QUARTERLY NEWSBLAST
SEPTEMBER 2022

In this Newsblast we will focus on two key items:

- The latest Summary Funding Statement of the Plan
- Providing general information on the calculation of transfer values.

In our Winter Newsletter we will look to return to the usual format.

Scheme news

LAND ROVER PENSION SCHEME SUMMARY FUNDING STATEMENT

Year ended 31 March 2021

Here we provide information about the latest review of the Scheme's funding position and the steps being taken to protect your benefits.

How well funded is the Plan?

The most recent actuarial valuation was carried out as at 31 March 2021. Here we compare the results at this date with the results of the actuarial updates carried out as at 31 March 2020 and 31 March 2019.

2021

Assets	£4,134m
Liabilities	£4,234m
Surplus / (Shortfall)	(£100m
Funding Position	98%

2020

Assets	£4,179m
Liabilities	£4,581m
Surplus / (Shortfall)	(£402m)
Funding Position	91%

2019

Assets	£4,065m
Liabilities	£4,462m
Surplus / (Shortfall)	(£397m)
Funding Position	91%

* This figure excludes Additional Voluntary Contribution ("AVC") funds

The Scheme's funding position on a discontinuance basis was 58% as at 31 March 2021. This represents the estimated cost of insuring the benefits for all members if the Scheme was discontinued on the date of the full actuarial valuation. We are legally required to provide this figure and it does not mean that there is an intention to wind up the Scheme.

continued overleaf...

Why have the assets and liabilities changed since the 2019 update?

Changes in the funding position from one year to the next reflect the net effect of several factors, some of which have a positive impact and some a negative impact.

Between 2020 and 2021 the funding position improved. The main reasons for this were changes to the assumptions agreed for the 2021 valuation and the change to the inflation measure used to determine most pension increases in deferment and in payment.

Between 2019 and 2020 the funding position was largely unchanged. The main reason for this was that a fall in interest rate expectations, which acted to increase the cost of meeting the liabilities, was largely offset by better than expected investment returns on the assets and the contributions paid by the Company.

What contributions will be paid in the future?

As part of the 2021 valuation process the Trustee, having considered the advice of the Scheme Actuary and its other advisers, agreed a Recovery Plan with the Company. Based on the assumptions made, this was expected to eliminate the shortfall by 30 June 2022 through investment performance and the payment of additional Company contributions. The Trustee and the Company have also agreed that additional shortfall payments would be paid if the technical provisions funding level falls below 95% at two consecutive quarter ends.

Has the Company received any payments from the Plan?

There have been no payments made from the Scheme to the Company in the past twelve months.

Has there been any intervention from the Pensions Regulator?

The UK Pensions Regulator can change the Scheme, give directions about how the liabilities are calculated as part of a valuation or impose a schedule of contributions. We are pleased to say that the Pensions Regulator has not needed to use its powers in this way for the Scheme.

General information on Transfer Value calculations

Over the past few months we've received enquiries regarding the calculation of transfer values for pension benefits where members wish to move their pension to a different scheme. The Trustee felt it would be helpful to provide all members with some general information on this subject.

Please note that the information included below is intended to address common questions related to transfer values. Please refer to the document "How transfer values are calculated" which can be found on Benpal for general information on how transfer values are calculated.

The following information applies to members of the Main Sections of the Jaguar Pension Plan and Land Rover Pension Scheme.

Why has my transfer value reduced this year?

The calculation of transfer values involves making assumptions about the future. There have been significant changes to these assumptions during the year.

The biggest change has been driven by the economic climate, and in particular a significant increase in interest rate expectations.

Other changes which have impacted transfer values this year include changes in:

- The way future pension increases in the Plan will be calculated
- Other assumptions following a routine review of these by the Trustee (such as life expectancy assumptions)

Transfer values can be extremely sensitive to small changes in financial conditions. This is because your benefits are expected to be paid over a long period of time.

Is the Plan/Company profiting from the reduction in transfer values?

No: a transfer value is intended to reflect the expected cost of providing your benefits through the Plan – this means the assumptions are set so that there is no expectation of either making a profit or loss, compared with the position if you remain in the Plan.

The assumptions are regularly reviewed and updated to ensure this remains the case as conditions change.

Why do interest rate expectations impact transfer values?

As noted earlier, a transfer value reflects the expected cost of providing your benefits through the Plan.

This cost is linked to investment returns expected in the future on the assets of the Plan: if the expected future investment returns are higher, less money is needed now to pay for those benefits, as that money will grow faster.

A key driver of investment return expectations are interest rates, and in particular, the interest rates on UK government debt (known as "gilt yields"). Gilt yields have increased substantially this year, as shown by the chart on the next page, meaning the expected future investment return on the assets in the Plan have increased. This has acted to reduce transfer values.

How has high inflation impacted my transfer value?

All else being equal, an increase in inflation expectations acts to increase your transfer value.

However, it is important to note that the relevant measure is inflationary expectations over the long-term (for example over the next 20 years), rather than inflationary expectations over just the next year.

