Nationwide Pension Fund

2016/2017 ANNUAL REVIEW

Nationwide
Building Society

Message from the Chairman

Welcome to this year's Annual Review.

In line with our desire to make better use of online communications, we've reduced the size of this year's paper version which focuses purely on the financial highlights. A more detailed version can be found on the Fund website.

One of the main objectives for the Trustee over the last year was to make sure the full Actuarial Valuations for both the Nationwide and Cheshire & Derbyshire Sections as at 31 March 2016 were completed. An Actuarial Valuation is a process that takes place every three years and allows the Trustee to agree a plan for funding your benefits with Nationwide.

The results of the Actuarial Valuation revealed a deficit of £605 million in the Nationwide Section and a surplus of £3 million in the Cheshire & Derbyshire Section. This reflects the continued low interest rate environment which has led to an increase in the Fund's liabilities and ongoing deficit, despite asset returns exceeding their performance benchmark. This is in common with many other defined benefit pension schemes.

Whilst the reporting of a deficit is not good news, I am pleased to announce that, following constructive negotiations with Nationwide, the Trustee has agreed a plan with Nationwide to clear it. Full details can be found on pages two and three. I believe that the outcome of the 2016 Valuation will provide further financial security for all members.

Pete Wilkin
Chairman of the Nationwide Pension Fund Trustee Board

Scheme finances

Each year the Trustee produces a report and a set of accounts for the period from 1 April to 31 March. A full copy of the latest accounts can be found on our website **www.nationwidepensionfund.co.uk** and a summary of the money paid in and out of the Fund is shown below.

Total assets at 1 April 2016			£4,464.8m
Money paid in	+	Money paid out	–
Employer contributions	£104.5m	Pension payments	£72.9m
Member contributions*	£0.2m	Lump sums on retirement	£18.4m
Member additional contributions	£1.7m	Lump sum death benefits	£0.3m
Return on investments	£1,055.2m	Leavers	£30.3m
Other income	£0.2m	Administration & investment expenses	£30.2m
Total income	£1,161.8m	Total outgoings	£152.1m
Total assets at 31 March 2017			£5,474.5m

*Excludes salary sacrifice contributions of 12.4m (included in Employer contributions).

Scheme net assets between April 2016 and March 2017 **increased** by **£1,009.7m** to **£5,474.5m.**

Our members

Although the Fund may be closed to new members, the Trustee remains responsible for almost 30,000 members. Membership totals for this year and the previous year are shown below:

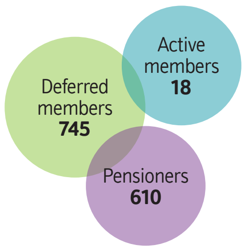
2016

2017

Breakdown of the 2017 membership

Nationwide Section

C&D Section



e Communications

Last year, we told you we wanted to reduce the amount of paper communications we send to members, increase the effectiveness of the website and use email and SMS messaging where possible.

Registering couldn't be easier...

To sign up, please click the "Sign up to eComms" button on our website and provide the following information to help us identify you:

- Your name;
- Your date of birth (month and year only);
- Your email address; and/or
- Your mobile phone number.

Your information will be held in a secure database and you will receive an on-screen confirmation of your registration.

You can still choose to continue to receive information in a paper format. To do so you will need to write to the Employee Pensions team (contact details on page 3).

Funding update

One of the main responsibilities of the Trustee is to monitor the finances of the Fund to ensure there is enough money to pay all of the benefits promised to members, both now and many years into the future.

This is achieved through a review of the funding position. A comprehensive review (known as a full Actuarial Valuation) is completed every three years by a qualified and independent Actuary. The most recent full Actuarial Valuation of the Fund was carried out at 31 March 2016. In between these full Valuations, annual interim funding reviews are carried out.

This funding update provides important information regarding the security of your pension. It summarises the full Actuarial Valuation and interim Actuarial Valuation of the Nationwide and Cheshire & Derbyshire Sections as at 31 March 2016 and 31 March 2017 respectively.

What does the Valuation look at?

