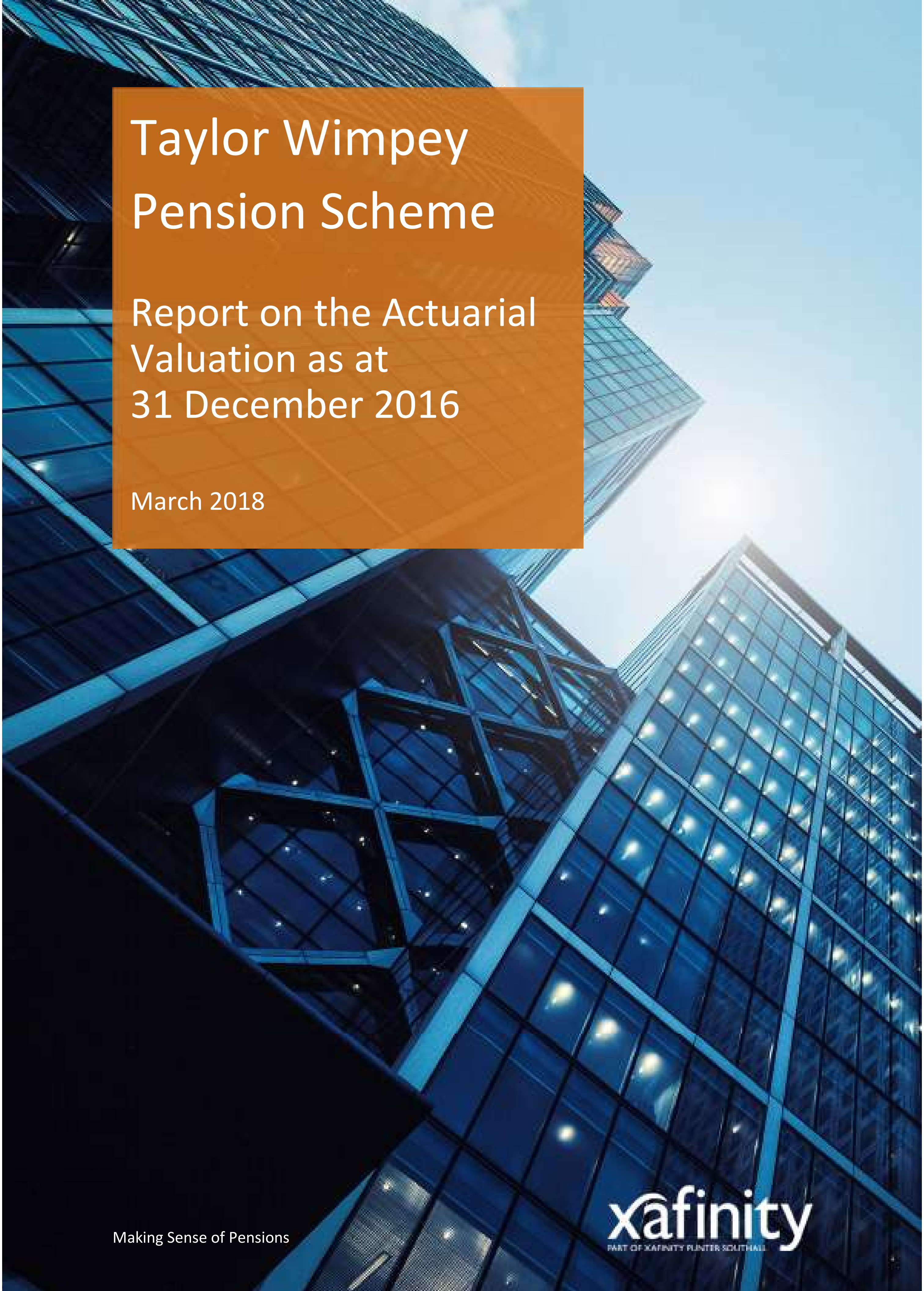


Taylor Wimpey Pension Scheme

Report on the Actuarial Valuation as at 31 December 2016

March 2018

Making Sense of Pensions

xafinity
PART OF XAFINITY PUNTER SOUTHALL

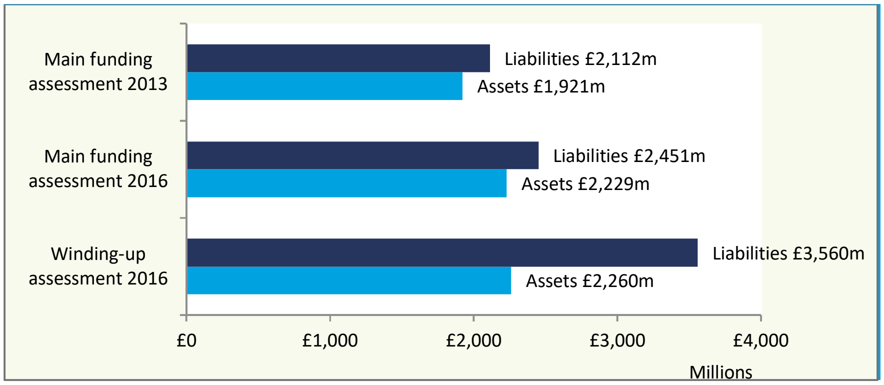
Contents

This report and the work relating to it falls within the scope of the Technical Actuarial Standards 100 and 300 as issued by the Financial Reporting Council. I, Robert Birmingham, confirm that my work complies with those standards.