Whilst inflationary expectations over the next year have risen substantially, over the longer term they haven't changed significantly (as shown by the chart below). The impact of inflationary expectations on transfer values has therefore been smaller than you might expect.

How has the Trustee's routine review of assumptions impacted my transfer value?

The assumptions underlying transfer value calculations are regularly reviewed by the Trustee, to ensure these continue to provide fair value.

Following the most recent review, new assumptions have been introduced with effect from 1 September 2022, taking into account latest investment return expectations and life expectancy assumptions. The impact of these changes varies by Plan/age/individual.

How has the change to pension increases impacted my transfer value?

We recently announced that most future pension increases in the Plan would be based on the Consumer Prices Index ("CPI") measure of inflation, rather than the now outdated Retail Prices Index ("RPI") measure.

This change has been reflected in transfer value calculations from 1 September 2022, and has acted to reduce transfer values.

How have transfer values changed over the longer term?

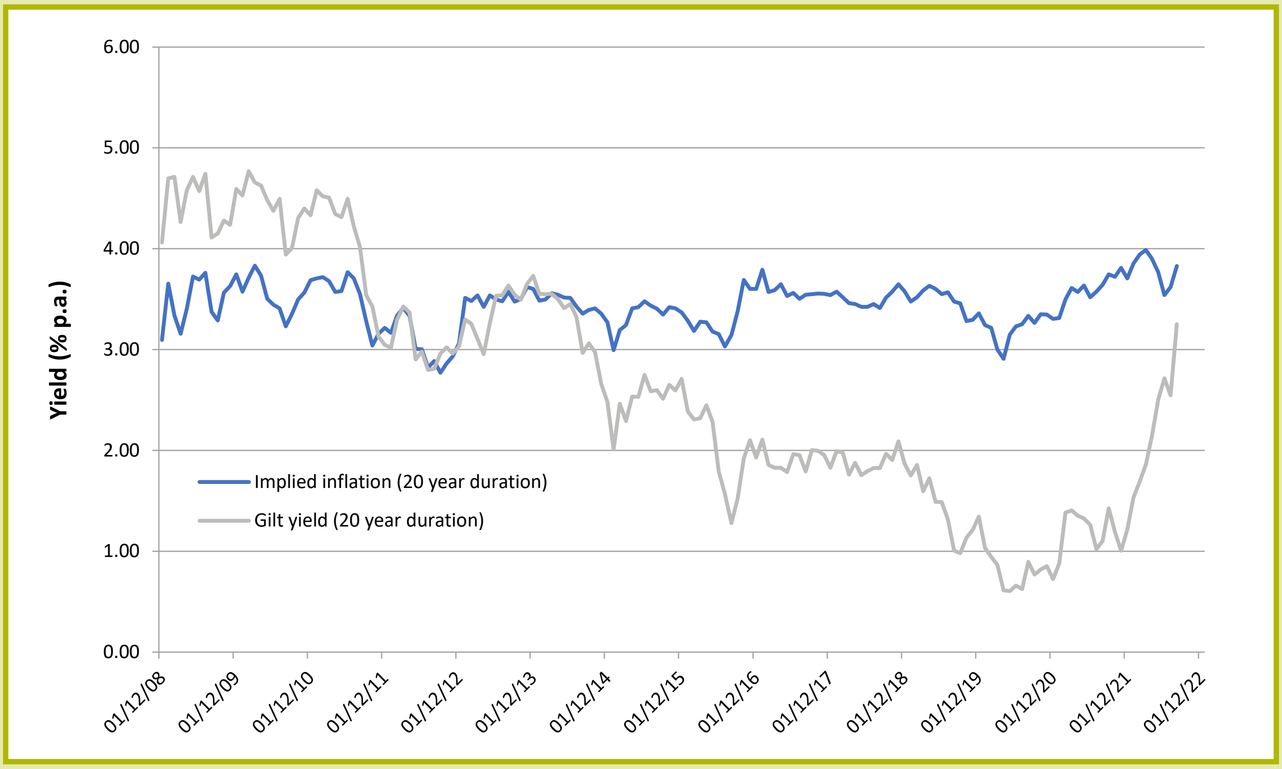
Over the last ten years, the main driver of changes in transfer values has been a substantial reduction in gilt yields. This is shown by the grey line in the chart below and led to substantial increases in transfer values between 2011 and 2020.

During 2022 gilt yields have increased sharply due to rising interest rates, reversing some of the previous falls. This has led to a reduction in transfer values. However, it is worth noting that yields are still lower than they were ten years ago.

The market's long-term expectations of inflation, shown by the blue line, have not changed significantly over the period meaning that changes in long term inflation expectations have not generally had a material impact on transfer values.

General information on Transfer Value calculations *continued*

Long-dated gilt yields and inflationary expectations between December 2008 and July 2022



Financial Advice

Remember that transferring out is a complex and significant financial decision and, in most cases you are required to take Independent Financial Advice before doing so. The timing of when you take any retirement benefits can also have an impact on the benefits you receive. The Trustee strongly recommends that you take independent financial advice with regards to this as well.

Contact us

If you need to contact us, or you would like to request paper copies of future communications, please use the following details:

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