

THE FIRST UK BUS PENSION SCHEME

SUMMARY FUNDING STATEMENTS 2021 and 2022

The purpose of this statement is to provide you with an update on the funding position of the Defined Benefit Section of The First UK Bus Pension Scheme ('the Scheme') following the completion of the actuarial valuation last year.

Background

An in-depth financial review (or 'actuarial valuation') of the Scheme's finances is carried out at least once every three years. This compares the value of the Scheme's assets with the amount required to provide the benefits under different scenarios, including:

- On an 'ongoing basis', which assumes that, as intended, members will continue receiving benefits through the Scheme for the foreseeable future;
- On a 'full solvency' basis, which assumes the Scheme was wound-up on the date of the valuation. This notional scenario is prepared to comply with legal requirements.

The valuation

The most recent valuation was carried out as at 5 April 2021. It showed that on that date the Scheme's assets were worth £1,319 million and that:

- On an ongoing basis, the amount needed to provide all of the benefits built up by members (also known as the Scheme's 'Technical Provisions') was £1,793 million (i.e. a funding level of 74%);
- On a full solvency basis, the amount that would have been needed to secure all members' benefits through insurance policies was £2,134 million (i.e. a funding level of 62%).

The estimated amount needed on the full solvency basis is usually likely to be higher than the Scheme's assets for two key reasons:

- The Company intends to continue to support the Scheme for the foreseeable future, so the Scheme funding strategy agreed by the Trustee and the Company is focused on funding the Scheme on an ongoing basis; and
- The full solvency basis has to allow for the high price of insurance company annuity policies, which takes into account factors such as likely future administration costs and insurance company profit margins.

The previous Summary Funding Statement disclosed an estimated funding level on the ongoing basis of 72% as at 5 April 2020. The main reasons for the movement to the Scheme's funding position over the year were:

- An increase in the value of the Scheme's assets due to higher than assumed investment returns and contributions paid by the Company to reduce the deficit.
- Changes to the assumptions used. At each valuation the Trustee reviews the assumptions it uses in light of financial market movements, up to date research on how long people are expected to live and the experience the Scheme has seen between valuations.

Our funding plan

Following discussions in relation to the valuation and the sale of FirstGroup US businesses, the Trustee and the Company agreed a recovery plan in order to address the deficit on the ongoing basis. This included a significant one-off payment to the Scheme to significantly reduce the expected period until full funding is restored. The Company also agreed to extend the parent company guarantee already in place for a further two years until 2028.

The total contributions due under the recovery plan are as follows:

- Contributions of £2,750,000 per month from 6 April 2021 until 5 July 2021
- A contribution of £220,000,000 paid into the Scheme before 5 August 2021

In addition, the Trustee and Principal Employer have entered into an Agreement which means that following the 2024 valuation of the Scheme a contribution equal to the amount held in the Agreement (capped at the deficit on the ongoing basis at the time) will be paid to the Scheme. On 11 January 2022 the Agreement was valued at £95M.

These contributions, together with expected investment returns on the Scheme's assets, are intended to restore the ongoing funding level to 100% by 5 January 2027. They will be subject to review as part of the next full valuation of the Scheme, which is due to take place no later than as at 5 April 2024.

Annual update

The Trustee continues to regularly monitor the Scheme's funding position, and receives a formal update on an annual basis.

The most recent formal update, as at 5 April 2022, showed that the Scheme's funding level was estimated to be 90% on an ongoing basis. This is a significant improvement since the 2021 valuation.

The majority of this improvement was due to Company contribution, included a one-off contribution of £220,000,000 paid in July 2021. In addition, positive returns on the Scheme's assets have also helped to improve the funding position.

Further information

We must also tell you if there have been any payments to the sponsoring employers out of Scheme funds in the last twelve months. There have not. The Pensions Regulator can change the Scheme, give directions about working out its technical provisions or impose a schedule of contributions. We are pleased to say that to date it has not needed to use its powers in this way for your Scheme.

If you require any further information about the Scheme, please contact First Pensions on 0370 850 0712.