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Scheme funding report

Actuarial valuation of the Husqvarna UK Limited Pension Scheme at 31 December 2021

Prepared for: The Directors of Husqvarna Pension Scheme Trustee Limited
Prepared by: Jane Curtis FIA, Scheme Actuary
Date: 20 October 2022

Introduction

Why bring you this report?

Section 224(2)a of the Pensions Act 2004 requires the Trustees to receive this formal report from me (as Scheme Actuary) setting out the results and conclusions from the actuarial valuation of your scheme at 31 December 2021.

My report summarises the key aspects of the valuation process, including:

- The funding objective and background details
- The technical provisions
- The results on the solvency basis.

Some further information is provided for compliance purposes.

In the main part of this report, defined contribution (DC) benefits (including DC AVCs) have been **excluded** from the valuation results because in my view this provides a clearer picture. In order to comply formally with the legislation, an alternative presentation of the valuation results (which includes DC benefits) is provided as an appendix.

Next steps

The valuation process is complete when all the following have been agreed and are in place:

- This scheme funding report, including my certification of the technical provisions
- Schedule of contributions, including my actuarial certification of the adequacy of the schedule of contributions.

DocuSigned by:
Jane Curtis
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Signature

20 October 2022

Date

Key deadlines

By 27 October 2022: A copy of this report must be provided to the Company within 7 days of receiving it.

By 3 November 2022: The valuation summary and supporting documentation must be submitted to the Pensions Regulator via Exchange.

By 30 June 2023: A summary funding statement must be provided to members within 18 months of the valuation date.

By 31 December 2024: The **next** actuarial valuation must be carried out no later than 31 December 2024 (i.e. three years after the effective date of this valuation).

The terms in this report

A summary of any 'shorthand' legal references and a glossary of key valuation terms can be found at the back of this report.

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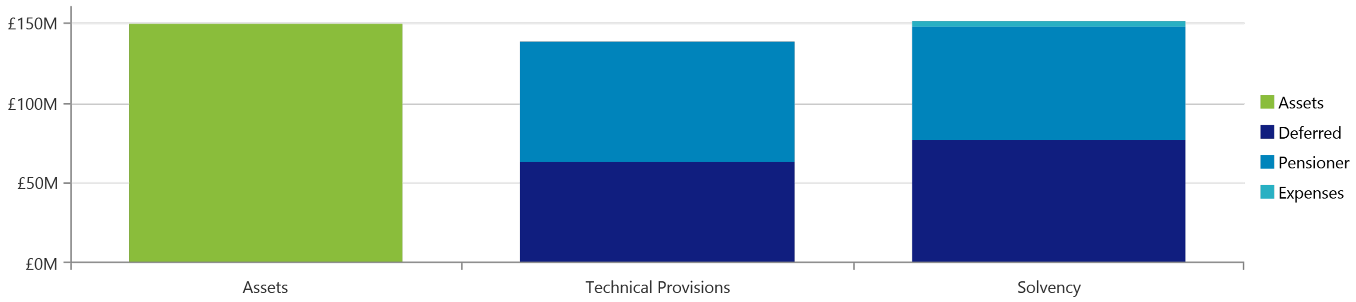
At a glance…

As your Scheme Actuary, I have carried out an actuarial valuation of the scheme at 31 December 2021.

Funding summary



Technical provisions

£10.2M

Surplus

Solvency estimate

£2.5M

deficit

Contributions

Following discussions, the Company will pay:

- £0.4m each year to cover the costs of administering the scheme,
- The Pension Protection Fund levy and other levies collected by the Pensions Regulator,
- The cost of any augmentations to benefits.

Important

The report concentrates on the scheme's financial position at the valuation date. As time moves on, the scheme's finances will fluctuate.

If you are reading this report some time after it was produced, the scheme's financial position could have changed significantly.

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Background to your actuarial valuation

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Data and benefits valued

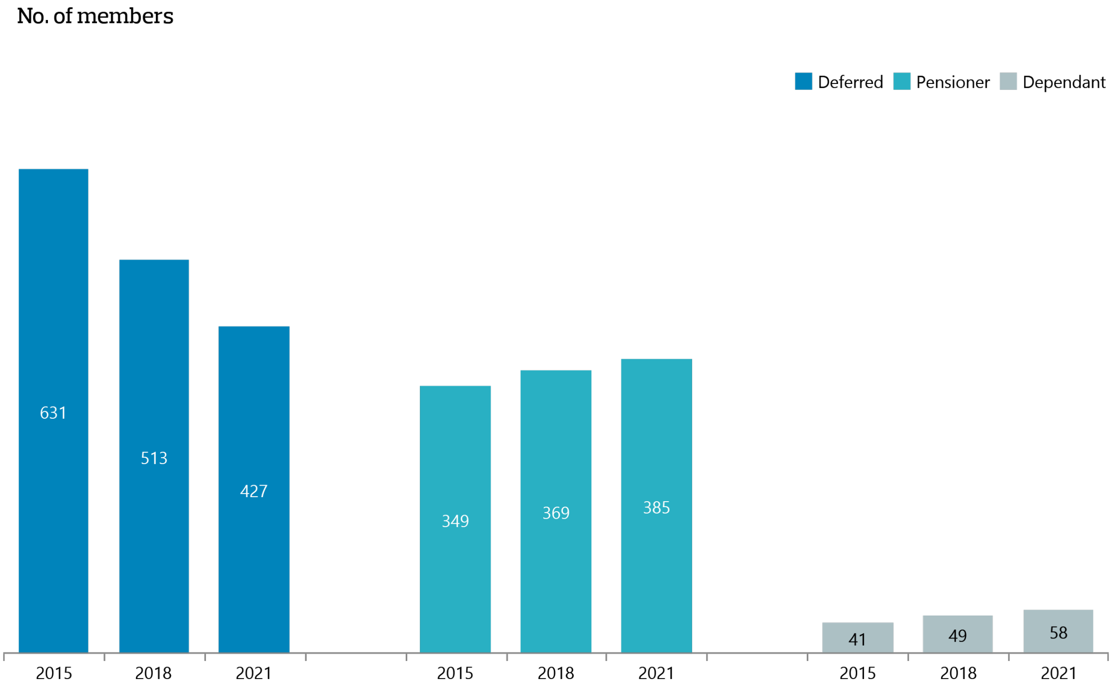
Your actuarial valuation was based on a snapshot of member data and my understanding of the scheme's benefits.

