INTERIM MONITORING OF THE FINANCIAL MANAGEMENT PLAN
February 2022

Background

In between actuarial valuations, the Trustee monitors how the Scheme is progressing against its Financial Management Plan. Monitoring of the 2020 valuation will be finalised once the benefits have been confirmed and the new Statement of Investment Principles has been consulted on. In the meantime the Trustee is reviewing the development of the Scheme using an interim monitoring approach.

This document provides details of the interim monitoring for the month end of February 2022. It is expected that this will be the last interim report with the finalised monitoring commmencing from the March 2022 report.

The purpose of the monitoring (and interim monitoring) is to indicate whether or not the Scheme's financial position is progressing as expected and whether it is appropriate to continue to fund the Scheme on the basis of the 2020 valuation. It does not lead to any direct action from the Trustee other than potentially commissioning further analysis and advice.

Further, it should be noted that monitoring is not intended to answer the question: what are the contribution requirements if a valuation was undertaken at the monitoring date?

In the main body of the report, figures are calculated on the benefit changes the Joint Negotiating Committee (JNC) decided to put forward and with the associated additional covenant support measures provided by our sponsoring employers. Appendix C shows the deficit and contribution for monitoring purposes if these changes are not enacted and the current benefits are maintained without the covenant support measures being put in place.

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Differences between monitoring and actuarial valuation

The monitoring approach is not as thorough and hence does not give the same outcome as would be given by an actuarial valuation at the effective date. This is for a number of reasons, including:

- While monitoring updates the main financial assumptions, these and other assumptions do not go through the same level of assessment as would be the case for an actuarial valuation; in particular they do not necessarily reflect the risk capacity and appetite of employers at that date. In practice for an actuarial valuation the Trustee’s Integrated Risk Management Framework would influence the choice of assumptions.
- An actuarial valuation would require consultation with UUK in relation to the assumptions used and the contributions payable; it is not possible to pre-judge the outcome of any such process.
- The deficit recovery contributions are based on the recovery plan parameters shown. At a valuation, additional factors (including the views of the Pensions Regulator) would be considered which could result in a different recovery plan.
- The calculations do not allow for new membership data, and contain some approximations relative to an actuarial valuation.

The monitoring position is relatively volatile from month to month, and in light of this the Trustee considers the overall history and trends since the valuation date rather than just the position at the monitoring date.

Key messages from interim monitoring as at end February 2022

- The key metric RAG statuses are Amber for Integrated Risk Management, Green for Total Contributions, and Green for Covenant. No automatic actions are triggered as a result.
- 'Metric A' under the IRMF is Amber, compared with Green at the valuation date. This implies that there is additional risk in the Technical Provisions compared with the position at the valuation date.
- Since 31 March 2020 experience month by month has been volatile but the general trend has been:
  - The value of the Scheme’s assets has recovered to exceed pre-pandemic levels and at the end of February 2022 it amounted to £88.8bn.
  - The Technical Provisions deficit has fallen due to the increase in asset prices being greater than the increase in Technical Provisions liability. The change in the self-sufficiency deficit has been smaller, but at end of February is also lower than on the valuation date.
  - The future service contribution requirement has increased due to lower future investment return expectations however deficit recovery contributions on the monitoring basis have decreased. The aggregate impact has varied over the period but at the end of February the total contribution requirements based on the interim monitoring are lower than at the valuation date.
- Inflation expectations are significantly higher at the end of February 2022 than at the valuation date, leading to the cost saving arising from the 2.5% inflation cap increasing since the valuation date.

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INTERIM MONITORING OF THE FINANCIAL MANAGEMENT PLAN - END FEBRUARY 2022

JNC-proposed benefit structure implemented in April 2022

Technical Provisions Deficit

£2.0bn

Valuation date (31/03/2020)	£14.1bn
Liability	£90.8bn
Pre-retirement discount rate	Gilts + 2.45%
Post-retirement discount rate	Gilts + 0.60%

Self-Sufficiency Deficit

£27.7bn

Valuation date	£35.5bn
Liability	£116.5bn
Discount rate	Gilts + 0.60%

Affordable Risk Capacity (ARC)

£32 - 35bn

Valuation date	£30 - 33bn
IRMM (Self-sufficiency deficit as percentage of ARC)	83%
Valuation date	113%

IRMM: Amber

Future Service Cost

25.6%

Ratio FSC to amount being paid	102%
Valuation date (amount being paid)	25.2%

Future Service Cost: Green

Deficit Recovery Contribution

Remaining recovery period 0.25% outperformance	**0.0%**
10 year recovery period No outperformance	**2.0%**
Valuation date	6.2%

