Plumbing & Mechanical Services (UK) Industry Pension Scheme
Statement of Funding Principles

Introduction

This statement has been prepared by the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004 (the "Act"), after obtaining the advice of the Scheme Actuary, Nicola MacKay FIA. The Trustee has discussed and agreed it with Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers).

This statement covers the Scheme's Statutory Funding Objective, the principles used in determining that objective, and the policy for securing that it is met. It contains other information required under the Act and applies to the actuarial investigation as at 5 April 2020.

Statutory Funding Objective

The Statutory Funding Objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, based on its obligated benefits, and this statement sets out the Trustee's policy for securing that this objective is met.

The Trustee has no formal funding objectives in addition to the Statutory Funding Objective.

Technical Provisions: Method and assumptions

It has been agreed that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective obligated benefits arising from service completed before that date, including allowance for prospective non-discretionary increases both before and whilst benefits are in payment. This method of calculating technical provisions is known as the projected unit credit method. Assets will be taken into account at market value.

The liabilities relating to a significant portion of the Scheme's pensioner and dependant members are secured with Legal & General via a bulk annuity "buy-in" policy. Pension payments in respect of these insured liabilities are paid from Legal & General to the Scheme. The value of liabilities for benefits covered under the buy-in is equal to the asset value of the buy-in policy.

It has been further agreed that:

- When setting the discount rate used to calculate the capital value of future cashflows in respect of the benefits not covered by the buy-in policy, the investment return which would be required to meet the Statutory Funding Objective, based on the existing assets (excluding the buy-in) and obligated benefits, will be determined, on the advice of the Actuary. The Trustee will then consider whether this return is achievable with a high enough degree of confidence taking into account the Scheme's likely future investment policy and the yields available on index linked and conventional government bonds and an element of additional return expected from other assets held by the Scheme.

- At this valuation date, the discount rate has been set as 0.5% pa above the gilt yield curve at each duration.

- Future retail price inflation will be set by considering, amongst other things, the markets' expectations of future inflation levels. Such expectations are derived by taking into account, for example, information from the index-linked and fixed interest bond markets at the effective date of the actuarial valuation. Data published by the Bank of England will also be taken into account.

- Future consumer price inflation is set by considering, amongst other things, the markets' expectations of the gap between future retail price inflation and consumer price inflation levels at appropriate durations on the implied inflation curve.

- The price inflation assumptions will be used as the basis for determining the pension increase assumptions for the different types of Scheme pension (both pre- and post-retirement), after making suitable allowance for any relevant restrictions.

- Demographic assumptions will have regard to an analysis of the Scheme's actual experience, and views about how this may change in the future.

Taken together, the assumptions derived as described above are prudent given the actual current investment allocation of the Scheme.

The above approach is based on the collective covenant of the participating employers remaining broadly unchanged.

This does not preclude changes in methods and assumptions in the future where justified by a change of legal, demographic or economic circumstances, if such a change is sensible and agreeable to both the Trustee and the participating employers.

Discretionary Benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion, the principal details of which are set out below. The Trustee is obligated to provide the following annual pre-retirement bonuses:

- credits in respect of contributions before 6 April 2004 will increase at least in line with national average earnings

- credits in respect of contributions after 5 April 2004 will increase at least in line with Retail Price Inflation (RPI).

- credits accrued on the 2017 Benefits Scale will increase at least in line with Consumer Price Inflation (CPI)

The Trustee is obligated to provide the following annual post-retirement bonuses:

- nothing for credits in respect of contributions before 6 April 1997 (apart from the statutory requirement to increase members' post-5 April 1988 GMP pensions)

- the lesser of consumer price inflation and 5% for credits in respect of contributions between 6 April 1997 and 5 April 2005 inclusive

- the lesser of consumer price inflation and 2.5% for credits in respect of contributions after 5 April 2005

The Trustee may grant discretionary increases above these obligated benefits. The Trustee has decided to make no allowance for discretionary increases in determining the Scheme's technical provisions.

Under the Scheme Rules, a participating employer, with the agreement of the Trustee (having considered actuarial advice), may provide increased or additional benefits to any member, spouse or dependant. No advance allowance is made in the funding arrangements for the potential increase in the liabilities of the Scheme arising from the exercise of such discretions. The cost of any such increase would be met by a special contribution by the participating employer at the time the discretion was exercised.

Actuarial valuation as at 5 April 2020

The Trustee (having taken the advice of the Actuary) and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed assumptions for the actuarial valuation as at 5 April 2020, in line with the process described above. Details of the agreed assumptions are set out in the Appendix.

Eliminating a shortfall

The Trustee and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed that any funding shortfall identified at an actuarial valuation should be eliminated in an appropriate timeframe, taking into account the other financial commitments and obligations of the participating employers. A shortfall will be eliminated by an agreed combination of contributions and assumed asset outperformance relative to the growth of the liabilities over the recovery period.

In determining the recovery period at any particular valuation, the Trustee will take into account relevant factors such as:

- The size of the funding shortfall;
- The maturity and risk profile of the Scheme;
- The risk that the value of the Scheme's assets may deteriorate against the technical provisions and solvency liabilities of the Scheme;
- The Trustee's assessment of the financial covenant of the participating employers; and
- Any contingent security available to support the Scheme.

Recovery Plan investment return assumption

The Trustee (having taken advice from the Scheme Actuary) and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed that for the purpose of the Recovery Plan at 5 April 2020, it will be assumed that the Scheme's assets will outperform the discount rate for the technical provisions by 0.25% per annum during the period covered by the Recovery Plan.

