With Profits Section of the Cheviot Pension

Scheme funding report on the actuarial valuation as at 31 December 2023

31 January 2025

Executive summary

The Trustee has completed a valuation of the Section as at 31 December 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

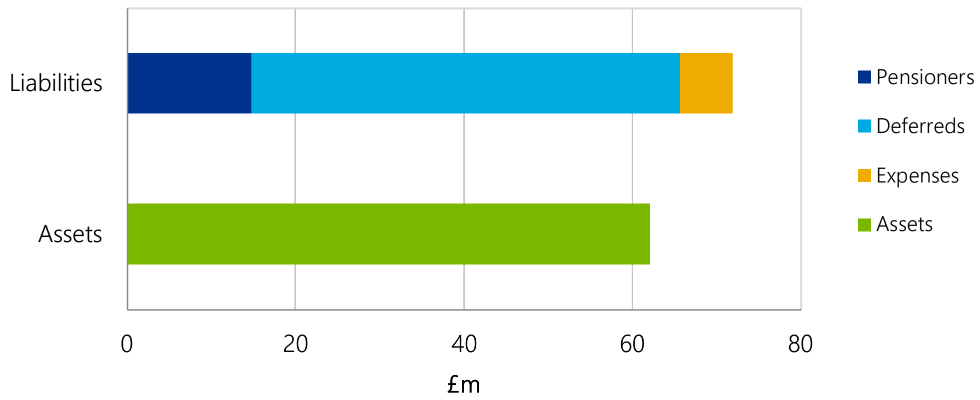
86%

Funding level

£9.8m

Estimated scheme funding deficit

In funding the Section, 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 Section 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

The Trustee has agreed a recovery plan. The aim of the recovery plan is for the deficit to be removed by 30 April 2028. The £9.8m deficit has increased during the interim period as contributions have not yet been paid. The With Profits Employers are paying contributions equivalent to £10.5m from 31 May 2025.

Full details are set out in the schedule of contributions and recovery plan included within Appendix E.

85%

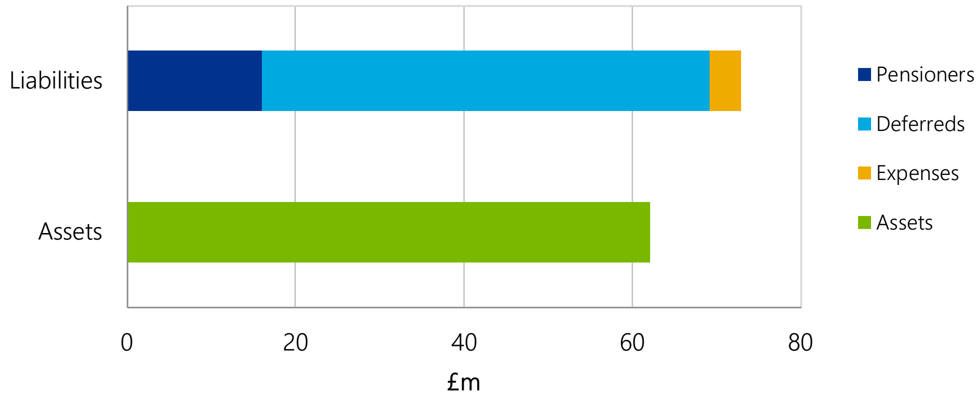
Solvency funding level

£10.8m

Estimated solvency deficit

Solvency assessment

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



Contents

Throughout the report:

'Scheme' refers to The Cheviot Pension

'Section' refers to With Profits Section of the Cheviot Pension

'Trustee' refers to the board of Cheviot Trustees Limited

'Employers' refers to the With Profits Employers

'2023 valuation' refers to the actuarial valuation as at 31 December 2023

'2020 valuation' refers to the actuarial valuation as at 31 December 2020

01 **Introduction**

Background

This report should be made available to the Statutory Employers within 7 days of receipt

The Trustee has undertaken a formal valuation of the Scheme as at 31 December 2023.

I have already provided the Trustee with all of 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 Scheme comprises the With Profits Section, Money Purchase Section and Life Cover Section. Liabilities in the Money Purchase Section are linked to the assets held, and so have been excluded from all asset and liability figures illustrated in this report. The Life Cover Section provides only insured death in service benefits and has also been excluded from this report.

The With Profits Section (the "Section") closed to new contributions at the end of December 2002. The Section's benefits were reclassified as cash balance following section 29 of the Pensions Act 2011 coming into force on 24 July 2014, and the Section became subject to the scheme specific funding requirements. The With Profits Employers (the "Employers"), to whom the responsibility for funding the Section falls, are defined in Rule 1.3 of Schedule 5 of the Trust Deed and Rules dated 19 February 2023.

