Merchant Navy Ratings Pension Fund

Statement of Funding Principles

Status of this document

This Statement of Funding Principles sets out a written statement of the Trustee's policy in relation to scheme funding and other related matters. It has been prepared by the Trustee of the Merchant Navy Ratings Pension Fund (the "Fund") to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Simon Eagle FIA, the Scheme Actuary appointed by the Trustee.

The Participating Employers (as defined in the Rules of the Fund, and comprising both statutory and non-statutory employers) (the "Employers") have been consulted regarding the contents of this Statement of Funding Principles. This document is dated 18 June 2024 and is to be used for the actuarial valuation of the Fund as at the effective date of 31 March 2023.

Policy for securing that the *Statutory Funding Objective* is met

In common with most UK occupational pension schemes, the Fund is subject to the legislative requirement (referred to in the Pensions Act 2004 as the *statutory funding objective*) that it must have sufficient and appropriate assets to cover its *technical provisions* – these being generally interpreted as the amount required to be set aside in order to pay benefits from the Fund as and when they become due.

In order to meet these requirements under the Pensions Act 2004, the Trustee has established a long-term funding strategy. Regular actuarial valuations will be obtained to check the Fund’s financial position compared to its *statutory funding objective*, the results of which will then form the basis for decisions concerning the level of contributions paid into the Fund.

Journey Plan for ultimately securing the Fund’s benefits

Currently, the Fund’s benefits are paid from the Fund’s assets, with any deficit in those assets relative to the Fund’s technical provisions to be met by the Fund’s Employers. The Fund is maturing rapidly, and the Trustee has an investment “Journey Plan” for reducing over time the proportion of return-seeking assets held. Further, the Trustee is seeking to reach full funding on a ‘self-sufficiency’ basis by 31 March 2030, with buy out potentially at a later date to be agreed.

Method and assumptions used in calculating the *technical provisions*

The actuarial method to be used in the calculation of the *technical provisions* is the Projected Unit method, under which the revaluation assumed for each Employee Member (as defined in the Rules of the Fund) is projected until that member is assumed to leave Employee Membership (as defined in the Rules of the Fund) by retirement, death or entering non-seagoing employment.

In line with the legislative requirements, assumptions will be chosen to be sufficiently prudent, both for pensions already in payment and for future beneficiaries, to allow benefits to continue to be paid as they fall due. The assumptions have been chosen on the basis that the Fund continues to have sponsors who will meet any future contribution requirements over the life of the Journey Plan. It is intended that the assumptions adopted for the calculation of the *technical provisions* will, where considered appropriate, include a suitable margin for adverse deviation. In particular:

- The assumed rate of return on investment for funding purposes will be based on the Fund's current and anticipated future investment strategy, with regard to the Trustee’s Journey Plan. The assumed rate of return will be net of expected investment expenses. The Trustee has adopted the following term-dependent discount rate structure:
    - A discount rate based on the yield available over each term on UK fixed-interest gilts, plus a margin which varies by term.

- The margin in the first year following the valuation is derived as an estimate of future returns in excess of gilt yields from the Trustee's current investment strategy, less an appropriate margin for prudence.

- The margin will reduce by term with regard to the Trustee's planned changes in investment strategy and its Journey Plan funding target.

- The ultimate margin will have regard to a long-term self-sufficiency funding target.

- Mortality assumptions will have regard to information published by the UK actuarial profession's Continuous Mortality Investigation (the CMI). It is accepted however that actual Fund mortality may be different to that modelled by the 'standard' mortality tables. For this reason, the mortality assumptions adopted for funding purposes will, to the extent possible, take into account the membership's actual experience (as reviewed from time to time), and may have regard to the experience in other similar schemes. The assumptions will include an allowance for future improvements in longevity. The assumptions may have regard to the expected cost of hedging longevity with an insurer, through a longevity swap or otherwise.

- Future retail price inflation (on which some pension increases under the Fund Rules are based) will be assessed having regard to the inflation expectations implicit in UK government bond prices.

- The technical provisions may include a reserve to meet future operational expenses, based on the Trustee's estimates of expenses over an appropriate period, noting that any period not covered by the reserve is expected, all else equal, to lead to a need for further contributions from the Employers in future. This will be reviewed at each valuation and with reference to the Trustee's target to reach self-sufficiency funding by 31 March 2030.

- Other assumptions will be adopted after considering actuarial advice, and taking into account the experience of the Fund.