Member data

The scheme has continued to become increasingly mature with the proportion of pensioners increasing.

The membership numbers are shown graphically below.

Further details of the membership data used for the actuarial valuation calculations are provided in an appendix.



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Benefits

Members are entitled to the benefits defined in the Rules. A summary of the benefits is included in the appendix.

In valuing these benefits, I have applied some judgment in the following key areas:

GMP equalisation

Following the judgement of the Lloyd's case in 2018 an allowance for the estimated impact of equalising GMPs has been included in the 2021 technical provisions by adding 1.4% of the total liabilities to the scheme's technical provisions.

This is consistent with the approach at the previous valuation.

Discretionary benefits

No allowance has been made for discretionary benefits as the scheme has no recent history of granting such benefits.

This is consistent with the approach at the previous valuation.

Insured benefits

There are no insured benefits

Funding objectives and investment strategy

The Trustees' funding objective is to hold assets which are at least equal to the technical provisions (i.e. to meet the statutory funding objective).

Your funding target

At the valuation date, the scheme was fully funded on the technical provisions basis.

The scheme does not currently have a secondary target. This is currently being considered further in discussion with the Company. Such a target would be separate from the statutory funding objective and is not covered further in this report.

Employer covenant

A key factor in setting the level of the technical provisions is the Trustees' assessment of the employer covenant. The Trustees considered their assessment of the employer covenant at their meeting on 10 March 2022 and concluded that it remains ‘tending to strong’. This is in line with the previous valuation and has been taken into account in setting the assumptions to be adopted for the technical provisions.

Secondary targets

Some schemes also set secondary funding targets to aid in their longer-term planning and decision making.

Over time, there is expected to be an increased focus on such long-term funding targets and how they interact with the technical provisions measure.

Investment strategy

The current assets are described in an appendix.

The Trustees' investment strategy is set out in their statement of investment principles. In summary, the Trustees' strategy is to invest the scheme’s assets to achieve returns in excess of the growth in liabilities, whilst maintaining a prudent approach to meeting the scheme’s liabilities.

The Trustees aim to invest 45% of the scheme’s assets in growth assets to generate investment returns. This includes 10% in diversified growth funds to achieve diversification of the growth assets. The remaining 55% is invested in liability-driven investments ('LDI') (including both gilts and corporate bonds), the purpose of which is to reduce the risk of movements in market expectations of future interest rates and inflation having an adverse impact on the scheme's funding position. From time to time the assets will move outside their target allocation.

The Trustees are considering the scheme's longer term investment strategy alongside their discussions on their longer term funding target.

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Method & assumptions

The Trustees and the Company agreed the assumptions used to calculate the technical provisions.

Method

As for the previous valuation, the technical provisions have been calculated using the projected unit method.

The assets are valued at the audited value contained in the Trustee Report and Accounts for the year ended 31 December 2021. DC AVCs have been excluded in the main body of this report as the asset exactly matches the liability (an alternative presentation of the results including the DC AVCs is in included as an appendix).

Further information

Your Actuarial valuations handbook contains further information on valuation methods and Aon's approach to assumption setting.

Assumptions

The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change.

Further details of all the assumptions are set out in the statement of funding principles dated 20 October 2022.

Assumption	Previous valuation	This valuation	Rationale for change
Pre-retirement discount rate	Gilt yield curve plus 1% p.a.	Gilt yield curve plus 1% p.a.	No change
Post-retirement discount rate	Gilt yield curve plus 0% p.a.	Gilt yield curve plus 0% p.a.	No change
RPI	"Break-even" RPI curve with no inflation risk premium deduction	"Break-even" RPI curve with no inflation risk premium deduction	No change
CPI	RPI inflation less Aon's best estimate* of the gap between RPI and CPI	RPI inflation less Aon's best estimate* of the gap between RPI and CPI, and allowing for a different assumption pre and post 2030	Move to a pre and post 2030 assumption to better reflect the change in Aon's methodology for determining the best-estimate of the future long-term difference between RPI and CPI.
Post-retirement mortality base table	Males:85% of S3PMA_H Females:105% of S3PFA_H	Males: 90% of S3PMA_H Females: 100% of S3PFA_H	Update based on the Demographic Horizons™ analysis and the latest SAPS tables.
Post-retirement mortality improvements	CMI 2017 core projections with S_k=7.5 and with long-term improvement rate of 1.50% p.a. for men and women	CMI 2021 core projections with S_k=7.0, A = 0.5 and with long-term improvement rate of 1.50% p.a. for men and women	Update for latest CMI model. S_k core parameter is 7.0. "A" core parameter is 0 but Aon's view is that it is appropriate to make allowance for the higher improvements in pension scheme populations by setting A=0.5.

*At the 2018 valuation date this was 1.1% p.a. At the 2021 valuation date this is 0.9% pa up to 2030 and 0.1% pa thereafter.

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Valuation results

Results

The scheme's technical provisions and resulting funding position have been calculated at 31 December 2021.

Results

	Technical provisions (£M)
Value of past service benefits for:	
Deferreds	62.4
Pensioners	74.0
GMP equalisation	1.9
Total past service liabilities	138.3
Assets	148.5
Surplus / (deficit)	10.2
Funding ratio	107.4%

My formal certificate of your technical provisions is included in this report.

Sensitivity of the funding level

The key assumptions are the discount and inflation rates and the scheme membership's mortality rates. The sensitivity of the funding level to these key assumptions is as follows:

Discount rate decreases by 0.25%

A 0.25% pa decrease in the discount rate (both pre and post retirement) reduces the funding level to 103%.