This report is solely for the purpose described in the introduction. It should not be relied upon for any other purpose and it should be noted that neither I nor Xafinity Consulting Limited accept liability to any third party in respect of the contents.

Executive Summary

The Trustee of the Taylor Wimpey Pension Scheme has recently completed a valuation of the Scheme as at 31 December 2016. The key results are as follows. The results of the 2013 valuation are also shown for comparison purposes.



Main funding assessment

In funding the Scheme, the Trustee's key objective is to ensure that there will be sufficient assets to meet all benefit payments as they fall due. With this in mind, the Trustee has set a target reserve for the Scheme based on a prudent estimate of the amount needed to meet all payments in respect of the benefits earned up to the valuation date.

The funding assessment gives a target reserve of £2,451m as at 31 December 2016. This compares with an asset value at the same date of £2,229m. Thus, there was a funding deficit of £222m and a funding level (assets as a percentage of the target reserve) of 91%.

The Employer has agreed a Recovery Plan with the Trustee. The aim of the Recovery Plan is to remove the deficit over a period of four years from the effective date of this valuation. The Recovery Plan provides for the Employer to pay £16m per annum for the period from 31 December 2016 to 31 March 2018, and then £40m per annum for the period from 31 March 2018 to 31 December 2020. The Trustee and the Employer have also agreed a mechanism to reduce the risk that the Scheme is overfunded by allowing contributions to be stopped, and then potentially re-started, should certain funding triggers be met. Further details of this mechanism can be found in the Scheme’s Schedule of Contributions dated 13 February 2018.

Winding-up assessment

I have completed a winding-up assessment of the Scheme. In general, such an assessment involves determining the extent to which the Scheme's assets would be sufficient to secure members’ benefits by the purchase of insurance policies if the Scheme were to be wound up.

The ‘winding-up’ value of the Scheme's liabilities as at 31 December 2016 was estimated to be £3,560m, as compared to the asset value of £2,260m. Hence the ‘buy-out’ deficit is estimated to be £1.3bn and the winding-up funding level, 63%.

Introduction

Background and purpose

The Trustee of the Taylor Wimpey Pension Scheme ("the Scheme") has undertaken a formal valuation of the Scheme as at 31 December 2016.

The purpose of this report is to provide a formal record of the valuation, including the approach adopted by the Trustee, the results obtained and the actions taken as a result.

The report is addressed to the Trustee. Legislation requires the Trustee to make it available to Taylor Wimpey UK Ltd ("the Employer") within seven days of receipt.

Significant events since the previous valuation

The previous valuation was undertaken with an effective date of 31 December 2013. Since then there have been several events which have had an impact on the Scheme. These include:

- A medically underwritten buy-in policy was secured by the Trustee in respect of the 100 largest liability pensioners.
- A Flexible Retirement Exercise was undertaken in respect of deferred members aged over 55.
- A Trivial Commutation exercise was undertaken to give members with small benefits the option of taking a single Trivial Commutation lump sum in lieu of future benefits from the Scheme.
- The Employer has contributed £65m in deficit recovery contributions as per the Recovery Plan agreed at the previous valuation.

Funding Approach and Assumptions

The funding objective

The Trustee's key funding objective is to ensure that there will be sufficient assets to meet all benefit payments as they fall due.

With this in mind, the Trustee has a funding target for the Scheme based on a prudent estimate of the amount needed to meet those payments.

Methodology

Benefits already accrued

In funding the Scheme, the Trustee has assumed that it will continue in its current form in the long term, with benefits being paid directly from Scheme’s assets. For the purposes of the valuation the Trustee has adopted the Defined Accrued Benefit actuarial funding method.

One of the principal objectives of the valuation is to determine the value of assets needed to meet benefit payments. In the calculation of this amount allowance is made for the invested assets to increases in value between the valuation date and the dates when benefits are paid.

Funding assumptions

Placing a value on the Scheme's liabilities requires a number of assumptions to be made about the future. Such assumptions include how long members might live after retiring as well as the return that will be generated by the Scheme's assets.

After taking advice from me, as Scheme Actuary, the Trustee has adopted what it considers to be prudent funding assumptions. The resultant target funding reserve is believed to be sufficient taking into account the covenant supporting the Scheme.

Funding Approach and Assumptions

Employer Covenant

The covenant is the extent of the Employer’s legal obligation and financial ability to support the Scheme now and in the future. It is one, if not the most important factor, that should be taken into account in determining the degree of prudence implicit in valuation assumptions.

The Trustee is advised by Penfida on the strength of the Employer's covenant. Penfida has rated the Employer’s covenant as “Strong”. For further details and a guide to the covenant rating please see the advice from Penfida.

Other considerations

A number of pensions are paid using the proceeds of insurance policies held in the name of the Trustee. I have shown the value of these in the following table as both a liability and an asset although, as the proceeds from these policies will generally match the associated benefits, they could equally be excluded from the assessment.

