University of Aberdeen Superannuation and Life Assurance Scheme

Actuarial Report as at 31 July 2021

29 November 2021

Contents

Disclaimers and compliance

This report has been commissioned by and is addressed to the Trustees of the University of Aberdeen Superannuation and Life Assurance Scheme. The intended users of this report are the Trustees. Its scope and purpose is to provide the Trustees with information on the development of the technical provisions of the University of Aberdeen Superannuation and Life Assurance Scheme over the period since the last formal actuarial valuation as at 31 July 2019. This report should be read in conjunction with the scheme funding report prepared for the Scheme's actuarial valuation as at 31 July 2019, dated 25 November 2020 and the Statement of Funding Principles dated 27 October 2020. I am providing this report under the terms of our engagement and in my capacity as Scheme Actuary.

It is noted that this report will be shared with the University. This report may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustees may rely on or make decisions based on this report (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This report has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This report is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

We have used the information that has supplied to us by the Scheme administrator, which we have accepted without independent checking.

This report and the work undertaken to produce it, are compliant with Technical Actuarial Standard (TAS) 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply.

01 **Introduction**

01.01 Background and purpose

This report provides information on the development of the technical provisions of the University of Aberdeen Superannuation and Life Assurance Scheme (the "Scheme") over the period since the last formal actuarial valuation as at 31 July 2019 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'.

This report provides an update of the funding position of the Scheme as at 31 July 2021 and is the second update report following the 31 July 2019 actuarial valuation

This report provides a comparison of how the value of the Scheme's assets compares to the value of its accrued liabilities (otherwise known as its technical provisions), using the scheme funding assumptions and so the information provided only relates to the progress made by the Scheme towards meeting the statutory funding objective.

Legislation requires the Trustees to make this report available to the University of Aberdeen ("the University") within seven days of them receiving it.

The report has been written on the basis that decisions (other than simply deciding not to bring forward the effective date of the next valuation) will not be based on its contents. Appropriate advice should be obtained before any follow up actions are taken.

02 **Approach adopted**

02.01 Asset data

We have obtained the current (bid) market valuation of the assets as at 31 July 2021 from investment managers and approximated the net current assets based on information provided by the Scheme's administrators.

We have made no allowance for any other net current liabilities. We have also made no allowance for the value of Additional Voluntary Contributions ("AVCs") held within the Scheme.

02.02 Liability data and calculation methodology

We have based our calculations on the technical provisions produced for the last formal actuarial valuation as at 31 July 2019, making an approximate allowance for the impact of changes in the financial assumptions since that date and making an allowance for membership experience (deaths, retirements, etc.) to be in line with the assumptions. Any members who are known to have transferred out of the Scheme have been removed from the liability calculations.

The results shown in section 3 are based on the same membership data as for the last formal actuarial valuation with an approximate adjustment for cash flows and overall changes in pensionable payroll. These details have been supplied to me by the Scheme's administrator.

A full summary of the membership data used for the valuation as at 31 July 2019 is provided in the report on that exercise dated 25 November 2020.

In 2020, the Chancellor launched a consultation on changing the RPI measure of inflation. In November 2020, the Chancellor of the Exchequer announced the response to the consultation. The response set out that RPI inflation will be aligned with CPIH inflation by no earlier than 2030. The assumptions underlying the funding valuation were set prior to this announcement and therefore make no specific allowance for its potential impact. However, it is something that is likely to need to be discussed as part of the next formal actuarial valuation.

02.03 Actuarial assumptions

The statement of funding principles dated 27 October 2020 sets out how the assumptions to calculate the technical provisions are to be derived.

