

# Hays Pension Scheme

Actuarial valuation as at 30 June 2021

Scheme funding report

December 2021

Alec Day FIA, Scheme Actuary

For and on behalf of Hymans Robertson LLP



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## Scheme funding report

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# 1 The results of the valuation

I carried out an actuarial valuation of the Hays Pension Scheme ('the Scheme) as at 30 June 2021 ('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'. The 'statement of funding principles' sets out the Trustee's policy for meeting the statutory funding objective.

The Trustee also has a long-term objective to be fully funded on a buyout basis by 2028. This is set out in a Memorandum of Understanding agreed with the Company.

## Summary of results

The Scheme's funding position as at 30 June 2021 is shown below alongside the position at the last valuation for comparison.

	Previous valuation 30 June 2018	This valuation 30 June 2021
<b>Assets</b> <i>See the Trustee's Report and Accounts as at the valuation date for further details</i>	<b>802.6</b>	<b>904.5</b>
<b>Technical provisions liabilities</b> <i>An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee's (see appendix A)</i>	<b>846.1</b>	<b>928.4</b>
Active liabilities	0.0	0.0
Deferred liabilities	544.5	590.0
Pensioner liabilities	276.5	319.7
Expenses	20.0	15.0
Additional reserve for GMP liabilities notified by HMRC*	5.1	3.8
<b>Surplus/(deficit)</b> <i>Technical Provisions less assets</i>	<b>(43.6)</b>	<b>(23.9)</b>
<b>Funding level</b> <i>Assets divided by Technical Provisions</i>	<b>95%</b>	<b>97%</b>

\*These are additional GMP liabilities which have been identified as part of the ongoing GMP reconciliation with HMRC. They are not in respect of GMP equalisation.

The technical provisions deficit has decreased from £43.6m at the last valuation to £23.9m at this valuation.

The key factors which led to this change were:

- Deficit contributions paid into the Scheme;
- The fall in gilt yields leading to an increase in liabilities; however this was more than offset by excess returns on assets and lower inflation expectations; and
- Revised discount rate and CPI assumptions.

### Contributions

Following discussions, it has been agreed the sponsor will pay:

- deficit contributions of £16.7m p.a. from 1 July 2021 onwards, increasing by 3% p.a. on each 1 July. The Company has indicated an intention to continue these payments until 31 December 2028, although full funding on Technical Provisions is expected to be achieved by 31 December 2022.

An expense reserve of £15m has been allowed for in the liabilities.

## 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 (Hays plc). If the Employer were no longer able to support the Scheme, it may then be necessary to 'wind up' the Scheme. 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 30 June 2018	This valuation 30 June 2021
<b>Assets</b> <i>See the Trustee's' Report and Accounts as at the valuation date for further details</i>	802.6	914.0
<b>Solvency liabilities</b> <i>Estimated cost of buying annuities from an insurance company</i>	1,050.0	1,106.1
<b>Expenses</b> <i>Expenses of winding up the scheme</i>	30.0	12.4
<b>Surplus/(deficit)</b> <i>Solvency liabilities less assets</i>	(247.5)	(192.1)
<b>Funding level</b> <i>Assets divided by technical provisions</i>	76%	83%

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.

