Merchant Navy Officers 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 MNOPF Trustees Limited, the Trustee of the Merchant Navy Officers Pension Fund ("the Fund") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of Kim Farnum, the Scheme Actuary appointed by the Trustee.

The contents of this Statement of Funding Principles have been discussed with the participating employers in the Fund. This document is dated 9 December 2021 and is to be taken into account in the actuarial valuation of the Fund as at the effective date of 31 March 2021.

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 both the level of contributions paid into the Fund and the level of discretionary increases granted to members' benefits.

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, which projects enhanced revaluation for those active members in the Fund from 31 March 2016 until those members are assumed to leave active service by retirement, death or withdrawal from service.

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 should not expect to require its sponsors to make any future contributions over the life of the Fund. 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 rates of return on investment for funding purposes will reflect the Fund's current and anticipated future investment strategy. In particular, these rates will be consistent with the yields available on UK fixed-interest gilts at the valuation date, but will include a prudent allowance for additional returns that could be obtained from investing in assets other than gilts. This allowance may vary by term and may vary in future to reflect changes to the investment strategy.

- The assumed rates of return will be net of expected investment expenses.

- 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. An allowance will also be made for future improvements in longevity.

- Future Retail Price Inflation (RPI) (on which pension increases under the Fund Rules are based) will be assessed having regard to the redemption yields available on long-term UK index-linked and fixed-interest gilts at the valuation date. Reference may also be made to other relevant information. Consumer Price Inflation (CPI) will be derived by reference to RPI, taking account of the views of the Office for Budget Responsibility and the Trustee as regards the relationship between RPI and CPI.

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

- To the extent that the Fund materially insures any liabilities, the value assigned to those liabilities for funding purposes will be equal to the premium value in the Trustee's Report and Accounts.

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 resultant funding target will prove adequate to pay benefits as they fall due. In making this assessment, the Trustee will consider both the Fund's estimated solvency position and the strength of the participating employers' covenant to the Fund.

Details of the principal assumptions to be used in the calculation of the *technical provisions* as at 31 March 2021 are set out in the Appendix.

Policy on discretionary increases and funding strategy

The Fund has no recent practice of making discretionary increases to benefits and the Fund's funding policy does not include any advance provision for the granting of such discretionary benefit increases.

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

However, where changes to benefit or contribution provisions affecting a group of members are being considered, for example through the formal amendment of the Fund Rules, the specific funding arrangements in relation to any change in liabilities associated with these amendments will be decided by the Trustee at that time.

Future service contributions

The Fund is now closed to future accrual, therefore there are no future service contributions payable.

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 may require additional contributions from the employers.

The level and period over which these additional contributions are to be paid will usually be decided by the Trustee after consultation with the participating employers. In determining the recovery period that will apply at each valuation, the Trustee will have regard to the size of the funding shortfall and the employers' financial circumstances. In making this latter assessment, the Trustee may take account of external market information concerning the participating employers or obtain specialist financial accounting 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.

Arrangements for other companies to contribute to the Fund

There are a number of associated and non-associated employers participating in the Fund. Apart from this, there are no arrangements in place for any other corporate entity to contribute to the Fund. The Trustee may accept guarantees relating to the payment of contributions by a participating employer from any corporate 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 2021. 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

As a matter of regulation, there may be circumstances where it may be possible to pay surplus assets to the employers, if the assets of the Fund exceed the Scheme Actuary's estimate of the cost of buying out the benefits from an insurance company (although the Trustee does not foresee such circumstances arising). However, in order to do so the Trustee must comply with the requirements of Section 37 of the Pensions Act 1995. These include actuarial certification of the maximum amount that may be paid to the employers and a requirement that the Trustee is satisfied that it is in the interests of Fund members for such a payment to be made. The Trustee must also give notice of any such proposal to the Fund members.

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 the member's benefits, and are calculated having regard to investment market conditions at the time of the calculation.   No allowance is made in the calculation for future 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 9 December 2021, has been agreed by the Trustee of the Merchant Navy Officers Pension Fund.

Signed on behalf of the Trustee of the Merchant Navy Officers Pension Fund

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Name: Rory Murphy

Position: Trustee Chairman

Date: 9 December 2021

Merchant Navy Officers 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 2021 are set out below.

For members covered by the buy-ins, the liability values are set equal to the buy-in asset values in the Trustee's Report and Accounts, with an addition for the impact of GMP equalisation.