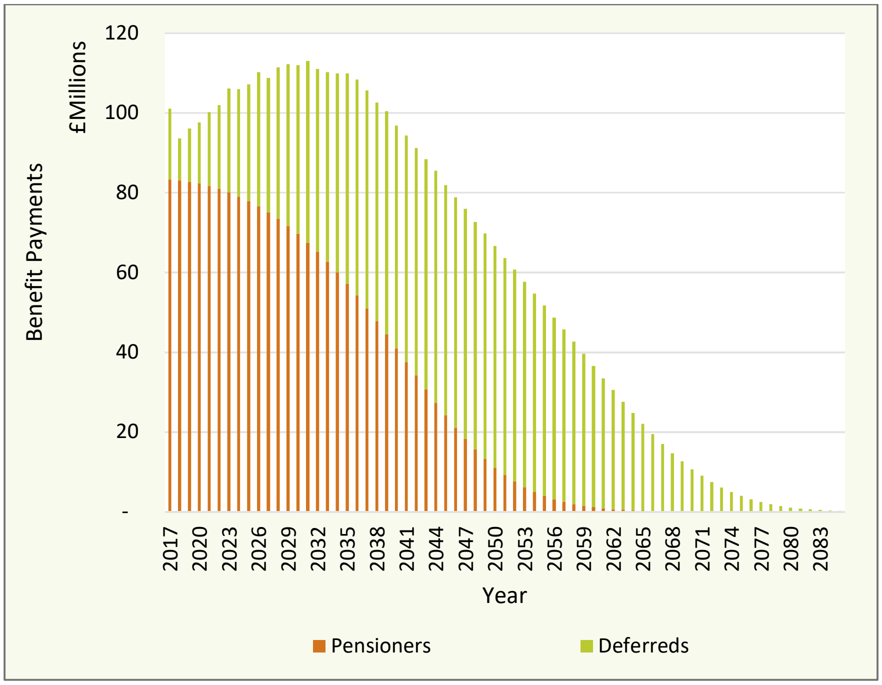
The Employer currently pays a contribution of £2m p.a. into the Scheme to meet the cost of the Scheme’s running expenses. It has been agreed that this contribution will continue, in addition to the agreed deficit repair contributions, following this valuation. The Employer also pays the annual Pension Protection Fund levy. I consider these payments to be sufficient to cover the running costs of the Scheme and hence, have not made any further allowance for expenses in my calculations.

Funding Assessment

Benefits accrued before the valuation date

Projected benefit payments

I have used the Trustee's assumptions about the future to project the benefits that will be paid out of the Scheme over its remaining lifetime. The projection is set out in the following chart.



The chart shows that the Scheme will be making significant benefit payments for decades to come, with the projected peak coming in 2031 and the final payments not occurring until towards the end of the century.

Although the projection gives an idea of how benefit payments will progress, the amounts and timing are not certain. For example:

- The timing and amount of benefit payments will depend heavily on the take-up of member options and on how long members live after retiring.
- The level of benefit payments to both current and deferred pensioners will depend on price inflation both before and after they have retired.

Funding Assessment

The funding position

The Trustee's funding target (i.e. the Scheme's 'technical provisions' as in the Pensions Act 2004) is the amount required at the valuation date to make provisions to cover the projected benefit payments as and when they fall due. The value placed on the Scheme's technical provisions, assets and the resultant funding position as at the valuation date are set out in the following table. The corresponding entries disclosed in the 2013 valuation are shown for comparison purposes.

	Funding Assessment as at 31 December 2016 £m	**Funding Assessment as at 31 December 2013 £m**
Past service liabilities		
• Deferred pensioners	1,008	779
• Scheme pensioners	1,208	1,276
• Insured pensioners	235	57
Total past service liabilities (L) (Funding target or 'technical provisions')	**2,451**	**2,112**
Assets		
• Investment funds	1,875	1,775
• PFP	107	86
• Insured pensioners	235	60
• Net current assets	12	0
Total assets (A)	**2,229**	**1,921**
Funding surplus / (deficit) (A minus L)	**(222)**	**(191)**
Funding level (A as a percentage of L)	**91%**	**91%**

Reconciliation with the results of the previous valuation

I have analysed the change in funding position since the previous valuation and my findings are set out below. It should be noted that many of the factors influencing the results are interconnected. As such, the financial impact ascribed to each individual factor will necessarily be approximate.

