

Appendix C: Statement of Funding Principles

Introduction

This statement has been prepared by the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme ("the Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, David Gordon. The Trustees have consulted the University of Aberdeen ("the University") in preparing this statement.

This statement covers the Scheme's statutory funding objective, the principles used in determining that objective, and the policy for securing that it is met. It contains other information required under the Act, and applies to the actuarial valuation as at 31 July 2010.

Statutory funding objective

The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions and this statement sets out the Trustees' policy for securing that this objective is met.

Method and assumptions

The Trustees having consulted the University have decided that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective Pensionable Salary increases for those members in active service at that date i.e. the accrued liabilities. This method of calculating technical provisions is defined in the professional actuarial guidance GN26: pension fund terminology as the projected unit method. The contribution rate in respect of the cost of accruing benefits under this method will remain stable provided that the overall membership profile remains stable.

The Trustees, having consulted the University, have further decided that:

- the discount rate used to calculate the capital value of future cashflows will be based on a prudent estimate of the long term return expected on the Scheme's assets. At the 2010 valuation the Trustees determined this by including a margin over index-linked gilts to allow for a prudent level of asset outperformance over a risk free rate.
- the future Pensionable Salary increase assumption for active members will be taken as price inflation plus a margin to be determined after consultation with the University at each valuation.
- future retail price inflation (RPI) will be set by considering the market expectation of future inflation levels. Such expectations are derived by reference to the Bank of England's implied long term inflation statistics appropriate to the term of the liabilities. In addition, an allowance could be made for the 'inflation risk premium'.
- consumer price inflation (CPI) will be set with reference to the retail price inflation (RPI) assumption, adjusting to allow for the different methodologies for calculating the indices, and differences in the goods and services covered.

- the RPI and CPI price inflation assumptions will be used as the basis for determining the pension increase and revaluation assumption, after making suitable allowance for any minimum or maximum increase limits or other features of the Scheme's pension increase policies.
- demographic assumptions will have regard to an analysis of recent changes in the Scheme's membership and those of other schemes with a similar profile and views about how these may change in future.

Taken together, the assumptions derived as described above are prudent given the current investment allocation of the Scheme, and are consistent with the Trustees' desired confidence that assets equal to the technical provisions will prove adequate to meet accrued benefits as they fall due without the need for further contributions from the University.

The Trustees, after consulting with the University, have agreed to adopt the same methodology and assumptions to determine the cost of ongoing benefit accrual in respect of active members as for determining the technical provisions.

Discretionary benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustees and/or the University, the principal details of which are set out below:

- Under Part V, Rule 3.4.3 (i), members aged over 60 who retire from the University with its consent with more than five years Pensionable Service may do so with no actuarial reduction being applied. The University will pay special contributions to meet the cost of waiving this actuarial reduction.
- There are a number of further discretions that enable members to convert their benefit from one form into another, but these do not have a material impact on the determination of the technical provisions.

Assumptions as at 31 July 2010

The actuarial assumptions are shown in the appendix to this document.

Expenses

Investment management expenses are assumed to be met out of future investment returns. The valuation discount rate is therefore net of such costs.

Administrative and other non-investment expenses are included within the ongoing contribution rate. An allowance for Pension Protection Fund and other statutory levies is also included within the ongoing contribution rate. The University meets the costs of life assurance premiums in addition.

Assets

The assets are taken into account at their market value at the valuation date excluding money purchase AVC funds. The economic assumptions are set by reference to market conditions at the valuation date, for consistency with the asset valuation.

Eliminating a shortfall

The Trustees having consulted the University have decided that any shortfall of funds below the statutory funding objective should be made good as quickly as is reasonable, taking into account the size of the shortfall and the overall financial position of the Scheme and the University.

The shortfall contributions are assessed using the technical provisions basis, together with an allowance for additional investment returns over the recovery period.

In order to support the Recovery Plan, The Trustees are working with the University to put in place a contingent asset that would become available to the Scheme in the event of a wind-up, or a material adverse effect on the ability of the University to meet its obligations to the Scheme.

Frequency of actuarial valuations

Each actuarial valuation should be made no more than three years after the preceding one. As at each 31 July between valuations the scheme actuary will provide the Trustees with an estimate of the up-to-date financial position of the Scheme relative to the statutory funding objective.

The Trustees recognise that there is likely to be short-term volatility between the value of the assets and the technical provisions, and the updates provided by the scheme actuary will not normally lead to changes in the required contributions ahead of the next valuation unless, after discussion, the Trustees and University agree upon them.

The Trustees, after having considered the scheme actuary's opinion, may call for a valuation if they are of the opinion that events have made it inappropriate to continue to rely upon the results of the previous valuation. The Trustees may wish to consider doing so

- following a request from the University
- if there is a significant fall in the value of the assets
- if there is any event which might have a significant effect upon the University covenant
- if there is a significant change in the membership for any reason.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the University or a member of the Scheme to contribute to the assets held by the Scheme.