The valuation includes:

- Scheme funding valuation: An assessment of the position of the Section relative to its statutory funding objective.
- Solvency valuation: An assessment of the adequacy of the Section's assets to meet the benefits payable in the event of winding up.
- Bonus advice: An assessment of the funding position of the Section on a range of measures to establish whether any bonuses should be declared on the with profits benefits.

The report is addressed to the Trustee. Legislation requires the Trustee to make this report available to those employers who were contributing to the Section when it closed on 31 December 2002 (the "Statutory Employers") within 7 days of receipt. As a recovery plan is required, a summary of the actuarial valuation must be submitted to the Pensions Regulator ("TPR") within 10 working days of the schedule of contributions being certified. I can confirm I will submit this within the 10 working days required.

The following documents have been provided to the Trustee and are relevant to the results in this report. The first three documents are confidential and not available to Employers.

- My report "Actuarial valuation as at 31 December 2023 – regulatory background report", dated March 2024
- My note "Actuarial valuation at 31 December 2023 – method and assumptions", dated 6 December 2024
- My report "Preliminary results of the formal valuation as at 31 December 2023", dated March 2024
- My "Scheme funding report for the actuarial valuation as at 31 December 2020", dated 18 February 2022.[1]

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[1] This document is available at www.cheviottrust.com

02 Funding objectives and assumptions

The methodology used in deriving the assumptions is described in detail in the statement of funding principles, dated 31 January 2025

Strong Covenant

The Trustee has assessed that the Employers' covenant is strong

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 Section's funding assumptions[2].

Method and assumptions

In carrying out the valuation of the Section, 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 31 January 2025, which has been agreed by the Trustee following consultation with the Employers. The statement of funding principles is included in Appendix E.

Employers' covenant

The Section is supported by the covenant of the Employers. Generally speaking, the 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.

The Trustee concluded on the basis of professional covenant advice that the Employers' covenant is broadly unchanged since the 2020 valuation and is considered to remain strong.

In agreeing the scheme funding valuation assumptions, the Trustee took into account the strength of the Employers' covenant and the Section's investment strategy.

[2] Described as "technical provisions" in legislation

03 Scheme funding results

The funding position

The assessed cost of providing benefits is 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.

£9.8m

Deficit at 31 December 2023

Scheme funding results	As at 31 December 2020 £m	As at 31 December 2023 £m
Past service liabilities		
Pensioners	23.0	14.8
Non-pensioners	63.8	50.9
Expenses	8.7	6.2
Total past service liabilities (L) ('technical provisions')	**95.5**	**71.9**
Assets		
Total assets shown in the accounts	95.9	62.1
Total assets (A)	**95.9**	**62.1**
Funding surplus / (deficit) (A minus L)	**0.4**	**(9.8)**
Funding level (A as a percentage of L)	**100%**	**86%**

Reconciliation with the results of the previous valuation

The funding position has deteriorated since the last valuation, moving from a small surplus to a deficit. The full reconciliation of the changes in the Section's funding position since the 2020 valuation is as follows:

	£m
Surplus/(Deficit) at 31 December 2020	**0.4**
Interest on surplus	+0.0
Impact of changes in market conditions on liabilities	+8.5
Investment experience	-16.6
Expenses experience	-1.7
Mortality experience (profit from more deaths than expected)	+0.1
Transfer experience (profit from exit payments lower than reserves)	+0.6
Update of CMI mortality projections model from 2019 to 2022	+0.5
Miscellaneous liability experience	+0.4
Change in derivation of assumptions	-2.0
Surplus/(Deficit) at 31 December 2023	**(9.8)**

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

Scheme funding results

Addressing the deficit

The Trustee has agreed a recovery plan to address the deficit. The Trustee expects that the shortfall will be met by 30 April 2028.

Details of the deficit repair contributions can be found in the recovery plan included in Appendix E.

Developments since the effective date

Since the effective date of the valuation 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 an impact on the valuation results shown above, either positive or negative.

The Trustee has agreed that they will not explicitly take any account of any post-valuation experience. 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.

Projected funding level to the next valuation

I have projected the funding position to 31 December 2026 when the next formal valuation of the Section is due. If the assumptions set out in the statement of funding principles are borne out and contributions are paid in line with the newly agreed recovery plan and schedule of contributions over the 3-year period to the next actuarial valuation, then the ongoing funding position, measured against the Trustee's funding objective, is expected to improve.

Scheme funding results

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 Employers.
- Investment risks – where future investment returns are below those assumed or there is an asset/liability mismatch where an increase in liability values (e.g. from decrease in bond yields) is not matched by an increase in asset values.
- Employer covenant – the Employers may become less able to support the Section, therefore leading to a loss of long-term security.