RPI inflation increases by 0.25%

A 0.25% pa increase in the RPI inflation assumption (and the knock-on impact on the other assumptions derived from it) reduces the funding level to 105%.

Members live longer than assumed

If the scaling factor applied to the base mortality assumption is reduced by 5% for all members, this reduces the funding level to 105%.

For a typical male member of the Scheme aged 65, this equates to the life expectancy increasing by 0.5 years.

The Trustees and the Company agreed not to allow for post-valuation-date experience when setting the contributions in this valuation although this decision has no impact at this valuation.

Solvency position

I have estimated the scheme's statutory solvency position.

Results

	Solvency (£M)
Value of past service benefits for:	
Deferreds	75.5
Pensioners	69.7
GMP equalisation	2.0
Expenses	3.7
Total past service liabilities	151.0
Assets	148.5
Surplus / (deficit)	(2.5)
Funding ratio	98.3%

Please note, the table shows rounded figures, therefore the total results may not sum up exactly.

This solvency estimate represents the estimated cost of purchasing annuities at the valuation date from an insurance company to meet the scheme's benefits.

The assumptions used in the solvency estimate are summarised in an appendix.

In practice

Supply and demand factors mean that the actual cost of purchasing annuities may be different to the above solvency estimate. There may also be some practical barriers to voluntarily winding up the scheme.

If the scheme were to be discontinued with no solvent employer and the assets were not sufficient to provide the benefits in full, then:

- Benefits corresponding to those covered by the PPF would be met first (either through 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.

The proportion of full benefits provided will vary from member to member and may be higher or lower than the statutory estimate of solvency quoted above.

Why higher?

The solvency estimate is higher than the technical provisions.

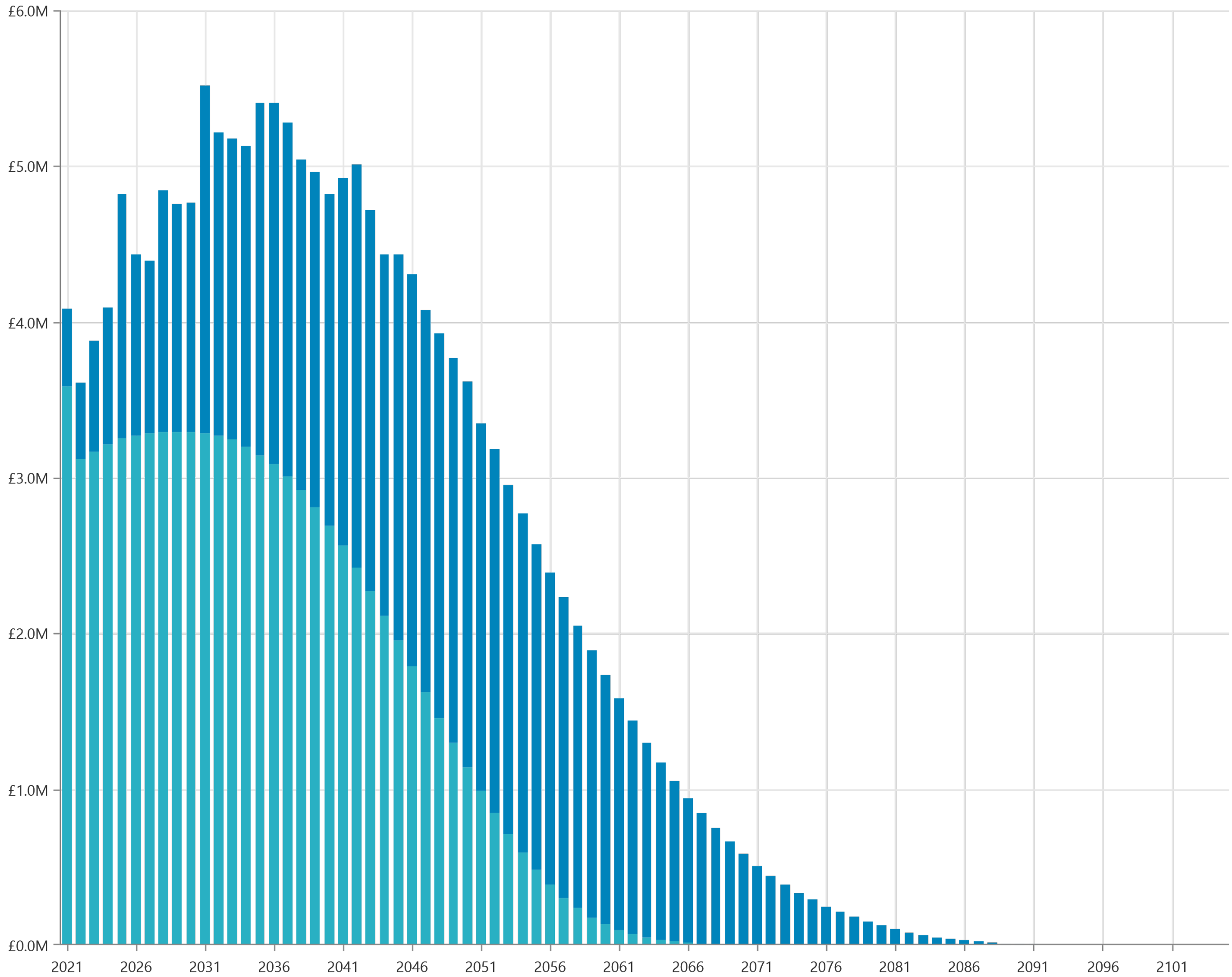
Broadly, this is for the following reasons:

- Insurers will typically hold less risky assets which provide **lower investment returns** than are expected to be achieved on the scheme's assets
- Insurers typically hold **larger margins**, for example by assuming that members will live longer than is assumed in calculating the technical provisions
- Insurers need to cover **costs**, including administering the benefits, and also make a **profit**, and
- Allowance is made for the **cost of winding up** the scheme.

