06 July 2022

Dear Colleague

Consultation on potential changes to the University of Southampton Pension & Assurance Scheme for Non Academic Staff (PASNAS)

You have received this letter as you are a member of the University's PASNAS pension scheme, and the University wishes to consult on planned changes to the future benefits and contributions payable to and by members under the scheme.

The University proposes to change the way in which future benefits build-up in the scheme, and to increase the contributions payable by members; these changes are proposed to take effect from 1 January 2023. The changes put forward by the University are a response to increasing financial pressures upon the scheme which have been confirmed by the latest formal actuarial valuation of the scheme (such valuations must be undertaken at intervals not exceeding 3 years). The University is itself meeting a substantial share of the overall increase in costs.

Under the proposed changes, there will be two specific changes to the way you would build up defined benefits in the future, and there would be an increase in the level of contributions which are payable by members. These changes are:

- Your normal retirement age within the scheme will increase from the current age 65 to age 66 so that it aligns with increases in state pension age.

- The rate at which your pension builds-up will reduce from 1/80th of salary for each year of service, to 1/85th of salary for each year of service. The lump sum automatically payable on retirement will still be calculated as three times the annual pension payable – and as the amount of pension payable will be impacted by the above proposed change, this would also be reflected in the calculation of the lump sum.

- An increase in your contributions to meet your share of the overall cost increase, with your contributions rising to 8.6% of salary (from the current rate of 7.2%).

Please note that the above proposed changes to benefits are to the future benefits you build up in the scheme; they would not affect the benefits which you have already built up.

The University is presenting these proposals in order to meet the extra costs of providing valuable defined benefits in PASNAS, and to build greater stability and certainty over future PASNAS costs for you and the University. The University is not looking to make cost savings, and indeed is making substantial extra contributions to further protect the past service benefits that all members have already built-up. It is also paying higher contributions to meet its share of the higher cost of the future benefits of members.

This Guide provides more detail about the proposed changes.

The proposed changes would impact the benefits you receive in your future retirement and this information describes the changes and starts a formal consultation to welcome your views. If you have questions or comments about the proposals, you will have until Friday 9 September 2022 to respond so that the University can take your views into consideration before making final decisions. You are encouraged to study these proposals carefully and submit your feedback and/or questions.

There are several ways for you to do this including:

- Attending one of the specific pensions briefings which have been arranged (details of the sessions are included within this pack)
- Completing the feedback questionnaire that can be accessed via the following link – https://www.southampton.ac.uk/finance/services/pasnas.page
- You can email the "PASNAS proposal for change" email address at pasnasmc22@soton.ac.uk
- You can call the Pensions Team on Tel 023 8059 5467
- You can write to PASNAS Consultation c/o the Clerk to the PASNAS Trustees, University of Southampton, Highfield, Southampton SO17 1BJ

The University will also be consulting relevant trade union representatives to seek their responses to the proposed changes.

Yours faithfully

Wendy Appleby

Vice President Operations

University of Southampton

Planned changes to your pension scheme

A consultation on proposed changes to the University of Southampton Pension & Assurance Scheme for Non-Academic Staff (PASNAS)

A guide to the proposed changes

6 July 2022

A GUIDE TO THE PROPOSED CHANGES

(1) PURPOSE OF THIS GUIDE

You have received this guide as you are either a member of the University of Southampton Pension and Assurance Scheme for Non-Academic Staff ("PASNAS"). Included in this pack are details of the changes to PASNAS which are proposed, an explanation of what these changes would mean for you, and the reasons why the University believes these changes are necessary.

The University would like to hear your views and the provision of this guide marks the start of a consultation period for you to feed back on the proposals. The minimum period for consultation of this nature is 60 days, and this consultation will run from Wednesday 6 July 2022 until Friday 9 September 2022 (a period of 66 days overall).

If you have questions or comments about the proposals, you will have until Friday 9 September 2022 to submit your comments so that they can be taken into consideration. Please see the "Providing your feedback" section at the end of this guide for further details. Nothing will be finalised until after the consultation period ends. All representations from current members of PASNAS and the recognised trade unions (Unison, Unite and UCU) will be considered before any decisions are made.

Please note that PASNAS is a multi-employer pension scheme, with the University being the largest of the participating employers. The other employers which participate in the scheme are Southampton University Students Union (SUSU) and the Engineering Development Trust (EDT). All references in this guide to the 'University' should be taken to be references also to SUSU and EDT.

(2) OVERVIEW OF THE PROPOSAL

PASNAS is a defined benefit (DB) pension scheme which means that your pension benefits are based on a set formula using your salary at retirement or leaving, and on the years and days of service you have as a member of PASNAS.

The University has undertaken a detailed and lengthy review of all possible options to respond to the latest scheme deficit and the increasing cost of providing DB benefits in the future. The University is not looking to reduce its current contributions. In fact, it will pay substantial additional contributions to respond to the scheme deficit and build-in some future stability and will also bear its share of the increase in the cost of future benefits.

The University also wants to ensure that the costs for members do not rise to unaffordable and unsustainable levels. As a result, the University is putting forward a package of changes, which involve changes to the future benefits provided by the scheme as well as some increase in member contributions, which together will ensure that PASNAS can continue to provide valuable DB benefits going forwards on a final salary basis with the rising costs shared between members and the University. These changes are proposed to take effect from 1 January 2023.

Remember, the benefits that you have already built-up within PASNAS are protected and are not affected by this consultation (and indeed as mentioned the University is making substantial extra contributions as part of the overall solution to provide even stronger funding for these benefits which have already built-up).

If these proposals go ahead, there will be a reduction in the benefits which you build-up in PASNAS in the future, they will normally be payable from a later normal retirement age, and there will be an increase in the contributions which you pay.

Whilst this is not a formal part of the consultation on proposed changes to PASNAS, you should remember that the University provides an alternative pension arrangement for staff called the University of Southampton Retirement Fund (USRF). For many staff employed at Levels 1-3 this is the only workplace pension scheme available since PASNAS closed to new members on 1 January 2019. USRF is a defined contribution (DC) pension and works differently to PASNAS, with different contribution levels and different forms of benefits available. If you would like more information about USRF, please see the additional information at https://www.southampton.ac.uk/finance/services/university-of-southampton-retirement-fund-usrf.page

The University remains committed to providing a compelling package of rewards encompassing pay, benefits and pension. We believe that this proposal is the best way to keep a final salary pension in place for the existing members, to ensure that benefits and contributions are kept at sustainable and affordable levels, and to ensure that extra costs are shared so that the financial position of the scheme can be kept in balance.

(3) THE PROPOSED CHANGES EXPLAINED IN DETAIL

There are three specific changes which are proposed in this consultation, which are each proposed to come into effect from 1 January 2023. Two of the changes are to the way that future benefits provided by the scheme build up, and one is to the rate of member contributions. This package of changes is designed to limit the impact on members in terms of increases to their contributions, whilst addressing the members' share of the increasing costs of providing future DB benefits under PASNAS.

The detail of these changes are as follows:

- It is proposed to change the rate at which your pension and lump sum builds-up in the future, so that your benefits grow more slowly. Currently your pension accrues at a rate of 1/80th of final salary for each year of service, and it is proposed to change the rate of pension accrual to 1/85th of final salary for each year of future service. The lump sum automatically payable on retirement will still be calculated as three times the annual pension payable – and as the amount of pension payable will be impacted by the above proposed change, this would also be reflected in the calculation of the lump sum;

- It is proposed to change your normal retirement date from the current age of 65 to a later age, so that it aligns with state pension age. This also aligns the normal retirement date in PASNAS with the normal pension age in USS. From 1 January 2023 the normal retirement date in the scheme will move from age 65 to age 66. The changes to normal pension date will affect the future benefits which are built-up following the change. Earlier periods of benefits in PASNAS will continue to have the normal retirement date which attached to them based on the scheme rules in place at that earlier time. **You should note that this change does not mean that you have to work until age 66 or later; you can still retire at any time from age 55 (or from age 57 on or after 6 April 2028) and elect to draw your PASNAS benefits although they will be subject to early retirement reductions.** These reductions are calculated using the numbers of years 'early' for which benefits will be paid, and this will take into account the age 66. It is reiterated that the change to normal retirement age only affects the benefits which build-up from 1 January 2023 onwards.

The rate of contributions payable by members is proposed to increase, to meet your share of the overall cost increase. This would mean contributions rising to 8.6% of salary, from the current rate of 7.2% of salary. Pension contributions receive tax relief under the net pay arrangements and are eligible for salary sacrifice; both of these mean that any increase in cost is lower than it otherwise would be in terms of the actual impact on your take home pay. You can see the impact on net pay in the examples shown in section 7 (in the section on the 'impact on take-home pay of the proposed higher member contributions').

Whilst this is not a matter which is directly applicable to this consultation, it should be noted that the changes to future benefits, and specifically to the future rate at which DB pension and lump sum builds-up, and to the normal retirement date, would align with the benefits provided by USS (a comparison table between PASNAS and USS is included in the FAQs in the annex to this guide).

(4) WHY ARE THE CHANGES BEING PROPOSED?

A DB pension is a promise to pay a specific amount to an individual at retirement, and in recent times the cost of these DB pension promises has increased. This increase in cost is mainly due to the lower and more uncertain returns which can be expected on the scheme's investments, but there are other issues such as changes in life expectancy (which more recently have seen a levelling-off of the improvements seen earlier), and the cost of providing inflationary increases to benefits.