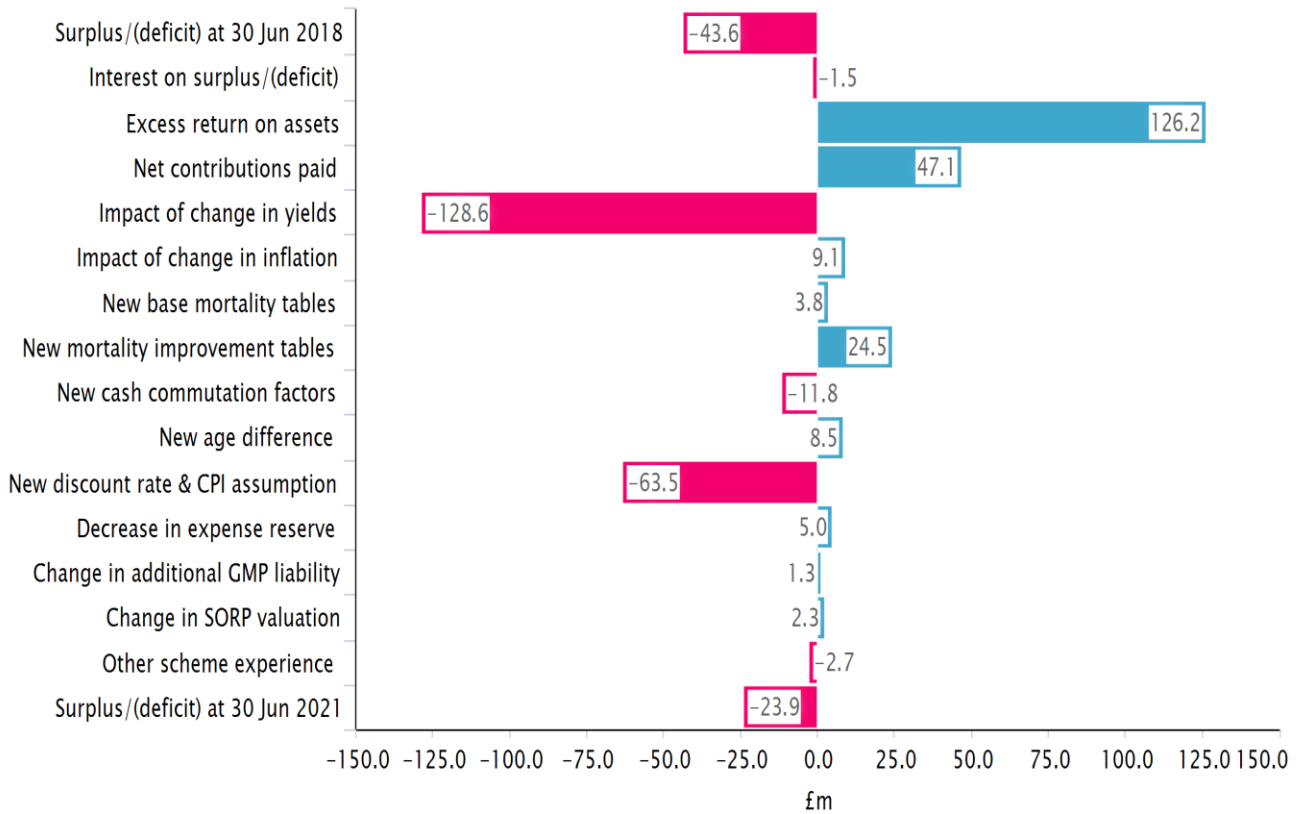
### Why are the solvency liabilities different to the technical provisions?

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.

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:

- Deficit contributions paid into the Scheme;
- The fall in gilt yields leading to an increase in liabilities; however this was more than offset by excess returns on assets and lower inflation expectations; and
- Revised discount rate and CPI assumptions.

## 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

The Trustee should understand the risks to its funding plans, particularly those related to funding, investment and the Employer covenant.

Risk	How the Trustee manage this risk
<p><i>Employer covenant</i></p> <p>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.</p>	<p>The Trustee commissioned a formal covenant review by EY as part of the valuation to get a sufficiently accurate assessment of Employer support. This concluded that covenant of the Employer was strong and therefore could pay the required contributions and underwrite Scheme risks. This has been taken into account when setting assumptions for the technical provisions, contributions and investment strategy.</p>
<p><i>Investment</i></p> <p>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.</p>	<p>The Trustee manages the risk by using prudent assumptions in the valuation, by monitoring investment risks and performance, and also keeping the investment strategy under regular review.</p> <p>The risk in the investment strategy has also been incrementally reduced over time.</p>
<p><i>Funding</i></p> <p>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.</p>	<p>The Trustee has adopted Scheme specific mortality base tables derived using Club Vita's data bank which allows the Trustee to use the best available information when setting longevity assumptions.</p> <p>By incorporating an allowance for future longevity improvements in the actuarial assumptions the Trustee can lessen the future adverse impact of such improvements.</p> <p>The Trustee entered into a buy-in policy in 2018 covering the vast majority of pensioner liabilities. This removes the longevity risk for this part of membership.</p>

### Other risks

There are a range of further risks which the Trustee keeps 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).

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. The Trustee may wish to seek direct advice on these risks (e.g. from Hymans Robertson regarding future investment markets and/or longevity, or from a covenant adviser regarding the sponsoring Employer).