Consistent with the Pensions Regulator's guidance, it is intended that individual assumptions will be chosen with a level of prudence such that, when taken together, the Trustee has an appropriate level of confidence that the resulting funding target will prove adequate to pay benefits as they fall due and ultimately buy out the benefits. In making this assessment, the Trustee will consider both the Fund's estimated solvency position and the relative strength of the Employer covenant to the Fund.

Details of the principal assumptions to be used in the calculation of the *technical provisions* as at 31 March 2023 are set out in the Appendix.

Policy on discretionary increases and funding strategy

There is a long-standing practice for increases in deferment above statutory requirements for members who left service from 1986 to 1990, and this is allowed for within the *technical provisions*. Other than this, the Fund has no recent practice of making discretionary increases to benefits and the Trustee's current policy is to not award any further discretionary increases.

In the event that any individual augmentations to benefits within the Fund requested by an Employer are granted, an appropriate special Employer contribution equal to the associated increase in the Fund's *technical provisions* will be required to be paid at the time that the augmentation is awarded.

Failure to meet the *Statutory Funding Objective*

If the assets of the Fund are less than the *technical provisions* at the effective date of any actuarial valuation, a *Recovery Plan* will be put in place, which requires additional contributions from the Employers as the Trustee shall determine from time to time.

The level and period over which these additional contributions are to be paid will usually be decided by the Trustee after Employer consultation. In determining the *Recovery Plan* that will apply at each valuation, the Trustee will have regard to the size of the funding shortfall and Employers' financial circumstances. In making this latter assessment, the Trustee may take account of specialist covenant advice.

The assumptions used to determine the amount of deficit recovery contributions will be consistent with those used to determine the *technical provisions*, unless the Trustee decides otherwise.

Future contributions if the *Statutory Funding Objective* is met

If the *Statutory Funding Objective* is met, the Trustee will not require any contributions except for those required under Rule 5 in respect of Employee Members receiving Section 148 revaluation while in Employee Membership.

Arrangements for other entities to contribute to the Fund

Under the Rules of the Fund, all of the Employers – whether they are statutory employers or non-statutory employers – can be required to pay contributions to the Fund.

There are no arrangements in place for any other entity to contribute to the Fund. The Trustee may accept financial support relating to the payment of contributions by an Employer from any entity it determines.

Frequency of valuations and circumstances for extra valuations

The Fund’s actuarial valuation under Part 3 of the Pensions Act 2004 is being carried out as at 31 March 2023. Subsequent valuations will, in normal circumstances, be carried out every three years.

An actuarial report on developments affecting the Fund’s *technical provisions* and funding level will be obtained annually.

The Trustee may bring forward the date of the next valuation if it feels it is appropriate in light of events affecting the Fund, for example significant adverse investment market changes or a significant change in the Employers' financial circumstances.

Payments to the Employers

The Trust Deed and Rules of the Fund do not include provisions for the Trustee to make payments to the Employers out of funds held for the purposes of the Fund unless there exists a surplus following a winding-up of the Fund.

Policy concerning payment of cash equivalent transfer values

Cash equivalent transfer values are currently intended to represent the expected cost to the Fund of providing members’ leaving service benefits, and are calculated having regard to investment market conditions at the time of the calculation. No allowance is made in the calculation for discretionary increases in pension payments.

UK legislation permits the Trustee to reduce cash equivalents below their normal level, subject to certain specific conditions being met, where the assets held by the Fund are considered insufficient to pay full cash equivalent transfer values in respect of all of the membership. No such reduction is currently applied to transfer values paid from the Fund.

Dates of review of this Statement

This Statement of Funding Principles will be reviewed by the Trustee no later than 15 months after the effective date of each actuarial valuation, due every three years.

This Statement of Funding Principles, dated 18 June 2024, has been determined by the Trustee of the Merchant Navy Ratings Pension Fund.

Signed on behalf of the Trustee of the Merchant Navy Ratings Pension Fund:

[redacted]

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Doug Ross
Chair, Merchant Navy Ratings Pension Fund Trustees Limited

Date: 18 June 2024

Merchant Navy Ratings Pension Fund

Appendix to Statement of Funding Principles

Details of the principal assumptions to be used in the calculation of the *technical provisions* in the funding valuation as at 31 March 2023 are set out below.

