Queen Mary
University of London

Pension Scheme Update 2018/19

Outcome requested:	Finance & Investment Committee is invited to **note** the following update in relation to our pension schemes: • Employer costs of the pension schemes • Current backlog pension deficits • An update of the impact of the latest valuations of the Universities Superannuation Scheme (USS), the NHS scheme and the London Hospital and St Bartholomew's Hospital Medical College (LHMC).
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. In summary: Employer pension costs increased to £32.1m from £30.3m in 2017/18, an increase of 5.9%. £0.7m of this increase related directly to the increase in employers' contributions to the USS Scheme in April 2019 from 18.0% to 19.5% required following the 2017 valuation. The employer contribution for the NHS scheme also increased from 14.4% to 16.2% in April 2019. Overall our backlog pension liabilities increased from £37.6m in July 2018 to £106.7m at the 31st July 2019. This is predominantly driven by the outcome of the 2017 USS pension valuation. At the 31st July 2019, the 2017 USS valuation had concluded, but a 2018 valuation was in progress to consider the latest market position and the conclusions of the JEP report. Although the 2018 valuation has now concluded this was not the case at 31st July 2019, therefore the USS backlog deficit included in the financial 2018-19 statements is based on the 2017 valuation, however we shall disclose a post balance sheet event based on a new deficit calculation based on the 2018 recovery plan, our current estimate of this will reduce the deficit by approximately £44m. In addition to changes to contribution rates and the value of the backlog deficit, the trustees are also seeking remedies to maintain the strength of the employer covenant, including enhanced monitoring, pari passu for any new secured debt and no departure from the scheme. These proposed changes were

	discussed at Council in July 2019 as part of the 2018 consultation and our response submitted to UUK.
QMUL Strategy: strategic aim reference and sub-strategies [e.g., SA1.1]	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:	
Not required	Not required
Subject to prior and onward consideration by:	SET September 2019, FIC September 2019
Confidential paper under FOIA/DPA	No
Timing:	N/A
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Date:	17 September 2019
Senior Management/External Sponsor	Joanne Jones, Director of Finance & Resources

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.

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.

The figures included in this paper have been obtained from the first draft 2018/19 financial statements which are subject to final internal review and external audit.

2018/19 Pension costs and rates

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

Pension Contribution Costs	**Cost 2018/19**	**Cost 2017/18**	**Current Rate %**
Contribution paid to USS[1]	25.0	23.7	19.5
Contribution paid to SAUL	4.4	4.2	16.0
Contribution to paid NHS[2]	2.6	2.4	16.2
Total	**32.1**	**30.3**	

1 The employer contribution rate to the USS Scheme increased in April 2019 to 19.5% from 18.0%, costing an additional £0.7m in 2018/19.

2 The employer contribution rate to the NHS Scheme increased from 14.4% to 20.7% in April 2019, however the government agreed to underwrite this increased cost fully for NHS employers and in part for other employers. This resulted in an increase in QM contribution rate from 14.4% to 16.2%, costing an additional £0.1m in 2018/19.

There were no changes to the employer contribution rate to the SAUL scheme.

Further employer pension cost increases

As the 2018 valuation has now been finalised the employer contribution rate will increase to 21.1% from 1st October 2019 and to 23.7% from the 1st October 2021. However, USS has agreed that a new valuation will be carried out in 2020 to incorporate the JEP Stage 2 recommendations, allowing a much needed informed debate about the long-term sustainability of the pension scheme.

We have not received confirmation of the employer contribution rate required for the NHS scheme beyond April 2020.

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 (currently zero)

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

Balance sheet Pension Liabilities £m	**31st July 2019 £m**	31st July 2018 £m	31st July 2017 £m
LHMC	**0.1**	0.1	0.3
SAUL	**0.0**	0.0	0.6
USS	**106.6**	37.5	38.6
Total pension liability	**106.7**	37.6	39.5
(Charge)/credit to Consolidated Statement of Comprehensive Income and Expenditure Statement	**69.2**	1.9	4.0

As changes to the valuation of the backlog pension liabilities are accounted for through the consolidated statement of comprehensive income and expenditure, this has had a material impact on the 2018/19 reported university group surplus.

As the 2018 USS valuation has now concluded our 2018-19 financial statements will include commentary of a post balance sheet to reflect a backlog deficit calculation based on the 2018 recovery plan. We currently anticipate this will reduce the USS deficit by £44m to £62.7m during 2019-20.

3. Latest pension scheme valuations

Both USS and SAUL had tri-annual valuations in March 2017 and were required to have agreement to the valuation and documentation submitted to the pension regulator by June 2018. USS has now concluded the 2018 valuation. The LHMC 2018 valuation is also in progress and the assumptions for this valuation and latest market conditions were taken into account in finalising the July 2019 liability position, this has not materially changed the liability from the previous year.

SAUL

There were no updates to the SAUL scheme during 2018/19, and the 2017 valuation and employers' contributions remained in effect throughout the year.

The last triennial valuation at 31st March 2017 showed that the previous deficit had been eliminated and the scheme was in surplus by £56m (on total liabilities of £3,149m). The scheme was 102% fully funded (97% 2014 valuation). It was noted that although contributions from employers and employees being less than the cost of benefits being built up in the future, this was deemed manageable in the short term. It was agreed at the 2014 valuation that the employer contribution of 16% would remain in place until at least 1st March 2020, no further benefit change or contribution increase was required at the 2017 valuation, however the Trustee has been requested to look at whether a review of or change to the investment strategy approach could address the contribution strain and that this work would be undertaken prior to the 2020 valuation.

USS

The triennial valuation at 31st March 2017 showed a scheme deficit of £7.5bn (March 2014 £5.3bn).

Following the failure to conclude the 2017 valuation, increased contributions were implemented in April 2019 in accordance with Section 76.4. As members are aware a

2018 valuation was undertaken to take account of JEP recommendations and latest market conditions, in support of stakeholders' desires to avoid the changes currently scheduled for October 2019.

USS: Backlog Deficit

Following the implementation of Section 76.4 and the resulting Schedule of Contributions, the year-end backlog deficit was forecast to increase by an additional £65.6m compared to budget to £100.8m. This was based on the Mercer discount rates of 2.265% as at 28th February 2019. Discount rates had decreased significantly by the 31st July 2019 to 1.6%. As a result, the deficit was £5.8m higher than forecast at £106.6m. As stated above we anticipate that following the 2018 valuation the deficit will reduce by approximately £44m.

USS: Contribution Rates

Following the failure to conclude the 2017 valuation, increased contributions were implemented in April 2019 in accordance with Section 76.4.

On 23rd August 2019, USS announced changes to the proposed increases, summarised below.

% of Salary	From April 2019	From October 2019	From April 2020
Member (staff)	8.8%	9.6%	11.0%
Employer	19.5%	21.1%	23.7%

The increase to the revised 23.7 per cent will increase the universities staff costs by c £7.6m per annum (the original proposed increase to 24.9% equated to c £9.2m per annum).

The increase in contributions from both staff members and the University does not improve the pension benefits going forward.

Strengthening the employer covenant

The 2018 valuation required commitment to strengthening the employer covenant and proposed 3 methods for doing this including enhanced monitoring, *pari passu* for any new secured debt and no departure from the scheme. We will pro-actively engage in shaping these developments or any alternatives that may arise along with any recommendations from JEP 2 in relation to the governance of USS. We do however remain concerned of the impact this may have on the long term sustainability of the University.

USS have committed to undertaking a further valuation in 2020.

Joanne Jones
Finance Director
17 September 2019