

BMS Section Members' Superannuation Fund - Full Benefit Section

Actuarial Valuation as at 31 December 2020

Mark Poyner FIA
16 December 2021

Executive summary

This report on the actuarial valuation of the BMS Section Members' Superannuation Fund – Full Benefit Section ("the Fund") as at 31 December 2020 has been prepared for GMB ("the Union") in its capacity as sponsor of the Fund.

Headline results

Based on the method and assumptions set out in Section 3, the results of the valuation of the Fund as at 31 December 2020 as discussed in Section 4 are:

	31 December 2020 £000s
Present Value of Liabilities (A)	1,338
Balance sheet reserve (B)	572
Over provision/(under provision) (B-A)	(766)
Level of provision (B/A)	43%

Headline commentary

In my opinion:

- In so much as the reserve is identified separately under the Union's accounts, the arrangements appear to be suitable but it should be noted that no Union assets are explicitly earmarked to back the Fund's liabilities;
- The reserve established for the Fund supports only 43% of the assessed value of the Fund's liabilities at the date of the valuation. The Union expects to revisit the level of the reserve at future valuations and should consider further allocations to the reserve from the General Fund with a view to at least maintaining the level of provision shown above; and
- Given the nature of the Fund and the scope for actual experience to be divergent from our assumptions I recommend that the position be monitored at least as often as required by law.

The most significant factor affecting whether the benefits are paid in full is the long-term survival of the Union. Other risks are covered in Section 5.

The next formal valuation of the Fund must be carried out with an effective date no later than 31 December 2025.

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Throughout the report:

'Fund' refers to the BMS Section Members' Superannuation Fund - Full Benefit Section

'Union' refers to GMB

Disclaimers, confidentiality, non-disclosure and compliance

Application of this report

This report on the actuarial valuation of the BMS Section Members' Superannuation Fund – Full Benefit Section ("the Fund") as at 31 December 2020 has been commissioned by and is addressed to GMB ("the Union") in its capacity as sponsor of the Fund, and it is for their exclusive use. Its scope and purpose is as set out within the report. I am providing this advice under the terms of our engagement and in my capacity as a qualified actuary.

The Trade Union and Labour Relations (Consolidation) Act 1992 section 40(5) and 40(7) provides for the report to be sent to the Certification Officer and Union members, and so additionally these parties may place reliance on the report. Other than stated here, it should not be shared with any other party without our prior written consent, except to comply with statutory requirements. No other parties may rely on or make decisions based on this advice (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This advice has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This advice is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

Legal requirements and data disclaimer

The valuation is required under Section 40 of the Trade Union and Labour Relations (consolidation) Act 1992.

We have used the information supplied to us as stated in the report, which we have accepted without independent checking. We do not accept responsibility for any errors that may arise that are due to such information being incorrect.

Compliance with actuarial guidance

This report, and the work undertaken to produce it, is compliant with Technical Actuarial Standard (TAS) 100 and TAS 300, set by the Financial Reporting Council and current at the date of signing this report. No other TASs apply. The valuation of the Fund is not governed by Part 3 of the Pensions Act 2004 and as such this report does not comply with all aspects of TAS 300.

The following documents are relevant to the information given in this report:

- Danny Vassiliades' report on the valuation of the Fund as at 31 December 2015, dated 21 December 2016; and
- My email dated 16 December 2021 setting out the assumptions and their derivation for the valuation of the Fund as at 31 December 2020.

01 Introduction

01.01 Scope and introduction

This report on the actuarial valuation of the BMS Section Members' Superannuation Fund – Full Benefit Section ("the Fund") as at 31 December 2020 ("the 2020 valuation") is required under Section 40 of the Trade Union and Labour Relations (Consolidation) Act 1992 ("the Act").

This report has been commissioned by and is addressed to GMB ("the Union") in its capacity as sponsor of the Fund, and it is for their exclusive use.

The previous valuation of the Fund was performed by Danny Vassiliades FIA as at 31 December 2015 ("the 2015 valuation"). It revealed that the Fund was approximately 34% funded, with a deficit at that time of £1.12 million. Since the 2015 valuation, the Union increased the reserve allocated to the Fund by allocating £897,000 (in annual instalments over the years 2016 to 2020) from the General Fund in its accounts. This increase in the reserve will mean the position at the valuation date is better than it would have otherwise been without these annual allocations.

In accordance with the Act, the purpose of the valuation is to make an assessment of the reserve maintained by the Union for the payment of benefits from the Fund, and of the liabilities to be discharged out of the Fund, and hence to form an opinion on:

- whether the premium or contribution rates are adequate;
- whether the accounting or funding arrangements are suitable; and
- whether the fund for the payment of benefits is adequate.