Funding and investment risks

The scheme's funding level is likely to exhibit volatility.

The benefit payments from the scheme are expected to be made for a very long period. The chart below shows the projected cashflows on the technical provisions basis for the scheme.



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Key risks

The scheme faces a number of key risks which could affect its future cashflows and funding position, including:

Funding risk

The risk that the technical provisions are set too low and prove insufficient to meet the liabilities (e.g. in the event of unexpected discontinuance).

Investment risk

The risk that investment returns are lower than assumed in the valuation, and also that the assets are volatile and move out of line with the liabilities, so the funding position is volatile.

Liquidity risk

The risk that cashflows are higher than expected as members commute more than is assumed or take transfer values, possibly leading to the sale of assets at inopportune times.

Longevity risk

The risk that scheme members live for longer than assumed and that pensions would therefore need to be paid for longer.

Inflation risk

The risk that the relevant inflation metric is higher than assumed, increasing the pensions that need to be paid.

Sponsor risk

This is the risk that the sponsor is no longer willing or able to support the scheme to any future losses that arise.

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Other risks

The scheme is exposed to other risks too, which may also impact on the funding, investments and sponsor covenant:

- **Member options risk**: The risk that members exercise options resulting in unanticipated extra costs. For example, if not cost neutral.
- **Concentration risk:** The risk of a significant effect on the total liabilities due to the experience of only a small number of members.
- **Small scheme risk:** Schemes with relatively few members cannot pool risk to the same extent as larger schemes and so are more susceptible to random variations.
- **Other risks:** For example, those relating to climate change and other environmental issues as well as long-term uncertainty around geopolitical, societal and technological shifts.

Risk mitigation

The Trustees takes an integrated approach to managing the scheme's risks. The key actions taken to mitigate the risks include:

Investment

- Adopting a diversified investment strategy
- Investing in liability-driven investments, so that changes in the value of the liabilities will be partially matched by changes in the asset values, thus reducing the funding volatility
- Considering the scheme's longer term investment strategy alongside discussions on the longer term funding target with the Company

Covenant

- Monitoring the covenant position between valuations through regular Company updates at Trustees' meetings

Funding

- Making prudent assumptions in the technical provisions.
- Discussing the longer term funding target with the Company

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Future contributions

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Agreed contributions

As a result of this valuation, the Company has agreed a new contribution schedule.

Company contributions

Following discussions, the Company will pay:

- £0.4m each year to cover the costs of administering the scheme
- The Pension Protection Fund levy and other levies collected by the Pensions Regulator
- The cost of any augmentations to benefits.

Contributions are payable monthly, with the contributions due in respect of a particular month payable within 19 days of the end of the calendar month to which they relate.

No recovery plan required

As the scheme is in surplus (relative to the technical provisions), a recovery plan is not required.

Schedule of contributions

These contributions are set out in the schedule of contributions.

As agreed, my certification of the schedule is based on the position at the valuation date.

A full review of the Company's contributions will be completed no later than following the next valuation, which is due to take place at 31 December 2024.

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Projections

I have illustrated below how I expect the scheme's funding position to develop over the future.

Projected future funding levels

I estimate that, by the next valuation, which will be due with an effective date of 31 December 2024:

- The **technical provisions** funding level will have increased to about 113%, and
- The **solvency** level will have increased to about 105%.

Assumptions

These estimates assume that:

- The experience of the scheme between the two valuation dates is in line with the assumptions underlying the technical provisions and that the return on the scheme's assets is 1.5% pa above the average discount rate.
- The assumptions underlying the technical provisions and solvency bases remain unchanged.

Rationale

The main reasons for the expected improvement in the technical provisions funding level are:

- The investment return exceeding the discount rate
- The investment growth on the surplus.

Although not illustrated, it is also reasonable to expect that actual experience will lead to further improvements in the funding position to the extent that the underlying assumptions are prudent.

The solvency level is expected to improve more strongly, mainly due to:

- The solvency assumptions typically containing more prudence
- The scheme maturing, particularly members retiring which removes uncertainty and so improves the terms of annuity purchase.

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Certificate

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Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Husqvarna UK Limited Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 December 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 trustees of the scheme and set out in the statement of funding principles dated 20 October 2022.

DocuSigned by:
Jane Curtis
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20 October 2022

Signature	**Date**

Name	Jane Curtis
Employer	Aon Solutions UK Limited
Qualification	Fellow of the Institute & Faculty of Actuaries
Address	Aon
	Verulam Point
	Station Way
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Further information

Reference appendices and glossary

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Membership data

The results in this report are based on the membership data summarised below.

I have conducted high level checks on the membership data provided and I am satisfied with its adequacy for the purpose of this actuarial valuation.

The average ages shown in these tables are unweighted.

Deferred members	Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
2015	631	50.2	3,222	5,106
2018	513	51.8	2,260	4,405
2021	427	53.2	1,732	4,057

Note: The deferred pension amounts are at the valuation date.

Pensioners	Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
2015	349	68.5	2,205	6,318
2018	369	70.5	2,549	6,908
2021	385	72.4	2,655	6,895

Dependants	Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
2015	41	65.2	188	4,582
2018	49	67.4	218	4,449
2021	58	71.0	289	4,983

Note: Children's pensions are included in the dependants figures.

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Benefits valued

A summary of the key details of the scheme benefits considered in this valuation is set out below.

The scheme is divided into the Final Salary and CARE Sections. The benefits given by these sections are set out in the legal documentation of the scheme. For illustration only, this appendix includes an overview of the benefits provided by these sections. Certain categories of former members of the scheme are entitled to different benefits from those summarised below. The description below reflects the benefit structure at 31 December 2021 (the effective date of this valuation).

Following the closure of the scheme at 30 September 2011, the scheme only has deferred pensioners and pensioners, but the outline below includes a brief reminder of how accrued benefits were calculated when active members left pensionable service.

