HYMANS ROBERTSON

Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits Scheme

Actuarial valuation as at 31 December 2022

Scheme funding report

October 2023

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For and on behalf of Hymans Robertson LLP

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1 The results of the valuation

I carried out an actuarial valuation of the Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits Scheme ('the Scheme') as at 31 December 2022 ('the valuation date') and this is my report on the results of the valuation. This is a scheme funding report.

Funding objectives

The Trustee is required to adopt a 'statutory funding objective'. The statutory funding objective is that the Scheme must have 'sufficient and appropriate' assets to meet the expected cost of providing members' past service benefits which we refer to as 'technical provisions'1.

The Trustees have a long-term objective to secure the Scheme's obligations with an insurance company. Full funding on the statutory technical provisions is intended to be a stepping stone towards this objective.

The 'statement of funding principles' sets out the Trustees' policy for meeting the statutory funding objective.

Summary of results

The Scheme's funding position as at 31 December 2022 is shown below alongside the position at the last valuation for comparison.

	Previous valuation 31 December 2019	This valuation 31 December 2022
Assets ***See the Trustees' Report and Accounts as at the valuation date and Appendix B for further details***	**569.5**	**347.4**[2]
Technical provisions liabilities ***An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustees' (see appendix A)***	**528.3**	**341.2**
Deferred liabilities	251.5	132.2
Pensioner liabilities	273.3	200.8
Expenses	3.5	8.3
Surplus/(deficit) ***Technical Provisions less assets***	**41.2**	**6.2**
Funding level ***Assets divided by Technical Provisions***	**108%**	**102%**

[1] The phrase used in the legislation to refer to the expected cost of providing members' past service benefits.

[2] The value placed on the assets differs from the audited asset figure in the Trustees' Report and Accounts. The difference is that I have placed a different value on the Scheme's insurance policies to that in the accounts so that it is consistent with the technical provisions figure as allowed under Regulation 4(2) of the 2005 Scheme Funding Regulations.

The technical provisions surplus has decreased from £41.2m in the last valuation to £6.2m at this valuation. Changes since the previous valuation are covered in section 3.

Contributions

The sponsor currently pays no contributions to the Scheme – given the strong funding and the de-risking that has occurred since the previous valuation, I do not see a compelling requirement to reintroduce contributions.

Post valuation changes

Since the valuation date, market movements have been relatively minimal, however:

- Short-term (1 to 3 years) expectations of inflation have reduced, medium term (3 to 12 years) have increased slightly and longer-term expectations have fallen slightly. The Scheme hedges most of its inflation exposure and so is minimally affected;
- Yields have increased at all durations over the period since the valuation which will have acted to decrease the value of the liabilities. Again, the Scheme hedges much of its interest rate exposure and so is minimally affected.

2 What would happen if the scheme was wound up?

The results in the previous section of the report were prepared on the assumption that the Scheme will continue to operate with the financial backing of the employer. Alternatively, if the Scheme was 'wound up' this would involve selling the Scheme's investments and using the proceeds to buy annuities from an insurance company. The insurance company would then be responsible for paying pensions to members and their dependants. I have, therefore, estimated the cost of securing members' benefits in this way, had the Scheme wound up on the valuation date.

Summary of results

£m	Previous valuation 31 December 2019	This valuation 31 December 2022
Assets *See the Trustees' Report and Accounts as at the valuation date and Appendix B for further details*	569.5	350.1[3]
Solvency liabilities *Estimated cost of buying annuities from an insurance company (includes the £5.3m expense reserve below)*	574.1	341.7
Expenses *Expenses of winding up the scheme*	3.5	5.3
Surplus/(deficit) *Solvency liabilities less assets*	(8.1)	8.4
Funding level *Assets divided by solvency liabilities*	99%	102%

On a wind-up further funds may be recovered from the employer under section 75 of the Pension Act 1995 and the employer debt regulations. The impact of any such recovery has been ignored in this assessment. If the assets on a wind-up are insufficient to secure the benefits in full, then a statutory priority order applies.