DRC Adequacy: Green

Total Contribution

Remaining recovery period 0.25% outperformance	**25.6%**
10 year recovery period No outperformance	**27.6%**
Valuation date	31.4%

Total contribution: Green

Assets

£88.8bn

Valuation date	£66.5bn
'Breakeven' discount rate	Gilts + 1.36% CPI + 0.02%

Metrics

	31-Mar-20	28-Feb-22
Metric A	10.0	7.5
Metric B	-4.0	5.5
Metric C	40.6	48.4

Covenant

Strong

Valuation date	Strong

Covenant: Green

Note: Figures on the valuation date include an allowance of £0.5bn liabilities and 0.4% DRC for certain late retirement entitlements and short service members with less than two years' service who retain rights to cash transfer sums. This allowance is not included in subsequent monitoring figures. In addition, allowance is made for an element of additional investment returns of 0.5% pa for 18 years within the FSC on the valuation date but not at subsequent dates. The DRC calculation is approximate and assumes an immediate change in contributions. The 'Breakeven' discount rate is that at which the liability value equals the assets. Figures assume the proposed benefit changes are implemented in April 2022. The FSC has been adjusted approximately for the agreed delayed implementation of the 2.5% pa pension increase cap allowing for changes in market conditions. The DRC being paid will increase to 6.3% from 1 April 2024.

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JNC-proposed benefit structure implemented in April 2022

Technical Provisions - Assumptions

	31-Mar-20	28-Feb-22
FBB Pre ret 30 yr expected return 55%	Gilts + 5.28%	Gilts + 3.72%
Pre-retirement discount rate	Gilts + 2.75%	Gilts + 2.45%
Post-retirement discount rate	Gilts + 1%	Gilts + 0.60%
Gilts (single equivalent) nominal	0.7%	1.5%
CPI (single equivalent)	2.1%	2.8%
CPI with 2.5% cap (single equivalent)	1.7%	2.1%
Single equivalent discount rate	Gilts + 1.6% CPI + 0.3%	Gilts + 1.3% CPI + 0.0%

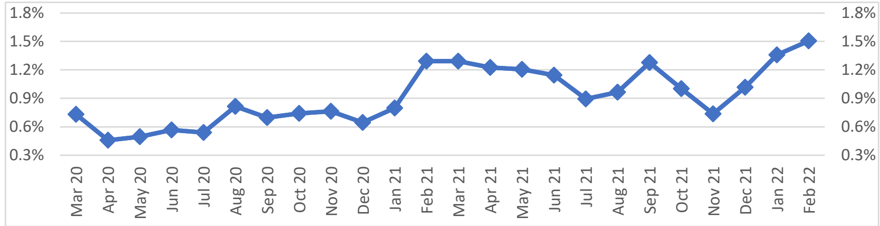
Self-sufficiency - Assumptions

	31-Mar-20	28-Feb-22
Discount rate	Gilts + 1%	Gilts + 0.60%
Gilts (single equivalent) nominal	0.7%	1.5%
CPI (single equivalent)	2.6%	3.3%
Single equivalent discount rate	CPI - 0.9%	CPI - 1.2%

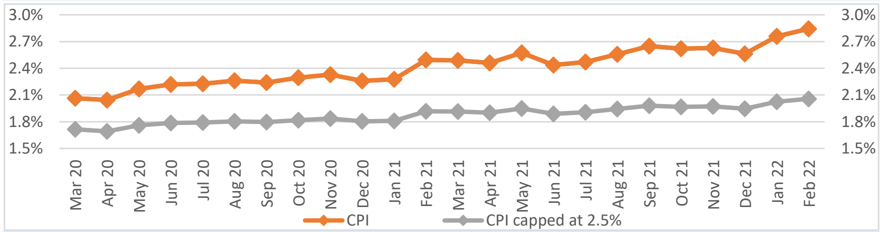
Affordable Risk Capacity

	31-Mar-20	28-Feb-22
Discount rate	Gilts + 1.2%	Gilts + 0.95%

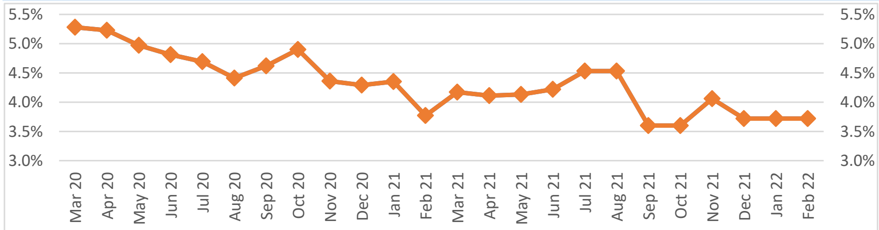
Gilts (single equivalent) nominal



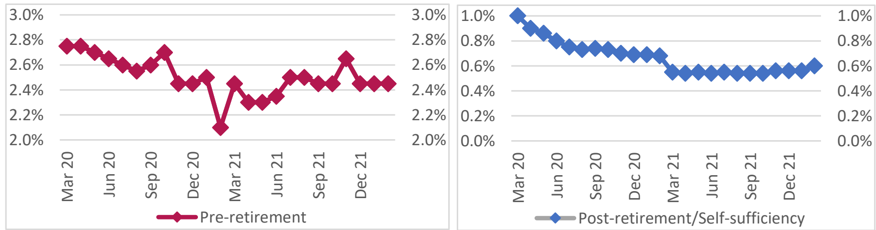
TP CPI and CPI capped at 2.5% (single equivalents)



FBB expected pre-retirement return relative to 30 yr nominal gilts



Discount rates (Gilts+)



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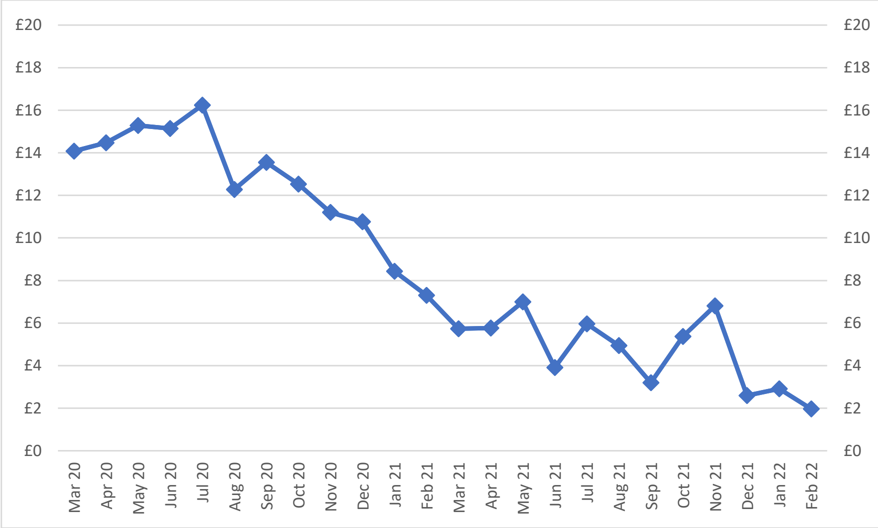
JNC-proposed benefit structure implemented in April 2022

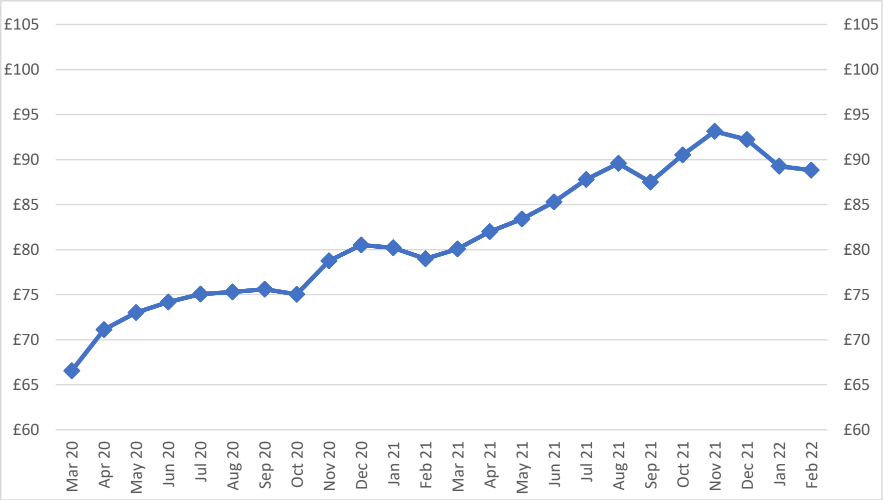
Technical Provisions

	31-Mar-20	28-Feb-22	Change
Assets £bn	66.5	88.8	+22.3
Liabilities £bn	80.6	90.8	+10.2
Deficit £bn	14.1	2.0	-12.1
Funded Status %	83%	98%	+15%