Normal retirement age	Age 65.
Final pensionable salary	Final Pensionable Pay is the highest annual average of the Pensionable Pay of a member in any period of three consecutive years in the ten years before leaving, retirement or death, where Pensionable Pay is actual gross earnings less the Lower Earnings Limit during the period two years earlier.
Normal retirement pension	**Final Salary section** 1/80th of Final Pensionable Pay for each year of Pensionable Service accruing 80ths Final Salary benefits. 1/60th of Final Pensionable Pay for each year of Pensionable Service accruing 60ths Final Salary benefits. A 4% bonus is awarded for service prior to 6 April 1998 for members in service as of that date. **CARE section** Members who joined the scheme on or after 5 January 2004 joined the CARE section. In this section members accrued 1/80th of their career averaged revalued earnings for each year of Pensionable Service. This means that members accrued a credit equal to 1/80th of Pensionable Pay earned in that year. Each year's credit was then revalued in line with price inflation until retirement or earlier leaving. Pensionable Service is the period, calculated in years and complete months, of continuous membership of the scheme.
Lump sum	A member may exchange some of their pension for a pension commencement lump sum on retiring.
Early retirement pension (for deferred pensioners)	A pension may currently be provided on retirement after the age of 55 (with early retirement subject to Trustee and Company consent), and is reduced to

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	allow for early payment. Early retirement may also be provided below age 55 on the grounds of incapacity.
Death after retirement	A spouse's pension of one-half of the member's pension before any commutation for lump sum. Dependants' and children's pensions may also be payable. In addition, a lump sum equal to £330 for each year of Pensionable Service to a maximum of £1,650 is payable. Where death occurs within five years of retirement, the lump sum is subject to a minimum of the balance of outstanding instalments of five years' member's pension.
Death after leaving but before retirement	A spouse's pension of one-half of the member's pension revalued to the date of death, and a lump sum benefit of a refund of member contributions.
Pension increases in payment	For benefits which accrued before 5 April 2001 guaranteed RPI increases are provided to pensions in payment in excess of the GMP, subject to a maximum of 5% pa and a minimum of 3% pa. For benefits which accrued between 6 April 2001 and 5 April 2005, guaranteed RPI increases are provided subject to a maximum of 5% pa. For benefits that are accrued from 6 April 2005, guaranteed RPI increases are provided subject to a maximum of 2.5% pa. Post 88 GMPs receive statutory increases once in payment (i.e. annual increases in line with CPI to a maximum of 3% pa).
Pension increases in deferment	GMP is increased in deferment at a rate between 4% and 8.5% pa, depending on the date of leaving service. This rate applies until age 65 (men) or 60 (women). Preserved pensions in excess of the GMP are subject where appropriate to statutory revaluations in deferment (but benefits accrued before 5 April 2001 are also subject to a minimum revaluation of 3% pa compound for the period of deferment).
AVCs	Prior to 30 September 2011, members of the scheme could choose to pay Additional Voluntary Contributions (AVCs) in order to purchase additional benefits.
State pension scheme	The scheme was contracted out of the State Second Pension (S2P) up to 30 September 2011. This was done on a "Reference Scheme" basis.

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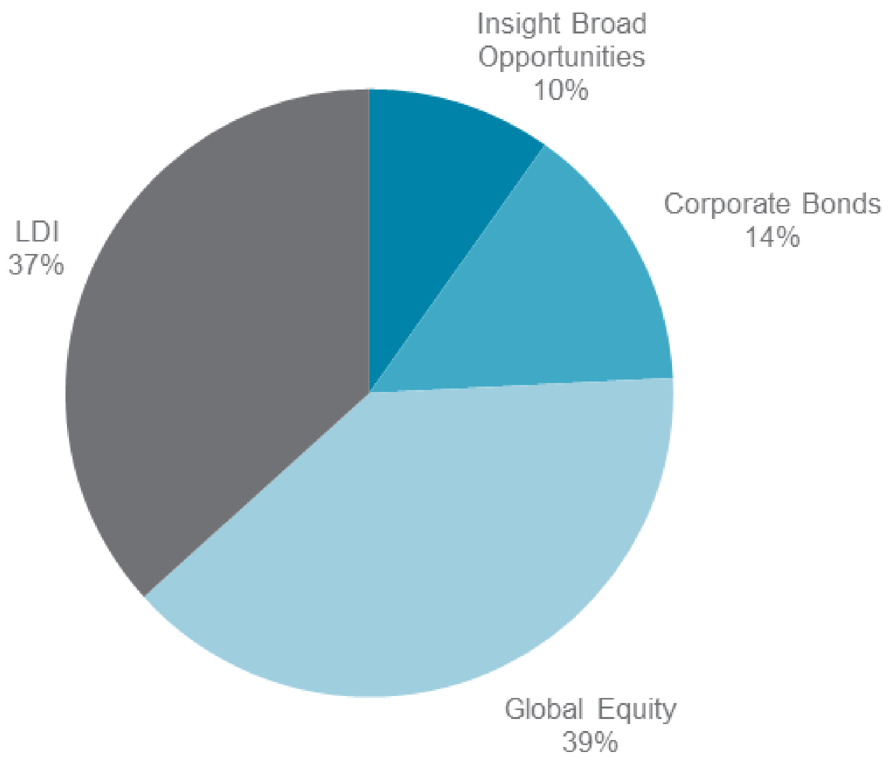
Assets

Information on the assets used in this valuation is covered here.

The audited accounts for the scheme for the year ended 31 December 2021 show the assets were £148.82M, of which £0.36M relate to AVC investments.

The chart shows how the balance of the assets of £148.5M is broadly invested between the different asset classes.

The Liability Driven Investment (LDI) solution implemented in late 2021 aims to hedge against 100% of the Scheme's interest rate and inflation risk (measured as a percentage of assets).