- Benefits corresponding to those covered by the PPF would be met first (either by the PPF or, if there were sufficient funds, by securing these benefits with an insurance company)
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

Why are the solvency liabilities different to the technical provisions?

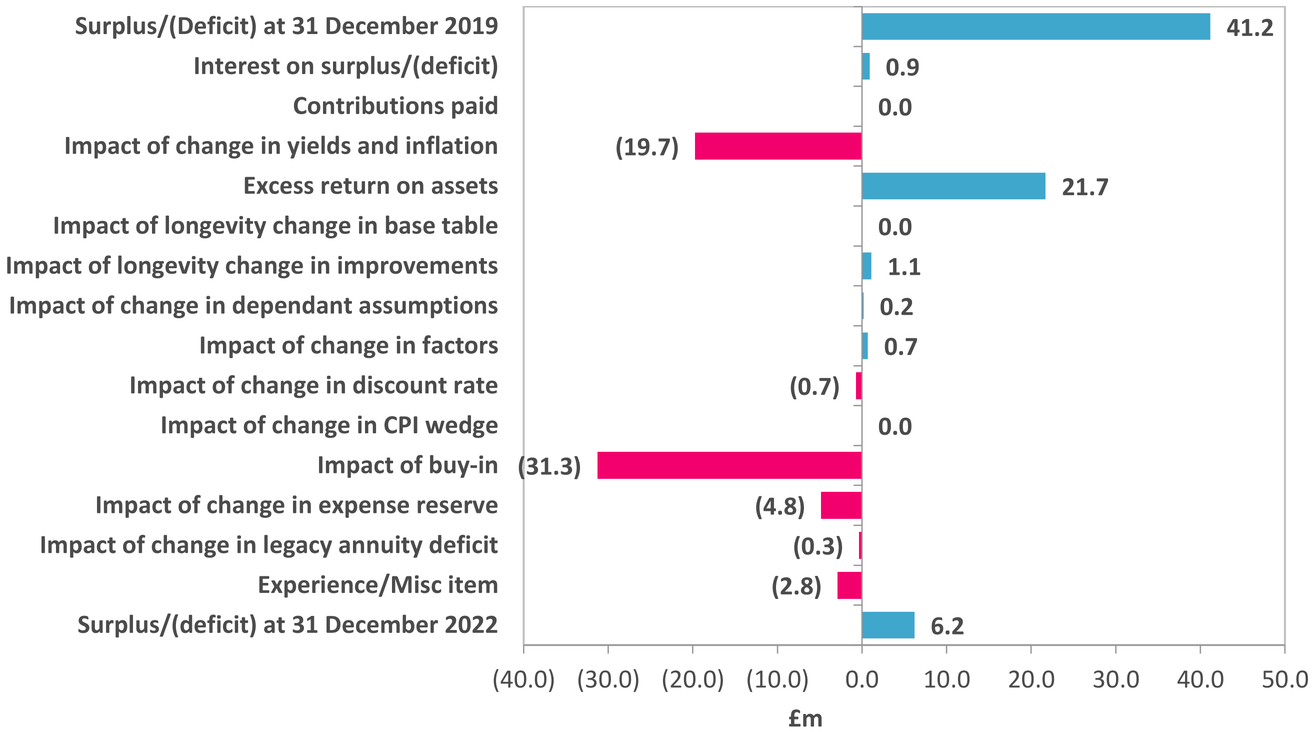
The assumptions used to estimate the solvency liabilities differ from those used to calculate the technical provisions (see Appendix A). This is because they are intended to reflect the assumptions which would be used by an insurer to calculate the cost of the annuities they sell.

[3] The value of insurance policies differ between the Technical Provisions basis and the solvency basis, this is why the total asset value here differs to the total given on page 2.

The solvency estimate has been calculated using a basis that produces values consistent with our experience of bulk annuity quotations and the general levels of pricing in the market as at the date of valuation. Please note the results are a guide and should not be viewed as a quotation. The true cost of insurance can only be determined by obtaining quotations from providers active in the market and following completion of wind-up.