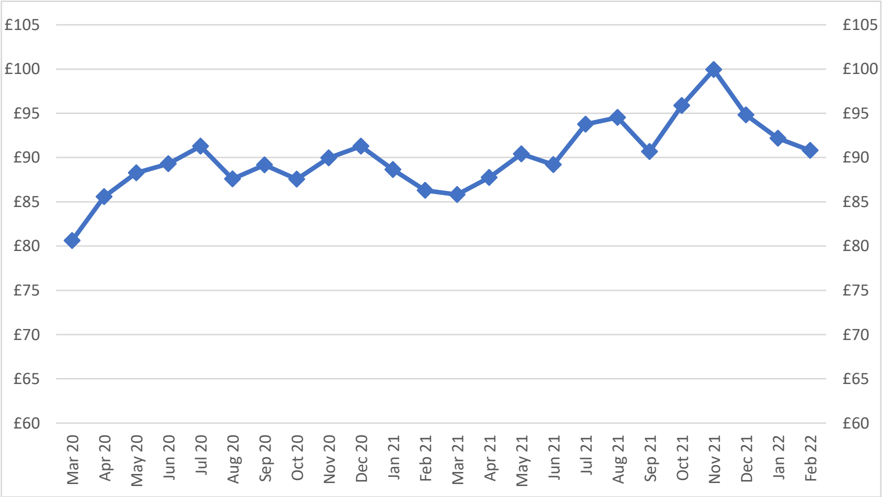
Technical Provisions Deficit (£bn)



Assets (£bn)



Technical Provisions Liabilities (£bn)



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JNC-proposed benefit structure implemented in April 2022

Future service contributions required

	31-Mar-20	28-Feb-22
DB Future Service Cost over next 12 months	19.5%	19.9%
Expenses	0.4%	0.4%
Expected DC conts over next 12 months [1]	5.3%	5.3%
Total [2]	25.2%	25.6%

Note

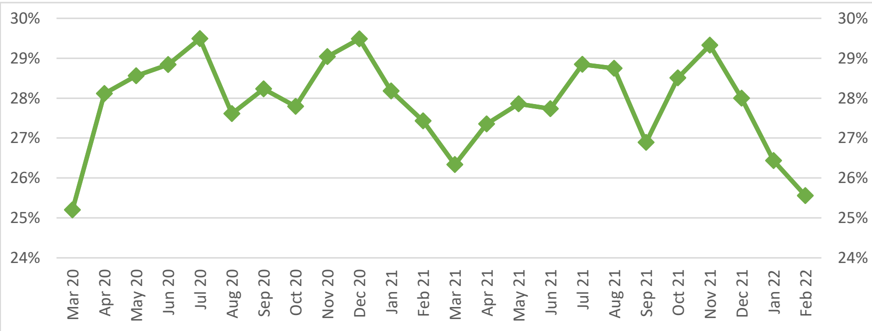
1. Includes 0.1% subsidy.
2. Excludes deficit contributions.

Self-Sufficiency

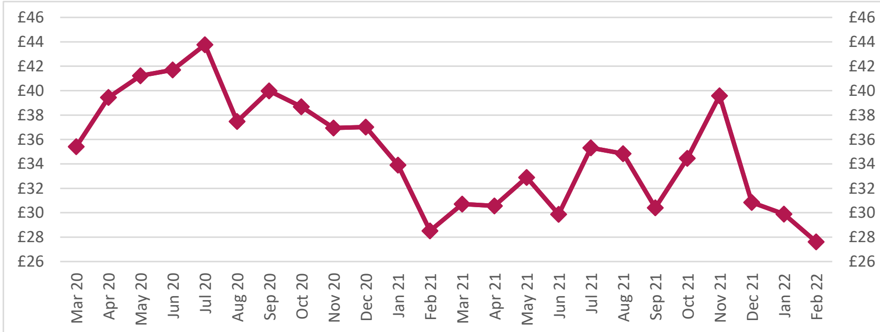
	31-Mar-20	28-Feb-22	Change
Assets £bn	66.5	88.8	+22.3
Liabilities £bn	102.0	116.5	+14.5
Deficit £bn	35.5	27.7	-7.8
Funded Status %	65%	76%	+11%

	31-Mar-20	28-Feb-22	Change
10% of pay for 30yrs £bn	31.4	33.1	+1.7

Future service contributions required (including DC)