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. The discount rates, inflation and pension increase assumptions are summarised in the Appendix:

Discount rate:	The discount rates at the valuation date are equal to the yields on UK fixed-interest gilts at that date (using the Willis Towers Watson zero-coupon fixed interest gilt yield curve) at each term, **plus** a margin which is initially 0.875% pa, reducing linearly, in annual steps, to 0.25% pa as at 31 March 2025 and remains at that level thereafter. The discount rates are assumed to be net of expected investment expenses.
Retail Price Inflation (RPI):	The assumption adopted as at 31 March 2021 is curve-based, reflecting the inflation expectations implicit in UK gilt curves at the valuation date.
Consumer Price Inflation (CPI):	This has been set based on the expected future difference between assumed RPI and CPI. The assumption adopted as at 31 March 2021 will be 1.0% pa below the RPI curve until 2030, and in line with the RPI curve thereafter.
Revaluation in deferment:	Members who remain in active service are entitled to enhanced revaluation of their benefits prior to retirement at a rate of 1.5% pa in excess of the CPI curve. On withdrawal from active service, deferred benefits revalue in line with the CPI curve.
Pension increases:	These assumptions have been set reflecting the guaranteed level of increases under the Fund Rules and having regard to the central price inflation assumptions and the expected variation in inflation around the central assumption. Post 97 pensions are guaranteed to increase each year by the lower of 5% or the RPI curve. Post 88 GMP pensions are guaranteed to increase each year by the lower of 3% or the CPI curve. No allowance has been made for discretionary pension increases.
GMP equalisation:	An allowance equal to 0.6% of technical provisions has been included in respect of potential additional liabilities resulting from GMP equalisation.

Statistical/demographic assumptions for the Technical Provisions

The demographic assumptions concern the likelihood of events (for example, death) 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. It is expected that the next detailed analysis of the Fund's experience will be carried out as part of the 31 March 2024 valuation.

The various demographic assumptions used to calculate the *technical provisions* as at 31 March 2021 are summarised below.

Mortality (base tables):	For members and male spouses, Normal Health SAPS 3 amounts table with a multiplier of 107%. For female spouses, “Heavy” Normal Health SAPS 3 amounts table with a multiplier of 88%.
Mortality improvements:	Allowance will be made for improvements in mortality from 2013 to 2021 and beyond in line with the CMI 2020 core projections with an initial addition of 0.25% pa, a long-term rate of future improvements of 1.8% pa and the default smoothing parameter of 7.5.
Retirements:	Members are assumed to retire at their Normal Pension Age with no allowance for early retirement, including on the grounds of ill-health.
Withdrawals:	No allowance has been made for withdrawals from service.
New Entrants:	No allowance has been made for new entrants.
Commutation:	An allowance for 50% of the maximum lump sum taken at retirement has been made, on terms that are broadly 20% below cost-neutral terms on the Technical Provisions assumptions
Family details:	Actual data has been used where available (except that where the actual age difference exceeds 10 years, this has been capped at 10 years). Where data is not available: - Husbands are assumed to be three years older than their wives - 85% of males and 60% of females are assumed to be married at Normal Pension Age or have eligible dependants.
Transfer values:	No allowance is made for transfers out of the Fund.
Forfeiture:	Pension instalments that have been unclaimed for 6 years of more have not been valued. No allowance for future incidence of forfeiture.

Expenses

An expense allowance of £27m has been included at this valuation date to meet ongoing administration expenses and the cost of the Pension Protection Fund levies.

Discontinuance

The actuarial assumptions will be the same as those used to calculate the *technical provisions*, except where indicated below:

Discount rate:	The discount rates at the valuation date are equal to the yields on UK fixed-interest gilts at that date (using the Willis Towers Watson zero-coupon fixed interest gilt yield curve) at each term, adjusted as follows: ▪ For non-pensioners, the rates are reduced by 0.15% pa ▪ For pensioners not covered by the swap nor the buy-in, the rates are increased by 0.25% pa For members covered by the buy-ins, the liability values are set equal to the buy-in asset values in the Trustee's Report and Accounts, with an addition for the impact of GMP equalisation.
Consumer Price Inflation (CPI) and CPI linked increases:	To reflect pricing in the insurance market as at 31 March 2021, the assumption adopted for CPI will be 0.7% pa below the RPI curve until 2030, and in line with the RPI curve thereafter. CPI linked increases will be based on this curve.
Mortality (base tables):	Best estimate versions of the mortality base tables used for the technical provisions (so multipliers of 108.5% for members and male spouses, and 89% for female spouses).
Mortality improvements:	Allowance will be made for improvements in mortality from 2013 to 2021 and beyond in line with CMI 2019 core projections with an initial addition of 0.25% pa, a long-term rate of future improvements of 1.5% pa and the default smoothing parameter of 7.5.
Commutation:	No allowance for commutation at retirement has been made.
Expenses:	An allowance of £4m to reflect the expected expenses of winding-up, based on projections which include the cost of data cleansing projects.