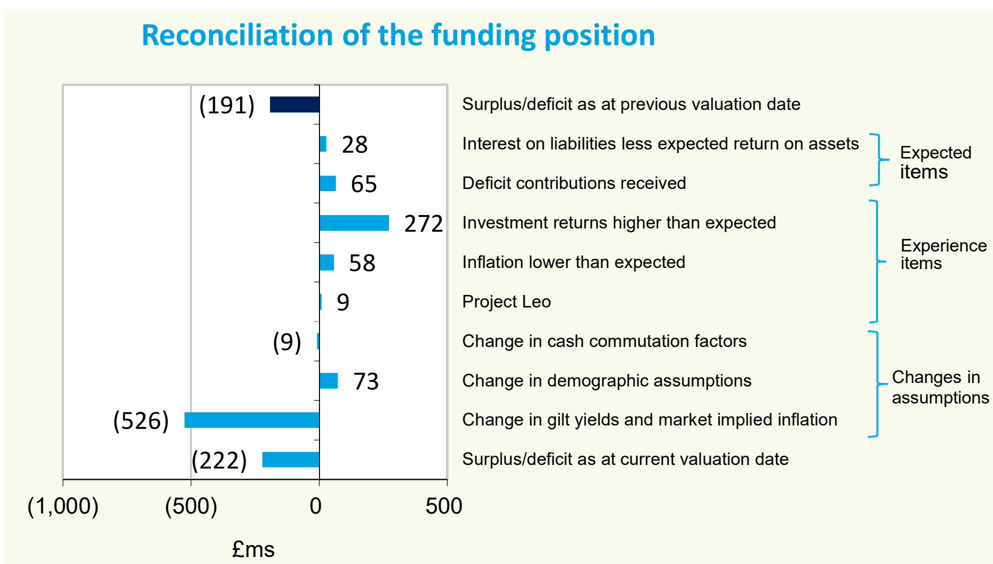
Funding Assessment

The most significant influences on the funding position have been as follows:

- Deficit contributions paid by the Employer.
- The return on the Scheme's investments which has been higher than expected and has reduced the deficit.
- The discount rates used to calculate the present value of the liabilities at this valuation are lower than in 2013. This has resulted in an increased value of liabilities and deficit as compared to the corresponding values disclosed in the 2013 valuation.
- The different longevity assumption adopted for this valuation as compared to the assumption for the 2013 valuation has resulted in reduced future life expectancy leading to a reduced value of the liabilities and hence a reduced deficit.

A reconciliation of the deficit disclosed in the 2013 valuation with that disclosed in this valuation is set out in the following chart. Within this, I have grouped the items into three categories as follows.

- Those which would have been expected if experience since the previous valuation had been in line with the assumptions
- Those which have arisen as a result of experience differing from the assumptions made at the previous valuation
- Those which can be attributed to changes in assumptions at this valuation



Further information on the investment returns and the contributions paid in the period between the two valuations may be found in Appendix C.

Funding Assessment

Addressing the deficit

In order to address the deficit the Trustee has agreed a Recovery Plan with the Employer. The aim of the Recovery Plan is to remove the deficit over a period of four years from the valuation date. The Recovery Plan provides for the Employer to pay £16m pa for the period from 31 December 2016 to 31 March 2018 followed by £40m per annum for the period from 31 March 2018 to 31 December 2020.

However, the Trustee and the Employer have also agreed a mechanism to reduce the risk that the Scheme becomes overfunded by allowing contributions to be stopped, and then potentially re-started, should certain funding triggers be met. Further details of this mechanism can be found in the Scheme's Schedule of Contributions dated 13 February 2018.

The Recovery Plan will be regularly monitored by the Trustee and will be reviewed at the next valuation, to ensure that it remains sufficient to address any funding shortfall.

Material developments since the effective date

Since the effective date of the valuation, 31 December 2016, up to the date of this report, financial conditions have been volatile with significant movements in equity and gilt markets. These movements are likely to have had a material impact on the valuation results shown above. I will report on this when I provide the quarterly funding update as at end of March 2018. The impact of changes in market conditions thereafter will be the subject of subsequent quarterly updates.

Winding-Up Assessment

Background

I am required to assess the funding position of the Scheme if it were to close immediately, with all benefits being secured by the purchase of insurance policies. Providing this winding-up or "solvency" assessment is a statutory requirement; it does not imply that the Scheme is to be wound up.

Approach taken

The only accurate way to assess the true cost of winding up would be to obtain quotations from a number of insurance companies. I have not done this, but instead have estimated the cost using principles similar to those adopted by insurers when pricing annuities. Full details of the assumptions used are set out in Appendix E.

Clearly, this approach will not be as accurate as obtaining actual quotations, but I am satisfied that it is sufficient for the present purpose.

Results

	Winding-up Assessment as at 31 December 2016 £m
Winding-up liabilities	
• Deferred pensioners	1,878
• Current pensioners	1,364
• Insured pensioners	266
• Winding-up and payment expenses	52
Total winding-up liabilities (L)	**3,560**
Assets	
• Investment assets	1,875
• PFP	107
• Insured pensioners	266
• Net current assets	12
Total assets (A)	**2,260**
Winding-up surplus or (deficit) (A minus L)	**(1,300)**
Winding-up funding level (A as a percentage of L)	**63%**

Winding-Up Assessment

The funding level on winding-up (63%) is much lower than the ongoing funding level set out in Section 3 of this report (91%). This is due to the difference between the anticipated cost of providing the benefits from the Scheme and the cost of securing those benefits through the purchase of insurance policies. The difference is partly because insurers include margins for profit and operating expenses in their prices, but is mainly because insurers derive their financial assumptions for their calculations from expected returns on 'least risk' assets.