Financial assumptions for the *technical provisions*

The rationale behind the financial assumptions used to determine the Fund's *technical provisions* can be summarised as follows:

Discount rates

Structure of discount rates:	A term-dependent discount rate net of investment expenses has been used equal to the yield on UK fixed-interest gilts (using the WTW zero-coupon fixed interest gilt yield curve) at each term plus a margin which varies by term, as set out below.
Margin during Journey Plan:	The margin during the period up to 31 March 2030 will be set by reference to the return in excess of gilts of the Trustee's investment return strategy as defined in the Journey Plan for each year, having regard to market conditions at the valuation date. The margin will be based on median returns under the journey plan, deducting a 0.3% pa margin for prudence, to give the following: • at 31 March 2023, the margin will be 1.8% pa; • the margin will reduce to 1.6% pa on 31 March 2024; and • and will then reduce by 0.1% pa each Fund year until the year commencing 31 March 2029 where the margin will be 1.1% pa until 31 March 2030
Ultimate margin:	As at 31 March 2030, the ultimate margin will be set with regards to a self-sufficient asset strategy return, less a margin for prudence. The resulting ultimate margin will be 0.5% pa, and will apply from 31 March 2030 onwards. The resulting discount rates over durations measured from the valuation date (spot rates) are set out at the end of this appendix.

Price Inflation

Retail Price Inflation ("RPI"):	The assumption adopted as at 31 March 2023 will be a yield curve reflecting the inflation expectations implicit in UK Government bond prices, as set out at the end of this appendix.
Consumer Price Inflation ("CPI"):	This has been set based on the expected future difference between assumed retail price inflation and consumer price inflation. The assumption adopted as at 31 March 2023 will be a curve set by reference to the assumed RPI curve as follows: RPI -1.0% pa until 2030, and equal to RPI thereafter.

Revaluation during Employee Membership

Section 148 increases:	This assumption will typically be set having regard to historic experience. The assumption adopted as at 31 March 2023 will be a curve set by reference to the assumed RPI curve as follows: RPI +1.0% pa.
LPI7 revaluation:	For the actuarial valuation as at 31 March 2023 it will be assumed that future LPI7 revaluation will be a curve in line with the RPI curve.

Pension increases:	Pensions accrued after 31 March 1997 are guaranteed to increase each year by the lower of 5% or retail price inflation. Post ’88 GMP pensions are guaranteed to increase each year by the lower of 3% or consumer price inflation. For the actuarial valuation as at 31 March 2023, it will be assumed that these increases will be curves set equal to the RPI and CPI curves respectively, with caps and floors applied to each year’s inflation rate, using the Black model assuming 1% standard deviation in future price inflation. No allowance will be made for discretionary pension increases.
Revaluation in deferment:	All non-GMP pensions for members who left service after 1985 are revalued in deferment in line with statutory revaluation orders. For the actuarial valuation as at 31 March 2023 it will be assumed that future revaluation orders will be in line with the CPI curve. Allowance will be made for any discretionary increases in deferment in accordance with the policy described above relating to members who left service from 1986 to 1990.
GMP equalisation:	The technical provisions will include a reserve of 2.0% of the unequalised total benefit liability value to allow for the expected cost of equalising post-90 GMPs.

Statistical/demographic assumptions for the *technical provisions*

The demographic assumptions concern the likelihood of events (for example death or retirement) taking place at different ages. They also cover family statistics, such as the proportion of deaths giving rise to dependants’ benefits and the ages of those dependants.

To ensure that the assumptions adopted remain appropriate, an analysis of the Fund’s individual experience will typically be carried out every three years as part of the valuation calculations.

The various demographic assumptions that will be used to calculate the *technical provisions* as at 31 March 2023 are summarised below.

Mortality:

Base tables:
Base tables used are the "S3" series of tables published by the Continuous Mortality Investigation of the actuarial profession (CMI) relating to the experience of Self-Administered Pension Schemes. For each category member, the table below sets out the specific version of the S3 tables and the multiplier used:

Category	Table	Multiplier
Male normal health pensioners and male dependants	S3PMA_H	101%
Female normal health pensioners	S3PFA_H	101%
Female dependants	S3DFL	114%
Male ill health pensioners	S3PMA_H	110%
Female ill health pensioners	S3PFA_H	110%

Future improvements:
Allowance will be made for improvements in mortality from 2013 in line with the CMI 2022 Core Mortality Projection Model with a long-term rate of improvement of 1.5% per annum, with 7.0 smoothing parameter,0.0% pa 'initial addition', and an experience weighting of 0%, 0% and 25% in the years of 2020, 2021 and 2022 respectively.

The assumed average life expectancy for a member currently aged 62 will be 21.8 years for a male normal health pensioner and 25.6 years for a female normal health pensioner. For a male currently aged 42, the allowance for future improvements in effect increases the life expectancy from age 62 to 23.7 years.