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.
- Investment - the Trustee has adopted an investment strategy which targets a lower return than previously and where (as a proportion of the total Section liabilities) around 100% of the interest rate and inflation risks are hedged.
- Monitoring - regular updates are received by the Trustee to keep abreast of any changes in the Employers' covenant and the funding position.

Sensitivity to assumptions

To give an idea of the extent of some of the key risks, set out below is the sensitivity of the funding position to some of the key assumptions. These show the impact on the deficit of changing each assumption in isolation.

Please note that these calculations are approximate and intended for illustration only.

Impact of change in assumptions on deficit

Sensitivity in isolation	Impact £m	Surplus/(deficit) £m
Funding position at 31 December 2023		(9.8)
Increase discount rate by 1% per year	+2.8	(7.0)
Increase inflation by 1% per year	-0.6	(10.4)
Longevity: reduce initial addition by 0.25% per year	+0.3	(9.5)
Longevity: reduce long-term improvements by 0.25% per year	+0.1	(9.7)

Scheme funding results

Level of prudence in the funding results

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

Prudence has been allowed for by adding explicit margins to the discount rate and mortality assumptions.

The approximate level of prudence allowed for in the scheme funding results can be seen by comparing against liabilities calculated on the transfer value basis (as summarised in my note "setting assumptions for cash equivalents and transfer values" dated March 2023), the latter of which is calculated using assumptions that are determined to be a best estimate of the future. The liabilities (excluding expenses) on this basis are approximately £4m lower than the scheme funding liabilities (also excluding expenses).

04 **Solvency assessment**

Background

I am required to assess the winding-up or "solvency" position of the Section 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 Section 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 this 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.

The solvency valuation is also my statutory estimate of the Section 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 2023 and 2020 valuation dates (for comparison) is set out below.

£10.8m

Estimated Solvency deficit at 31 December 2023

Solvency results	As at 31 December 2020 £m	As at 31 December 2023 £m
Liabilities		
Pensioners	26.7	16.0
Non-Pensioners	74.8	53.2
Solvency and payment expenses	2.5	3.7*
Total liabilities (L)	**104.0**	**72.9**
Assets		
Total assets shown in the accounts	95.9	62.1
Total assets (A)	**95.9**	**62.1**
Surplus / (deficit) (A minus L)	**(8.1)**	**(10.8)**
Funding level (A as a percentage of L)	**92%**	**85%**

* The solvency expenses at 31 December 2023 include an allowance of £2m for the additional one-off costs of identifying and determining contributions required from the Employers if the Section were to be wound up. These one-off costs are currently being incurred over 2024 and 2025 to address the scheme funding deficit, after which they would no longer need to be considered in future solvency estimates.

Comparison to scheme funding results

The funding level on the solvency basis is lower than on 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 Section on an ongoing basis until the Trustee expects to secure annuities in six years' time, versus the cost of securing those benefits through the purchase of insurance policies today.

The cost of winding-up the Section is larger than the expected cost of running the Section 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.

Projected solvency funding level to the next valuation

I would expect that the estimated solvency funding level would have improved by the date of the next valuation 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 and contributions are expected to be received.

05 With Profits bonuses

Bonus declaration

One of the purposes of this valuation is to provide information and recommendations to the Trustee on the level of bonuses to grant on the with profit benefits in the Section. More details on the various types of bonus which are considered can be found in the appendix.

The following bonus recommendations based on the results in this report were agreed by the Trustee at its meeting on 26 March 2024.

Pensioner members

- No bonus should be awarded in respect of 2023

Non-pensioner members

- No annual bonus should be awarded in respect of 2023
- No interim annual bonus should be awarded in respect of 2024
- No base bonus on any annual bonuses since 1 January 2000 should be awarded in respect of 2023
- No final bonuses should be awarded, other than the uplift on pre-88 funds
- The pre-88 uplift should be maintained at 23%[3]
- Interest for all members over normal retirement age where this is at the Trustee's discretion and on delayed payment of benefits should be considered against the Bank of England's prevailing base rate (currently 4.75%). The Trustee has decided to cap this rate at 2.25% in recent times.

The pre-88 uplift is monitored on a monthly basis with a formal review if the agreed trigger moves outside the tolerance range. The interest rate on late retirement and delayed payments should be reviewed biannually. All other bonuses should continue to be reviewed on an annual basis and should next be reviewed following the 31 December 2024 interim valuation.

[3] The pre 1988 uplift impacts very few members and reflects the change from deferred annuity to cash accumulation.