Paying funding surpluses to the University

The Rules do not include provision for the Trustees to make payments to the University out of funds held unless a surplus exists following the winding up of the Scheme.

Cash equivalent transfer value calculations and policy on reduction

The Trustees will ask the scheme actuary to advise it at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values to members without adversely affecting the

security of the benefits of other members and beneficiaries. The Trustees' policy is to reduce cash equivalent transfer values paid to members if the scheme actuary advises that the assets are not sufficient to provide cash equivalent transfer values in full to all members, on the method and assumptions adopted for that purpose.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustees either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Pensions Regulator has
 - used its powers to modify future accrual of the Scheme,
 - directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the statutory funding objective is to be remedied, or
 - imposed a schedule of contributions.

The Trustees may also elect to review, and if necessary revise, this statement at other times.

Date of preparation of statement: 30 March 2011

Signed on behalf of the University:

Signed on behalf of the Trustees:

Signature: [Handwritten Signature]

Signature: [Handwritten Signature]

Print name: IRALIE BUIS

Print name: BRIAN PATERSON

Position: DIRECTOR OF FINANCE

Position: TRUSTEE

Date: 30.03.11

Date: 31/03/11

Appendix to the statement of funding principles

Actuarial assumptions for the 31 July 2010 valuation

This appendix details the financial and statistical assumptions that are used to calculate the technical provisions for the purposes of the 31 July 2010 actuarial valuation of the Scheme.

Financial assumptions as at 31 July 2010

The Trustees, having taken the advice of the Scheme Actuary and consulted the University, have adopted assumptions for the valuation as at 31 July 2010. These assumptions are as follows.

Financial assumptions as at 31 July 2010	Real % per annum	Nominal % per annum
Discount rate	2.7	5.8
Price inflation (RPI)	-	3.1
Price inflation (CPI)	(0.5)	2.6
Final Salary Benefits		
Pensionable Salary increases ¹	1.5	4.6
Increases to pensions in deferment	(0.5)	2.6
Pension increases	0.2	3.3
CARE Benefits		
Increases to pre-retirement pensions	(0.6)	2.5
Pension increases	(0.5)	2.6

1. For the first three years salary increases of 2.0% pa have been assumed. After three years a long term assumption of 1.0% pa real has been assumed.

Statistical assumptions as at 31 July 2010

The statistical assumptions set out in this appendix are:

- Mortality
- In service statistical assumptions
- Proportion married and age differences of members and dependants
- Normal retirement
- Commutation

Mortality

Mortality is assumed to follow the standard "S1" all pensioners table with a 105% multiplier for males and 100% multiplier for females, based on amounts, projected to the valuation date, using medium cohort improvements. For each individual, the set of mortality rates used is based on the individual's year of birth.

Future improvements in post-retirement mortality rates are anticipated by allowing for the 2009 CMI projection model with long term improvement trend of 1.25% per annum.

In service statistical assumptions

Age	Withdrawal rate		Ill-health retirement		Mortality rates	
	Men	Women	Men	Women	Men	Women
25	90	125	0.3	0.5	0.4	0.3
30	66	105	0.4	1.2	0.5	0.5
35	46	80	1.1	2.1	0.7	1.0
40	27	55	2.0	3.0	1.2	1.8
45	12	30	3.5	4.6	1.9	2.6
50	-	10	6.5	8.7	2.9	3.5
55	-	-	14.1	16.8	4.0	4.0
60	-	-	29.5	33.9	5.8	4.6

Rates are per 1,000 members per year at each age

Proportion married and age differences of members and dependants

The proportion of members assumed to leave dependants eligible for pensions is 90% of males and females at retirement.

Males are assumed to be three years older than their partners and females are assumed to be three years younger than their partners.

Normal retirement

Employees and deferred pensioners who joined the Scheme after 31 July 1994 are assumed to retire at age 65.

Employees in Pensionable Service on 31 July 1994 are assumed to retire at age 62 with unreduced benefits (with the exception of males in this category whose benefits derived from Pensionable Service completed before 17 May 1990 are reduced for early payment).

Deferred pensioners with Pensionable Service over the period 17 May 1990 to 31 July 1994 are assumed to retire at age 60 with unreduced benefits (with the exception of males in this category whose benefits derived from Pensionable Service completed before 17 May 1990 are reduced for early payment).

Deferred pensioners whose Pensionable Service ceased before 17 May 1990 are assumed to retire at age 60 (females) or 65 (males).

Commutation

10% of the member's lifetime pension is assumed to be commuted for an additional lump sum at retirement, based on the Scheme's commutation rates.