Effect on member's benefits

Generally speaking, if a pension scheme winds up at a time when there are insufficient assets to secure all benefits with an insurer, the shortfall becomes a debt due from the sponsor to the scheme. If the sponsor has had an insolvency event, the extent to which any or all of that debt can be recovered by trustees will depend on the value that can be realised from what remains of the sponsor's assets and the priority given to other creditors.

If the debt is not recovered in full, the assets will not be sufficient to secure all benefits. In such cases, legislation provides for the pension scheme to enter the Pension Protection Fund (PPF) unless members can be provided with more benefit by applying the funds available to purchase insurance policies. In this way, members will always receive benefits at least as valuable as those provided by the PPF.

The "compensation" paid by the PPF is based on the benefits accrued by each member within their own pension scheme, but with adjustment. For example:

- Members yet to attain Normal Pension Age would have their scheme pension reduced by 10% and restricted so that they are no greater than a monetary cap.
- No increases to pensions in payment are applied to pension accrued before April 1997.
- Increases in payment to pension accrued after April 1997 are limited to a maximum of 2.5% each year (or the increase in the Consumer Prices Index if lower).

If the funds available would secure more than PPF benefits though the purchase of insurance policies, the scheme's trustees must first apply the available assets according to a priority order set out in legislation (essentially so securing PPF benefits) and then apply the balance in accordance with their trust deed.

Winding-Up Assessment

The priority order which the Trustee would be obliged to follow in the purchase of annuities if the Employer were to become insolvent and the extent to which the assets available at the valuation date could secure the benefits in each category is set out in the following table.

	Winding-up Assessment as at 31 December 2016 Proportion of Benefits Covered by Scheme Assets
1 - AVCs	100%
2 - Pre 1997 insured annuity contracts	100%
3 - Benefits up to the PPF level	90%
4 - Benefits above the PPF level	0%

It is clear from this that the Scheme did not have sufficient assets at the valuation date to secure the equivalent of PPF benefits through the purchase of insurance policies. Therefore, if the Employer had become insolvent at that time, and if no additional funds were secured, the Scheme would have been likely to enter the PPF with all that would have entailed for members.

Next Steps and the Next Valuation

Next steps

This report concludes the valuation formalities the necessary returns having already been submitted to the Pensions Regulator.

Between now and the next valuation

Between now and the next valuation legislation provides for the Trustee to obtain a report annually, setting out how the funding position has evolved and the key reasons for any changes. In addition to these the Trustee has instructed me, as Scheme actuary to provide funding updates as at the end of each calendar quarter in accordance with the provisions of the agreement reached with the Employer following this valuation. These reports, along with regular reviews of the Employer’s covenant, will enable the Trustee to monitor the funding of the Scheme.

I look forward to continuing to work with the Trustee on these matters.

Signature:		**Date:**	21st March 2018
Name:	Robert Birmingham	**Qualification:**	Fellow of the Institute and Faculty of Actuaries
Address:	Phoenix House 1 Station Hill Reading Berkshire RG1 1NB	**Employer:**	Xafinity Consulting Limited

Appendix A – Membership Data

In this appendix I present a summary of the membership data used in my assessment. The corresponding data on which the 2013 valuation was based is set out for comparison purposes.

I have been provided with the membership data by the Scheme's previous administrator, Aon Hewitt. I have performed a number of checks on the data and I am satisfied that it is sufficiently accurate for the purposes of this valuation.

Deferred pensioners

	Current Valuation as at 31 December 2016		Previous Valuation as at 31 December 2013	
	Number	Deferred Pensions (£000s)	Number	Deferred Pensions (£000s)
Males	6,425	24,834	7,454	30,438
Females	2,144	4,748	2,500	5,646
Total	**8,569**	**29,582**	**9,954**	**36,084**

The average age, weighted by liability, of the deferred pensioners at the current valuation date was 55, compared to 54 at the previous valuation.

Pensioner members

	Current Valuation as at 31 December 2016		Previous Valuation as at 31 December 2013	
	Number	Pensions in payment (£000s)	Number	Pensions in payment (£000s)
Males	5,396	61,677	5,755	60,773
Females	3,594	20,748	3,982	19,602
Total	**8,990**	**82,425**	**9,737**	**80,375**

The average age, weighted by liability, of the pensioners at the current valuation date was 72, compared to 71 at the previous valuation.

Included in the data for pension members are a number of pensions being met through insured annuity contracts. At the valuation date the insured pensions totalled £13.8m pa.

The total membership numbers differ slightly from those stated in the Scheme's Annual Report and Accounts. This is not uncommon and is due to the data sets being produced at different times and there having been, in the meantime, some retrospective processing of membership movements. These differences are not significant in the overall context of the valuation

Appendix B – Scheme Benefits

In this section, I present a summary of the Scheme benefits as I have valued them. The actual benefits due will be based on the Trust Deed and Rules, booklet, legislation etc. and may differ to below. The Trustee should be satisfied that the benefits below reflect broadly the benefit entitlement of members.

The Scheme does not have a recent history of awarding discretionary benefits to members. Accordingly, I have made no allowance in my calculations for the granting of such benefits.