06 **Next steps**

Next steps

The signing of this document, the statement of funding principles, the recovery plan and the schedule of contributions concludes the valuation formalities.

Between now and the next valuation

The next valuation is due with an effective date no later than 31 December 2026. Between now and then I will provide the interim statutory annual reports to the Trustee, setting out how the funding position has evolved and the key reasons for any changes, as well as regular interim funding updates.

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

Signature

Date
31 January 2025

Name
Peter Black
Scheme Actuary

Qualification
Fellow of the Institute
and Faculty of Actuaries

Address
Tempus Court
Guildford
GU1 4SS

Employer
XPS Pensions

Appendix A
Section benefits

The Section benefits are described in the Section's definitive trust deed and rules dated 19 February 2023 and any subsequent amending deeds and amending documentation.

Contributions made to the Section receive the following guaranteed rates of interest:

Contribution / bonus	Guaranteed interest
Contributions paid and annual bonuses awarded before 1 January 1997	5% per annum
Contributions paid and annual bonuses awarded between 1 January 1997 and 31 December 1999	3.5% per annum
Contributions paid between 1 January 2000 and 31 December 2002	3% per annum
Annual bonuses awarded since 1 January 2000	Nil (receive base bonus)

In addition, at the Trustee's discretion, the following bonuses may be granted:

	Description	Level
Base bonus	Payable on annual bonuses awarded since 1 January 2000	Nil since 2005
Annual bonus	Awarded on 1 July in respect of previous year's investment return	Nil since 2001
Interim annual bonus	Payable to members who take benefits from the Section prior to the addition of any annual bonus	Nil since 2001
Final bonus	Payable when members take their benefits. It is not guaranteed and may change over time	23% on pre-88 funds. Otherwise nil since mid-2002

The Section was closed to new entrants and the accrual of new benefits with effect from 31 December 2002.

Current pensioners may receive the following increases in payment:

	Available for retirements	Guaranteed
Flat (non-increases, non-profit)	Before 1 January 1997	Nil
With profit only	Before 1 January 1997	Nil
With profit LPI	After 31 December 1996	CPI inflation up to 5%
LPI only	After 31 December 1996	CPI inflation up to 5%

On retirement, a member's account is used to secure a pension and/or pay a tax-free lump sum. Members can also transfer into a drawdown arrangement. Up to 30 June 2005, members had the option to convert account balances into pensions within the Section. However, this was withdrawn with effect from 1 July 2005; members must now transfer their account to an insurance company or other pension arrangement on retirement.

The Section's legal advisor has confirmed the Section complies with the main equal treatment requirements of the European Court, as far these are understood in the context of the benefits provided by the Section, and the actuarial valuation has been prepared on this basis. I have assumed that these requirements have been validly incorporated into the trust deed and rules.

Discretionary practice

There has been no recent history of discretionary increases or discretionary benefits being awarded under the Section. 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

A number of legislative developments have occurred or have been proposed since the 2020 valuation. These developments have been brought to the Trustee's attention where appropriate and are covered in this report where they are relevant to the valuation.

Appendix B
Membership data

2,660

Total Section membership at current valuation date

3,125

Total Section membership at previous valuation date

I have been provided with membership data as at 31 December 2023 by the Cheviot Trust. 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.

Deferred members	**31 December 2020**	**31 December 2023**
Number	2,362	2,055
Account balances[1] (£000s)	56,470	51,943

Pensioners	**31 December 2020**	**31 December 2023**
Number	763	605
Total in payment	2,882	2,430

Notes:

1. Account balances include accrued bonuses and interest. Any Money Purchase Funds are excluded.

Appendix C
Assets and investment strategy

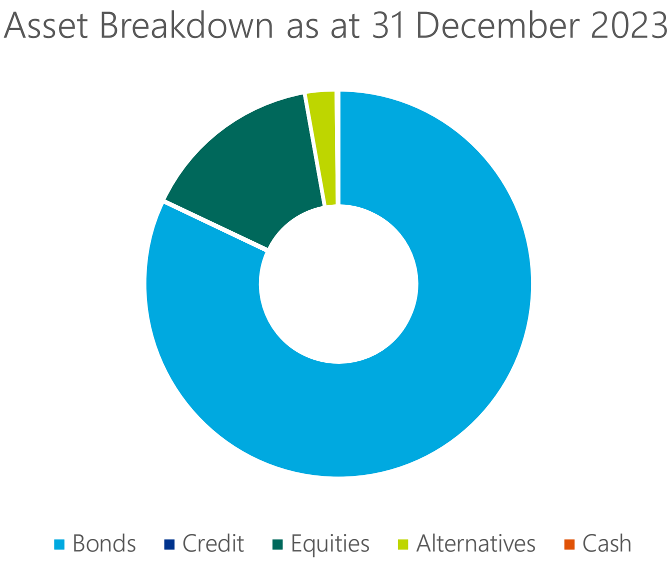
Assets held at the valuation date

I have taken the value of the Section's assets from the Trustee's audited Report and Accounts as at 31 December 2023.