The main financial assumptions we have used, based on market conditions as at 31 July 2021, are summarised in the table overleaf (together with the assumptions used at 31 July 2019 and 31 July 2020):

Approach adopted

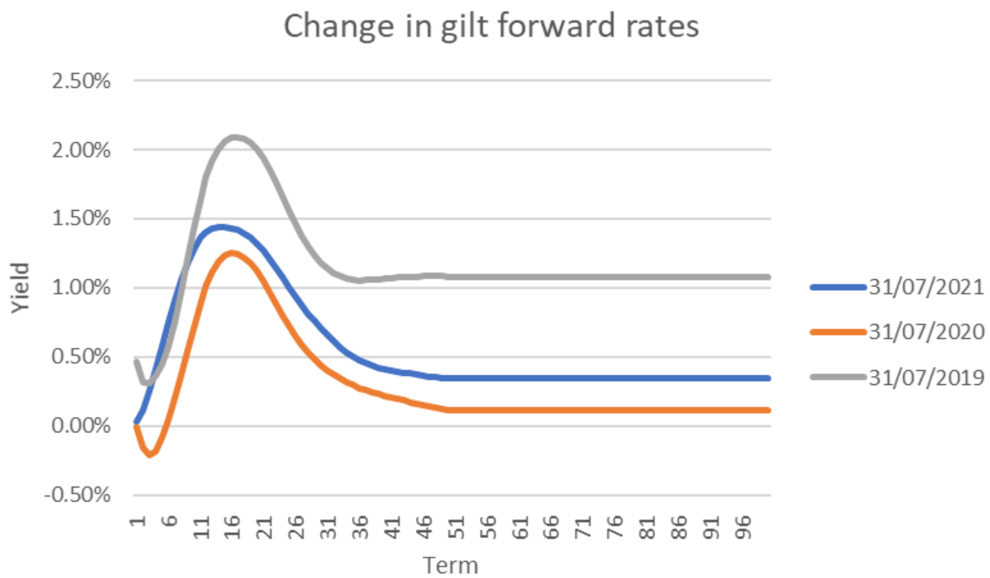
Funding assumptions (p.a.)	At 31 July 2019	At 31 July 2020	At 31 July 2021
Discount rate (past service)			
> before retirement	Bank of England gilt yield curve plus 2.75% p.a.		
> after retirement	Bank of England gilt yield curve plus 0.75% p.a.		
Discount rate (future service)	0.25% p.a. above past service discount rates		
Future retail price inflation	Risk First Gilt RPI curve less 0.25% p.a.		
Future consumer price inflation	RPI assumption less 0.85% p.a.		

Gilt yields at 31 July 2021 were lower than at 31 July 2019 resulting in an increase in the value of the liabilities since the 2019 valuation, however, yields have fallen since the 2020 update leading to a fall in the value of the liabilities since 31 July 2020.

The actual assumptions used are based on full gilt yield curves and inflation yield curves as described in the statement of funding principles. The graphs below show the yield curves at 31 July 2019, and at 31 July 2019 and 31 July 2020 for comparison.

Gilt forward yield curves

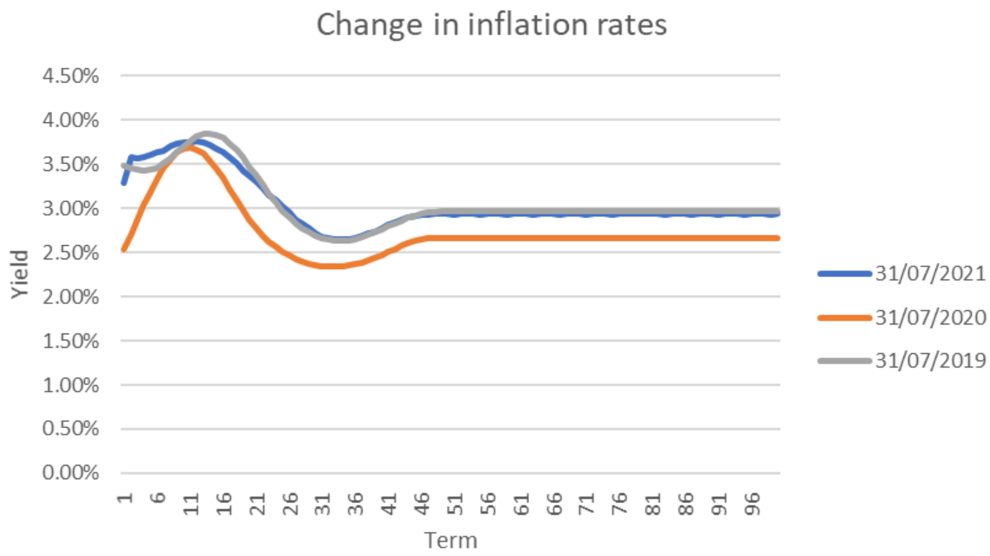
The graph below shows the gilt yield curves at 31 July 2021 and at 31 July 2019 and 31 July 2020. As can be seen, the gilt yield curve has decreased significantly, at all terms, since the 2019 valuation. This (in isolation) has served to increase the value placed on the liabilities. Given the liability hedging in place, this decrease in gilt yields will also have served to increase the asset value to a certain degree.



