as at 5 April 2022, 5 April 2021 and 5 April 2020 respectively.

Developments since the latest valuation

The funding level is estimated to have increased to 99.7% from 98.6% as at 5 April 2020 and remained broadly unchanged over the year since 5 April 2021.

The funding level has remained broadly the same as the change in the liabilities over the period has been broadly matched by the change in the assets due to the high level of interest rate and inflation hedging in the asset strategy.

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the Trustee to perform certain statutory duties for the Scheme.

Statement of Funding Principles (SFP):

The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP):

The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles