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# University of Aberdeen Superannuation and Life Assurance Scheme

Member presentation – Questions and Answers

5 June 2018

# Please note

- Responses are necessarily general in some cases
- If you require a specific response to a query, please contact the Pensions Office.

**Q1** – The funding of the scheme has moved from 85% to 94% in a 12 month period. Whilst some of this improvement is related to the increased contribution level of the employer, it has been defined that the increased contributions are unaffordable.

However, if a similar trend can be followed over the next (current) 12 month period then the current £8.9m shortfall could potentially be a £5.3m surplus at end of July 2018.

Rather than wholesale changes to the scheme is there any potential for the employer to look upon this favourably whereby the additional contributions are reduced from 5.8% to perhaps 3% in the first instance and that a further decision on future contributions be made more proactively dependant on the funding level on the July anniversary?

# Question 1 - Improving funding level

- The Trustees have allowed for the improvement in the funding position that took place over the year to 31 July 2017. This improvement, which saw the deficit reduce from £23m to £9m was mainly due to a strong period of asset performance relative to the liabilities. To put it another way, the assets increased in value by £14m against unchanged liabilities.
- We do not expect this rate of improvement to continue and it is not possible for the Trustees to anticipate future improvements. However, the Trustees have been monitoring the funding position since July 2017 (as you saw earlier) and the position has remained fairly stable since the end of July 2017.

# Question 1 - Increasing University costs

- More generally, there are 2 parts to the contribution rate:-
  - The first part is the cost of providing the same level of benefits in the future. This has increased significantly between 2013 and 2016 due to the fall in long term interest rates and has not reduced since 2016. It is possible that this will reduce again in the future (if rates rise) but it is also possible that the cost will increase further.
  - The second part is the cost of paying off the deficit. The Trustees have done all they can to control this by using the funding position at 31 July 2017 to set the deficit contributions and by obtaining security over assets. By doing this the deficit contributions were held at the same level as agreed at the 2013 valuation.
- Even though we have allowed for the improvement in funding to 31 July 2107, the future service contributions need to increase by 6.5% to ensure that enough money is going into the Scheme to fund benefits earned in the future.

Q2 - The administration charges of the scheme have increased in the 12 month period by almost 27% vs a 10% increase in net scheme assets.

Similarly the investment management expenses have increased by 15%.

Is the scheme getting good value for money from the managers and consultants?

## Question 2 – administration charges

- We expect the scheme charges to increase every third year in the valuation year due to the detailed work carried out.
- Additional work was also carried out to reposition the scheme assets and to put in place the security over properties.
- All of this work has helped to improve the security of your benefits.
- It is also worth mentioning that the general level of governance around defined benefit pension schemes like UASLAS has increased in recent years which means the Trustees need to take more advice on things like risk management, and member communications as well as funding and investment.

## Question 2 – investment charges

- On the investment side, the charges are related to the level of assets held which increased by 13% over the year.
- The change in asset allocation (to increase diversification) also led to a small increase in investment charges.
- This work has helped to improve the security of your benefits.



Q3 - Stated date of retirement is given as the date of 65th birthday.

Can we retire beforehand, and if so what percentage do we lose if we retire say 1 year earlier?

## Question 3 – Early retirement reductions

- You are able to retire from your 55th birthday.
- If you retire before your normal retirement age (for most members this is your 65th birthday) then your pension will be reduced to account for the fact that it is being paid earlier than expected, and is likely to be paid for longer than expected.
- The current early retirement reduction under UASLAS is around 5% a year and 3% for cash lump sum applied to the pension **at early retirement age**.

## Question 3 – Early retirement reductions

- In practice the early retirement reduction is worked out by increasing your pension from early retirement age to normal retirement age and then reducing this projected pension amount by an early retirement factor.
- The current early retirement reduction under UASLAS is around 7.6% a year and 5.8% for cash lump sum applied to the projected pension **at normal retirement age**.
- This is set by the Trustees and is reviewed from time to time by the Scheme Actuary.

## Question 3 – Special terms for “Pre1994 members”

- If you were a member of the Scheme on 31 July 1994, and you are retiring between the ages of 60 and 65, then special early retirement terms apply to you.
- For a female who was a member of the Scheme on 31 July 1994 retiring from service before age 65, pension and lump sum benefits are not reduced for early payment if retirement takes place between the ages of 60 and 65.
- For a male who was a member of the Scheme on 31 July 1994 retiring from service before age 65, the same applies only to pension and lump sum benefits for pensionable service completed after 17 May 1990 (pension and lump sum benefits for pensionable service completed before 17 May 1990 would be reduced for early payment).

Thank you – any further questions?