The aim of the Valuation is to assess the funding position of the Fund. To do this the Actuary has to determine:

- **How much money each Section needs to cover the benefits members have built up.** If the Fund has more invested money (assets) than money needed to pay promised benefits (liabilities) it has a "surplus". If the Fund has more liabilities than assets it has a "shortfall". If a full Valuation shows there is a shortfall, it is up to the Trustee and Nationwide to agree how this will be cleared and over what timescale.
- **What contributions need to be paid to cover the cost of providing future benefits.** Nationwide's contributions are worked out by deducting contributions made by Active members from the estimated amount needed to pay the future benefits promised. These contributions are then paid until the next full Valuation is carried out.

How is the funding position calculated?

The funding position is a "snapshot" of the Fund on a single day. However, in practice some liabilities will not become payable for 30 or 40 years. Several factors can affect the funding position, including life expectancy, investment performance, interest rates and inflation levels. The Fund's assets are invested over the long term, and therefore, variation in funding levels is to be expected.

The funding position is calculated on an ongoing basis and on a solvency basis:

- **The ongoing basis** assumes that Nationwide will continue to support the Fund. Certain assumptions are made by the Actuary about future economic and financial conditions and the Fund's membership. While the assumptions cannot be guaranteed as being accurate, they are agreed by the Trustee and Nationwide as being suitable.
- **The solvency basis** assumes that the Fund is ended (wound up) on the Valuation date and looks at whether there is enough money to buy individual pensions for every member.

What were the results of the 31 March 2016 Valuation for each Section?

The formal Valuation results at 31 March 2016 are shown below. You will see that the Nationwide Section had a deficit of £605 million and the Cheshire & Derbyshire Section had a surplus of £3 million at this date.

Nationwide Section

	31 March 2016
Money invested (assets)	£4,175m
Money needed to provide all benefits (liabilities)	£4,780m
Shortfall (deficit)	£605m
Funding level	87%

Cheshire & Derbyshire Section

	31 March 2016
Money invested (assets)	£280m
Money needed to provide all benefits (liabilities)	£277m
Surplus	£3m
Funding level	101%

What is being done about the deficit in the Nationwide Section?

Following discussions between Nationwide and the Trustee, a plan has been agreed to clear the deficit at 31 March 2016 by Nationwide paying additional lump sum contributions as follows:

- £49m paid in July 2016;
- £100m paid in April 2017;
- £49m paid in July 2017;
- £37m paid in August 2017; and
- £61m to be paid each July between July 2018 and July 2021 inclusive.

For the July 2018 and July 2019 payments, if the Nationwide Section is fully funded on the technical provisions basis then no contribution will be due, unless otherwise agreed by the Trustee and Society. Further details are set out in the Nationwide Section's Recovery Plan, a copy of which is available on request.

Why is the Nationwide Section in deficit and the Cheshire & Derbyshire Section in surplus?

This has been the case since the Cheshire & Derbyshire Section was first created in 2010, following the merger of the previous Cheshire and Derbyshire pension schemes. Additional contributions are being paid in to the Nationwide Section in order to help close the gap, as explained above.

What contributions need to be paid to cover the cost of providing future benefits?

As part of a full Actuarial Valuation the Actuary estimates how much money needs to be paid into the Fund to meet the cost of future benefits being built up by Active members. This cost is expressed as a percentage of Active members' pensionable salaries.

Following the 2016 Valuation, Nationwide increased its ongoing contribution rate from 22.1% to 31.5% of pensionable salaries with effect from 1 September 2017. Active members continue to contribute at 7%.

What is the interim funding position at 31 March 2017?

The interim funding position is not a formal Valuation; it is an estimate of the financial health of the Fund using the 2016 Valuation assumptions updated for changes in market conditions between 31 March 2016 and 31 March 2017. You should be aware that the funding level of both Sections will vary over time and the Trustee will continue to regularly monitor the funding positions.

Interim funding position as at 31 March 2017:

	Nationwide Section	C&D Section
Deficit	£593m	N/A
Surplus	N/A	£21m
Funding level	90%	107%

Smart device users can scan here for a direct link to the website using an appropriate QR reader app

www.nationwidepensionfund.co.uk

The Nationwide Section's deficit reduced from £605m at 31 March 2016 to £593m at 31 March 2017. The main reason for this improvement was the payment of additional contributions by Nationwide, although this was partly offset by an increase in the cost of the provision of future benefits.

The Cheshire & Derbyshire Section's surplus increased from £3m at 31 March 2016 to £21m at 31 March 2017. This was due to strong returns on the Section's assets. As a result of the positive funding position the C&D Section's investment strategy has been further de-risked and this will be allowed for in the 2019 formal Valuation.

