The Right Honourable Frank Field MP
Chair of the House of Commons Work and Pensions Committee
Sent by email

15 May 2018

Dear Frank

Asda Group Pension Scheme ("Scheme") – Proposed Merger between Asda and Sainsbury’s

Thank you for your letter of 9 May 2018 regarding the proposed changes ("Proposals") to the Scheme. The Trustees are grateful for your interest. This response is on behalf of the Scheme Trustees in my capacity as Chair. Please see below our responses to the questions you have asked.

Please note that we are currently in negotiations with Walmart Inc. ("Walmart") regarding the Proposals and we are bound by confidentiality and non-disclosure agreements and the requirement to negotiate in good faith. We are therefore restricted as to what we can say, but have tried to answer your questions as best we can within these constraints.

1) Is it proposed that the direct sponsor of the Asda DB scheme will be the US parent company, Walmart Inc., or a UK-registered subsidiary?

The exact structure of the Proposals is still subject to the negotiations and the Trustees are keenly aware of the need to ensure that there is sufficiently strong access to the assets of Walmart to provide a good covenant for the Scheme going forward.

2) Do the trustees intend to impose conditions in return for their approval of the proposed deal, and if so what will these conditions be?

We are currently negotiating with Walmart regarding the Proposals. We are very mindful of the Pensions Regulator’s (TPR) guidance regarding Scheme Abandonment and we have, in conjunction with our advisers, been assessing our requirements for sufficient mitigation through the lens of TPR’s guidance whilst also considering the treatment of other stakeholders in this transaction and whether the Scheme is being treated equitably.

3) As you consider whether, and on what terms, to agree to the change of sponsor, what discussions are you having with the Pensions Regulator?

We are engaged with TPR. We proactively wrote to TPR prior to the Proposals becoming public, and since then have been in regular contact, including telephone conference calls and written contact. We are committed to maintaining a close engagement with TPR throughout this process and to keeping them up to date. We had a further meeting with Walmart and its advisers yesterday and are arranging a call with TPR for later this week.

4) Given that the scheme has been closed to new accruals since 2011 and is set to be separated from the Asda business, will the trustee board now seek to secure full funding of members’ benefits in perpetuity, for example through insurance buyout?

Under the current arrangements with Asda and Walmart it is contractually agreed that the Scheme will be fully funded on a “self-sufficiency” basis by no later than 2032. Currently the Scheme is expecting to reach this level earlier which is a key consideration for the Trustees in this process. The achievement of self-sufficiency would mean that the Scheme:

- would be unlikely to require further contributions from the employer; and
- could meet its obligations to beneficiaries by investing entirely in government bonds, with little chance of a funding deficit emerging.

Our focus in the negotiations is ensuring that benefits are met in perpetuity, covering all benefits included in the agreed self-sufficiency basis.
5) What proportion of the trustee board are company-nominated trustees?

The Trustee Board comprises 11 trustees, although two of these positions (company trustees) have recently become vacant. There are 2 independent trustees, 5 member nominated trustees and currently 2 company nominated trustees.

6) Are the company-nominated trustees themselves members of the Asda DB pension scheme?

Both company nominated trustees are deferred members of the Scheme. However, we are all aware of our duty as trustees to act impartially and in the best interests of all beneficiaries. Therefore, there is no practical or operational distinction between the roles of the company nominated trustees and the other trustees in relation to managing the Scheme.

Please contact me if you require any further information.

Yours sincerely

Richard Phillips
Chair of the Trustees of the Asda Group Pension Scheme