Former members of the Taylor Woodrow scheme

Normal Pension Age (NPA)	65 Some members with overseas service have non-standard NRAs.
Early Retirement	From age 55, reduced for early payment.
Equalisation of Scheme benefits	Members joining the Scheme prior to 1/1/1991: All benefits equalised 31/5/1995 Members joining the Scheme after 1/1/1991: All benefits equalised 1/12/1994
Death after Retirement	Spouse's pension – 50% of member's pension after any reduction for cash commutation at retirement. Lump sum – 5 year guarantee.
Death of Deferred Pensioner	Spouse's pension – 50% of deferred pension revalued to date of death Lump sum – Refund of contributions.
Deferred Pension Revaluation	Non GMP benefits - RPI max 5% p.a. GMP Benefits – statutory revaluations
Pension Increases	Post 1997 – RPI max 5% p.a. Pre 1997 – RPI max 3.5% p.a.

Former members of the George Wimpey scheme

Normal Pension Age (NPA)	65 Top Hat members: 62 Some members with overseas service have non-standard NRAs
Early Retirement	From age 55, reduced for early payment. All members can take pension accrued prior to 31 December 2002 unreduced from age 60 if they are still employed by the Company.
Equalisation of Scheme benefits	All benefits equalised for new & existing members from 21/1/1991

Appendix B – Scheme Benefits

Death after Retirement	Spouse's Pension – 50% of member's pension. Lump sum – 5 year guarantee Top Hat Members: Spouse's Pension – 67% of member's pension. Lump sum – 5 year guarantee
Death of Deferred Pensioner	Spouse's pension – 50% of member's pension (including increases)
Deferred Pension Revaluation	Pre 6 April 2009 pension - CPI max 5% Post 6 April 2009 pension - CPI max 2.5% GMP – statutory revaluations
Pension Increases	Pre 88 GMP – Nil Post 88 GMP – CPI max 3% Pre 1997 excess over GMP: RPI max 5% Post 1997 Pension: RPI max 5% Post 2006 Pension: RPI max 2.5%

Former members of the Bryant scheme

Normal Pension Age (NPA)	Cat I, II, III – 65 Cat IV, VII – 60 Cat V, VI - 64
Early Retirement	From age 55, reduced for early payment.
Equalisation of Scheme benefits	Cat I, II, III – n/a Cat IV, VII – n/a Cat V, VI – benefits never equalised. All members have effective NRA of 60 for benefits accrued after 17/5/1990
Death after Retirement	Spouse's pension – 50% of member's pre commuted pension Lump sum – 5 year guarantee.
Death of Deferred Pensioner	Spouse's pension – 50% of deferred pension revalued to date of death Lump sum – Refund of contributions.
Deferred Pension Revaluation	Non GMP benefits – RPI max 5% p.a. GMP benefits – Statutory Increases
Pension Increases	Category V,VI,VII GMP - 3% per annum, Non GMP - RPI (minimum 3%, maximum 5%) Category I,II,III,IV Non GMP – Statutory Increases

Appendix B – Scheme Benefits

Former members of the Wilson Connolly scheme

Normal Pension Age (NPA)	65
Retirement Benefit	1/60th of Final Pensionable Earnings for each year of Pensionable Service
Early Retirement	From age 50, reduced for early payment.
Equalisation of Scheme benefits	Members joining the Scheme prior to 16/1/1991: All benefits equalised 1/9/1994. Members joining the Scheme after 16/1/1991: All benefits equalised on joining
Death after Retirement	Spouse's pension – 50% of member's pre commuted pension Lump sum – 5 year guarantee.
Death of Deferred Pensioner	Spouse's pension – 50% of deferred pension revalued to date of death Lump sum – Refund of contributions
Deferred Pension Revaluation	Non GMP benefits – RPI max 5% p.a. GMP benefits – Statutory Increases
Pension Increases	Post 6th April 1997 – RPI (maximum 5%, minimum 3%) Pre 6th April 1997 – fixed 3%

Former members of the Wainhomes scheme

Normal Pension Age (NPA)	65
Early Retirement	From age 55, reduced for early payment.
Equalisation of Scheme benefits	Service prior to 17/5/1990 has effective NRAs of: Male - 63 Females – 60 Service between 17/5/1990 and 6/8/93 has effective NRA of 60 for both males & females. Service after 6/8/93 has effective NRA of 65 for both males & females.
Death after Retirement	Spouse's pension – Two thirds of member's pre commuted pension Lump sum – 5 year guarantee.