How will my pension be paid if the Fund is wound up?

Part of the full Actuarial Valuation requires the Actuary to work out what would have happened if the Fund had been wound up on 31 March 2016. This is known as a solvency Valuation and the Actuary estimates if there is enough money to buy individual insurance policies to provide full pensions for every member.

The table below shows the solvency positions of both Sections of the Fund at 31 March 2016. The shortfall represents the amount of money that would be required from Nationwide were the Fund to be wound up at this date.

Solvency position as at 31 March 2016:

	Nationwide Section	C&D Section
Deficit	£5,107m	£133m
Funding level	45%	68%

The solvency funding level is lower than the ongoing funding level as the cost of providing all members' benefits straight away through insurance policies is much higher than paying for them over the future life of the Fund. Also insurance companies are required by law to take a very cautious approach to pricing pension annuities, which includes setting aside extra capital and reserves. In addition, their prices will include their costs and a profit margin.

In the unlikely event that Nationwide were unable to pay any further money into the Fund, for example because it became insolvent, additional security is provided through the Pension Protection Fund (PPF), set up by the Government to assist schemes in such circumstances. The PPF would normally take over the Fund and pay compensation to members. There is an upper limit on the pension payable from the PPF to individuals. More information is available on their website at **www.pensionprotectionfund.org.uk**.

Please note, including solvency information within the Summary Funding Statement is a legal requirement and does not mean Nationwide is thinking of winding up the Fund.

Other information required by legislation

The legislation requires the Trustee to say whether any surplus funds have been paid to Nationwide from the Fund in the period since the last Summary Funding Statement was issued. The Trustee can confirm that there has not been any such payment over the period. The Trustee can also confirm that the Fund has not been modified by the Pensions Regulator, or had any directions or Schedule of Contributions imposed by it.

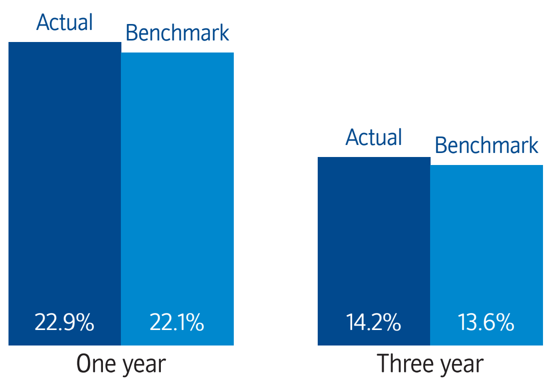
Investment & funding summary

Whilst much of the year involved negotiating the triennial Valuation with Nationwide, the investment activity for the main Nationwide Section remained focussed on continuing the slow but steady risk reduction activities that are key to the long term strategy of improving the funding position of the Fund. Gilts benefited from the fall in interest rates, and increases in corporate bonds and the alternative matching assets portfolio also added to the overall increase in matching assets which increased in value by £838m.

Much of this was funded by reductions in equity holdings which reduced by £541m. Some of this was used to further diversify the return seeking assets which saw an increase in credit holdings through investment in a multi-asset credit fund. Overall the return seeking portfolio only reduced in value by £129m given strong performance from all asset classes during the year. Asset growth during the year was also assisted by a further £49m payment in July 2016 as part of the deficit Recovery Plan agreed in 2014.

The Cheshire & Derbyshire Section reached the Trustee's strategic objective of full funding on a "low dependency" basis four years ahead of target. This Section is fully hedged for both interest rates and inflation and has de-risked so that less than 10% of assets are in equities with the rest being invested in high quality government and AAA rated bonds.

The total return for the Fund and the respective benchmarks for one year and three years is shown to the right:



Contact us

The Employee Pensions team are responsible for the day to day administration of the Fund such as dealing with queries from members, providing quotations and processing pensions for payment.

You can contact them by:

pensions.team@nationwide.co.uk

01793 655131

Employee Pensions
Nationwide Building Society
Nationwide House
Pipers Way
Swindon
SN38 2GN

Contact the Payroll team
If you are a Pensioner and have a query on the payment of your pension, you can telephone **ASK HR** on **01793 556808** and select '**option 1**'.