The accounts state that at that date the Section had invested assets of £61.9m. The following chart illustrates how those assets were invested.

40-60%

Benchmark allocation to return seeking assets



40-60%

Benchmark allocation to matching assets

In addition to the assets set out above, the accounts show that there were cash and net current assets of £0.2m.

This gives a total non-insured asset value for use in my assessment, as follows:

	As at 31 December 2020 £m	As at 31 December 2023 £m
Invested assets	95.0	61.9
Cash and net current asset / (liability)	0.9	0.2
Total available assets	**95.9**	**62.1**

Assets and investment strategy

Investment strategy

The Section's investment strategy is set out in the Trustee's statement of investment principles dated 18 September 2024.

The Trustee's investment strategy consists of investing 40%-60% of the assets in return-seeking asset classes, such as equities, and the balancing 40%-60% of assets in matching assets such as bonds. This distribution is intended to reflect the liability profile of the Section and the Trustee will keep the division of assets under review.

As part of the matching fund, the Section has liability hedging in place. This aims to ensure that adverse movements in the Section's liabilities due to changes in interest rates and inflation expectations are matched by corresponding movements in the value of the Section's assets. The liability hedge is gilt-based and covers 100% of all interest rate and inflation risks.

The assets held at the effective date of the valuation broadly reflected the Trustee's investment strategy, with around 50% held in return-seeking assets and around 50% in matching assets.

Investment returns

The scheme funding assumptions adopted for the 2020 actuarial valuation anticipated returns on the Section's assets over the inter-valuation period averaging 2.7% per year.

Over the inter-valuation period, interest rates rose significantly (mainly during the gilt crisis in 2022) and so pushed down the value of the Section's liabilities by around £8.5m. The Section's assets then covered around 90% of interest rate and inflation risks, and so were expected to decrease to a similar extent to the liabilities. The Section's assets actually fell by around £16.6m over the period.

In order to match the change in liabilities due to market conditions, the assets would have needed to return around 0.3% per year.

The actual return on the Section's assets during the inter-valuation period was around −4.0% per year.

Appendix D
Summary of key assumptions

Scheme funding basis

Key financial assumptions	As at 31 December 2020	As at 31 December 2023
Discount rate • On-risk period until • Returns during on-risk period • Returns thereafter	 31/12/2029 Gilt curve + 2.8% p.a. Gilt curve + 0.1% p.a. (pensioners) / + 0.0% p.a. (non-pensioners)	 30/06/2029 Gilt curve + 1.75% p.a. Gilt curve + 0.1% p.a. (pensioners) / + 0.3% p.a. (non-pensioners)
RPI inflation	Swap inflation curve	Swap inflation curve
CPI inflation • Before 2030 • After 2030	 RPI - 0.8% p.a. RPI	 RPI - 0.8% p.a. RPI

Key demographic assumptions	As at 31 December 2020	As at 31 December 2023
Longevity (post-retirement)	106% (males) / 99% (females) of S2PA base tables projected in line with the latest available standard CMI model (CMI_2019 at 31/12/2020) with initial addition of 0.3% p.a. and long-term improvements of 1.5% p.a.	109% (males) / 103% (females) of S3PA base tables projected in line with the latest available standard CMI model (CMI_2022 at 31/12/2023) with initial addition of 0.3% p.a. and long-term improvements of 1.5% p.a.
Family statistics	100% married at retirement with males 3 years older than females	

Key other assumptions	As at 31 December 2020	As at 31 December 2023
Future bonuses	No allowance	No allowance
Expenses	£1.3m p.a. until 31/12/2025, reducing thereafter by £0.1m p.a. to be £0.6m in 2029 Plus 2.5% of outstanding liabilities at 31/12/2029	£2.0m in 2024, £1.5m in 2025 then £0.9m in 2026, reducing thereafter by £0.1m per year to be £0.6m in 2029 Plus £0.5m at 31/12/2029

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

Summary of key assumptions

Solvency basis

Key financial assumptions	**As at 31 December 2020**	**As at 31 December 2023**
Discount rate	Gilt curve + 0.1% p.a. (pensioners) / + 0.0% p.a. (non-pensioners)	Gilt curve + 0.1% p.a. (pensioners) / + 0.3% p.a. (non-pensioners)
RPI inflation	Swaps inflation curve	Swaps inflation curve
CPI inflation • Before 2030 • After 2030	 RPI - 0.6% per year RPI	 RPI - 0.6% per year RPI

