



Superannuation & Life Assurance Scheme Trustees' Short Report 2013-2014

CHAIRMAN'S STATEMENT

Dear Member

I have pleasure in presenting the Trustees' Annual Short Report which informs members of the key issues relating to the University of Aberdeen Superannuation and Life Assurance Scheme for the year ending 31 July 2014.

Specifically the Report is a shortened version of the full Trustees' Report and includes details of membership, the financial position of the Scheme and investment performance. It also incorporates the annual Scheme Summary Funding Statement which provides an indication of the Scheme's financial security. A copy of the full Trustees' Report is available on request from the Pensions Office in the Finance Section.

During the year the Trustees met on five occasions. The Scheme's assets are managed by Legal & General Investment Management and over the year the total value of the Scheme's assets increased from £107.6 million to £111.1 million. The Trustees regularly review the performance of the fund managers and will continue to do so.

The University continues to give assurance that it remains committed to the continuance of the Scheme.

Your pension benefits do not change as a result of investment performance, but are based on your service and pensionable salary. Any cost of those benefits in excess of your contributions is met by the University.

Included in this report are details of some external sources of useful information relating to pensions. Scheme specific information can be obtained from Suzanne Laing in the Pensions Office.

Dr Alistair Mair
Chairman of Trustees

University of Aberdeen Superannuation & Life Assurance Scheme

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Benefits

- The Scheme provides defined pension and lump sum benefits for members on retirement, or for their dependants on death before or after retirement.
- The University operates Pensions Plus which provides members with a more tax effective way of contributing towards the Scheme.

Pension Increases

All pensions in payment were increased with effect from 1 April 2014. In respect of benefits attributable to service to 31 July 2011, the increase was the higher of 3% or RPI and in respect of benefits attributable to service from 1 August 2011, the increase was the lower of CPI or 5%. All the figures are guaranteed by Scheme rules.

Membership

Any full or part time employee aged between 16 and 75 is eligible to join the Scheme. The membership of the Scheme is summarised in the following table:

The membership statistics are:-

	31 July 2014	31 July 2013
Active members	671	698
Pensioners	969	945
Deferred Members	660	638

Contributions

During the Scheme year, contributions were paid in accordance with Scheme Rules. The employee contribution rate is 7.05%, and the University's contribution rate is 17.7% of pensionable salaries plus the death-in-service premium.

Additional Voluntary Contributions

You may improve your benefits by paying Additional Voluntary Contributions (AVCs) to a money purchase AVC policy with Prudential.

Members with maturing AVC policy benefits can defer the purchase of an annuity to a date later than the date they take their main scheme benefits, although an annuity must be purchased by age 75. The Pensions Office can provide full details.

It is now also possible to effect, within certain limits, a Stakeholder Pension concurrently but it is recommended that Independent Financial Advice is taken when considering this option.

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Income and Expenditure

This is a short extract from the Annual Accounts: The full Trustees Report and Accounts are available on the University's pension website. www.abdn.ac.uk/staffnet/working-here/uaslas-210.php

	<u>2013/2014</u>	<u>2012/2013</u>
Net assets of Scheme at 1 August	107,559,120	92,482,500
<u>Income</u>	<u>2012/2013</u>	<u>2010/2011</u>
Members' Ordinary Contributions	45,165	66,951
Members' Scheme B AVCs	58,868	61,188
University Contributions	3,456,602	3,217,116
Transfer Values	74,111	188,078
Other Income	106,190	65,592
Total Income (A)	3,741,936	3,598,925
<u>Expenditure</u>	<u>2013/2014</u>	<u>2012/2013</u>
Pensions	3,614,101	3,435,957
Lump Sums	829,423	595,446
Transfer Values	888,459	503,097
Other benefits for leavers	43,118	15,114
Insurance premiums	100,424	93,600
Administration charges	290,349	273,962
Total Expenditure (B)	5,765,874	4,917,176
<u>Returns on Investments</u>	<u>2013/2014</u>	<u>2012/2013</u>
Change in market value of investments	5,665,058	16,532,729
Investment management expenses	(149,658)	(137,858)
Net returns on investments (C)	5,515,400	16,394,871
Net increase/(decrease) in fund over year (A minus B plus C)	3,491,462	15,076,620
Net assets of Scheme at 31 July	111,050,582	107,559,120