The Fund is not backed by separate assets and regular contributions are not required to be made. My investigation has therefore been restricted to an assessment of the adequacy of the reserve established in the Union's accounts to meet the Fund's liabilities. The "adequacy" of reserves is not a guarantee that the benefits will be met.

The Act provides for the report to be sent to the Certification Officer and Union members.

My advice is required to be compliant with the relevant Technical Actuarial Standards.

02 Fund benefits and data

02.01 Benefits valued

The benefit from the Fund consists of an annual payment made in December to each eligible beneficiary, in respect of the following calendar year. An eligible beneficiary is defined in the Union Rules as a member:

"arriving at the age of 60, and having 40 years' continuous membership and having retired from the Trade, and in benefit according to Rule."

No other benefits are provided by the Fund and no further benefits accrue. Following the closure of the Fund in 1982, no new members have been admitted to the Fund.

The benefit payable from the Fund was £64 per annum at the 2015 valuation, but was increased to £70 per annum from the payment made in December 2019 (in respect of the calendar year 2020). No other changes were made to the level of the benefit since the 2015 valuation.

02.02 Discretionary practice

The benefit is not guaranteed to increase. There has been a history of the Union periodically increasing the benefit paid by the Fund, the latest such increase being applied in December 2019 as noted in section 02.01. These discretionary increases have applied to both current and prospective beneficiaries.

We were informed by the Union (in an email from Graham Dow on 6 August 2021) that there are no current plans for any future discretionary increases. Therefore, for the 2020 valuation, no allowance has been made for any further discretionary increases in the future. This is consistent with the approach taken for the 2015 valuation.

02.03 Membership data

I have based the valuation on data provided by the Union as at 31 December 2020. The data consists of the number of members currently in receipt of an annual payment under the Fund as well as the number of potential additional beneficiaries for each year until the last member under the Fund retires (in 2027). A summary of this data is included in the Appendix.

Since the 2015 valuation, the Union has reviewed the membership data for the Fund and updated it to allow for known membership experience. I am not aware of any member tracing exercise having been undertaken since the 2015 valuation, and the Union has confirmed that there are no current plans to undertake a member tracing exercise.

My valuation relies upon the accuracy of the information provided by the Union.

02.04 Assets

The Fund's benefits are backed by a reserve in the Union's accounts, i.e. none of the Union's assets are earmarked to back the Fund's liabilities. The audited Union accounts for the year ending 31 December 2020 showed that the value of the reserve held for the Fund was £572,000. The Fund does not maintain separate accounts, instead a separate Fund Account for the Members' Superannuation Fund is shown within the Union's accounts.

The auditor's report in the Union's accounts for the year ended 31 December 2020 states that only the Union and its members can rely on the information in the accounts. I have had to rely on information in the audited accounts in carrying out this actuarial valuation and must therefore caveat this report to the extent that if the information in the audited accounts is found to be incorrect then the Union and its members cannot rely on the results and advice provided in this report.

03 Valuation Method and Assumptions

03.01 Method

The Fund's objective is that the reserve held in the Union accounts is sufficient to provide the benefits as they fall due.

All future benefit payments for current and future members of the Fund are projected using the assumptions detailed in section 03.02. They are then "discounted" back to give present values at the valuation date, using the discount rate assumption, and totalled to give the value of the liability.

The reserve in the Union's accounts at the valuation date is compared with the value of the Fund's liabilities. The treatment of the reserve held to back the Fund's liabilities is consistent with the method used to place a value on the liabilities.

03.02 Assumptions

The financial and demographic assumptions made in the valuation as at 31 December 2020 are set out in Table 1. My advice on the assumptions, along with the rationale for their derivation and a comparison to the assumptions used for the 2015 valuation, is set out in my email to the Union dated 16 December 2021.

Table 1: Financial and Demographic assumptions

Assumption	2020 valuation
Discount rate (gilt yield plus equity risk premium of 2.0% p.a.)	2.50% p.a.
Assumed age at which members will start to draw benefits	65
Pre-retirement Mortality	AC00 tables
Post-retirement Mortality	S3PA base tables rated up 2 years. Allowance for future improvements in mortality in line with CMI_2020 (with default parameters) with a long term rate of improvement of 1.5% p.a., on a year of birth basis.
Discretionary increases applied	None
Gender	100% Male
Administration expenses	£17,500 (i.e. a 5 year expense allowance of £3,500 p.a.)
Proportion of current prospective members who remain eligible for a benefit under the Fund at retirement.	See below

Table 2: Proportion of current prospective members who remain eligible for a benefit under the Fund at retirement

Year of retirement	2020 valuation assumption
2021-2023	90%
2024-2027	60%

03 Valuation Method and Assumptions (cont...)

Note that, where the date of birth is not available for members currently in receipt of a benefit, it has been assumed that they are aged 80, which is the average age for the other members currently in receipt of a benefit based on information provided by Graham Dow in his email dated 19 November 2021.

