

Keeping you up to date with your Pension Fund's financial position

March 2025

The Trustees of the NAAFI Pension Fund regularly produce a Summary Funding Statement, like this one, to give you an update on the funding position of the Fund.

We use independent advisers to help us to monitor the Fund's finances, and this statement summarises the results of the recently completed valuation of the Fund as at 31 December 2023 and gives you a snapshot of the Fund's financial position as at 31 December 2024.

The valuation as at 31 December 2023 revealed a funding surplus of £32.4m, a significant improvement from the surplus of £6.4m that we reported when we last sent you a summary funding statement. The surplus had improved to £37.0m by 31 December 2024.

Further details are on page 2, with page 3 answering some of the further questions you may have.

Yours faithfully

Tony Hales

Chair of the Trustees of the NAAFI Pension Fund

Further Information


If you have any questions or would like to see a copy of the Fund's financial accounts, rules, investment or funding policy documents, please contact the Fund's administrators using the details below.


If you're considering making any changes to your pension arrangements, you should consult a financial adviser before taking any action. The law prevents us from providing you with financial advice.

Are your details up to date?

Please let us know if your contact details have changed. If you'd like to change the people you have nominated to receive benefits upon your death, please complete an Expression of Wish form.

 naafi@thpa.com

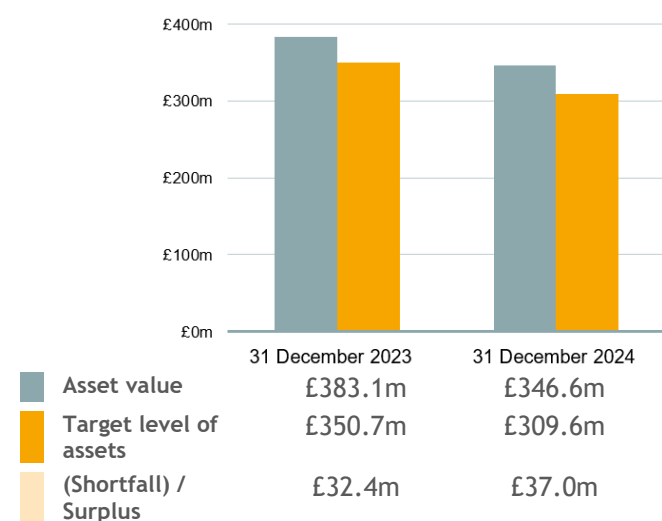
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Actuarial valuation at 31 December 2023 and snapshot at 31 December 2024

At 31 December 2023, the target level of assets was £350.7m and the actual assets were £383.1m, giving a surplus of £32.4m.

By 31 December 2024, the target level of assets had fallen to £309.6m and the actual assets had decreased to £346.6m, resulting in an increased surplus of £37.0m.



When we wrote to you last time, we reported a surplus of £6.4m at 31 December 2022. Since then, a full actuarial valuation of the Fund has been carried out as at 31 December 2023, which revealed a surplus of £32.4m, and the position has since improved to a surplus of £37.0m.

The Fund's financial position has therefore improved by £30.6m since the last update we sent to you.

The main reasons for the improvement are an increase in interest rates, general Fund experience over the period since the last update and changes to the assumptions at the 2023 actuarial valuation. All of these factors reduce the target level of assets. These impacts were partially offset by a fall in the value of the Fund's assets due to increases in interest rates.

We expect the funding position to change from year to year because the Fund's finances depend on changes in global markets. However, the Fund's investment strategy aims to minimise volatility in the funding position due to market movements.

The next annual update is due as at 31 December 2025 and the next full actuarial valuation is due as at 31 December 2026.

Assumptions

The Trustees employ an independent expert to provide regular checks on the Fund's finances. These regular check-ups involve calculating a target level of assets, which is the value placed on the Fund's liabilities. The latest update is shown above.

The target level of assets is the amount that is expected to be enough to continue to pay out all the pensions that members have already built up in the Fund, based on assumptions about the future. For example, how long people will live; what inflation will be; and what returns will be earned on the Fund's investments, amongst other factors.

Nobody knows exactly how much money will be needed to pay everybody's pensions. This will depend on how actual experience compares with the assumptions made.

Assets of the Fund

The assets of the Fund come from contributions previously paid by members and by NAAFI, together with investment growth. They are held separately from NAAFI and the Fund's Trustees are responsible for investing this money, after taking professional advice

The assets are held in a common fund - they are not held in separate pots for each member.

Pensions are paid to retired members out of this common fund.

Your questions answered

Q: Is my pension protected?

Following discussion with the MOD, the Trustees of the Fund obtained a MOD Guarantee in June 2018 in relation to the liabilities of the Fund. This Guarantee provides long-term security to the members of the Fund as it ensures that the benefit payments will continue to be made in full, and the running expenses of the Fund will continue to be met.

If the value of the Fund's assets were to reduce below a certain threshold (double the expected annual benefit payments and expenses - which based on current outgo would be when assets fell below around £40m) then a payment would be made to the Fund by the Secretary of State for Defence. Accordingly, no payment is expected for many years, and indeed may never be required, but ultimately the Fund would not run out of money because of these payments.

The existence of the MOD Guarantee means that the Fund is not eligible for compensation provided by the Pension Protection Fund (PPF). The PPF was set up by the Government to provide support to members in the situation where a sponsoring employer falls insolvent leaving behind an underfunded pension scheme. However, the MOD Guarantee is effectively providing support in this scenario for members of the Fund.

Q: What if the Fund has to wind-up?

NAAFI and the Trustees do not intend to wind up the Fund, and indeed the Secretary of State for Defence would generally need to agree to any wind-up.

However, we are required by the legislation to carry out full valuations of the Fund every three years (as reported earlier in this statement), and one of the requirements of that process is for the Trustees to obtain an estimate of the cost of securing all members' benefits with an insurance company.

The most recent estimate provided by our independent advisers looked at the position on 31 December 2023. This estimate showed that, at that date, NAAFI would have to make an additional final contribution of about £4m to make sure all members' pensions could be paid in full by an insurance company.

This is a less favourable position compared with the funding surplus shown on page 2, but this is fairly common amongst similar UK pension schemes.

Q: What about my Additional Voluntary Contributions (AVCs)?

The Fund also holds AVCs for those who chose to pay them, these are separately invested

Q: Is there anything else I need to know?

Regulations require us to confirm that since the last Summary Funding Statement NAAFI has not taken any money out of the Fund and the Pensions Regulator has not intervened in the running of the Fund. We are happy to confirm this.