In addition, for pensioners at 31 March 2023, benefit liability values will be uplifted by 4.3% to allow for the terms of the longevity hedge about to be purchased at the date of signing.

Withdrawals: No allowance will be made for future withdrawals from Employee Membership.

Retirements: All non-pensioners will be assumed to retire at their Normal Pension Age (or current age if later). No allowance has been made for early retirement or other late retirements (ie the terms are assumed to be cost-neutral).

Commutation: An allowance will be made for non-pensioners to commute 25% of pension at retirement for a lump sum. The lump sum will be assumed to be 10% lower than the value of the pension given up based on the assumptions underlying the *technical provisions*.

No allowance will be made for members to fully commute their benefits under triviality limits or on serious ill health.

Family details: Male members are assumed to be 2 years older than their dependants, whilst female members are assumed to be the same age as their dependants.

It will be assumed that 60% of members will be or were married at Normal Pension Age or have eligible dependants (decreasing beyond Normal Pension Age with assumed dependants' mortality rates).

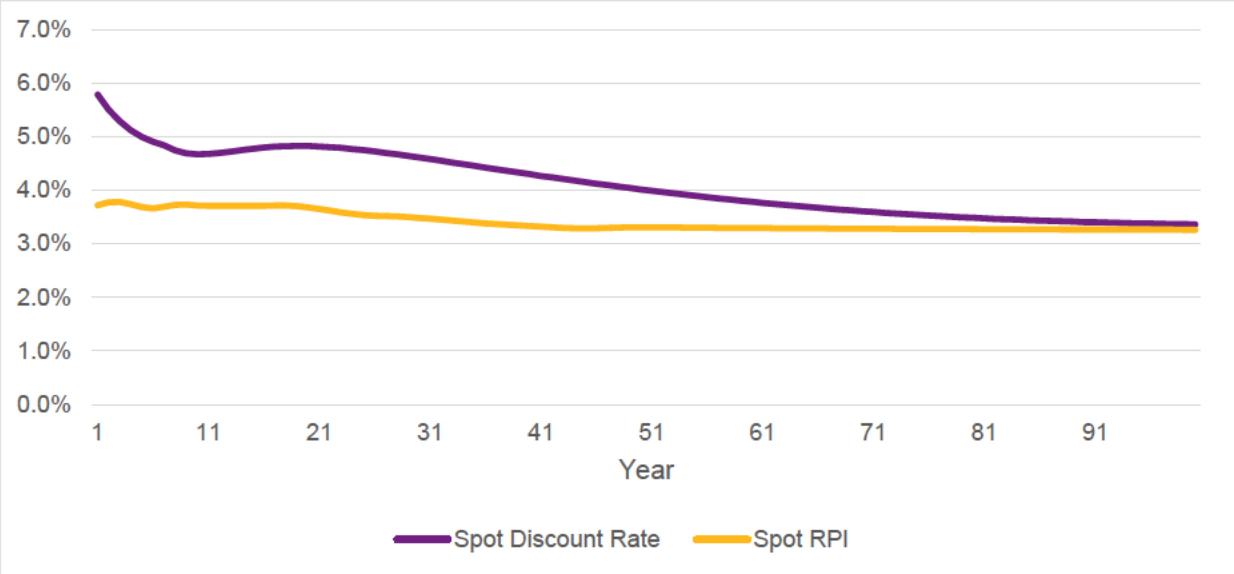
Transfer values: No allowance will be made for future transfers out of the Fund.

Expenses: An expense loading of £44 million as at 31 March 2023 will be included as an allowance for operational expenses and Pension Protection Fund levies up to 31 March 2028.

Ill-health benefit compensation from 'Project Greenwich' settlement:	On 18 February 2022 a legal settlement was agreed to resolve ill-health benefit uncertainties, specifying compensation to members. For many of the members affected, arrears had been paid and annual pensions uplifted by the 31 March 2023 valuation date, and so those uplifts will be valued according to the assumptions set out elsewhere in this Statement of Funding Principles. At the date of signing, the benefit correction exercise is still ongoing and some uncertainties remain relating to the affected population . Based on the Scheme Actuary's estimate of the remaining arrears that would have been due had the entitlement been confirmed and benefits rectified at 31 March 2023, and valuing the remaining future pensions at the assumptions set out elsewhere in this Statement of Funding Principles, the valuation as at 31 March 2023 will include a reserve of £8 million (which is separate to £11m which had been allowed for in the Fund's assets from the report and accounts at 31 March 2023 as a current liability).
'Project Delta' benefit uncertainty and rectifications:	There are a number of further benefit uncertainties that were identified in 2021. The majority of these are likely to be minor in liability terms and offset each other to some extent, however there are two issues which are expected to be more material in the Fund. The Fund has received legal advice that benefits will need to be rectified for these two issues. Based on the Scheme Actuary's estimate of the additional benefits due in respect of these two issues, made up of arrears and additional future pensions valued at the assumptions set out elsewhere in this Statement of Funding Principles, the valuation as at 31 March 2023 will include a reserve of £170 million for these two issues combined.