Inflation forward yield curves

The graph below shows the inflation yield curves at 31 July 2021 and at 31 July 2019 and 31 July 2020. As can be seen, the inflation yield curves at 31 July 2021 and 31 July 2019 are similar at most terms. Overall, inflation at 31 July 2021 was higher at lower terms leading to an increase in the value of the liabilities.

Approach adopted



Price inflation at 31 July 2021 was broadly unchanged to that as at 31 July 2019.

No explicit allowance for climate-related risk is made in the assumptions in the statement of funding principles, and therefore are not allowed for explicitly in the figures in this report.

03 Results

£3.3m

Deficit at 31 July 2021

98%

Funding level at 31 July 2021

03.01 Results of funding update

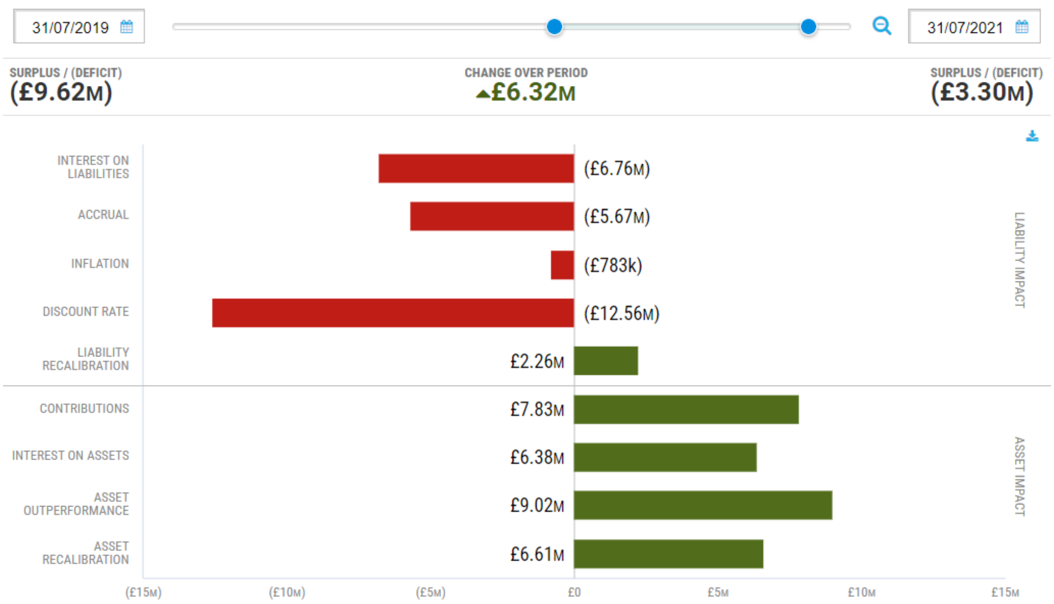
An estimate of the Scheme's funding level as at 31 July 2021 is given below with the results of the last formal actuarial valuation and last year's actuarial report shown for comparison.

Funding position (£000s)	At 31 July 2019	At 31 July 2020	At 31 July 2021
Technical Provisions (L)	173,580	189,351	184,377
Value of Assets (A)	163,955	170,131	181,111
Surplus/(Shortfall) (A – L)	(9,625)	(19,220)	(3,266)
Funding Level (A / L)	94.5%	89.8%	98.2%

03.02 Reconciliation with the results of the previous valuation

Since 31 July 2019, the Scheme's shortfall has decreased from c. £9.6m to c. £3.3m.