Appendix B – Scheme Benefits

Death of Deferred Pensioner	Spouse's pension – Two thirds of deferred pension revalued to date of death Children's pension – One third pension, if more than one child, pension pro rata.
Deferred Pension Revaluation	Non GMP benefits - RPI max 5% p.a. GMP Benefits - Statutory revaluation
Pension Increases	Post 1st April 1997 - RPI max 5% p.a. Pre 1st April 1997 XS – 4% p.a. Pre 88 GMP – 0%, Post 88 GMP – RPI (maximum 3%)

Former members of the Prestoplan scheme

Normal Pension Age (NPA)	65
Early Retirement	From age 55, reduced for early payment.
Equalisation of Scheme benefits	All benefits equalised for new & existing members from 1/12/1997
Death after Retirement	Spouse's pension – 50% of member's pre commuted pension Lump sum – 5 year guarantee.
Death of Deferred Pensioner	Spouse's pension – 1/160th x Pensionable Salary x contracted out service at date of death Lump sum – Refund of contributions.
Deferred Pension Revaluation	Non GMP benefits – RPI max 5% p.a. GMP benefits – Statutory Increases
Pension Increases	Post 06/04/1997 - RPI max 5% p.a. Post 88 GMP Benefits – 3% fixed

Appendix C – Assets and Investment Strategy

Assets held at the valuation date

I have taken the value of the Scheme's assets from the Trustee's audited Report and Accounts as at 31 December 2016. The value and breakdown by asset class so obtained is set out in the following table.

	Value at 31 December 2016 £m
Bonds	1,959.8
PFP	106.9
Pooled investment vehicles	960.5
Derivatives	451.6
Insurance pensioners	255.7
AVC Investments	4.8
Cash	219.2
Dividends and withholding tax	13.7
DC section funds	1.4
Other investment balances	0.2
Derivatives	(583.4)
Repurchase agreements	(1,146.7)
Total	**2,243.7**

In addition to the above invested assets the accounts show net current assets of £12.1m.

The assets above include the value of AVC and DC section investments. This must be removed for the purposes of the valuation. Also, the value of the Insured pensioners shown in the accounts must be removed and replaced with the value calculated using the 2016 Technical Provisions assumptions. After these adjustments, the total asset value for the purposes of the valuation is £2,229.3m. The breakdown of this is set out in the following table. The corresponding breakdown at the 2013 valuation is shown for comparison purpose.

Appendix C – Assets and Investment Strategy

	Assets as at 31 December 2016 £m	Assets as at 31 December 2013 £m
Invested assets (excluding AVCs, DC section and insured pension value shown in accounts)	1,981.7	1,861.1
Insured pensions value on Technical Provisions	235.5	60.3
Net current asset / (liability)	12.1	(0.5)
Total available assets	2,229.3	1,920.9

Investment strategy

The assets held at the effective date of the valuation broadly reflected the Trustee's investment strategy, as set out in the Scheme's Statement of Investment Principles.

The Scheme's investment strategy is managed and monitored using a Pensions Risk Management Framework.

Contributions paid to the Scheme

As part of the previous valuation the Trustee agreed a Recovery Plan and Schedule of Contributions with the Employer. These provided for contributions to be paid by the Employer at the following rates.

i. £33 million during the calendar year 2014,

ii. £16 million per annum, payable in monthly instalments, for the period 1st January 2015 to 30th November 2018.

iii. £2m to cover the running costs of the Scheme.

The auditors have confirmed that the contributions paid were in line with the above.

Appendix D – Projected funding position

The next valuation

The next formal valuation of the Scheme is due to take place as at 31 December 2019. Below, I project the ongoing and winding-up positions to this date.

For the actual position at the next valuation date to correspond to my estimate the experience of the Scheme over the next three years will be required to be in line with the assumptions adopted for this valuation. This is unlikely.

The likelihood of the funding position of the Scheme disclosed at the next valuation being different from my estimate should not be taken as an indication that the assumptions adopted for this valuation are inappropriate. In my view these assumptions represent a reasonable and prudent assessment at the valuation date of the likely experience of the Scheme in the long term.

Method of projection

In order to produce the projection I have assumed that over the period to the next valuation,

- investment performance will be in line with the assumption used in the Recovery Plan,
- contributions will be in line with the newly agreed Schedule of Contributions and
- all other items of experience, and the terms available in the insurance market, will be in line with the assumptions as set out in Appendix E.

Please note in particular that I have not made allowance for changes in financial conditions between the valuation date and the date of this report.

Projected results

The results of my projection of the funding position are as follows.

	Projection to 31 December 2019 £m	**Valuation as at 31 December 2016 £m**
Total past service liabilities (L)	2,394	2,451
Total assets (A)	2,310	2,229
Ongoing surplus or deficit (A minus L)	(84)	(222)
Ongoing funding level (A as a percentage of L)	96%	91%
Winding-up funding level	69%	64%

Appendix D – Projected funding position

My projection is for an improvement in the funding position on both the ongoing and winding-up positions. These improvements are principally due to anticipated investment returns being in excess of the valuation discount rates and the deficit reduction contributions due to be paid under the agreed Recovery Plan.