Appendix to the Statement of Funding Principles associated with the 31 March 2021 valuation

1. Discount rates

The following table shows the nominal compound annual 'spot' rates for the 31 March 2021 valuation used to discount projected benefit payments.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	0.764%	26	1.757%	51	1.456%	76	1.285%
2	0.757%	27	1.750%	52	1.447%	77	1.282%
3	0.791%	28	1.741%	53	1.437%	78	1.278%
4	0.840%	29	1.730%	54	1.428%	79	1.274%
5	0.895%	30	1.717%	55	1.419%	80	1.271%
6	0.971%	31	1.703%	56	1.411%	81	1.268%
7	1.057%	32	1.689%	57	1.402%	82	1.265%
8	1.145%	33	1.674%	58	1.394%	83	1.262%
9	1.230%	34	1.659%	59	1.386%	84	1.260%
10	1.309%	35	1.645%	60	1.378%	85	1.257%
11	1.381%	36	1.630%	61	1.371%	86	1.255%
12	1.445%	37	1.616%	62	1.363%	87	1.253%
13	1.502%	38	1.602%	63	1.356%	88	1.251%
14	1.552%	39	1.589%	64	1.349%	89	1.250%
15	1.595%	40	1.576%	65	1.343%	90	1.248%
16	1.632%	41	1.563%	66	1.336%	91	1.247%
17	1.664%	42	1.551%	67	1.330%	92	1.245%
18	1.691%	43	1.540%	68	1.324%	93	1.244%
19	1.714%	44	1.529%	69	1.319%	94	1.243%
20	1.732%	45	1.518%	70	1.313%	95	1.243%
21	1.746%	46	1.507%	71	1.308%	96	1.242%
22	1.755%	47	1.496%	72	1.303%	97	1.241%
23	1.761%	48	1.486%	73	1.298%	98	1.241%
24	1.763%	49	1.476%	74	1.294%	99	1.241%
25	1.762%	50	1.466%	75	1.290%	100	1.240%

2. Retail Price Inflation

The following table shows the compound annual 'spot' rates for the 31 March 2021 valuation to project RPI.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	2.992%	26	3.499%	51	3.240%	76	3.197%
2	3.113%	27	3.479%	52	3.237%	77	3.196%
3	3.236%	28	3.459%	53	3.234%	78	3.195%
4	3.327%	29	3.439%	54	3.231%	79	3.194%
5	3.366%	30	3.417%	55	3.229%	80	3.193%
6	3.370%	31	3.394%	56	3.227%	81	3.192%
7	3.390%	32	3.370%	57	3.225%	82	3.191%
8	3.442%	33	3.345%	58	3.223%	83	3.190%
9	3.491%	34	3.324%	59	3.221%	84	3.189%
10	3.527%	35	3.306%	60	3.219%	85	3.188%
11	3.559%	36	3.292%	61	3.218%	86	3.187%
12	3.586%	37	3.279%	62	3.216%	87	3.186%
13	3.605%	38	3.264%	63	3.214%	88	3.185%
14	3.616%	39	3.246%	64	3.213%	89	3.185%
15	3.625%	40	3.226%	65	3.211%	90	3.184%
16	3.635%	41	3.206%	66	3.210%	91	3.183%
17	3.643%	42	3.189%	67	3.208%	92	3.182%
18	3.643%	43	3.180%	68	3.207%	93	3.182%
19	3.631%	44	3.182%	69	3.205%	94	3.181%
20	3.610%	45	3.194%	70	3.204%	95	3.180%
21	3.588%	46	3.212%	71	3.203%	96	3.179%
22	3.568%	47	3.229%	72	3.202%	97	3.179%
23	3.552%	48	3.240%	73	3.200%	98	3.178%
24	3.535%	49	3.244%	74	3.199%	99	3.177%
25	3.518%	50	3.243%	75	3.198%	100	3.177%

3. Consumer Price Inflation

The following table shows the compound annual ‘spot’ rates for the 31 March 2021 valuation to project CPI.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	1.972%	26	3.138%	51	3.057%	76	3.074%
2	2.103%	27	3.132%	52	3.057%	77	3.074%
3	2.230%	28	3.124%	53	3.057%	78	3.075%
4	2.322%	29	3.115%	54	3.058%	79	3.075%
5	2.362%	30	3.105%	55	3.059%	80	3.076%
6	2.367%	31	3.092%	56	3.060%	81	3.076%
7	2.387%	32	3.077%	57	3.061%	82	3.077%
8	2.439%	33	3.061%	58	3.062%	83	3.077%
9	2.489%	34	3.048%	59	3.062%	84	3.077%
10	2.591%	35	3.039%	60	3.063%	85	3.078%
11	2.707%	36	3.032%	61	3.064%	86	3.078%
12	2.806%	37	3.026%	62	3.065%	87	3.079%
13	2.884%	38	3.017%	63	3.066%	88	3.079%
14	2.946%	39	3.006%	64	3.066%	89	3.079%
15	3.000%	40	2.992%	65	3.067%	90	3.080%
16	3.048%	41	2.977%	66	3.068%	91	3.080%
17	3.091%	42	2.966%	67	3.068%	92	3.081%
18	3.121%	43	2.962%	68	3.069%	93	3.081%
19	3.137%	44	2.969%	69	3.070%	94	3.081%
20	3.141%	45	2.986%	70	3.070%	95	3.082%
21	3.141%	46	3.009%	71	3.071%	96	3.082%
22	3.142%	47	3.030%	72	3.072%	97	3.082%
23	3.144%	48	3.044%	73	3.072%	98	3.083%
24	3.144%	49	3.052%	74	3.073%	99	3.083%
25	3.142%	50	3.056%	75	3.073%	100	3.083%