Expenses

Investment management costs, administrative and other non-investment expenses (including Pension Protection Fund levies) are met from the Scheme's resources. As at 5 April 2020, an ongoing funding reserve of £42 million has been included within the technical provisions to allow for these expenses.

Equalisation of Guaranteed Minimum Pensions (GMPs)

On 26 October 2018 the High Court ruled on the Lloyds case that GMP equalisation is required, however there remain a number of clarifications to be provided before members' benefits can be adjusted to reflect this. The Actuary has carried out analysis to estimate the expected increase in the technical provisions as a result of this requirement. At 5 April 2020, a reserve has been included in the technical provisions for the estimated cost of GMP equalisation. The Trustee regards this as a prudent approach based on the information currently available. No allowance has been made in this valuation to reflect the subsequent Lloyds judgment from November 2020 regarding the review of past transfer payments from the Scheme.

Frequency of actuarial valuations

In the normal course of events, the Trustee will request subsequent funding valuations three years after the preceding one. The Actuary will also provide an estimate of the up-to-date financial position of the Scheme as at each 5 April between valuations.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the participating employers to contribute to the assets held by the Scheme.

Paying funding surpluses to the participating employers

The rules do not permit funding surpluses to be paid to the employers, unless the Scheme is being wound up, all entitlements have been secured in full and the Trustee has increased all or any benefits or provided additional benefits to the extent that they consider appropriate.

Cash equivalent transfer value calculations

The Trustee will ask the Scheme Actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

The law permits the Trustee to reduce cash equivalent transfer values paid to members if the Actuary advises that the Scheme's assets are not sufficient to provide them in full to all members, on the method and assumptions adopted for that purpose. Should such a situation arise, the Trustee would consider whether such a reduction would be appropriate in all of the prevailing circumstances. This is not covered in this report.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustee either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Pensions Regulator has
  - directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the Statutory Funding Objective is to be remedied, or
  - imposed a schedule of contributions.

The Trustee may also elect to review, and, if necessary revise, the statement at other times.

Date of statement (for reference purposes): 16 April 2021

Signed on behalf of the Trustee of the Plumbing & Mechanical Services (UK) Industry Pension Scheme:

Signature: ....

Print name: J M. BRIDGER

Date: 23 APRIL 2021

Signed on behalf of Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers):

Signature: K Yates

Print name: Kate Yates

Position: Chief Executive

Date: 23 April 2021

Appendix – Assumptions for the actuarial valuation as at 5 April 2020

The Trustees, having taken the advice of the Scheme Actuary, and Plumbing Pensions (UK) Administration Limited (as a representative of the participating employers) have agreed assumptions relating to the non-insured liabilities for the actuarial valuation as at 5 April 2020, in line with the process described in this Statement of Funding Principles. These assumptions are set out below.

Financial assumptions as at 5 April 2020

Financial assumption	Assumption	Single equivalent rate* (% pa)
Discount rate	Willis Towers Watson's GBP Zero Coupon Gilt Nominal Yield curve plus 0.50% per annum at all durations	1.20
Recovery Plan investment return assumption	Discount rate plus 0.25% per annum	1.45
Retail price inflation (RPI)	Willis Towers Watson's gilt-based RPI curve	2.70
Consumer price inflation (CPI)	RPI with a reduction of 1.0% per annum to 2030 and 0.5% per annum thereafter	1.90
Increases pre-retirement		
- Credits accrued before 6 April 2004	In line with the RPI curve	3.00
- Credits accrued after 5 April 2004	In line with the RPI curve	2.90
- Credits accrued on the 2017 Benefits Scale	In line with the CPI curve	2.10
Increases post-retirement		
- Credits accrued before 6 April 1997**	Nil	Nil
- Credits accrued between 6 April 1997 and 5 April 2005	CPI inflation curve capped at 5% in each year	1.90
- Credits accrued after 5 April 2005	CPI inflation curve capped at 2.5% in each year	1.80

** Curve-based assumptions expressed as single-equivalent rates based on the Scheme's projected cash flows. These assumptions may not be directly comparable with each other as the single-equivalent rates are based on the underlying cash flows relating to each assumption.*
*** Guaranteed Minimum Pensions receive statutory increases in payment.*

Demographic assumptions as at 5 April 2020

1 Mortality

Following an analysis of the actual experience of the Scheme's pensioners, mortality is assumed to follow the SAPS 'S3' Heavy table with a multiplier of 94% for males, and the SAPS 'S3' Dependant table with a multiplier of 104% and 106% for female non-pensioners and pensioners respectively. The tables have been adjusted based on the CMI 2018 projection model with a 1.5% per annum long-term trend, default core smoothing parameter and no initial addition parameter applied between 2013 and 2019.

Future improvements in longevity are assumed to follow the CMI 2019 core projection model with a 1.5% per annum long-term trend, default core smoothing parameter of 7.0 and no initial addition parameter.

Specimen non-pensioner mortality rates are provided below.

	Sample rates per 1,000 members at each age	
Age	**Males**	**Females**
25	0.6	0.3
30	0.7	0.4
35	0.9	0.6
40	1.3	1.0
45	2.0	1.7
50	3.2	2.7
55	4.7	3.8
60	7.0	5.2
65	11.1	7.7

2 Retirement from deferred pensioner status

Non-pensioner members are assumed to retire at their normal retirement age.

3 Proportion married and age differences between members and dependants

The proportion of members assumed to leave dependants eligible for pensions is 80% for males and 70% for females at retirement.

Males are assumed to be three years older than their partners and females are assumed to be two years younger than their partners.

4 Commutation

Members are assumed to commute 25% of their Scheme pension at retirement based on the commutation terms at the valuation date.