



# The AA Pension Scheme

Annual Actuarial Report as at 31 March 2017

Prepared for AA Pensions Trustees Limited (the Trustee)

Prepared by David Eteen FIA

Date 30 October 2017

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## Annual funding update as at 31 March 2017

### Introduction

This is the annual actuarial report required by legislation.

Its purpose is to provide an approximate update of the assets and **Technical Provisions** of the Scheme.

This update is intended to be used by the Trustee as the basis of the summary funding statement provided to members.

A copy of this report must be made available to the sponsor within seven days of receiving it and to members within two months of request.

At 31 Mar 2017

Funding level

86%

Compared to

At actuarial valuation date

Funding level

83%

At 31 Mar 2017

deficit

£362M

Compared to

At actuarial valuation date

deficit

£366M

*Please note that the liability figures in this report are approximate to the extent that they are rolled-forward from the position at the 31 March 2016 actuarial valuation date. The asset values and liabilities are recalibrated regularly using the most up-to-date information available.*

### Funding level change since the actuarial valuation at 31 March 2016



### Asset and liability changes since the actuarial valuation at 31 March 2016

Values in £1,000,000

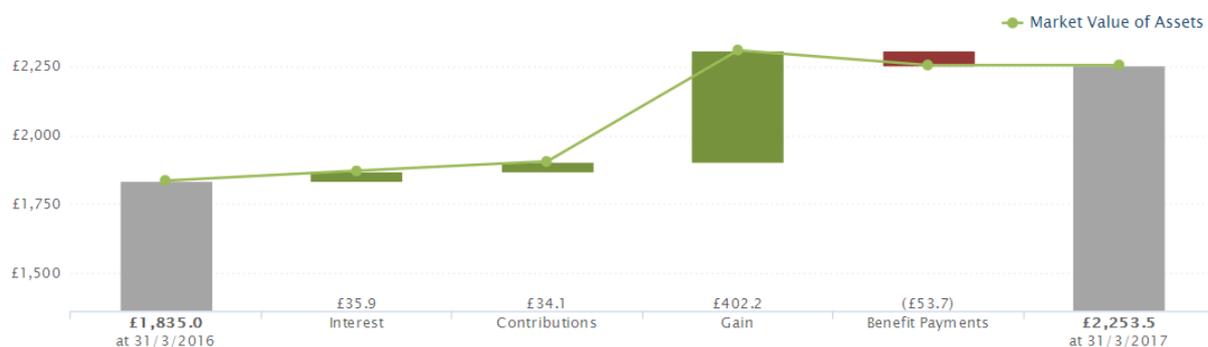


## Analysis

### Reasons for change since the actuarial valuation at 31 March 2016

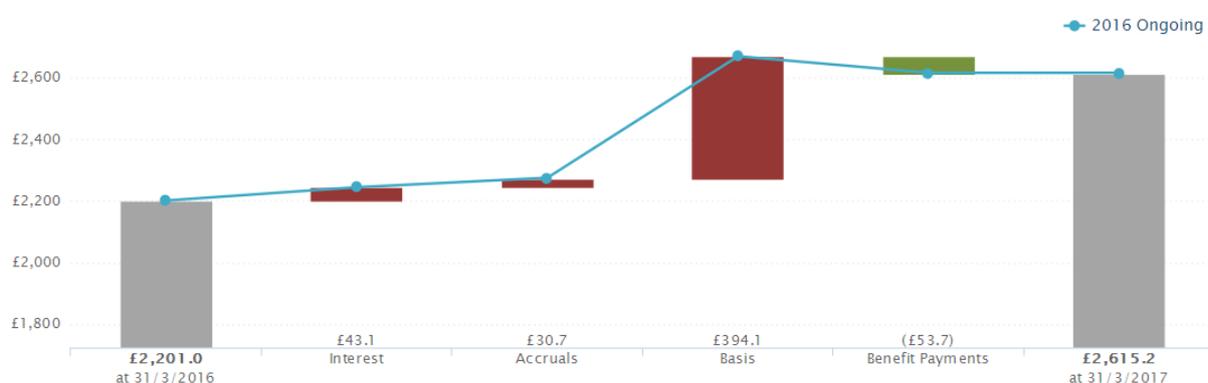
#### Asset attribution

Values in £1,000,000



#### Liability attribution

Values in £1,000,000



## Comments

Since the date of the actuarial valuation:

- The liabilities have increased, mainly because gilt yields have fallen and expectations for future inflation have risen
- The assets have increased, due to an increase in the Scheme's hedging assets (as a result of the fall in gilt yields), higher than assumed investment returns on the Scheme's growth portfolio and the contributions paid into the Scheme by the Company

## Background information

### Method

This funding update is consistent with the **Technical Provisions** calculations for the formal actuarial valuation as at 31 March 2016. The assumptions used have been modified only insofar as is necessary to maintain consistency with the statement of funding principles, reflecting the change in the effective date and in relevant market conditions.

The funding update is projected from the results of the formal actuarial valuation as at 31 March 2016 and is therefore approximate. Since the update is not based on up to date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.

The funding update takes account of the following over the period since the last formal actuarial valuation:

- Cashflows into and out of the Scheme;
- Actual price inflation and its impact on benefit increases; and
- Benefits accrued since the actuarial valuation date.

Demographic experience since the last formal actuarial valuation has been assumed to be in line with the statement of funding principles.

This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the covenant of the sponsoring employer, investment strategy or economic outlook.

If you believe there has been a material deterioration in the covenant or the economic outlook and/or the Scheme's investment strategy has changed materially since the last actuarial valuation, it may not be suitable to rely on the results of this actuarial report as being representative of the Scheme's funding position as at 31 March 2017 were you to have reviewed your statement of funding principles and conducted an out of cycle actuarial valuation.

### Assets

For the purpose of this update, I have used an audited value of the Scheme's assets (excluding AVCs which are invested separately and the Trustee's interest in the Asset Backed Funding Structure) as at 31 March 2017.

### Making decisions

Other than deciding that it is not necessary to commission an out of cycle actuarial valuation, you should not rely on this update when making any decision about scheme funding or the investment strategy, without first talking to your usual consultants.

### Glossary

**Funding level/ratio** is the ratio of the value of assets to the value of liabilities.

**Surplus / Deficit** displays the value of assets less the value of the liabilities. If the value of the liabilities is greater than the value of the assets, then the difference is called a deficit.

**Technical Provisions** represent the funding target for a scheme agreed as part of the actuarial valuation.

**Interest** reflects the asset and liability values increasing at the interest rate used to value the liabilities.

**Contributions / Accruals** show the expected increase in assets and liabilities due to employer contributions and new benefit accruals, respectively.

**Gain / Basis** shows the actual increase in assets and liabilities due to actual returns achieved on the assets differing from assumed interest, and the impact of a change in the actuarial valuation basis, respectively.

**Benefit payments** displays the expected decrease in assets and liabilities due to benefit payments (including transfers out) during the period.

## Further information

### Requirement for report

This report is required by and has been produced in accordance with section 224 of the Pensions Act 2004 and Regulation 7 of the Occupational Pension Schemes (Scheme Funding) regulations 2005.

This report has been requested by the Trustee of The AA Pension Scheme. It has been prepared under the terms of the Scheme Actuary Agreement between the Trustee and me on the understanding that it is solely for the benefit of the addressee.

### TAS compliant

This report and the work relating to it comply with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' and 'Technical Actuarial Standard 300: Pensions'.

This report should be read in conjunction with:

- My report on the most recent actuarial valuation of the Scheme dated 16 June 2017
- The statement of funding principles dated 7 June 2017

The compliance is on the basis that the Trustee of the AA Pension Scheme is the addressee and the only user of this report, and that the report is only to be used to form the basis of the summary funding statement provided to members and to help the Trustee decide whether an out of cycle actuarial valuation needs further consideration.

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