University of Aberdeen Superannuation and Life Assurance Scheme
Summary Funding Statement 2012-2013

June 2014

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 an update of the Scheme's funding position at 31 July 2012, two years after the date of the formal actuarial valuation of the Scheme at 31 July 2010.

Since then, the Scheme Actuary has undertaken a full formal valuation of the Scheme at 31 July 2013. This Summary Funding Statement includes information on the Scheme's funding position at 31 July 2013.

The following table summarises the funding position of the Scheme as at 31 July 2013, assuming that the Scheme would continue to operate as a going concern and would not be wound up. The funding positions at the previous full valuation and at the interim funding updates are also shown.

	Full valuation 31 July 2013	Update 31 July 2012	Update 31 July 2011	Full valuation 31 July 2010
Value of Scheme assets	£ 107.3m	£ 92.0m	£ 88.6m	£ 81.0m
Value of Scheme liabilities[1]	£ 109.9m	£ 130.5m	£ 108.7m	£ 96.8m
Shortfall	£ 2.6m	£ 38.5m	£ 20.1m	£ 15.8m
Funding level	98%	70%	82%	84%

Change in funding position since the previous full valuation at 31 July 2010

The shortfall decreased from £15.8m to £2.6m over the three year period between 31 July 2010 and 31 July 2013.

The decrease in the shortfall is mainly due to an increase in the value of the Scheme's assets of £26.3m over the three years to 31 July 2013. This increase in the fund value is due to a combination of factors including:

- better than expected investment performance resulting in a return on the fund of 12.0% per annum over the three year period;
- contributions paid to the fund including £1.65m paid by the University to reduce the shortfall.

The value of the Scheme's liabilities also increased, by £13.1m over the three year period. This increase in the value of the Scheme's liabilities is due to a combination of factors including changes in economic conditions and market interest rates affecting the assumptions used to value the liabilities.

As the increase in the value of the Scheme's liabilities (£13.1m) was less than the increase in the value of the Scheme's assets (£26.3m), the net result was an improvement in the overall funding position.

Removing the shortfall

With the aim of removing the remaining funding shortfall, the University agreed to continue to pay contributions of:

- 5.8% of members' pensionable salaries from 1 August 2013 to 31 July 2017.

These are on top of contributions of 11.7% of 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 up[2]

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. The position at the previous full valuation is also shown.

	31 July 2013	31 July 2010
Value of Scheme assets	£ 107.3m	£ 81.0m
Value of winding up liabilities	£ 174.6m	£ 155.8m
Shortfall	£ 67.3m	£ 74.8m
Funding level	61%	52%

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 31 July 2013.

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.

[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.

[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
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.

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 within ten working days of the Recovery Plan being agreed.

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.

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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 Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why are the costs associated with winding up so high?

You will see from this Summary Funding Statement that the 31 July 2013 valuation shows a 'shortfall' on winding-up which is significantly greater than the on-going 'shortfall'. 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 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.