Where the date of birth is not available for prospective members, they are assumed to draw benefits immediately following the valuation date, consistent with the assumption adopted in the 2015 valuation (this being a more prudent approach than using the average date for the remaining prospective members).

03.03 Changes since the previous valuation

Changes have been made to the assumptions since the previous actuarial valuation of the Fund. The main differences between the current and previous assumptions are:

- The assumed discount rate has decreased from 4.4% per annum to 2.5% per annum. The assumption however has been calculated in the same manner as that used for the previous valuation of the Fund and the change is due to a fall in the gilt yield. As the general reserves of the Union are invested predominantly in equities and return-seeking assets, our assumption is based on future expected returns from these asset classes.
- More up-to-date mortality tables and the latest available mortality projection model have been used for both the mortality of members who are currently in receipt of benefit and the mortality of members who will retire in the future.
- The assumption for the proportion of current prospective members who remain eligible for a benefit under the Fund at retirement (referred to as the 'persistency rate') has been updated to more closely represent the experience observed since the previous valuation.
- The allowance for the administrative expenses incurred by the Union in running the Fund has been reduced slightly based on recent expense experience provided by Graham Dow in his email dated 6 August 2021.

04 Valuation results

04.01 Balance sheet

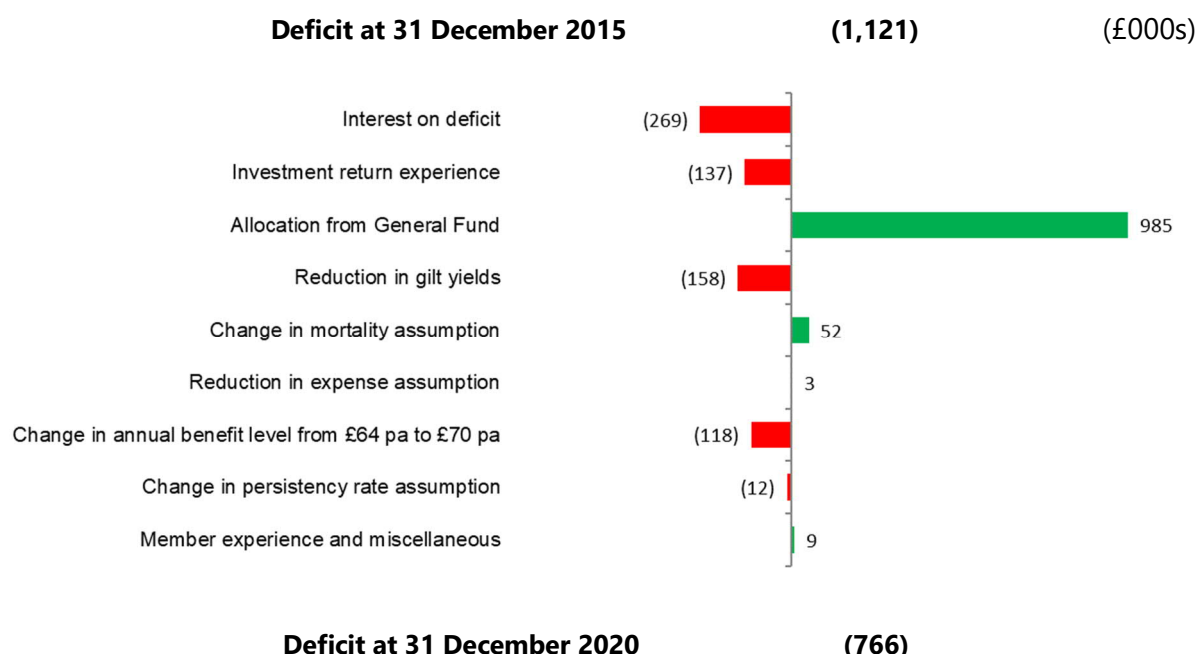
Based on the method and assumptions set out in Section 3, the valuation results are set out in Table 3 together with the results as at 31 December 2015 for comparison.