3 Changes since the previous valuation

Since the previous actuarial valuation of the Scheme, there have been changes to the scheme membership, the value of its investments, the economic environment in which the Scheme operates and the valuation assumptions. These changes have affected the Scheme's funding position as follows:



The analysis shows the main factors affecting the funding position since the last valuation have been as follows:

- Strong return on assets increased the surplus
- Purchase of the Scheme's second buy-in, on terms less attractive than the Technical Provisions, reduced the surplus
- Changes in yields and inflation reduced the surplus
- The aggregate impact of assumption changes and new factors increased the surplus
- Experience reduced the surplus (several factors contribute to the experience item, most notably member settlement/reinstatement cases and the impact of transfer outs over the three-year period).

4 Risk management

In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section I discuss the key risks to the Scheme and the potential implications of the actuarial assumptions not being met in the future.

Funding, investment and covenant risks

Trustees' should understand the risks to their funding plans, particularly those related to funding, investment and the employer covenant.

Risk	How the Trustees manage this risk
Employer covenant The employer may not be able to continue to pay contributions or make good deficits in the future. The impact of this scenario is considered in section 2 of this report.	The Scheme is only minimally exposed to covenant risk, given the strong funding position and low-risk nature of assets held. In any case, the nature of the sponsor requires that it be well capitalised and able to support the Scheme in adverse scenarios. The Trustees intend to secure the Scheme's obligations with an insurer within the next few years, which will eliminate sponsor covenant risk (the policy with the insurer will be safeguarded by the FCA compensation scheme such that covenant risk is effectively eliminated).
Investment If future investment returns are lower than allowed for in the valuation assumptions, assets will not grow in value as expected, and the funding level will fall. This places greater reliance on the employer covenant since the employer would need to help put scheme funding back on track.	The Scheme invests in income and protection assets only. Whilst some of the income assets carry default risk, this is measured and monitored by the asset manager. The Scheme's funding level is not expected to be particularly volatile given the extent of protection assets and the strong funding position, meaning that large falls in asset values, to the extent that sponsor support becomes necessary, is very unlikely.
Funding Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In particular, if life expectancy improves at a faster pace than allowed for in the valuation assumptions, then pensions will need to be paid for longer, so the liabilities will increase and the funding level will fall.	The Trustees have adopted Scheme specific mortality base tables derived using Hymans Robertson's Club Vita data bank which allows the Trustees to use the best available information when setting longevity assumptions. By incorporating an allowance for future longevity improvements in the actuarial assumptions the Trustees can lessen the future adverse impact of such improvements. The Trustees have also hedged most of their longevity risk through the purchase of two buy-ins covering the majority of liabilities (over 90%).

Other risks

There are a range of further risks which the Trustees keep under review. These include the development of legislation relating to pensions and the impact of options offered to members.

There is also an increasing body of evidence demonstrating that resource and environment ('R&E') issues pose risks and opportunities to the companies that sponsor pension schemes, to investment portfolios and to the wider economy (with implications for funding assumptions). R&E risks include factors such as rising and/or volatile energy prices, resource shortages, property damage (e.g. flooding, storms) and air, water and land pollution (e.g. clean-up costs, health effects, reputational damage).

Given the anticipated (short) timescales to secure the Scheme's benefits in full with an insurer, these more medium-term risks have not been considered in detail although the Trustee Investment Sub-Committee has discussed the potential impact of these risks on the invested assets.

Sensitivity of key assumptions

Due to the two buy-ins already undertaken, the scheme has hedged most of its liabilities and therefore has low exposure to market movements and longevity risk. The Scheme also has minimal exposure to CPI risk because only a small proportion of liabilities relate to under NRA members.

Scenario	Change in residual liabilities
0.25% p.a. decrease in discount rate	0.8
0.25% p.a. increase in future inflation	0.5
0.25% p.a. decrease to RPI/CPI 'gap'	0.0
Broadly a 1 year increase in life expectancy at retirement age	1.0

Longer-term projection

If the actuarial assumptions were borne out over the period from the date of this valuation to the next, the funding level is expected to remain at c102% at the next valuation.