Appendix E – Assumptions

Key financial assumptions

	Funding Assumptions at 31 December 2016	Winding-up Assumptions at 31 December 2016	Funding Assumptions at 31 December 2013
Discount rate before retirement	4.20%	0.90%	6.05%
Discount rate after retirement	2.35%	1.45% Pensioners / 1.60% Deferred Pensioners	4.05%
Future price inflation (RPI)	3.50%	3.40%	3.40%
Future price inflation (CPI)	2.70%	2.90%	2.60%

Deferred pension revaluation assumptions

	Funding Assumptions at 31 December 2016	Winding-up Assumptions at 31 December 2016	Funding Assumptions at 31 December 2013
Revaluation of deferred pensions before retirement			
• Deferred revaluation (CPI average with max 5%)	2.70%	2.90%	2.60%
• Deferred revaluation (CPI average with max 2.5%)	2.50%	2.50%	2.50%

Appendix E – Assumptions

Pension increase assumptions

	Funding Assumptions at 31 December 2016	Winding-up Assumptions at 31 December 2016	Funding Assumptions at 31 December 2013
Pension increases in payment			
• CPI max 3%	2.20%	2.45%	2.15%
• RPI max 2.5%	2.25%	2.35%	2.20%
• RPI max 3.5%	2.85%	2.95%	2.80%
• RPI max 5%	3.35%	3.35%	3.25%
• RPI min 3% max 5%	3.80%	3.65%	3.75%

Demographic assumptions

	Funding Assumptions at 31 December 2016	Winding-up Assumptions at 31 December 2016	Funding Assumptions at 31 December 2013
Mortality			
• Base table	SAPS S2 PxA	SAPS S2 PxA	SAPS S2 PxA
• Adjustment to base table	100% Males and Females	100% Males and Females	98% Males / 88% Females
• Projection	CMI_2016 with 1.50% long term trend	CMI_2014 with 1.50% long term trend for males and 1.25% for females	CMI 2013 with 1.25% long term trend
Commutation	Members assumed to commute 25% of pension at retirement.	N/A	Members assumed to commute 25% of pension at retirement.
Retirement	Retirement age assumed to be at the earliest age that all benefits can be taken unreduced.	Retirement age assumed to be at the earliest age that all benefits can be taken unreduced.	Retirement age assumed to be at the earliest age that all benefits can be taken unreduced.

For more details of the assumptions please refer to the Trustees’ Statement of Funding Principles dated 13 February 2018

Appendix F – Risks and Sensitivity

Funding risks

There are a number of funding risks which might ultimately affect the Trustee's ability to pay benefits to members. Foremost among these are the risks relating to the following.

- **Funding shortfalls** – If experience turns out to be less favourable than was assumed for the funding assessment, the funding level will be lower than anticipated. In that event additional contributions would be required from the Employers.
- **Employer covenant** – The Employers may become less able to continue to make contributions to the Scheme.

Key factors which could cause a funding shortfall

- **Investment performance** – investment returns below those assumed will cause a shortfall to emerge. This risk is greatest in pension schemes with a high proportion of assets invested in more volatile assets such as equities.
- **Changes in bond yields** – the discount rates used in the valuation are based on yields on government bonds. In the event that the yields on these bonds fall, discount rates will be lower in future. Lower discount rates will lead to a higher value being placed on liabilities and deterioration in the funding position if assets don't increase in value by a compensating amount.
- **Life expectancies** – if members live longer than has been allowed for, benefits will be paid for longer so leading to a higher value of liabilities and a worsening of the funding position, all other things being equal.
- **GMP equalisation** – No allowance has been made in the Scheme to equalise the accrual of GMPs for males and females. This is in line with the majority of 'contracted-out' pension schemes. There is considerable debate about what exactly the law requires by way of equalisation. The financial impact of equalising GMPs is therefore uncertain but could represent an additional 5% of liabilities.

Risk mitigation measures

The Trustee has taken a number of actions to mitigate the risks. These include:

- **Funding**
  - → The assumptions used in the funding assessment have been chosen prudently, making it less likely than otherwise that experience will turn out to be worse than assumed.
- **Investment**
  - → The Trustee has adopted a strategy to hedge out a significant proportion of the interest and inflation risks inherent in the Scheme.
  - → The return-seeking element of the investment portfolio is invested in a diverse range of assets

Appendix F – Risks and Sensitivity

- **Monitoring**
  - → Regular updates are received by the Trustee to keep abreast of any changes in the Employers' covenant and the funding position

Despite these risk mitigation measures, funding risk remains.

Funding level sensitivity

To give the Trustee an idea of the extent of some of the key risks, I set out below the sensitivity of the funding level to the assumptions made. Please note that these calculations are approximate and intended for illustration only.

Sensitivity to assumptions – investment returns

	Lower discount rate	Discount rate	Higher discount rate
£m	0.5% lower	4.20% before retirement 2.35% after retirement	0.5% higher
Assets	2,244	2,229	2,216
Liabilities	2,658	2,451	2,269
Surplus or (deficit)	(414)	(222)	(53)

Sensitivity to assumptions - future inflation

	Lower future inflation	Assumed future inflation	Higher future inflation
£m	0.5% lower	RPI at 3.5%p.a. and CPI at 2.7%p.a.	0.5% higher
Assets	2,221	2,229	2,237
Liabilities	2,327	2,451	2,574
Surplus or (deficit)	(106)	(222)	(337)

Sensitivity to assumptions – life expectancies

£m	Life expectancies 1 year lower	Valuation assumptions	Life expectancies 1 year higher
Assets	2,215	2,229	2,243
Liabilities	2,332	2,451	2,570
Surplus or (deficit)	(117)	(222)	(327)

Appendix G – Certification of Technical Provisions

Taylor Wimpey Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 31 December 2016 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 February 2018.

Signature:		**Date:**	21st March 2018
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