Key demographic assumptions	**As at 31 December 2020**	**As at 31 December 2023**
Longevity (post-retirement)	106% (males) / 99% (females) of S2PA base tables projected in line with CMI_2019 with initial addition of 0.3% p.a. and long-term improvements of 1.5% (males) / 1.25% (females) p.a.	106% (males) / 99% (females) of S2PA base tables projected in line with CMI_2022 with initial addition of 0.3% p.a. and long-term improvements of 1.5% (males) / 1.25% (females) p.a.
Proportion married	100% married at retirement	100% married at retirement

Key other assumptions	**As at 31 December 2020**	**As at 31 December 2023**
Future bonuses	No allowance	No allowance
Expenses	2.5% of liabilities	2.5% of liabilities plus £2m one-off costs for addressing payments from the Employers

Appendix E
Documents and certificates

Actuary's certificate of the calculation of technical provisions

Name of Scheme: With Profits Section of the Cheviot Pension

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 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 31 January 2025.

P Black

.... 31 January 2025

Peter Black
Fellow of the Institute and Faculty of Actuaries
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Statement of Funding Principles

The With Profits Section of the Cheviot Pension

This statement was prepared by the Board of Cheviot Trustees Limited (the "Trustee") of the With Profits Section of the Cheviot Pension (the "Section") on 31 January 2025 for the purposes of the actuarial valuation as at 31 December 2023. The Trustee has prepared this statement following consultation with the With Profits Employers[1] and after obtaining the advice of Peter Black, the Scheme Actuary to the Section.

The Cheviot Pension also comprises the Money Purchase Section and the Life Cover Section, neither of which are subject to the scheme funding regime. As such, these sections have been excluded for the purposes of this valuation.

The Statutory Funding Objective

This statement sets out the Trustee's policy for securing that the statutory funding objective, namely that the Section must have sufficient and appropriate assets to cover its scheme funding liabilities[2], is met.

Scheme Funding Liabilities

Method

The actuarial method used to calculate the technical provisions is the defined accrued benefits 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

The Trustee has set a long-term target to secure the Section's benefits with an insurer, and so in the long-term assumed that the Section's assets will achieve returns reflecting pricing terms used by insurers. In the short-term, a prudent allowance has been made for additional returns expected from the Section's assets to be 1.75% per year above gilts. The Section is assumed to be secured with an insurer by 31 December 2029, with the Section's assets assumed to be de-risked to track insurers' pricing six months prior to transacting (i.e. 30 June 2029).

Price inflation

RPI and CPI inflation affect the assumptions for the annual increases on some of the pensions in payment. The RPI inflation assumption has been derived from market expectations taken from RPI swaps. The CPI inflation assumption has been taken as 0.8% per year lower than the RPI inflation assumption until 2030, and then the same as RPI inflation from 2030 reflecting the UK Statistics Authority's scheduled alignment of RPI with CPIH from 2030.

Mortality

The mortality tables used for pensioners are 109% of the SAPS Series 3 ("S3PA") tables for males and 103% of the S3PA tables for females with appropriate allowance for future improvements in longevity in line with the most recent version of the standard CMI model available at the valuation date (CMI_2022) with the default

[1] As defined in Rule 1.3 of Schedule 5 of the Trust Deed and Rules dated 19 February 2023.

[2] Known as technical provisions.

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smoothing parameter, default data weights, an initial addition of 0.3% per year and a long-term rate of improvement of 1.5% per year.

No allowance has been made for pre-retirement mortality as the value of the benefits is not affected.

Discretionary Benefits

Section deferred funds and pensions in payment may be increased above the guaranteed level from time to time at the discretion of the Trustee. No allowance for these discretionary increases has been made in the calculation of the scheme funding liabilities.

Recovery Period

The Trustee has determined that any funding shortfalls identified at a full valuation should be eliminated as quickly as the With Profits Employers can reasonably afford by the payment of additional contributions. The assumptions to be used in the calculations are the same as those used to calculate the cost of providing the benefits.

In determining the actual recovery period at any particular valuation, the Trustee's principles are to take account of a number of factors, including:

- the size of the funding shortfall;
- the asset and liability structure of the Section;
- the Trustee's assessment (having taken appropriate advice) of the combined financial covenant of the With Profits Employers; and
- the value, terms and enforceability of any contingent security offered by the With Profits Employers.