Table 3: Valuation results at 31 December 2015 and 2020

	31 December 2015 (£000s)	31 December 2020 (£000s)
Value of Liabilities (A)	1,693	1,338
Balance sheet reserve (B)	572	572
Over Provision/ (Under Provision) (B-A)	(1,121)	(766)
Level of provision (B/A)	34%	43%

04.02 Experience since the previous valuation

The previous valuation showed a deficit of £1,121,000. The current valuation shows a deficit of £766,000, indicating an overall gain of approximately £355,000 over the inter-valuation period. The major items of experience that have had an impact on this overall gain are illustrated below:



04.03 Reserving

The Fund's reserving objective was not met on the valuation date. The Union will revisit the level of reserve required at the next valuation and should consider further allocations to the reserve from the General Fund with a view to at least maintaining the level of provision.

05 Sensitivity and risk

05.01 Sensitivity

The Fund's level of provision is sensitive to changes in the actuarial assumptions used in the valuation. The results are particularly sensitive to:

- The discount rate (i.e. assuming a lower discount rate would increase the assessed liabilities);
- The proportion of current members who will remain eligible for Fund benefits at retirement; and
- The post-retirement mortality assumption (i.e. assuming lower life expectancy would decrease the assessed liabilities).

Table 4 illustrates the sensitivity of the valuation results to changes in the key assumptions, with each change being considered in isolation.

Table 4: Sensitivity of results to changes in assumptions

	2020 Valuation (£000s)	Basis (i) (£000s)	Basis (ii) (£000s)	Basis (iii) (£000s)
Value of Liabilities (A)	1,338	1,438	1,382	1,417
Balance sheet reserve (B)	572	572	572	572
Over Provision / (Under Provision) (B-A)	(766)	(866)	(810)	(845)
Level of provision (B/A)	43%	40%	41%	40%

The above figures are based on the assumptions set out in Section 3, but with the following variations:

- **Basis (i)** – Discount rate reduced by 1% per annum, i.e. to 1.5% per annum.
- **Basis (ii)** – Proportion of current members who remain eligible for a benefit under the Fund at retirement increased as shown in Table 5.

Table 5: Proportion of current prospective members who remain eligible for a benefit under the Fund at retirement

Year of retirement	2020 valuation assumption	2020 sensitivity assumption
2021-2023	90%	100%
2024-2027	60%	75%

- **Basis (iii)** – Members are assumed to live one year longer

05 Sensitivity and risks (cont...)

05.02 Risks

The likelihood of Fund members continuing to receive their full benefit entitlement depends on the Union's continuing ability to pay these benefits from its liquid assets.

As long as the Union remains solvent, the level of provision for Fund benefits by way of a balance sheet reserve provides a measure of the Union's ability to meet the benefits payable in future, although it is important to note that none of the Union's assets are specifically earmarked to back the Fund's liability.

Additionally it is important that enough of the assets underlying the balance sheet reserve held for the Fund are sufficiently liquid that the Fund's actual benefit payments can be met as they fall due. Given the nature of the data the Union holds in respect of the potential beneficiaries, it has had to make a number of assumptions in order to be able to provide data for this valuation. If these assumptions prove to be incorrect then the Fund's liabilities could be materially different.

Unanticipated future changes in mortality patterns and/or a change in the persistency of future beneficiaries could also lead to increases or decreases in the Fund's liabilities. Future mortality rates and persistency rates cannot be predicted with certainty.

06 Conclusion

Based on the results of the valuation as at 31 December 2020, the Fund is only 43% funded and therefore the Fund's reserving objective is not met (i.e. the reserve held in the Union accounts is not sufficient to provide the benefits as they fall due).

I recommend that the Union maintain at least the level of reserve currently held to pay members' benefits in the future. This would require further allocations from the General Fund in the future.

In accordance with Section 40 of the Trade Union and Labour Relations (Consolidation) Act 1992, the Union should arrange for the next formal valuation of the Fund to be carried out with an effective date no later than 31 December 2025.



Mark Poyner
Fellow of the Institute and Faculty of Actuaries
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16 December 2021

Appendix

Membership data

The data provided by the Union for the valuation of the Fund as at 31 December 2020 is set out below.

Table A.1: Membership data

	31 December 2015	31 December 2020
Current Beneficiaries	3,164	2,188
Potential Future Beneficiaries	574	345

The 345 potential additional beneficiaries as at 31 December 2020 split by the year they become eligible to receive payment are shown in table A.2.

Table A.2: Potential additional beneficiaries split by year of eligibility

Year	Potential future beneficiaries
2021	54*
2022	45
2023	56
2024	51
2025	59
2026	41
2027	39

*Assumes that all 9 prospective members with an unknown date of birth will start to receive benefits immediately following the valuation date.



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