Appendix A: Methodology and assumptions

A1. Methodology

Using the actuarial assumptions set by the Trustees I have estimated the payments which will be made from the Scheme throughout the future lifetimes of deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line with the assumed discount rate. This is the technical provisions. I compare these technical provisions with the value of the assets. The ratio of the asset value to the technical provisions is known as the ‘funding level’. If the funding level is more than 100% there is a ‘surplus’; if it is less than 100% there is a ‘deficit’.

It is a requirement of the legislation that an ‘accrued benefits funding method’ must be used for valuing the technical provisions. In their application to technical provisions, such methods vary in only one material respect: the extent to which future pensionable pay growth is anticipated for employee members.

A2. Assumptions

The Trustees and Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits Scheme are responsible for setting the funding assumptions for the actuarial valuation as at 31 December 2022. The assumptions adopted as at 31 December 2022 are set out in the statement of funding principles dated October 2023.

	Technical provisions 31 December 2019	Technical provisions 31 December 2022
Key financial assumptions		
RPI increases	Market expectation of future inflation dependent on term as measured by the difference between yields on fixed and index-linked government bonds	Market expectation of future inflation dependent on term as measured by the difference between yields on fixed and index-linked government bonds
CPI increases	RPI curve less 0.65% p.a	Term-dependant rate – RPI less 1.0% pre 2030, and RPI less 0.0% post 2030
Pension increases	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor

	Technical provisions 31 December 2019	Technical provisions 31 December 2022
Discount rate (excluding buy-ins)	Market implied gilt yield curve plus 0.9% p.a. .at the valuation date declining linearly and immediately to market implied gilt yield curve plus 0.35% p.a. after 4 years and then declining linearly over the next 2 years to market implied gilt yield curve plus 0.2% p.a.	Market implied gilt yield curve.
Discount rate (buy-ins)	Market implied gilt yield curve.	Market implied gilt yield curve.
Key demographic assumptions		
Longevity base tables (pre retirement)	2019 VITA tables	S3NA standard tables
Longevity base tables (post retirement)	2019 VITA tables	2022 VITA lite tables
Longevity future improvements	CMI 2018 model, initial additions to improvements of 1.0%, long-term rate of improvement of 2.0% p.a. and allowance for the decrease in improvement at the older ages to occur between the ages of 90 and 120.	CMI 2021 model with no weighting on 2020 or 2021 data, initial addition to improvements of 0.25%, long-term rate of improvement of 1.5% p.a. and allowance for the decrease in improvement at the older ages to occur between the ages of 85 and 110.
Early retirement	All members are assumed to retire at the earliest date at which benefits are payable unreduced	
Late retirement	No allowance is made for late retirement because the terms are cost neutral. Members above normal retirement age are assumed to retire immediately.	
Ill health retirement	No allowance	No allowance

	Technical provisions 31 December 2019	Technical provisions 31 December 2022
Cash commutation	Members assumed to exchange 18% of the maximum allowable amount of their pension for a cash lump sum at retirement.	
Transfers out	No allowance	No allowance
Expenses	Reserve of £3.5m	Reserve of £8.3m
Dependants	90% of males / 60% of females are assumed to have a dependant at retirement or earlier death. Male members are assumed to be 3 years older than their female dependants and female members are assumed to be 3 years younger than their male dependants.	Where available, data on marital status is used to determine whether a member has an eligible dependant. Where data is unavailable, spouse proportion is set in line with the solvency basis: 69% of male members and 53% of female members are assumed to have a dependant at age 60 or earlier death. Where available, data on age difference is used to determine the age of an eligible dependants. Where data is unavailable, male members are assumed to be 4 years older than their female dependants and female members are assumed to be 1 year younger than their male dependants.