4. Increases to post April 1997 pensions in payment

The following table shows the compound annual 'spot' rates for the 31 March 2021 valuation to project RPI, subject to a cap of 5% per annum.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	2.875%	26	3.349%	51	3.155%	76	3.135%
2	2.930%	27	3.335%	52	3.154%	77	3.135%
3	3.004%	28	3.320%	53	3.152%	78	3.134%
4	3.059%	29	3.304%	54	3.150%	79	3.134%
5	3.082%	30	3.287%	55	3.149%	80	3.134%
6	3.083%	31	3.268%	56	3.148%	81	3.133%
7	3.095%	32	3.247%	57	3.148%	82	3.133%
8	3.128%	33	3.227%	58	3.147%	83	3.132%
9	3.158%	34	3.209%	59	3.146%	84	3.132%
10	3.203%	35	3.194%	60	3.145%	85	3.132%
11	3.258%	36	3.183%	61	3.144%	86	3.131%
12	3.304%	37	3.173%	62	3.144%	87	3.131%
13	3.339%	38	3.160%	63	3.143%	88	3.130%
14	3.365%	39	3.145%	64	3.142%	89	3.130%
15	3.387%	40	3.128%	65	3.142%	90	3.130%
16	3.407%	41	3.110%	66	3.141%	91	3.129%
17	3.425%	42	3.095%	67	3.140%	92	3.129%
18	3.435%	43	3.088%	68	3.140%	93	3.129%
19	3.432%	44	3.092%	69	3.139%	94	3.128%
20	3.420%	45	3.105%	70	3.139%	95	3.128%
21	3.406%	46	3.123%	71	3.138%	96	3.128%
22	3.394%	47	3.139%	72	3.137%	97	3.128%
23	3.384%	48	3.151%	73	3.137%	98	3.127%
24	3.374%	49	3.156%	74	3.136%	99	3.127%
25	3.363%	50	3.157%	75	3.136%	100	3.127%

5. Increases to post April 1988 GMP in payment

The following table shows the compound annual ‘spot’ rates for the 31 March 2021 valuation to project CPI, subject to a cap of 3% per annum.

Year	Spot rate	Year	Spot rate	Year	Spot rate	Year	Spot rate
1	1.802%	26	2.507%	51	2.521%	76	2.561%
2	1.849%	27	2.510%	52	2.523%	77	2.562%
3	1.908%	28	2.511%	53	2.525%	78	2.563%
4	1.951%	29	2.512%	54	2.527%	79	2.564%
5	1.970%	30	2.510%	55	2.529%	80	2.565%
6	1.971%	31	2.508%	56	2.531%	81	2.566%
7	1.981%	32	2.503%	57	2.533%	82	2.567%
8	2.006%	33	2.499%	58	2.535%	83	2.568%
9	2.029%	34	2.495%	59	2.537%	84	2.569%
10	2.092%	35	2.493%	60	2.539%	85	2.569%
11	2.164%	36	2.492%	61	2.540%	86	2.570%
12	2.224%	37	2.492%	62	2.542%	87	2.571%
13	2.274%	38	2.491%	63	2.544%	88	2.572%
14	2.316%	39	2.487%	64	2.545%	89	2.573%
15	2.352%	40	2.481%	65	2.547%	90	2.574%
16	2.384%	41	2.475%	66	2.548%	91	2.574%
17	2.412%	42	2.470%	67	2.550%	92	2.575%
18	2.436%	43	2.471%	68	2.551%	93	2.576%
19	2.453%	44	2.476%	69	2.552%	94	2.576%
20	2.465%	45	2.485%	70	2.554%	95	2.577%
21	2.474%	46	2.494%	71	2.555%	96	2.578%
22	2.482%	47	2.503%	72	2.556%	97	2.579%
23	2.491%	48	2.510%	73	2.557%	98	2.579%
24	2.498%	49	2.515%	74	2.558%	99	2.580%
25	2.503%	50	2.519%	75	2.560%	100	2.580%