The main factors that have combined to produce this change in the position since the last formal actuarial valuation are shown below:



The most significant influences on the funding position have been as follows:

> The changes in financial conditions underlying the actuarial assumptions used to value the liabilities have placed a significantly higher value on the liabilities and hence have increased the deficit.

> Returns on the Scheme's investments were higher than expected, which served to offset the increase in liabilities.

> Contributions paid by the University acted to reduce the Scheme's deficit.

- > Actual inflation over the period has been lower than assumed as at 31 July 2019 which has served to reduce the liabilities

The Trustees should note that the results of the approximate calculations may differ from the actual position disclosed if we were to carry out more detailed calculations. However, we consider the approach adopted to be adequate for the purposes of assessing the progression of the Scheme's funding level since the last formal actuarial valuation.

The following table provides a definition of the terms included in the chart on the previous page.

Item	**Red means**	**Green means**
Interest on liabilities	Reflects the increase in liabilities due to interest. Will always be red.	N/A
Accrual of benefits	Liabilities increasing due to additional pensionable service of active members. Not relevant for schemes which are closed to accrual. Will always be red.	N/A
Inflation	Expected long term inflation higher than at the start date.	Expected long term inflation lower than at the start date.
Discount Rate	Long term interest rates lower than at the start date.	Long term interest rates higher than at the start date.
Liability Experience	Arises after a re-calibration. Overall experience worse than expected at last re-calibration date. For example, pensioners living longer than expected or an increase in actual benefits paid due to actual inflation having been higher than had been expected or if total benefit payments have been lower than expected.	Arises after a re-calibration. Overall experience better than expected at last re-calibration date. For example, due to lots of members having transferred out or actual inflation since the last re-calibration date having been lower than had been expected or if total benefit payments have been higher than expected.
Contributions	N/A	Increase in assets due to contributions paid since start date.
Asset return	Asset values (modelled by Radar) have fallen since the start date.	Asset values (modelled by Radar) have increased since the start date.
Asset experience	Only exists after re-calibration. Actual asset returns have been lower than expected in Radar's projection. Actual benefit payments have been higher than expected.	Only exists after re-calibration. Actual asset returns have been higher than expected in Radar's projection. Actual benefit payments have been lower than expected.

04 **Addressing the deficit**

£6.9m

Total contributions agreed to be paid by the University to clear the deficit over a period of 9 years and 6 months

04.01 Progression of the Recovery Plan

As part of the 31 July 2019 valuation, the Trustees and University agreed a Recovery Plan to clear the funding deficit by 31 January 2029. The improvement in funding position is such that the Recovery Plan remains on track to clear the deficit by that date.

The Trustees should consider what, if any, action they should take to ensure that their funding objective continues to be met. Possible actions that the Trustees might take include:

> continuing to monitor the situation, with a view to assessing the funding position at the next full valuation and, if necessary, implementing a revised Recovery Plan at that time, or

> bringing forward the effective date of the next valuation.

In deciding what, if any, action to take, the Trustees should consider the strength of the University covenant, the affordability of the contributions and the change in funding position from 31 July 2019 to date of this report.

The above are only my initial comments and appropriate advice should be obtained before any follow up actions are taken following receipt of this report.

04.02 Recovery Plan

Given that this report identifies an improvement in the funding position, with the Recovery Plan remaining on track to clear the deficit within the agreed timescales, we do not suggest that the Trustees revisit the Recovery Plan unless they have reason to believe the University covenant has deteriorated materially.

In any event, the Recovery Plan will be due for formal review as part of the next full actuarial valuation of the Scheme, which is to have an effective date no later than 31 July 2022.

05 **Formal reassessment of funding**

31 July 2022

Next formal valuation due

The next formal actuarial valuation of the Scheme is due no later than 31 July 2022 when we will provide further details of how the Scheme's funding level has developed.

Signature

Date

29 November 2021

Name

Steven Scott
Scheme Actuary

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

XPS Pensions
Scotia House
Castle Business Park
Stirling
FK9 4TZ

Employer

XPS Pensions Limited

Contact us

xpsgroup.com