Queen Mary University of London

Pension Scheme Update

Outcome requested:	Finance & Investment Committee is asked to **note** the following update in relation to our pension schemes: • Employer costs of the pension schemes • Current backlog pension deficits • The latest valuations of USS and SAUL.
Executive Summary:	University staff are members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme. We also operate a closed scheme for the non-teaching staff of the London Hospital and St Bartholomew's hospital medical college prior to their merger with the University. Following the implementation of FRS102 our financial statements include the backlog pension deficit of the USS and SAUL pension schemes. In summary: Employer pension costs increased from £25.2m during 2015/16 to £28.7m in 2016/17. This was mainly attributable to the increase in employer pension contribution rates for the SAUL (13-16%) and USS (16-18%) schemes from April 2016. Our backlog pension liabilities reduced from £43.5m on the 31st July 2016 to £39.5m at the 31st July 2017, our cash contribution to this reduction (paid via the higher contribution rates detailed above) was £3.6m. Both USS and SAUL had tri-annual valuations in March 2017 and are required to have agreement to the valuation and documentation submitted to the pension regulator by June 2018. Both schemes have indicated that the current benefits are not affordable with the current employer and employee contribution rates as the increased cost of the future accrual is not being met. We understand that further a communication to employers is imminent from SAUL advising the communication and engagement plan to share the preliminary findings and finalise the valuation. USS Trustees are consulting with Universities UK (on behalf of all USS employers) on technical provisions and the Statement of Funding Principles. We are preparing briefings for QMSE and Council members to enable us to form an institutional response to the consultation by 29th September 2017.

QMUL Strategy:	6.1 Achieve enhanced investment in resources and facilities, for the benefit of students and staff, with an appropriate balance of contributions from across all components of QMUL
Internal/External regulatory/statutory reference points:	Statutory requirements, risk management
Strategic Risks:	11. Sustainable income streams for activities 12. Cost control, VFM and expenditure
Equality Impact Assessment:	Not required
Subject to prior and onward consideration by:	QMSE 12September 2017
Confidential paper under FOIA/DPA	No
Timing:	N/A
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Date:	8 September 2017
Senior Management/External Sponsor	Laura Gibbs Chief Operating Officer

QMUL Pension Schemes

University staff are members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme.

The figures included in this paper have been obtained from the first draft financial statements which are subject to final internal review and external audit.

The latest position of the USS and SAUL valuations are detailed in this paper, however we expect further communications from both schemes imminently. A separate pension briefing has been arranged for Council members on 21st September 2017 particularly to discuss the USS consultation with Universities UK (on behalf of all employers participating in USS) on the proposed assumptions for the scheme's technical provisions and Statement of Funding Principles.

1. 2016/17 Pension costs and rates

A summary of our employer pension contributions paid and the current rates is detailed below:

Pension Contribution Costs	**Cost 2016-17 £m**	**Cost 2015-16 £m**	**Current Rate %**
Contribution paid to USS	22.5	19.7	18
Contribution paid to SAUL	3.9	3.3	16
Contribution to paid NHS	2.3	2.2	14.3
Total	**28.7**	**25.2**	

There were no changes to the employer contribution rates during 2016-17, however the USS and SAUL employer contribution rates increased in April 2016 from 16-18% and 13-16% respectively. £3.6m of the contributions paid in 2016/17 related to USS & SAUL deficit recovery plans.

2. Pension scheme liabilities

The pension scheme liabilities shown on our balance sheet are in respect of:

- All liabilities in respect of the closed London Hospital and St Bartholomew's Hospital Medical College.
- The backlog deficit of the USS scheme
- The backlog deficit of the SAUL scheme.

No liability is required for the NHS pension scheme as this is an unfunded public service scheme.

Balance sheet Pension Liabilities	31st July 2015 £k	31st July 2016 £k	31st July 2017 £k
LHMC	161	414	252
SAUL		2,165	607
USS	38,564	40,940	38,630
Total pension liability	**38,725**	**43,519**	**39,489**

The change in provision is charged / credited to the consolidation statement of comprehensive income and expenditure

	2014/15 £k	2015/16 £k	2016/17 £k
(Charge) / credit to the Consolidated statement of comprehensive income & expenditure	**(18,825)**	**(4,794)**	**4,030**

As changes to the valuation of the backlog pension liabilities are accounted for through the consolidated statement of comprehensive income and expenditure, this can have a material impact on the volatility of the university group surplus and will generally not be known until the year end.

3. Latest pension scheme valuations

Both USS and SAUL had tri-annual valuations in March 2017 and are required to have agreement to the valuation and documentation submitted to the pension regulator by June 2018.

SAUL

The previous actuarial valuation in March 2014 saw SAUL 88% funded with a deficit of £310m, this lead to changes to the benefits of the scheme and an increase in employer contribution rates.

SAUL has not yet communicated the preliminary findings of their latest valuation, but have indicated that we are likely to have a deficit and contribution strain as the full cost of future accrual is not being met. To date they have undertaken an initial assessment of the employer covenant and assessed this as ‘tending to strong’, stating if necessary employers would be able to increase contributions, (they are undertaking further work to determine what is affordable). The valuation preliminary findings are expected to be agreed by the SAUL Trustee at the end of September. We understand that further a communication to employers is imminent advising the communication and engagement plan to share the preliminary findings and finalise the valuation.

USS

The USS 2014 valuation revealed a £13bn deficit, however following increases to employee and employer contributions and changes to the benefits of the scheme the deficit was reduced to £5.3bn (89% funded at 31st March 2014).

The USS Trustee’s proposed approach to assumptions for the 2017 valuation is more optimistic than the approach adopted in 2014, this implies more reliance being placed on the employer covenant (i.e. greater risk). On this basis USS faces a deficit of £5.1bn (If the same assumptions were used as at the 2014 valuation the deficit would have been £8.5bn) and the cost of future benefits has increased by a third at the valuation date.

This means that to maintain the current benefit package for future accrual, assuming deficit contributions remain the same, total contribution levels would need to increase by 6.6% of payroll.

Universities UK have indicated that the majority of employers are unwilling to pay higher contributions. Unless employer and potentially member contributions rise, or risk levels are increased even further, then a significant reduction in DB benefits will be required. UUK does not believe that further increasing risk is likely to be an acceptable outcome for employees, the USS trustee or for the Pensions Regulator.

The USS Trustee's technical consultation with Universities UK (on behalf of all employers) is currently in progress. A verbal update in relation to our QMSE and Council briefing and subsequent institutional response will be provided to Finance & Investment Committee.

Joanne Jones
Finance Director
8 September 2017