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Scheme Assets

The Trustees are obliged by law to manage the assets of the Scheme in such a way as to ensure they will be sufficient to meet the increasing liabilities now and in the future. The assets accrue in three principal ways: contributions from the members and the University, investment income and capital appreciation. The day-to-day management of the assets has been delegated to Legal & General Investment Management.

The Trustees have established a "Statement of Investment Principles" in accordance with the guidelines set by the Myners Code of UK institutional investment. This Code is a voluntary statement of best practice and is a set of investment principles for pension funds. It covers such key areas as decision-making procedures, the fund's objectives, asset allocation, adequate expert advice, fund managers' mandates, appropriate benchmarks and performance measurement and transparency of reporting.

The Trustees have procedures in place to review and update the Statement if appropriate, at least once a year. A copy of the full Statement of Investment Principles is available from the Pensions Office on request.

The assets of the Scheme are invested in an insurance policy with Legal & General Assurance (Pensions Management) Limited, part of the Legal & General Group, which is one of the largest financial institutions in the United Kingdom.

Legal & General's investment objective is to maintain the Scheme's distribution close to the benchmark and within the stated ranges.

Investment Strategy

One of the key duties of the Trustees is to set the ongoing investment strategy of the Scheme and ensure that it remains appropriate. It is important that a balance is set between retaining investment stability and long-term growth potential against taking unnecessary risk for short-term gain. To help the Trustees achieve this balance, they work closely with their professional investment managers who implement all day-to-day investment decisions, and monitor their performance on an ongoing basis.

The table below summarises the overall spread of investments.

	31 July 2014	31 July 2013
UK Equities	19.8	20.6
Overseas Equities	50.1	51.4
Corporate Bonds	15.2	14.4
Index Linked Bonds	14.9	13.6

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Auditors

The Income and Expenditure statement in this Short Report is an abbreviated version of the full Accounts of the Scheme. These form part of the formal Trustees' Report and the accounts were audited as required by the Regulations by KPMG, the appointed auditors.

Trustees & Advisers

The Trustees responsible for the Scheme at the end of the year were:-

Dr Alistair Mair	Independent Chairman
Mrs Caroline Inglis	University Secretary
Ms Irene Bews	Director of Finance
Prof Angela Black	University Court Nominated
Mrs Diane Massie	Elected Member Representative
vacant	Elected Member Representative

Appointment of Trustees

The arrangements for appointing membership representatives comply with the Member Nominated Trustee requirements of the Pensions Act 2004. The current member-nominated trustees have been elected to serve for the three year period to July 2016.

The specialist advisers appointed by the Trustees are:-

Actuary	Mr Jonathan Seed
Consultants	Xafinity Consulting
Administrators	Equinity Paymaster
Auditors	KPMG LLP
Investment Managers	Legal & General Investment Management
Legal Advisers	Pinsent Masons LLP
Bankers	Bank of Scotland PLC

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Nomination Forms

If you die in service there is a lump sum benefit of 3 times your salary at date of death, plus a return of contributions, plus interest. This payment is normally free of inheritance tax and is payable under the discretionary powers of the Trustees. You are recommended to make your wishes known to the Trustees by completing a Nomination Form which will give guidance to the Trustees on how this lump sum should be paid on death in service. The Forms are held in confidence and may be lodged in a sealed envelope. The Form can be revised from time to time if your circumstances change.

As the Trustees have now expanded the definition of "dependant" to cover partners (of either sex) a second Nomination Form, called the Potential Dependand Nomination Form, has been introduced. Details can be found in the members' booklet.

Both forms are available on the University's pension website <http://www.abdn.ac.uk/staffnet/working-here/uaslas-210.php>, or from the Pensions Office. It is important that these forms are kept up to date.

Disputes

There is a procedure for dealing with any dispute involving a member of the Scheme and the necessary forms are available from the Pensions Office in the Finance Section. The arbiter appointed to deal with the first stage of any dispute is Mrs Margaret Stevenson. There were no disputes during the Scheme year.

Auto Enrolment

Starting in October 2012, new regulations require every employer in the UK to automatically enrol the vast majority of their employees into a suitable pension arrangement. There are a number of requirements which must be met including scheme design and regulation.

This Scheme meets or exceeds the requirements and is therefore a "qualifying" scheme.

Members' Guide

A Guide for Members and a set of Factsheets are available on the University's pension website.

University of Aberdeen Superannuation and Life Assurance Scheme

Summary Funding Statement 31 July 2014

March 2015

Dear Member

The purpose of this Statement is to give you information about the funding of the Scheme. You do not need to do anything as a result of receiving this Statement.

The enclosed Frequently Asked Questions are intended to assist you in understanding the purpose of the Statement and the information provided within it.

The latest actuarial valuation

Your last Summary Funding Statement showed the results of the full formal valuation as at 31 July 2013. Since then, the Scheme Actuary has carried out an update of the valuation to 31 July 2014. This Summary Funding Statement includes information on the Scheme's funding position at this date.

The following table summarises the funding position of the Scheme as at 31 July 2014, assuming that the Scheme would continue to operate as a going concern and would not be wound up. The funding position at the date of the full valuation is also shown.

	Update 31 July 2014	Full valuation 31 July 2013
Value of Scheme assets	£ 110.6m	£ 107.3m
Value of Scheme liabilities ¹	£ 116.0m	£ 109.9m
Shortfall	£ 5.4m	£ 2.6m
Funding level	95%	98%

Change in funding position since the full valuation at 31 July 2013

The shortfall increased from £2.6m to £5.4m over the year to 31 July 2014.

The increase in the shortfall is mainly due to a change in economic conditions and market interest rates which have affected the assumptions used to value the liabilities. In addition, the returns on the Scheme assets over the period were lower than expected. These effects were partially offset by contributions paid by the University to reduce the shortfall.

¹ The value of the liabilities is an estimate, based on actuarial principles, of the assets needed to meet the Scheme's obligations to pay benefits due to members in respect of their service to the valuation date. Benefits payable include pensions currently in payment as well as pensions and lump sums payable in the future to members who have not yet retired and to member's dependants.

University of Aberdeen Superannuation and Life Assurance Scheme

Summary Funding Statement 31 July 2014

Removing the shortfall

Following the full formal valuation as at 31 July 2013, the University agreed to continue to pay contributions of 5.8% of members' pensionable salaries to 31 July 2017, with the aim of removing the shortfall.

These are on top of contributions of 11.7% of members' pensionable salaries paid by the University to meet the cost of benefit accrual for members' service after the valuation date and the expenses of running the Scheme.

Ongoing monitoring of the funding position

As can be seen from the results shown above, the funding positions can vary considerably from one year to the next due to variations in investment performance, and changes in economic conditions and market interest rates.

Members can be reassured that the Trustees, in association with their advisors, monitor the performance of the Scheme's assets and review the Scheme's funding position on a regular basis. In addition, the University remains committed to supporting the Scheme.

Winding up²

As required by legislation, as part of the formal valuation of the Scheme the Actuary assessed the funding position if the Scheme had been wound up as at 31 July 2013.

The following table summarises the position at that date, assuming that the Scheme had wound up. An update of that position to 31 July 2014 is also provided.