### Sensitivity of key assumptions

Scenario	Funding position surplus/(deficit)	Comments
Base case	(23.9)	This is the technical provisions position.
0.25% p.a. decrease in discount rate	(65.7)	The Trustee should have regard to the sponsor's ability and willingness to support the funding and investment risks within the Scheme. If the risks being run appear to be too great then the Trustee could target reaching a lower risk position by reducing the assumed investment returns within the discount rate.
0.25% p.a. increase in future inflation	(49.6)	For illustrative purposes I have shown the position if inflation-linked benefit increases linked to RPI or CPI grow at a faster rate. The Scheme has hedged broadly 100% of its technical provision's inflation exposure. However, the funding position shown under this scenario makes no allowance for changes in asset values as the disclosed technical provisions position must use the market value of assets. In practice your hedging assets would be expected to increase in value too.
0.25% p.a. decrease to RPI/CPI 'gap'	(33.7)	The assumption for CPI is rather subjective due to a lack of CPI related instruments which can be invested in. If CPI increases are greater than assumed, then the funding position will deteriorate.
Broadly a 1 year increase in life expectancy at retirement age	(51.7)	The valuation results are sensitive to changes in future life expectancy. If longevity improves in the future at a faster pace than allowed for in the valuation assumptions, then the funding position will deteriorate.

### Longer-term projection

If the actuarial assumptions were borne out over the period from the date of this valuation to the next, then, provided Employer contributions are paid at the rates shown in Section 1 of this report, the funding level would be expected to have increased to around 102%, and the solvency level to have increased to around 87%.



## Appendix A: Methodology and assumptions

### A1. Methodology

Using the actuarial assumptions set by the Trustee 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 – which is not relevant for this Scheme.

### A2. Assumptions

The Trustee and Hays plc are responsible for setting the funding assumptions for the actuarial valuation as at 30 June 2021. The assumptions adopted as at 30 June 2021 are set out in the statement of funding principles dated 13 December 2021.

	Technical provisions 30 June 2018	Technical provisions 30 June 2021	Long term objective 30 June 2021
<b>Key financial assumptions</b>			
<b>RPI increases</b>	Market implied RPI curve	Market implied RPI curve	Market implied RPI curve
<b>CPI increases</b>	RPI curve less 0.8% p.a.	RPI curve less 0.6% p.a. pre 2030 and less 0.1% post 2030	RPI curve less 0.6% p.a. pre 2030 and less 0.1% post 2030
<b>Pension increases</b>	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	LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor
<b>Discount rate (pre and post retirement)</b>	Market implied gilt yield curve plus 0.75% p.a.	Market implied gilt yield curve plus 0.5% p.a.	Market implied gilt yield curve less 0.1% p.a.

	Technical provisions 30 June 2018	Technical provisions 30 June 2021	Long term objective
<b>Key demographic assumptions</b>			
<b>Longevity base tables</b>	2018 VITA tables	2021 VITA tables	2021 VITA tables
<b>Longevity future improvements</b>	CMI 2017 model calibrated to Club VITA with increased smoothing (Sk=8) to moderate reaction to most recent data; long term rate of improvement of 1.5% p.a. assuming improvements have now peaked, tapering to 0% p.a. over ages 90 and 120.	CMI 2020 model with 0% weighting for 2020 data, initial addition to improvements of 0.5%, smoothing parameter of 7.0; long term rate of improvement of 1.5% p.a., tapering to 0% p.a. over ages 85 and 110	CMI 2020 model with 0% weighting for 2020 data, initial addition to improvements of 0.5%, smoothing parameter of 7.0; long term rate of improvement of 1.5% p.a., tapering to 0% p.a. over ages 85 and 110
<b>Pre-retirement longevity base tables</b>	PNXA00 standard tables	S3N[M/F]A standard tables	S3N[M/F]A standard tables
<b>Early retirement</b>	All members are assumed to retire at the earliest date at which benefits are payable unreduced		
<b>Late retirement</b>	No allowance is made for late retirement after normal pension age		
<b>Ill health retirements</b>	No allowance		
<b>Cash commutation</b>	Members assumed to exchange 60% of the maximum allowable amount of their pension for a cash lump sum at retirement.	No allowance	
<b>Transfers out</b>	No allowance		
<b>Ongoing expenses</b>	Expense reserve of £20m	Expense reserve of £15m	Expense reserve of £15m plus PPF wind-up expenses
<b>GMP equalisation</b>	1.17% of the Scheme's total liabilities	1.66% of the Scheme's pensioner liabilities and 0.92% of the Scheme's deferred liabilities (for those who have not yet had their benefits equalised)	
<b>Proportion married</b>	Actual spousal information where available (principally for pensioners included in the buy-in). Where data is not available, 80% for males and 80% for females at pension start date.		

