Smith & Nephew UK Pension Fund – Summary Funding Statement at 30 September 2020

This summary funding statement tells you about the latest funding position of the fund, based on the latest actuarial valuation at 30 September 2020. We use the term 'funding' as a way of comparing the money already in the fund with the amount we need to pay the future benefits. We send you a summary funding statement at least once a year.

How does the fund work?

We use the fund's assets to pay benefits to members, as set out in the rules and summarised in the fund's booklet. The assets are held separately from the company. We do not allocate any of the fund's assets to individual members, apart from their additional voluntary contributions and share options, if this is appropriate.

What is an actuarial valuation?

At least every three years, the fund actuary investigates the financial position of the fund by comparing the value of the assets with the amount needed to pay benefits. This is called an actuarial valuation. The main purpose is to help set the level of contributions that the fund needs to receive to pay members' benefits now and in the future.

As part of the valuation, the actuary works out a target level of assets. This is an estimate of the amount of money needed to pay benefits as they fall due. If the fund's assets are lower than the target level, extra contributions may be needed to pay for the shortfall. The most recent actuarial valuation was carried out at 30 September 2020 with the results shown in the table opposite.

	Actuarial valuation at 30 September 2020
Target level of assets	£751 million
Actual level of assets	£725 million
Shortfall	£26 million
Funding level	97%

As part of the valuation agreement, the company paid a contribution of £5m to the fund in April 2021. The company may pay additional contributions each quarter in the future, depending on the assessment of the funding level shortly before each contribution would be due.

How has the position changed since the last update?

Last year we provided you with a funding update showing the position at 30 September 2019 which showed a shortfall of £17 million. The funding position has reduced slightly over the period to 30 September 2020 as a result of a fall in interest rates, which increased the target level of assets required. The actual assets also produced slightly lower than expected investment returns over the year.

Since 30 September 2020, the funding position has improved and we will update you on the position at 30 September 2021 in the next summary funding statement.

How is the target level of assets worked out?

There are two different ways of working out the target level of assets. One approach is to estimate how much money we need to pay the benefits already earned, assuming the fund continues. This is called the 'ongoing' basis. To make this assessment, the actuary has to make a number of assumptions about what will happen in the future: how long people will live, what inflation will be, how the fund's assets will be invested and what returns will be earned on those investments. Each of the assumptions made will affect the target level of assets.

Another approach is to estimate how much an insurance company would charge to take on responsibility of paying the benefits which are due. We call this the 'solvency' basis. As at 30 September 2020, the solvency funding level was 88%, indicating a shortfall of £95 million. If the company wanted to completely close the fund, we could insist on a final contribution from them to make sure the fund has enough money on this basis.

What if the company couldn't pay the necessary contributions?

There is nothing to suggest that this will be the case. However, a formal guarantee remains in place between Smith & Nephew plc and the trustee. This guarantees the obligations of Smith & Nephew UK Limited (the fund's principal employer) and the fund's other employers to make payments to the fund. However, in the unlikely event that the company did become insolvent, we would use the assets of the fund at the time to secure benefits.

If there was a shortfall in the assets on the solvency basis, we would not have enough to secure the benefits in full for all members. In these circumstances, the Pension Protection Fund (PPF) would make sure that all members receive a level of benefits set out in law. You can find out more about the PPF at www.ppf.co.uk

Is there anything else I need to know?

We are required by law to verify that the company has not taken any money out of the fund in the last 12 months and that the Pensions Regulator has not intervened in the running of the fund. We are happy to confirm this.