A3. Solvency assumptions

With the exception of the following changes, I have used the same demographic and financial assumptions as for assessing the technical provisions:

- I have used a discount rate based on swaps market curves +0.3% p.a. for non-pensioners and a discount rate based on swaps market curve +0.75% p.a. for pensioners.
- Inflation has been set in line with implied inflation from swaps market curves.
- I have assumed that future CPI inflation is 0.75% p.a. less than RPI inflation until 2030, then 0.20% less than RPI after 2030.
- I have used the same longevity base tables as for assessing the technical provisions as these are intended to reflect the expected future experience of the Scheme’s membership; I would expect an insurer to take account of the Scheme’s demographics in a similar way. Future improvements are also in line with the technical provisions basis.
- Within the liabilities I have allowed for insurer expenses in line with our understanding for transactions of this size.
- No allowance has been made for members commuting pensions for a cash lump sum on retirement.

Appendix B: Data – benefits, membership and assets

B.1 Benefits

The Scheme provisions that I have taken into account in this valuation are set out in the Trust Deed and Rules dated 23 January 1998 and subsequent amending deeds and are summarised below.

The Scheme has three sections: the SLFOC section, the Confederation Life Staff section and the Confederation Life Field section.

Normal Pension Age (NPA)	62 for SLFOC section, 60 for Confederation Life Staff and 65 for Confederation Life Field.
Pensionable Service	Years and complete days of service with the employer whilst an employee member of the scheme.
Reduction in Pension at State Pension Age (SPA)	The pension for members of the Confederation Life sections is reduced at SPA by the SERPS offset which is intended to be broadly equal to the basic state pension that commences at SPA.
Early Retirement Pension	On retirement after age 50 a pension based on actual service completed may be paid, subject to reduction on account of early payment. The reduction only applies for retirement before age 60 (62 for members in the SLFOC section who left before 6 April 1997).
Ill-Health Pension	In the event of premature retirement due to serious ill-health or incapacity, an immediate pension may be paid as per the Early Retirement Pension.
Pension Increases	Guaranteed increases to pensions in payment accrued up to 6 April 2006 are provided in line with the increase in the Retail Prices Index, up to 5% each year. Guaranteed increases to pensions in payment accrued after 5 April 2006 are provided in line with the increase in the Retail Prices Index, up to 2.5% each year.
Deferred Pension Revaluation	Deferred pensions accrued after 5 April 1997 are revalued between exit and retirement in line with statutory requirements. Deferred pensions accrued prior to 6 April 1997 are revalued by 5% per annum compound between exit and retirement for members in the SLFOC section and by the increase in the retail prices index capped at 5% p.a. for benefits accrued after 5 April 1997 for members in the SLFOC section and for members in the Confederation Life sections.

Lump Sum	Up to 25% of the value of a member's pension may be exchanged ('commuted') for a lump sum cash payment. The rate at which pension is exchanged for cash varies with age and benefit type and is updated monthly based on changes in market conditions.
Death after Retirement	A spouse's pension of one-half of the member's pension is payable. For SLFOC members who retire after 1 July 1988 and Confederation Life members who retire after 1 January 1996, the pension is one-half of the member's pension before any commutation for lump sum. In addition, if the member dies within five years of retiring the balance of five years' pension payments will be paid in the form of a lump sum.
Members' Contributions	Nil

The primary differences between the benefits outlined above and those payable to those on long term disability who are on the Confederation Life Field Scale is as follows.

- NRA is 65 (though they have a right to retire at age 60 without a reduction for early payment);
- Accrual rate is 60ths of pay, where pay is defined as the 36-month average of gross remuneration; and
- When the member reaches State Pension Age, the pension is reduced by an amount broadly equal to the SERPS pension the member will have accrued whilst a member of the scheme.

There is no history of providing discretionary benefits (i.e. benefits or increases to benefits in excess of those payable under the Scheme's rules).

B.2 Membership

The membership data as at the valuation date is summarised below:

Status	31 December 2019			31 December 2022		
	Number	Salaries / Pensions	Average age	Number	Salaries / Pensions	Average age
Deferred	1,499	£5.5m p.a.	55.3	1,261	£4.7m p.a.	57.9
Pensioner	1,415	£10.9m p.a.	70.5	1,482	£11.7m p.a.	71.9
Total	**2,914**			**2,743**		

- The Scheme membership has changed since the previous valuation, as members have retired, transferred out or died. The pensions shown in the table above are as at the valuation date for pensioner members and deferred pensioners. Average ages in the table are weighted by liability.