Self-Sufficiency Deficit (£bn)



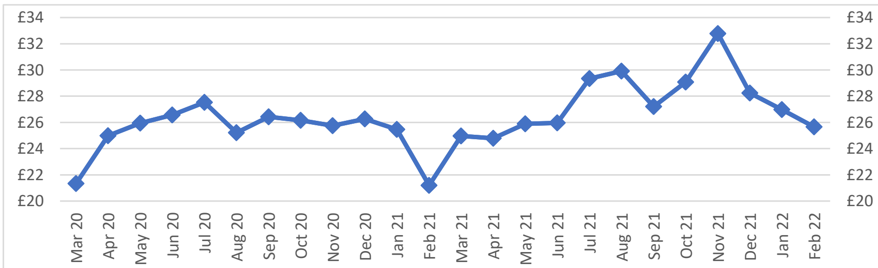
Sensitivity and Duration

	31-Mar-20	28-Feb-22
TP Sensitivity (£bn) [1]	-1.6	-1.8
TP Duration of scheme (years)	20	20

Note

1. Sensitivity is the impact of a +0.1% change in the discount rates on the TP basis

Gap between Self-Sufficiency and Technical Provisions (£bn)



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APPENDIX A - RAG rating definitions

IRMM

Self-sufficiency deficit as percentage of affordable risk capacity

Green	Less than 80%
Amber	Between 80% and 115%
Red	Greater than 115%

Future Service Cost

Ratio of future service cost to future service contribution being paid

Green	Up to 115% (c28% based on proposed post 1 April 2022 benefits)
Amber	115% to 125% (c28%-31%)
Red	Above 125% (c31%)

Deficit Recovery Contribution

1) Deficit contribution requirement over the remaining recovery period allowing for outperformance (0.25% pa from the 2021 Scheme Actuary review)
2) Deficit contribution requirement over a ten year recovery period with no allowance for outperformance

Green	If actual DRC payable is at least those required under both calculations 1 and 2 above
Amber	If the actual DRC payable is lower than that under calculation 1 or 2
Red	If the actual DRC payable is lower than that under both calculations 1 and 2

Total contribution

Green	If the total contribution requirement using DRC calculations 1 and 2 above is less than or equal to the total contribution being paid
Amber	If the total contribution requirement using DRC calculation 1 or 2 above is less than or equal to the total contribution being paid
Red	If the total contribution requirement using DRC calculations 1 and 2 above is greater than the total contribution being paid

Covenant

Green	"Strong", as assessed by the covenant advisor
Amber	"Strong" but on negative watch
Red	"Tending to Strong" or lower

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APPENDIX B - Metric definitions

Metric A

Affordable risk capacity less (self-sufficiency liability less Technical Provisions)

Green	Headroom > Asset transition and demographic risks
Amber	Asset transition risk < Headroom < Asset transition risk and demographic risks
Red	Headroom < Asset transition risk

Metric B

Affordable risk capacity less self-sufficiency deficit

Green	Headroom > Asset transition risk
Amber	0 < Headroom < Asset transition risk
Red	Headroom < 0

Metric C

Available risk capacity less self-sufficiency deficit

Green	Headroom > 'Value at risk'
Amber	Asset transition risk and demographic risks < Headroom < 'Value at risk'
Red	Headroom < Asset transition risk and demographic risks

Note

Asset and demographic transition risk, and available risk capacity, have not been updated since the valuation date

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APPENDIX C - Benefit changes not enacted and without enhanced covenant support measures

Technical Provisions Deficit

£6.3bn

Valuation date (31/03/2020) £18.4bn

Assumptions

	31-Mar-20	28-Feb-22
Pre-retirement discount rate	Gilts + 2%	Gilts + 1.8%
Post-retirement discount rate	Gilts + 1%	Gilts + 0.60%

Future Service Cost

40.7%

Valuation date	37.0%
Amount being paid	24.9%
Ratio FSC to amount being paid	163%

Deficit Recovery Contribution

Remaining recovery period 0.25% outperformance	**4.0%**
10 year recovery period No outperformance	**6.2%**
Valuation date	15.6% *
Amount being paid	6.3%

* The Schedule of Contributions includes contribution step-ups. This figure is an approximate single equivalent, taking future step-ups into account.

Total Contribution

Remaining recovery period 0.25% outperformance	**44.7%**
10 year recovery period No outperformance	**46.9%**
Valuation date	52.6%