SUMMARY FUNDING STATEMENT 2019

Mitchells & Butlers Pension Plan
DB Section

This statement has been produced by the Plan's Trustee in order to:

1) Provide a summary of the results of the latest actuarial valuation.

2) Set out the Trustee's funding objectives for the Plan.

3) Outline the steps being taken to improve the funding of the Plan.

How does the Plan work?

The benefits of DB Section members are set out in the Plan's rules and are based on the member's final salary at retirement or earlier leaving, or on the member's salary at 12 March 2011, when the DB Section closed to future accrual. Benefits are paid to members from the Plan's assets. The Company pays contributions into the DB Section but member contributions ceased from March 2011.

As part of this statement, we need to tell you if the Pensions Regulator has used its powers in relation to the Plan over the last year, for example by changing the way future benefits build up, or amending the employer contribution rate. We are pleased to confirm that the Regulator has not used its powers in relation to the Plan over the last year. We can also confirm that there have not been any payments to the Company from the Plan in the previous 12 months.

What is an actuarial valuation? How is it used?

Periodically the Plan's Actuary assesses the financial position of the Plan by carrying out an actuarial valuation. The main purpose of the valuation is to help determine the contributions payable into the Plan. It also helps the Trustee to set the investment strategy for the Plan's assets.

An actuarial valuation must be carried out at least once every three years and an actuarial valuation has been completed as at 31 March 2019. The next triennial valuation is due on or before 31 March 2022.

As part of the valuation, the Actuary estimates the cost of providing the benefits earned in the Plan, taking into account members' life expectancy, the effects of future salary growth and price inflation. The Trustee's funding target (i.e. the value of assets which are needed to provide for all members' benefits) partly depends upon the anticipated returns from the Plan's assets. The Trustee decided to set the funding target prudently by assuming that the Plan makes investment returns in line with those achieved by investing in Government bonds (Gilts) plus a small extra amount (0.8% per annum) for the period to 31 March 2023.

The results of the Plan's valuation at 31 March 2019 and the previous funding update as at 31 March 2018 reported last year were:

	Funding update as at 31 March 2018 £ million	Actuarial valuation as at 31 March 2019 £ million
Assets held	1,856	1,910
Funding target	2,124	2,165
Shortfall	(268)	(255)
Funding level (%)	87%	88%

How does the Trustee intend to recover this funding shortfall?

The Trustee takes the financial strength of the Company into account when agreeing the contributions and recovery plan with the Company. It has therefore been agreed with the Company that the funding shortfall as at 31 March 2019 would be recovered within four years of the valuation date (the 'recovery period').

This is planned to be achieved by a combination of additional contributions by the Company (see below) and achieving additional returns from the assets held.

The Trustee and the Company have agreed rates of Company contributions to the DB Section of the Plan of £3,140,027 per month from 1 April 2019, increasing annually each subsequent 1 April in line with the annual rate of RPI (up to a maximum of 5% each year).

The Company has also granted an additional package of enhanced contribution and security arrangements for the Plan, the details of which are available in the full Report & Accounts.

How has the funding position changed during the period to 31 March 2019?

We previously told you that the funding shortfall was calculated at £268m as at 31 March 2018. At 31 March 2019 the funding shortfall was calculated to have reduced to £255m.
The improvement over 2018/19 was largely due to a combination of the contributions paid in by the Company, the investment returns on the Plan's assets and changes made to the assumptions used to value the liabilities in light of more recent experience data.

What is the current solvency position?

The following table shows the Actuary's estimate of the cost of an insurance company taking on the Plan's liabilities ('buying out' the Plan).

	31 March 2018 £ million	31 March 2019 £ million
Assets held	1,856	1,910
Funding target	2,643	2,394
Shortfall	(787)	(485)
Funding level (%)	70%	80%

What happens if the Company is unable to meet its commitment to the Plan?

There is a safety net for members of occupational pension schemes that have to wind up in the form of the Pension Protection Fund (PPF). To benefit from the PPF, the employers must generally be insolvent and the assets of the plan insufficient to secure the pensions covered by the PPF.

Briefly, the PPF will provide DB members and pensioners below normal pension age with 90% of their accrued pension, subject to a cap. This cap currently limits compensation to around £36,018 per annum at normal pension age. Pensioners over normal pension age and incapacity pensioners will receive 100% of their uncapped pension. However, in all cases, future increases to pensions in payment will be lower than the rates applicable under the Plan and there are some other differences compared with Plan benefits.

Further information and guidance is available on the PPF website at **www.ppf.co.uk**.
Alternatively you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.