- The data has been provided by the Trustees via the administrator. I have carried out some high-level checks to be comfortable that the information used for this valuation is sensible compared with the information used for the previous valuation and also with that shown in the report and accounts. I have no reason to doubt that the membership data provided is materially complete and correct. The membership numbers reported in the Trustees' Report and Accounts differ slightly to the above due to adjustments to the data which were processed after the effective date of the data used for the Trustees' Report and Accounts.

- I am aware of ongoing due diligence work that is being carried out by the Trustees, their legal advisers, the Company and the administrator in relation to certain legacy annuities which may give rise to data corrections that are not captured in this valuation. However, I am comfortable that the impact of those data corrections will not be material to the funding of the Scheme.

B.3 Assets

The market value of assets at the valuation date was £371.2 as shown in the audited accounts for the Scheme for the period ending on the valuation date. The value of insurance policies differ between the valuation report and the Trustees' Report and Accounts due to the differing assumptions used to value the policies. This is also why the asset value used for the Technical Provisions valuation and the Solvency valuation differ.

The Trustees' investment strategy as at the valuation date was as follows:

Asset class	Allocation as at 31 December 2022 (£m)	Allocation as at 31 December 2022 (%)
Hedge Portfolio	11.8	3.2%
Corporate Bonds	26.5	7.1%
Cash	2.4	0.6%
Buy-ins	330.5	89.1%
Total	371.2	100%

- Since the last valuation the Trustees have:
    - Purchased an insurance policy with Rothesay Life for a total of c£308m. This purchase was funded through a sale of Corporate Bonds and a reduction in Hedge Portfolio assets.
    - Proceeded to expediate the sale of the Compartment asset in advance of expected maturity due to favourable market pricing.
    - Fully-funded the hedging portfolio through the sale of Corporate Bonds.
- I have taken the invested assets of the Scheme into account at their market value as indicated in the audited accounts for the period ended 31 December 2022.
- Full details of the Trustees' investment strategy are contained in the Scheme's Statement of Investment Principles.

Appendix C: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Sun Life Assurance Company of Canada 1988 UK and Irish Employee Benefits Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 2022 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the statement of funding principles dated October 2023.

Signature	DocuSigned by: Susan McIlvogue B1E6D7BD16F6491...
Date	13-10-2023 | 13:07:41 BST
Name	Susan McIlvogue FFA
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow G2 6DB

Appendix D: Reliances and limitations

Purpose of the valuation

This valuation has been carried out to comply with the statutory requirements of Part 3 of the Pensions Act 2004, which requires trustees to periodically obtain an actuarial valuation, defined as “a written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its technical provisions”.

Addressee

This report is addressed to the Trustees of the Scheme who commissioned the work and is provided solely for their purposes in the management of the Scheme and in particular to fulfil their statutory obligations and requirements of the Scheme governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. The Trustees are obliged to pass a copy of the report to the sponsor within 7 days. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustees unless we have expressly accepted such liability in writing.

Compliance

This report complies with the requirements of the following Technical Actuarial Standards (TASs): TAS 100 and TAS 300.

The following communications are also relevant to this report:

- Advice on assumptions report dated 20 February 2023
- Advice on expense reserve dated June 2023

Climate-related risks

The weight given to resource & environment (R&E) issues should depend on a scheme’s circumstances, including its funding position and maturity, its investment strategy and its sponsor’s industry sector. These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Scheme, I have not explicitly incorporated such risks in these valuation results.

Covenant risk

I have not advised on factors particular to the sponsor, or the sponsor’s industry. I am not, in my opinion, best qualified to advise the Trustees on these sponsor-related matters. In any case, the Scheme is currently, and expects to remain, minimally exposed to covenant risk.

Material judgements

N/A