Frequency of Valuations

The Section's first valuation under Part 3 of the Pensions Act 2004 following its change in status as a cash balance scheme was carried out as at 31 December 2014 and subsequent valuations are expected to be obtained every 3 years. An actuarial report on developments affecting the funding level of the Section will be obtained at each intermediate anniversary.

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 requirement for contributions or the level of those contributions.

This statement has been prepared as at 31 January 2025 and determined by the Trustee which has power to determine the statement having consulted with the With Profits Employers.

Further information

Information on payments to the With Profits Employers, contributions to the Section by other parties and Cash Equivalent Transfer Values is set out in Appendix C.

Signed on behalf of the Trustee	Date
[signature]	31 January 2025

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Appendix A

Scheme Funding Valuation Assumptions

Financial Assumptions

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

Item	Derivation

Discount interest rate:	Bank of England gilt yield curve, plus allowance for prudent level of outperformance expected from the Section's assets to 30 June 2029 based on current strategic asset allocation, and de-risked allocation reflecting expected insurer pricing (as recommended by XPS) thereafter:
	- Until 30 June 2029: gilt curve + 1.75% per year
	- Thereafter: (at 31 December 2023)
	    o Pensioners: gilt curve + 0.1% per year;
	    o Non-Pensioners: 0.2% per year above pensioner discount rate (gilt curve + 0.3% per year).

RPI price inflation	Swap inflation curve
CPI price inflation - Before 2030 - From 2030	 RPI inflation less 0.8% each year RPI inflation without adjustment
Pension increases pre-retirement:	Guaranteed fixed increases as set out in the rules
Pension increases post-retirement:	Set using the relevant inflation curve and caps and collars appropriate to each type of increase

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Demographic Assumptions

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

Item	Assumption
Mortality pre-retirement	No allowance
Mortality post-retirement	109% of the S3PA table for males and 103% of the S3PA table for females projected in line with the latest available standard CMI model (CMI 2022 at 31 December 2023) with the default smoothing parameter, default data weights, an initial addition of 0.3% per year and long-term improvement rate of 1.5% per year
New entrants to With Profits Section	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	No allowance
Proportion married	100% at retirement
Future bonuses	No allowance
Expenses:	Non-investment expenses are assumed to be £2.0m in 2024, £1.5m in 2025 then £0.9m in 2026, reducing thereafter by £0.1m per year to be £0.6m in 2029. The cost of windup and securing annuities is assumed to be £0.5m at 31 December 2029.

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Appendix B

Sample Rates for financial and mortality assumptions

Gilt yields

	Yields as at 31 December 2023 (forward rates)	
Projection year	**Gilt interest rate curve**	**Swap RPI inflation curve**
5	3.23	3.78
10	4.40	3.15
15	4.84	3.10
20	4.70	3.05
25	4.28	2.75

Mortality in retirement

Age	Male life expectancy	Female life expectancy
65	21.2	24.1
70	16.8	19.4
75	12.8	15.0
80	9.2	10.9

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Appendix C

Additional information required to meet Scheme Funding Regulations

Payments to the Employers

Whilst a Section is ongoing, if a valuation reveals a surplus which the Trustee considers to be due to excessive employer contributions, and the actuary certifies that the requirements of the Pensions Act 2004 have been met and certifies the maximum amount that may be payable, the Trustee may return such excess to the employers, in line with Clause 23.4 of the Trust Deed.

Contributions to the Section by Other Parties

No party may contribute to the Section other than the With Profits Employers.

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 With Profits Employers' covenant. Since the With Profits Employers' covenant is assessed as strong, it is unlikely that CETVs would be reduced.

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 determined 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 Section to enter the PPF.

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Recovery Plan

The With Profits Section of the Cheviot Pension

Introduction

This recovery plan was prepared by the Board of Cheviot Trustees Limited (the "Trustee") of the With Profits Section of the Cheviot Pension (the "Section") on 31 January 2025 for the purposes of the actuarial valuation as at 31 December 2023. The Trustee has prepared the recovery plan after consulting with With Profits Employers[1] and after obtaining the advice of Peter Black, the Scheme Actuary to the Section.

The actuarial valuation of the Section as at 31 December 2023 revealed that the statutory funding objective was not met, i.e. there were insufficient assets to cover its scheme funding liabilities[2] and there was a funding shortfall of £9.8m.

Additional contributions to eliminate the shortfall

To ensure that the statutory funding objective is met, the Trustee has decided that the funding shortfall is to be removed through contributions paid by the With Profits Employers. The Trustee has power under the trust deed to decide on the deficit contributions to be paid by the With Profits Employers.

The Trustee has determined two equivalent levels of overall deficit contributions, each of which would be expected to meet the funding shortfall:

Recovery Plan A: a single payment at 31 May 2025 of £10.5m.