If DC benefits were included…

The results shown in this report **exclude** DC benefits. On this page, I present the results if they had been **included**.

Defined contribution benefits (including DC AVCs) amounted to £0.36M at the valuation date. If these benefits are included in the valuation:

- The value of the assets is £148.8M.
- The technical provisions are £138.6M (funding level of 107.4%).
- The value of the solvency liabilities is £151.3M (solvency ratio 98.3%).

Previous valuation results

This page sets out the results and conclusions of the previous actuarial valuation of the scheme at 31 December 2018.

Key results

The key results from the previous valuation at 31 December 2018 were:

- There was a deficit of £13.3M relative to the **technical provisions**, which corresponded to a funding level of 89.9%.
- There was an estimated deficit of £39.3M relative to the **solvency** liabilities.

Recovery plan

The Trustees and the Company agreed a recovery plan that was designed to restore the funding level to 100% by 30 September 2021 through a combination of:

- Contributions of £3.2M p.a. payable in equal monthly instalments until the scheme is fully funded on the technical provisions basis and
- Investment returns on the scheme's assets of 1.5% pa above the average discount rate.

It was also agreed that the Company would pay the following contributions:

- £0.3M each year payable in equal monthly instalments to cover the costs of administering the scheme;
- The Pension Protection Fund levy and other levy payments collected by the Pensions Regulator; and
- The cost of any augmentations to benefits.

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Notable changes since the previous valuation

Changes to the scheme since the previous valuation are noted below.

Other than the contributions paid to the scheme since the previous valuation, changes in market conditions and the returns achieved on the scheme's assets (which are discussed on the next page), there have been no major developments since the previous valuation.

GMP equalisation

On 26 October 2018, the Lloyds Bank Court Judgement established that pension schemes cannot provide unequal benefits in respect of post 17 May 1990 service to men and women as a consequence of the Guaranteed Minimum Pension ('GMP') element of the pension being unequal. A subsequent judgement in November 2020 established that the October 2018 ruling extends to the calculation of transfer values paid since 17 May 1990.

We have allowed for the approximate financial impact of GMP equalisation in both this and the previous valuation.

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Analysis of the change since the previous valuation

I have analysed the change in the past service from the previous valuation to this new one.

Past service changes

The past service results show that the deficit of £13.3M in the scheme at the previous valuation has become a surplus of £10.2M at this valuation.

The table below quantifies the key reasons for this change:

Key factors

The analysis shows that the main factors affecting the funding position since the previous valuation have been:

- Fall in the yields available on government bonds (and other changes in market conditions) over the period has led to an increase in liabilities of approximately £21.5M
- This has been offset by the impact of deficit contributions paid by the sponsor (£9.8M) and positive investment performance over the period (£36.1M).
- In addition, liabilities have increased by £3.1M due to updates to the technical provisions assumptions.

	£M
Surplus / (deficit) at previous valuation	**(13.3)**
Interest on surplus / (deficit)	(0.5)
Gain / (loss) from investment returns	36.1
Gain / (loss) from deficit reduction contributions	9.8
Gain / (loss) from expenses	(0.6)
Gain / (loss) from deferred revaluations	0.2
Gain / (loss) from pension increases in payment	0.6
Gain / (loss) from transfers out	2.0
Gain / (loss) from deaths	0.9
Impact of change in market conditions	(21.5)
Impact of change in technical provisions assumptions	(3.1)
Miscellaneous	(0.4)
Surplus / (deficit) at current valuation	**10.2**

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Solvency estimate: assumptions

The key assumptions used in calculating the solvency estimate are summarised below.

Statutory solvency estimate

The solvency estimate has been calculated in line with statutory requirements. I have taken into account the investment strategies that an insurer is likely to use to back its annuity business and the resulting pricing I would expect to see under the market conditions at the valuation date, taking into account the size of the scheme.

The solvency estimate considers the position if:

- The scheme were discontinued on the valuation date.
- Member benefits were crystallised.
- Discretionary benefits were suspended permanently.
- The assets were used to buy immediate and deferred annuities from an insurer.

The solvency estimate is a regulatory requirement and also provides a useful benchmark against which the Trustees and others can assess the relative prudence of other funding measures.

The basis used is described below.

Estimate vs actual cost

This estimate is only a guide. The true position can only be established by conducting a competitive buy-out auction and fully defining the scope and likely cost of a wind-up process for the scheme.

Assumption	Solvency
Current pensioners discount rate	Aon Bulk Annuity Market Monitor yield curve for pensioners, which is constructed from swap and UK corporate bond market curves
Future pensioners discount rate	Aon Bulk Annuity Market Monitor yield curve for non-pensioners, which is constructed from swap and UK corporate bond market curves
RPI	Term-dependent rates derived from the RPI swap markets
CPI	RPI inflation less 0.75% p.a. up to 2030 and 0.1% p.a. after
Post-retirement mortality base table	Males: 95% of S3PMA_H and females: 105% of S3PFA_H
Post-retirement mortality improvements	CMI 2020 core projections with S_k = 7.0, A = 0.5 and with long-term improvement rate of 1.75% p.a. for men and women
Pre-retirement mortality	AMC00 for men, AFC00 for women
Commutation	No allowance made
Expenses of winding-up	Allowance made to cover expenses and insurance company charges associated with winding-up and estimated PPF levies for the next two years
GMP equalisation	Reserve equal to 1.4% of total solvency liabilities

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Legal framework and compliance

Legal framework

This report is produced in compliance with:

- Rule 14.2 of the scheme's Rules.
- Section 224 of the Pensions Act 2004.
- The terms of the Scheme Actuary Agreement dated 26 February 2008 between the Trustees and me, on the understanding that it is solely for the benefit of the addressees.

TAS compliance

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that the Trustees are the addressees and the only users and that the document is only to be used as a summary of the outcome of the valuation. If you intend to make any decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

This document should be read in conjunction with:

- The statement of funding principles dated 20 October 2022

If you require further copies of this document, please let me know.

