Dear Alistair

**Closure of the 2018 Valuation and Next Steps for the 2020 Valuation**

Thank you for your letter of 11 September, providing your response on the Schedule of Contributions and Recovery Plan for the 2018 Valuation.

As you will be aware, the Trustee concluded discussions on the 2018 Valuation on 12 September, and we have since confirmed to members and employers that contribution rates of 9.6% and 21.1% will apply respectively from 1 October 2019 until October 2021, rising to 11.0% and 23.7% respectively thereafter, subject to the outcome of a 2020 valuation.

In the materials circulated to UUK for the SoC consultation, I spoke about the challenges that recent experience in the global and UK economies posed to the assessment of the sustainability of the long-term assumptions made earlier in the valuation process.

Those concerns remain front of mind for the Trustee, and have dominated recent discussions and communications with the Pensions Regulator (TPR). I have enclosed the most recent communication from TPR received by the Trustee, dated 11 September, which was received in advance of the board concluding the 2018 Valuation (see enclosure). We will be sharing this separately with the Joint Negotiating Committee (JNC).

That letter confirms that TPR does not anticipate carrying out any further investigations into the 2018 Valuation providing the Trustee’s decision-making rationale and monitoring and action framework is robustly explained.

The board had already been considering such a monitoring and action framework and has reviewed the FMP monitoring report to ensure it features metrics specifically intended to inform decisions on mitigating actions, along with tentative trigger threshold levels. We look forward to providing updates on these matters to UUK in the coming weeks and to the Employer Pensions Forum (EPF) when it next meets.
The board has also undertaken to have in place by 20 November 2019 a formal monitoring and action framework that has been informed by stakeholder engagement. Between now and 20 November the board agreed that a temporary monitoring and action framework would operate, under which the FMP metrics above will be monitored and should any of them breach the interim threshold levels, a board meeting will be called within five working days in order that the situation can be evaluated, and appropriate action decided.

I cannot over-emphasise the difficulties presented to the board’s decision making by developments in financial markets since the valuation. The trustee will want to keep very open channels of communication with UUK as we continue to monitor and attempt to interpret the relevant economic indicators.

The executive is currently preparing a draft of the formal monitoring and action framework for discussion at the board meeting on 10 October 2019, when the situation will be reviewed. Subject to the conditions at that date, we anticipate spending five to six weeks engaging with the stakeholders, with a commitment to finalising the framework at the 20 November board meeting. We are currently developing the timeline for this engagement in relation to the monitoring and action framework and will be in contact with your officials shortly.

We will also be writing separately to the JNC, which meets again on 24 October, to share the TPR letter and explain this position.

In addition to the monitoring and action framework, the Trustee will be advancing a number of work-streams, working collaboratively with UUK and employers (and engaging with the JNC), on the issues of the moratorium rule change and its successor, and to work through the detail of the debt monitoring and pari passu provisions for which employers have provided their indicative support. We are grateful to UUK for assembling a group of employer representatives who wish to engage with this technical work, and I am aware our officials are working together on this to begin these discussions.

Finally, on the 2018 Valuation, in your letter of 11 September you specifically raised the issue of the draft recovery plan referring to the next valuation taking place on 31 March 2020. The board was of the view that this would not be appropriate as it would fetter the Trustee’s discretion to call an earlier valuation should it need to. This letter confirms our commitment that the next valuation will be as at 31 March 2020 unless, due to a material deterioration in the funding position, the Trustee determines that an earlier valuation is required.

The Trustee is now turning its attention to initiating the 2020 Valuation, acknowledging that the JEP is expected to publish its second report in the coming weeks, and the stakeholders will wish to engage with the Trustee on matters raised in the JEP report thereafter which are likely to influence the outcome of the 2020 Valuation.

The board is clear that it considers the scheme to be close to the limit of risk that the Trustee is prepared to adopt in funding the scheme, and TPR has repeatedly confirmed their view that the approach for the technical provisions remains at the limit of what they consider to be compliant with legislative requirements for prudence. Given this current position, the board is mindful that any further meaningful deterioration in financial conditions would inevitably lead to significantly higher contribution rates, and could require more significant measures (such as changes to benefits or mutual structures), to be seriously considered by the stakeholders as part of the 2020 valuation.
As ever, we look forward to supporting the stakeholders in their discussions.

Yours sincerely

Bill Galvin
Group Chief Executive Officer

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