Recovery Plan B: monthly contributions paid over three years starting from 31 May 2025, comprising 36 equal instalments of £312k each month (totalling to £11.232m over the three years, with the last instalment on 30 April 2028).

Each With Profits Employer is responsible for a percentage share of the Section's overall deficit. The contributions to be paid by each With Profits Employer are their percentage share of the contributions as set out under either Recovery Plan A or Recovery Plan B as set out above.

For example, if Company X was responsible for a share of 10% of the deficit, then Company X would pay either a single payment of £1.05m (10% of £10.5m) by 31 May 2025 under Recovery Plan A or regular contributions of £31.2k (10% of £312k) per month for 36 months from 31 May 2025 to 30 April 2028 under Recovery Plan B.

The Trustee will confirm in writing to each With Profits Employer in a separate notice their share of the deficit (based on their percentage of the liabilities at the date of reclassification), the appropriate pattern of contributions to be paid (Recovery Plan A or Recovery Plan B) and the corresponding amounts and dates of each payment to be made by the With Profits Employer.

Alternatively, the Trustee may agree with a With Profits Employer to pay contributions under an alternative payment structure so long as it is confirmed by the Scheme Actuary as being of equivalent value to Recovery Plan A and Recovery Plan B.

Recovery Period

The Trustee expects that the funding shortfall will be eliminated in 4 years and 4 months from the valuation date, i.e. by 30 April 2028. This is based on the following assumptions:

[1] As defined in Rules 1.3 of Schedule 5 of the Trust Deed and Rules dated 19 February 2023.

[2] Technical provisions for the purposes of the regulations.

- The technical provisions calculated in accordance with the method and assumptions set out in the statement of funding principles dated 31 January 2025.
- The return on existing assets and future contributions during the period as set out in the statement of funding principles dated 31 January 2025 for the calculation of technical provisions.

Signed on behalf of the Trustee	Date
	31 January 2025

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Schedule of contributions

The With Profits Section of the Cheviot Pension

This schedule was prepared by the Board of Cheviot Trustees Limited (the "Trustee") of the With Profits Section of the Cheviot Pension (the "Section") on 31 January 2025 for the purposes of the actuarial valuation as at 31 December 2023. Pursuant to pensions law, the Trustee has the power to determine the schedule of contributions. The Trustee has prepared this schedule following consultation with the With Profits Employers[1] and after obtaining the advice of Peter Black, the Scheme Actuary to the Section.

This schedule covers contributions payable in the period from 31 January 2025 to 30 January 2030.

Shortfall in funding

The With Profits Employers will pay contributions to the Section in respect of the shortfall in funding in accordance with the Recovery Plan dated 31 January 2025.

Each With Profits Employer is responsible for a share of the Section's overall deficit. The contributions to be paid by each With Profits Employer are their percentage share of the contributions as set out under either Recovery Plan A or Recovery Plan B as set out below.

Recovery Plan A: a single payment at 31 May 2025 of £10.5m.

Recovery Plan B: monthly contributions paid over three years starting from 31 May 2025, comprising 36 equal instalments of £312k each month (totalling to £11.232m over the three years, with the last instalment on 30 April 2028).

For example, if Company X was responsible for a share of 10% of the deficit, then Company X would pay either a single payment of £1.05m (10% of £10.5m) by 31 May 2025 under Recovery Plan A or regular contributions of £31.2k (10% of £312k) per month for 36 months from 31 May 2025 to 30 April 2028 under Recovery Plan B.

The Trustee will confirm in writing to each With Profits Employer in a separate notice their share of the deficit (based on their percentage of the liabilities at the date of reclassification), the appropriate pattern of contributions to be paid (Recovery Plan A or Recovery Plan B) and the corresponding amounts and dates of each payment to be made by the With Profits Employer.

Alternatively, the Trustee may agree with a With Profits Employer to pay contributions under an alternative payment structure so long as it is confirmed by the Scheme Actuary as being of equivalent value to Recovery Plan A and Recovery Plan B.

Expenses

The expenses of the Section, including the Pension Protection Fund levy, are met from the Section's assets.

The above contribution rates are subject to review at the next scheme funding valuation of the Section.

[1] As defined in Rule 1.3 of Schedule 5 of the Trust Deed and Rules dated 19 February 2023.

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Signed on behalf of the Trustee

Date

31 January 2025

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Actuary's certification of schedule of contributions

The With Profits Section of the Cheviot Pension

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 could have been expected on 31 December 2023 to be met by the end of the period specified in the recovery plan dated 31 January 2025.

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 31 January 2025.

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
P. Black

Date
31 January 2025

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