Shorthand in this report

Scheme: Husqvarna UK Limited Pension Scheme

Trustees: The Directors of Husqvarna Pension Scheme Trustee Limited

Company: Husqvarna UK Limited

Rules: The Scheme's Trust Deed and Rules dated 4 October 2012 and amending legal documents

Pensionable Salary: As defined in the Rules

Pensionable Service: As defined in the Rules

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Glossary

This glossary explains some common terms from the actuarial valuation process. Not all of them may be used in your report.

Attained age method

This is one of the methods historically used by actuaries to calculate actuarial liabilities and contribution rates. It is similar to using the projected unit method but with a control period equal to the average future working lifetime of the active membership.

Best estimate assumption

It is equally likely that actual experience will be better-than or worse-than such an assumption. Best estimate assumptions are subjective and therefore those referenced in one report may differ from best estimate assumptions derived elsewhere.

Cash transfer sum

This is a benefit available to early leavers who have between three months and two years of pensionable service. It is calculated in the same way as the cash equivalent transfer value payable to longer-serving early leavers and is calculated at the date of leaving pensionable service.

Consumer Prices Index (CPI)

Measure of UK price inflation published monthly by the Office of National Statistics. It is the Government's preferred measure of inflation. It is based on different items and weightings to the Retail Prices Index (RPI) and is also calculated using a different formula.

Control period

This is the period of time from the valuation date that is considered when calculating the future service cost for schemes which are still open to accrual. The control period is commonly set to cover the next year, the 3-year period to the next valuation or the expected future working lifetime of the active membership.

Current unit method

This is one of the possible methods used by actuaries to calculate actuarial liabilities and contribution rates. This method only allows for increases applicable to deferred pensioners beyond the effective valuation date (when calculating liabilities) or the end of the control period (when calculating contribution rates) and so does not allow for any further projected future increases to pay.

Deficit

This is the funding target less the value of assets. If the value of assets is greater than the funding target, then the difference is called the surplus.

Defined accrued benefits method

This is one of the possible methods used by actuaries to calculate actuarial liabilities and contribution rates. This method assumes that the scheme will be discontinued at the effective valuation date (when calculating liabilities) or at the end of the control period (when calculating contribution rates) and so does not allow for any further projected future increases to pay or any other terms applicable to active members. This method may be appropriate for schemes which anticipate winding up.

Discount rate

This is used to place a present value on a future payment. A 'risk-free' discount rate is usually derived from the investment return achievable by investing in government gilt-edged stock. A discount rate higher than the 'risk-free' rate is often used to allow for some of the extra investment return that is expected from investing in assets other than gilts.

Discretionary benefits

These are benefits which are not guaranteed under a scheme's rules and which are only granted to members at the discretion of the trustees and/or the sponsor.

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Duration of liabilities

The duration of a scheme's liabilities represents the average term to payment of the liabilities. In broad terms, if a scheme has a duration of 20 years, then it will respond to changes in discount rate in the same way that a single cashflow which is payable in 20 years' time would. In practice, there are several different technical definitions of duration.

Formula effect (in calculation of RPI and CPI)

The difference between measures of inflation arising from the use of different formulae to construct the RPI and CPI indices at the first stage of aggregation – the RPI uses a (simple) arithmetic average whereas the CPI uses a (compound) geometric average.

Forward rate

A forward rate is a rate which is expected to apply over a future time period. For example, to discount a single payment from one future date (say, five years from now) back to a closer future date (say, three years from now).

Funding level (or funding ratio)

This is the ratio of the value of assets to the funding target.

Funding target

An assessment of the present value of the benefits that will be paid from the scheme in the future, normally based on pensionable service prior to the valuation date. Often, the funding target is equal to the technical provisions.

Future service contribution rate (FSCR)

Only relevant for schemes still open to accrual; this is the cost of benefits accruing expressed as a percentage of the members' pensionable pay. It considers the present value of the benefits expected to accrue to members and the pensionable pay expected to be paid to members over a given period (referred to as the control period). Provided that the distribution of members remains stable, with new members joining to take the place of older leavers, and if all the other assumptions are borne out, the calculated contribution rate can be expected to remain stable. If there are no new members, however, the average age will increase and the contribution rate can be expected to rise or fall depending respectively upon whether the discount rate is higher or lower than the salary increase assumption.

Gilt yield curve

The term-dependent yields on gilts derived from fixed-interest gilts.

Guaranteed Minimum Pension (GMP)

Most schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) before April 1997 have to provide a pension for service before that date at least equal to the Guaranteed Minimum Pension (GMP). This is approximately equal to the SERPS pension that the member would have earned had the scheme not been contracted out. GMPs ceased to build up on 6 April 1997, when the legislation changed.

Hedging

A liability is said to be hedged if a scheme holds investments which respond in the same way as it does to changes in the risk being hedged (e.g. interest rates or inflation). Gilts and swaps are examples of investments which are commonly used to hedge liabilities.

Inflation risk premium (IRP)

The difference between the best estimate of future inflation and its market price.

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Inflation uncertainty

Whilst, over the medium to long term, inflation is often considered to be reasonably stable, and a simple single assumption is often used for projections, in reality inflation can vary up and down significantly from one year to the next. This variation is sometimes referred to as inflation uncertainty.

Limited Price Indexation (LPI)

The Pensions Act 1995 required schemes to provide a minimum level of annual increase to pensions in payment. The minimum level is the smaller of 5% and the increase in inflation* and applies to the pension earned from 6 April 1997 to 5 April 2005. With effect from 6 April 2005, the cap for statutorily-required LPI for future service was reduced from 5% to 2.5%.

*Until 2010, inflation for the purpose of this minimum was defined with reference to changes in the Retail Prices Index. From 2011, inflation was defined with reference to changes in the Consumer Prices Index.

Longevity risk

This is the risk that life expectancies exceed those assumed and the pension scheme's liabilities are therefore higher than expected.