Curve-based financial assumptions

The following chart shows the nominal compound annual 'spot' discount rates and RPI rates assumed for the 31 March 2023 valuation, for each year from the valuation date.



The following table shows the nominal compound annual 'spot' rates used for the 31 March 2023 valuation to discount projected benefit payments, as shown in the chart above

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	5.781%	26	4.721%	51	3.989%	76	3.527%
2	5.502%	27	4.695%	52	3.964%	77	3.516%
3	5.287%	28	4.667%	53	3.939%	78	3.505%
4	5.119%	29	4.639%	54	3.915%	79	3.494%
5	4.992%	30	4.609%	55	3.892%	80	3.484%
6	4.900%	31	4.578%	56	3.869%	81	3.474%
7	4.839%	32	4.547%	57	3.846%	82	3.465%
8	4.741%	33	4.516%	58	3.825%	83	3.456%
9	4.689%	34	4.484%	59	3.803%	84	3.448%
10	4.670%	35	4.452%	60	3.783%	85	3.440%
11	4.674%	36	4.420%	61	3.763%	86	3.432%
12	4.693%	37	4.389%	62	3.743%	87	3.425%
13	4.719%	38	4.357%	63	3.724%	88	3.418%
14	4.747%	39	4.327%	64	3.706%	89	3.412%
15	4.773%	40	4.296%	65	3.688%	90	3.405%
16	4.795%	41	4.266%	66	3.671%	91	3.400%
17	4.811%	42	4.236%	67	3.654%	92	3.394%
18	4.821%	43	4.207%	68	3.638%	93	3.389%
19	4.825%	44	4.178%	69	3.622%	94	3.384%
20	4.822%	45	4.150%	70	3.607%	95	3.380%
21	4.815%	46	4.122%	71	3.593%	96	3.376%
22	4.803%	47	4.094%	72	3.578%	97	3.372%
23	4.787%	48	4.067%	73	3.565%	98	3.368%
24	4.767%	49	4.040%	74	3.552%	99	3.365%
25	4.745%	50	4.014%	75	3.539%	100	3.362%

The following table shows the nominal compound annual 'spot' rates used for the 31 March 2023 valuation to project RPI, as shown in the chart above.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	3.721%	26	3.522%	51	3.308%	76	3.277%
2	3.773%	27	3.514%	52	3.307%	77	3.276%
3	3.780%	28	3.507%	53	3.305%	78	3.275%
4	3.736%	29	3.497%	54	3.303%	79	3.274%
5	3.683%	30	3.483%	55	3.301%	80	3.273%
6	3.661%	31	3.466%	56	3.299%	81	3.273%
7	3.691%	32	3.448%	57	3.298%	82	3.272%
8	3.725%	33	3.430%	58	3.296%	83	3.271%
9	3.730%	34	3.413%	59	3.295%	84	3.271%
10	3.713%	35	3.396%	60	3.294%	85	3.270%
11	3.704%	36	3.380%	61	3.292%	86	3.269%
12	3.705%	37	3.366%	62	3.291%	87	3.269%
13	3.707%	38	3.353%	63	3.290%	88	3.268%
14	3.706%	39	3.342%	64	3.289%	89	3.267%
15	3.705%	40	3.331%	65	3.287%	90	3.267%
16	3.707%	41	3.320%	66	3.286%	91	3.266%
17	3.712%	42	3.308%	67	3.285%	92	3.266%
18	3.711%	43	3.297%	68	3.284%	93	3.265%
19	3.699%	44	3.289%	69	3.283%	94	3.264%
20	3.677%	45	3.286%	70	3.282%	95	3.264%
21	3.648%	46	3.289%	71	3.281%	96	3.263%
22	3.617%	47	3.294%	72	3.280%	97	3.263%
23	3.584%	48	3.300%	73	3.279%	98	3.262%
24	3.555%	49	3.305%	74	3.278%	99	3.262%
25	3.534%	50	3.308%	75	3.278%	100	3.261%