Akzo Nobel (CPS) Pension Scheme

Actuarial report as at 31 March 2018

29 November 2018

Purpose

This is the actuarial report in respect of the Akzo Nobel (CPS) Pension Scheme as at 31 March 2018 and I have prepared it for Akzo Nobel (CPS) Pension Scheme Trustee Limited (the "Trustee"). As noted in the limitations section of this report, others may not rely on it.

The actuarial report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Company within seven days of its receipt.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the latest actuarial valuation and any subsequent actuarial reports. It should be considered in conjunction with the report on the actuarial valuation as at 31 March 2017.

Summary of results

I estimate that the technical provisions funding level as at 31 March 2018 has increased to 98% over the year.

Details on the assumptions and approach used to produce this update are set out in the appendices.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial assessment within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 March 2020.

In intervening years the Trustee will obtain annual actuarial reports, such as this one, on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 March 2019, must be completed by 31 March 2020.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
29 November 2018

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http://eutct.internal.towerswatson.com/clients/615626/CPSTRRET2018/Documents/Funding/Actuarial%20Report/Akzo%20Nobel%20(CPS)%20actuarial%20report%2031_3_2018.docx

Appendix 1: Statutory funding objective

The Trustee's only formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The method and assumptions for calculating the technical provisions as at 31 March 2017 were agreed between the Trustee and Company and documented in the Statement of Funding Principles dated 28 September 2018. The table below summarises the main financial assumptions used to estimate the Scheme's technical provisions for this actuarial report and the latest actuarial valuation.

Financial assumptions	31 March 2018 % pa	31 March 2017 % pa
Discount rate	**Term dependent rate reducing linearly from gilts +1.2% pa at 2017 to gilts +0.25% pa by 2030**	Term dependent rate reducing linearly from gilts +1.2% pa at 2017 to gilts +0.25% pa by 2030
Single equivalent average discount rate	**2.21%**	2.23%
RPI inflation	**3.40%**	3.50%
CPI inflation	**2.40%**	2.50%
Pensionable earnings increases		
- for purposes of determining Technical Provisions	**In line with deferred revaluation**	In line with deferred revaluation
- for purposes of determining future service contribution rate	**1.50%**	1.50%
Pension increases in payment		
- CPI, maximum 5%, minimum 0%	**2.40%**	2.50%
- CPI, maximum 5%, minimum 0%, underpinned by 70% RPI	**2.80%**	2.90%
- CPI, maximum 3%, minimum 0%	**2.40%**	2.50%
- RPI, maximum 5%, minimum 0%	**3.40%**	3.50%
- RPI, maximum 5%, minimum 3%	**3.80%**	3.80%
- 70% RPI, minimum 0%	**2.38%**	2.45%
Increases in deferment	**Based on RPI for RPI-based revaluations and CPI for CPI-based revaluations**	Based on RPI for RPI-based revaluations and CPI for CPI-based revaluations

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Scheme's technical provisions at 31 March 2017, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 March 2017, as set out in the Scheme's Statement of Funding Principles dated 28 September 2018.

There is no allowance in the assumptions underlying the technical provisions for any future discretionary increases to benefits.

There have been some inconsistencies between administrative practices and the current wording in the Rules, which were documented in the 2017 valuation report. The approach to assessing Scheme liabilities in this regard, as set out in the 2017 valuation report, has been retained for this 2018 actuarial report.

I have included an allowance of 2% of the liabilities in my calculations for the potential cost of equalising GMPs. This is consistent with the approach adopted for the previous 2017 valuation.

The table below compares the estimated technical provisions as at the effective date of the actuarial report with the market value of the Scheme's assets and the corresponding figures from the latest actuarial valuation:

Valuation statement	**31 March 2018 £m**	31 March 2017 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Defined benefits	**3,378**	3,523
AVCs and other money purchase benefits	**7**	8
Technical provisions	**3,385**	3,531
Market value of assets	**3,333**	3,408
Past service (deficit)/surplus (technical provisions less assets)	**(52)**	(123)
Funding level (assets ÷ technical provisions)	**98%**	97%

Adjustment for Longevity Swap

The value of the technical provisions includes an adjustment for the value of the longevity swap. The value of the longevity swap in the Scheme accounts as at 31 March 2018 is -£94 million and the liabilities as at 31 March 2018 have been adjusted by this amount in order to value both assets and liabilities consistently.

Developments since the latest valuation

The funding level is estimated to have increased from 97% at the previous valuation to 98% as at 31 March 2018. The main factors leading to this improvement have been investment returns in excess of the prudent discount rate assumed, an increase in the real discount rate (being the difference between the discount rate and the assumed rate of RPI price inflation), and the deficit contribution paid during the year of £21 million, which have been partly offset by actual pension increases being higher than assumed at April 2018.

Appendix 2: Data, calculation approach and limitations

Asset information

The audited accounts supplied as at 31 March 2018 show that the market value of the Scheme's assets was £3,333 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £7 million. The scheme accounts also include an amount attributable to the value of the longevity swap of -£94 million.

Calculation approach

In carrying out the estimates of the updated financial position of the Scheme, I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 31 March 2018 using approximate methods based on the data provided.

The approach taken to calculate the estimates will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonable indication of how the funding position might have moved.

Compliance

This report and the work involved in preparing it are within the scope of and comply with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) published by the Financial Reporting Council. However, as this report has been produced solely to meet a legislative requirement and no decisions are expected to be taken on the basis of the information set out in it, I have taken a proportionate approach when considering and applying the requirements contained within TAS 100 and TAS 300.

General limitations

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial report and takes no account of developments after that date except where explicitly stated otherwise.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has be made for climate-related risks.