Mortality future improvements

This is the assumption about how the number of people dying each year will reduce in the future. A higher rate of improvement will lead to a higher life expectancy. Also referred to as future longevity improvements.

Mortality rate

A mortality rate measures the likelihood that an individual will die between one birthday and the next.

Mortality table

Mortality tables summarise mortality rates across all ages.

Ongoing best estimate

This is the present value of the benefits members are entitled to, should the scheme continue without being wound up early, assessed using a set of assumptions whereby the key assumptions are best estimates. Best estimate assumptions are subjective and therefore the figure provided in one report may differ from other best estimate valuations.

Partly projected unit method

This is one of the possible methods used by actuaries to calculate actuarial liabilities and contribution rates. This method allows for some, but not full, projected future increases to pay between the valuation date and retirement or date of leaving service. This method may be appropriate for schemes which anticipate ending the link to future salary increases at a future date.

Pension increase exchange (PIE)

An option that may be offered to members on or after retirement whereby members are granted a higher initial pension but must give up future inflationary increases in return. This can only be done with pension increases that are in excess of statutory minimum increases.

Pension Protection Fund (PPF)

The PPF was established with effect from 6 April 2005. The PPF will normally take over the assets of a pension scheme in the event of its sponsor becoming insolvent and the scheme having insufficient assets to provide the PPF benefits. The PPF will not provide the scheme benefits in full. The PPF is financed by a levy on most defined benefit pension schemes. The PPF benefits are broadly 100% of benefits for pensioners over normal retirement age and 90% of benefits up to a cap for all other members. Pension increases granted on benefits are at lower levels than apply in many schemes, in particular, benefits earned before 6 April 1997 would not be given any pension increases within the PPF.

Present value

Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a discount rate. This value is known as the present value. For example, if the discount rate was 6% a year and if we had to pay a lump sum of £1,060 in one year’s time the present value would be £1,000.

Projected unit method

This is one of the common methods used by actuaries to calculate actuarial liabilities and contribution rates. This method allows for full projected future increases to pay through to retirement or withdrawal.

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Protected Rights

Prior to April 2012, schemes could contract out of SERPS/S2P on a 'Protected Rights' basis. The accumulated National Insurance rebates in respect of each member as a result of being contracted out (known as Protected Rights) must be applied as an underpin to the member's benefits. Schemes that were contracted out on this basis before 6 April 1997 provided this underpin instead of GMPs.

Prudent assumption

It is more likely that actual experience will be better than a prudent assumption than that it will be worse. The value of the liabilities will be higher when measured using prudent assumptions than using best estimate assumptions.

Recovery plan

Where a valuation shows a funding shortfall against the technical provisions, trustees must prepare a recovery plan setting out how they plan to meet the statutory funding objective.

Retail Prices Index (RPI)

Measure of UK price inflation published monthly by the Office of National Statistics. It is no longer the Government's preferred measure of inflation. As well as being based on different items and weightings to the Consumer Prices Index (CPI), it is also calculated using a different formula. However, it is the index that pension benefits have historically tended to be linked to and is the index used to determine increases in index-linked gilt coupons.

RPI inflation curve

The term-dependent RPI inflation expectations derived from fixed-interest and index-linked gilts.

Scaling factor

Differences in life expectancy between schemes are typically allowed for by multiplying the chance of dying at each age by a scaling factor. Scaling factors of less than 100% mean that people are assumed to live longer than under the standard tables. For example, a scaling factor of 90% means that a member has a 10% less chance of dying each year than is assumed in the standard mortality tables. Similarly, scaling factors of more than 100% mean that people are assumed to live for less time than under the standard tables.

Schedule of contributions

Trustees of pension schemes must prepare and maintain a schedule of contributions. This shows the dates and amounts of contributions due from the sponsor and members. Under the Pensions Act 2004, the schedule must be put in place within 15 months of the valuation date.

Section 179 valuation

An actuarial valuation of a pension scheme in accordance with section 179 of the Pensions Act 2004. The Pension Protection Fund will take the results of a section 179 valuation into account when calculating a scheme's PPF levy.

Solvency estimate

This represents an estimate of the cost of buying out a scheme’s benefits with an insurance company at the valuation date. Supply and demand factors also mean that no single solvency estimate can be relied on and so this estimate is unlikely to be the same as the actual cost of buying out the benefits. Assumptions are set by the Scheme Actuary.

Solvency ratio

This is the ratio of the market value of a scheme's assets to the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

Sponsor covenant

A sponsoring employer's 'covenant' is their legal obligation and financial ability to support the pension scheme, both now and in the future.

Spot rate

A rate which is expected to apply between now and a future date. For example, to discount a single payment at a future date (say, five years from now) all the way back to time 0.

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Statement of funding principles

The Pensions Act 2004 requires trustees to prepare (and from time to time review and, if necessary, revise) a written statement of their policy for securing that the statutory funding objective is met. This is referred to as a statement of funding principles.

Statutory funding objective

Under the Pensions Act 2004, every scheme is subject to the statutory funding objective, which is to have sufficient and appropriate assets to cover its technical provisions.

Surplus

This is the value of assets less the funding target. If the funding target is greater than the value of assets, then the difference is called a deficit.

Swap yield curve

The term-dependent yields on fixed-interest swaps derived by Aon from market data.

Technical provisions

This is the present value of the benefits members are entitled to, based on their pensionable service to the valuation date and assessed using the assumptions agreed between a scheme's trustees and the sponsor. It generally allows for projected future increases to pay through to retirement or date of leaving service.

Transfer value

Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in a scheme, and a sum of money (called the transfer value) is paid into another approved pension scheme; this is used to provide pension benefits on the terms offered in that scheme.

Withdrawal

Members may leave a pension scheme before their normal retirement age (typically because they leave employment with the sponsor). When they do so, their accrued benefits will no longer be linked to future salary increases (where applicable), and will instead be linked to future inflation. Benefits will still be payable at normal retirement age.

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