<b>Age difference</b>	Male members assumed to be 5 years older than their spouse, and vice versa for female	Male members assumed to be 3 years older than their spouse, and vice versa for female
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### 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 -0.20% p.a. pre and post retirement for deferred members and a discount rate based on swaps curve + 0.30% p.a. for pensioners.
- Inflation has been set in line with swap market RPI curves.
- The CPI gap is assumed to be 0.5% p.a. below RPI pre 2030, 0.1% p.a. below RPI post 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 have been assumed as CMI 2019 projection model assuming a 1.5% p.a. long-term rate of improvement.
- 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.
- Discretionary benefits have been ignored.

## 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 Scheme’s trust deed and rules dated 12 June 2012 and the closure deed dated 29 June 2012.

Around 2% relate to a DC section of the Scheme (“the EPS DC section”) that has a DB underpin. These assets and liabilities are included in the valuation at an aggregate level. No account has been taken of this underpin at an individual level, and as such the shortfall may ultimately be greater than shown in this valuation, but any difference is not expected to be material.

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) and I have made no allowance for such discretionary benefits in the valuation.

## B.2 Membership

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

Status	30 June 2018			30 June 2021		
	Number	Salaries / Pensions	Average age	Number	Salaries / Pensions	Average age
Deferred	4,572	£19.0m p.a.	52.4	3,946	£16.8m p.a.	53.9
Pensioner	2,750	£12.8m p.a.	68.7	2,962	£14.2m p.a.	69.9
<b>Total</b>	<b>7,322</b>			<b>6,908</b>		

The Scheme membership has changed since the previous valuation. Whilst membership changes were anticipated at the previous valuation, the actual changes have inevitably not exactly matched the assumptions made at the previous valuation.

The data has been provided by the scheme administrator. We currently carry out quarterly valuation updates and therefore we carry out high level checks on the data each quarter. This includes reconciling the data provided with the previous quarter, and a high-level reconciliation of membership. We have carried out some high-level checks to be comfortable that the data is broadly consistent with that provided for the last valuation, but I have relied on the accuracy of this information provided. I have no reason to doubt that the membership data provided is materially complete and correct

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.

## B.3 Assets

The Scheme's assets include additional voluntary contributions (AVCs) paid by members. At retirement, these funds are used to buy benefits for members on a money-purchase basis, with no possibility of profit or loss for the Scheme. In my valuation I have excluded these assets and the corresponding liability. The market value of assets at the valuation date (excluding insured money purchase Additional Voluntary Contribution funds) was £905m.

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

Asset class	Allocation as at 30 June 2018 (%)	Allocation as at 30 June 2021 (%)
Equities	10.8%	2.3%
Global Multi-Asset Credit	7.9%	5.2%
Property	6.5%	3.4%
Corporate bonds	27.7%	20.5%
Absolute return and cash	13.7%	3.8%
Fixed interest gilts	0.0%	3.4%
LDI portfolio	32.2%	32.3%
Insured annuity policies	1.1%	29.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Full details of the Trustee's 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: Hays Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 30 June 2021 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 13 December 2021.

Signature

Date 13 December 2021

Name Alec Day

Qualification Fellow of the Institute and Faculty of Actuaries

Name of Employer Hymans Robertson LLP

Address One London Wall

London

EC2Y 5EA

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December 2021

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## 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 Trustee of the Scheme who commissioned the work and is provided solely for its purposes in the management of the Scheme and in particular to fulfil its 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 Trustee is obliged to pass a copy of the report to the Employer within 7 days. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustee 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:

- Assumptions Advice report dated 1 April 2021
- Longevity assumptions advice report dated 27 May 2021
- Preliminary results in respect of the actuarial valuation as at 30 June 2021 dated October 2021

### Resource & environment 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 Trustee on these sponsor-related matters. The Trustee commissioned a formal covenant review as part of the valuation to get an assessment of sponsor support.