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Dear Sir,

**UK Performance Plan for Air Navigation Services – Stakeholder Consultation
Civil Aviation Authority Pension Scheme (“CAAPS” or the “Scheme”)**

I am writing on behalf of the Trustees (“Trustees”) of the Civil Aviation Authority Pension Scheme in response to the consultation document published in March 2011 entitled “UK Performance Plan for Air Navigation Services” (the “Consultation Document”).

As you are aware, the Scheme has two sections, the NATS Section, relating primarily to employees of NATS (predominantly NATS En Route Limited (“NERL”)) from the time of the separation of NATS from the CAA (the “Separation”), and the CAA Section, relating to employees of the Civil Aviation Authority (“CAA”) and the NATS pensioners and deferred pensioners at the time of the Separation.

During the course of the last 15 months, the Trustees completed the triennial actuarial valuation as at 31st December 2009 (the “Valuation”) of both Sections of the Scheme. The funding requirements of the NATS Section formed part of the extensive consultation process in respect of the NERL CP3 price control review and the agreement reached between the Trustees and NATS is reflected in the final determination. This is summarised in paragraphs 161 to 165 of the Consultation Document and I do not therefore propose to comment on this further.

The Trustees and the CAA have recently reached agreement regarding the outcome of the results of the Valuation in respect of the CAA Section. In reaching agreement with the CAA, a key consideration for the Trustees was the ability of the CAA to fund the liabilities of the CAA Section, including ongoing accrual for current employees. Given the size of the legacy liabilities associated with the NATS pensioners and deferred pensioners in relation to the size of the CAA, a key concern for the Trustees was the CAA's capability, if any event (such as further unpredicted improvements in longevity) adversely affected the funding of these liabilities, to make the contributions that might be necessary to restore the CAA Section to full funding.

Technical assumptions have historically been set on a prudent basis (as is now required by the Pensions Regulator), including holding a reserve for changes in mortality and contingencies in respect of NATS pensioners and deferred pensioners. Furthermore, the Trustees and the CAA have adopted a conservative investment policy, including a gilts-based investment portfolio in respect of liabilities for pensioners and deferred pensioners.

The funding position of the CAA Section has, however, deteriorated over time due to adverse market conditions and increased longevity assumptions. As acknowledged in paragraph 213, the mortality reserve established at Separation has now been eliminated due to subsequent improvements in longevity. As part of the Valuation discussions, the Trustees expressed their concern about the ability of the CAA to fund required increases in contributions to the CAA Section through the existing levy system, in particular those relating to NATS pensioners and deferred pensioners, and the strain that might be placed on the CAA's funding if any event (such as further unpredicted improvements in longevity) adversely affected the funding of these liabilities.

The CAA expressed its full confidence in its ability to satisfy its pension costs through i) the levy system and ii) the proposal under the National Performance Plan ("NPP"), described in the Consultation Document, whereby £6m per annum for each year of RP1 would be added to en-route charges to make a start in repairing the deterioration in funding that has occurred since Separation in respect of the NATS pensioners and deferred pensioners.

The arrangement under the NPP was critical to the Trustees' assessment of the ability of the CAA to continue to fund the CAA Section and enabled the Trustees, having taken professional advice, to agree the Valuation. The Trustees acknowledged that this arrangement would need to be reviewed when considering the 2012 Valuation. Any changes to the funding available to the CAA to satisfy its pension costs may affect the Trustees' perception of the covenant afforded by the CAA and require the Trustees to reassess the valuation and the funding plan for the CAA Section.

We would be happy to provide you with any additional information you may require.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N.J. Perry', written in a cursive style.

Mr N.J.Perry
Secretary to the Trustees of CAAPS