	Update 31 July 2014	Full valuation 31 July 2013
Value of Scheme assets	£ 110.6m	£ 107.3m
Value of winding up liabilities	£ 179.4m	£ 174.6m
Shortfall	£ 68.8m	£ 67.3m
Funding level	62%	61%

The shortfall is an estimate of the additional sum that would have been required from the University to ensure that all members' benefits could have been paid in full had the Scheme wound up on the effective date.

² This Summary Funding Statement is required by law to set out an estimate of the solvency position had the Scheme been wound up. This does not mean that the University is currently considering winding up the Scheme.

University of Aberdeen Superannuation and Life Assurance Scheme

Summary Funding Statement 31 July 2014

The Pensions Regulator

In certain circumstances the Pensions Regulator can direct how the value of the Scheme's liabilities must be calculated, can set the period for eliminating any funding shortfall, can specify the level of employer contributions to be paid (rather than leaving these issues to be determined by the Trustees) and has the power to modify the Scheme's future accrual of benefits.

No such circumstances have arisen.

Payments to the University

Money can only be paid back to the University from the Scheme in very limited circumstances such as when the Scheme's assets are higher than the cost of buying the benefits out with an insurance company.

There has not been any payment to the University out of Scheme funds since the date of the last Summary Funding Statement. To the Trustees' knowledge, there has never been a payment to the University out of Scheme funds.

University of Aberdeen Superannuation and Life Assurance Scheme

Frequently asked questions

The following questions and answers are intended to assist you in understanding the purpose of the Summary Funding Statement and the information provided within it.

Why are you providing a statement on the funding of the Scheme?

Members have always been able to request detailed information about the funding of the Scheme. Current legislation means that the Trustees must now automatically provide you with a summary of the funding position.

How often will I receive a Summary Funding Statement?

A statement similar to this statement will usually be provided on an annual basis to all Scheme members and beneficiaries.

What must this statement include?

The Summary Funding Statement has to contain a number of different pieces of information. These include:

- the funding position at the last formal valuation;
- the steps being taken to eliminate any funding shortfall;
- an estimate of the position if the Scheme had been 'wound up';
- an explanation of any change in the funding position from that disclosed in the Summary Funding Statement provided last year.

In addition, you have to be informed as to whether or not any payment has been made to the University of Aberdeen ('the University') from the Scheme since the date of the previous Summary Funding Statement.

How is the Scheme funded?

The Scheme pays retirement pensions and, following a member's death, may pay benefits to dependants. The money to provide these benefits comes from contributions paid to the Scheme. These contributions are then invested by the Trustees and held in a common fund from which the benefits are paid.

Active members of the Scheme currently contribute 7.05% of their pensionable salary (either directly or via Pension Plus). The University pays the balance of the cost of providing the benefits and the expenses of running the Scheme. Accordingly, the Scheme's ability to pay the benefits depends on the continuing financial support of the University.

University of Aberdeen Superannuation and Life Assurance Scheme

Frequently asked questions

What is the funding objective when setting the University's contribution rate?

The Pensions Act 2004 introduced a Statutory Funding Objective requiring pension plans to have sufficient assets to cover their 'technical provisions', namely the liabilities accrued to date. In plain English, this translates into an objective that the ongoing Scheme should have enough money at any time to:

- continue to pay existing retirement pensions to current pensioners;
- pay future lump sums and retirement pensions in respect of the accrued benefit entitlements of current employees (active members) and former employees (deferred members).

How are the University's contributions determined?

To determine how much money the Scheme requires from the University, the Trustees obtain valuations once every three years from the Scheme Actuary.

These compare the value of the benefits earned by the members to the valuation date with the value of the existing Scheme assets – to give the accrued funding position – along with assessing the estimated cost of future benefits that will be earned by the members under the Scheme.

In a valuation, assumptions have to be made such as expected investment returns on the Scheme's assets, how salaries might change, and how long members are expected to live. Inevitably, actual experience will vary from the previous assumptions made, and the assumptions about the future will be reassessed at each subsequent valuation. As a result, the level of required contributions will fluctuate over time.

What happens if the funding level is below the target?

If an actuarial valuation shows Scheme assets to be less than the accrued liabilities, the Trustees have to agree a Recovery Plan with the University that is aimed at eliminating the funding shortfall within an agreed timescale. This would usually entail the payment of extra contributions by the University (on top of those for future benefit accrual). Details of any Recovery Plan agreed between the Trustees and the University must be submitted to the Pensions Regulator.

Benefits will continue to be paid in full from the ongoing Scheme if the funding level is temporarily below target. However, the Trustees may reduce transfer values to allow for the funding position of the Scheme.

When is the next formal valuation of the Scheme?

The next formal actuarial valuation of the Scheme is due to be carried out as at 31 July 2016.

University of Aberdeen Superannuation and Life Assurance Scheme

Frequently asked questions

What happens if the Scheme were to be wound-up?

'Winding up' a pension scheme means terminating the scheme. In this circumstance, the Scheme's assets would be used to secure individual members' benefits with an insurance company.

If the Scheme were to wind up and, at that time, there were insufficient Scheme assets to enable accrued benefits to be fully secured, the University would be legally required to make good the balance of the cost.

However, if the University were then insolvent and unable to pay the full balance, not all members would receive the full amount of their benefits due under the Scheme. Accordingly, if the University becomes insolvent at some time in the future and triggers a winding-up of the Scheme, benefits could be cut back for some or all members.

To provide some 'safety net' for a pension plan winding up with insufficient assets at a time when the sponsoring employer is insolvent, the Government has established the Pension Protection Fund to ensure the provision of a minimum level of compensation.

Where can I get more information about the Pension Protection Fund?

More information is available from the Pension Protection Fund's website at www.pensionprotectionfund.org.uk or by writing to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

Why are the costs associated with winding up so high?

You will see from this Summary Funding Statement that the 31 July 2013 valuation and 31 July 2014 update show a 'shortfall' on winding-up which is significantly greater than the on-going 'shortfall' at the same date. This is because the estimated cost of securing the accrued benefits with an insurance company is significantly greater than the anticipated cost of paying benefits from the Scheme as a continuing entity.

Insurers are obliged to take a very cautious view of the future due to statutory solvency margin requirements and the fact that if they underestimate the true cost they cannot subsequently go back to the Trustees for extra funds; in addition, they need to make a profit. In contrast, whilst the Scheme continues, the Trustees can follow a more balanced and diversified investment strategy with the intention of reducing the overall cost, reflecting the continuing existence of the University and after taking into consideration its financial strength.

University of Aberdeen Superannuation and Life Assurance Scheme

Frequently asked questions

I have some questions about this statement, who can I contact?

Post: Pensions Office
Finance Department
University of Aberdeen
King's College
Aberdeen
AB24 3FX

Telephone: 01224 27 22 89

E-mail: pensions@abdn.ac.uk

Where can I get further information about the Scheme?

The following information relating to the ongoing management of the Scheme is available to you.

- The Statement of Funding Principles which sets out how the Scheme will be funded.
- The Schedule of Contributions which sets out how much money is being paid into the Scheme and when.
- The Recovery Plan which explains how the funding shortfall is being made up.
- The Statement of Investment Principles which sets out the principles applied to the investment of the Scheme assets.
- The Annual report and accounts which set out the Scheme's income and expenditure.
- The members' booklet, which explains the main features of the Scheme.
- The latest full Actuarial Valuation Report.
- The latest annual funding update report.

The above documents can be obtained by writing to the Pensions Office and are also available to download from: <https://www.abdn.ac.uk/finance/staff/pensions/>

Do I need to inform you of a change in my personal circumstances?

Yes, please help us to keep in touch with you by telling us if you change your address, your name or your marital status. To do so, you should write to the Pensions Office.

If for any reason you are thinking of leaving the Scheme you should consider seeking professional independent financial advice before making any decision.