A formal check on the financial health of the PASNAS scheme is undertaken at least every three years, and the latest check (or actuarial valuation as it is known) took place as at 31 July 2021. This showed that the deficit of the scheme – which is the shortfall between the assets held in the PASNAS fund compared with the amount required to pay all the benefits built up to date – had increased substantially. In 2018 the deficit was £38.5m; this deficit had increased to £56.5m as at 31 July 2021.

The cost of providing future benefits in PASNAS is also increasing; this means that the cost of maintaining the current level of benefits has risen. If we do not make the proposed changes to the level of future benefits provided by the scheme, and to the contributions paid in (or changes which would have the same effect), PASNAS will become unaffordable and unsustainable.

In terms of the assessment of the funding position of PASNAS and the extent of any deficit, the following shows how the position has changed since the last valuation in 2018:

Actuarial valuation of PASNAS assessment of technical provisions	**2018**	**2021**
Total expected cost of accrued benefits	£263.3m	£339.5m
Market value of assets	£224.8m	£283.0m
Surplus / (Deficit)	(£38.5m)	(£56.5m)
Funding Level	85%	83%

The above table shows that whilst the funding level in percentage terms has decreased only marginally (from 85% to 83%), the deficit in numeric terms has increased materially from £38.5m to £56.5m. This increase in the value of the deficit in monetary terms is due to the scheme growing in size since the last valuation, and as the value of the liabilities (the total expected costs of accrued benefits) has grown.

In terms of the increase in the cost of future service benefits, the following table sets out the details:

Future service benefits as at 31 July 2021:	% of Salaries
Contribution rate for accrual of pension	26.1
Contribution to expenses and death benefits	1.5
TOTAL	**27.6**
Current employer contribution rate	13.85
Current member contribution rate	7.2
TOTAL	**21.05**
Extra required	**6.55**

The above table shows that if the contributions by members and employers to future benefits were to remain at their current level, there is an extra 6.55% of contribution which would need to be met in order to re-balance the valuation. It is the University's proposal in this consultation that a package of measures be implemented, involving changes to future benefits as described above in section 3, alongside some increase to contributions (also explained in section 3) which shares the remaining burden between the University and members.

The following table summarises the proposal to address the increased costs of future benefits:

Increased cost of providing the current PASNAS benefits	**6.55%**
less:	
Saving secured by an increase in the normal retirement date to age 66	**2.3%**
Saving secured by a reduction in the pension accrual rate from 1/80th to 1/85th (and accordingly also to the lump sum)	**1.4%**

Remaining cost increase to be addressed	**2.85%**

Comprising:	
Increase in the employer contribution rate from 13.85% to 15.3%	**1.45%**
Increase in the member contribution rate from 7.2% to 8.6%	**1.4%**

It should be noted that whilst the above table relates to future service benefits, the University is making extra contributions to past service benefits under the deficit recovery plan, in order to address the £56.5m recorded deficit (which includes a very substantial up-front payment, alongside deficit recovery payments of £664,000 per annum which will run until 31 March 2031). Note also that as part of the package to resolve this valuation, the University has also agreed to continue to meet the additional costs of scheme expenses and the provision of death in service benefits for scheme members, in order to minimise the remaining cost increases which need to be met through changes to future benefits and/or a cost sharing of the remaining extra contributions needed.

In overall terms, the responses to the valuation by the University, and those changes proposed in this consultation, can be summarised as follows:

By the University / employer	
An up-front contribution to the scheme deficit to immediately improve scheme funding and build further resilience	☑
Ongoing deficit recovery contributions of £664,000 per year until 31 March 2031 to clear the remaining deficit	☑
Additional payments to the cost of rise in cost of scheme expenses and of death in service cover for members, to reduce the impact on future service contributions	☑
Extra contributions to meet on a cost-shared (50:50) basis the increased costs of future defined benefits under the final salary scheme	☑

By PASNAS members	
Changes to the future defined benefits under the final salary scheme comprising a later normal retirement date, and a reduction in the future rate of accrual (as explained in section 3 above)	☑
Extra contributions to meet on a cost-shared (50:50) basis the increased costs of future defined benefits under the final salary scheme	☑

(5) THE IMPACT OF CHANGING MARKET CONDITIONS

The outcome of the valuation, and in particular the increases in contributions which are required in order to continue to provide future benefits in the scheme, is influenced by the economic conditions (for example interest rates, and inflation) which apply when the valuation is carried out. Normally, the scheme actuary looks at the economic conditions on the valuation date (in the case of PASNAS, 31 July 2021) and these determine the future cost which applies – and this is the basis on which the proposed changes have been put forward. As mentioned, this results in an increase in future costs of 6.55% of salary, and the package proposed is designed to lower the contribution increases which would otherwise apply if no changes were made.

If changes and differences in market conditions are to be taken into account, those alternative conditions (compared with those on the valuation date of 31 July 2021) must exist at the time that the valuation report is finalised and signed by the scheme actuary; this is expected to be at the end of October 2022, to meet the statutory overall time limit of 15 months for the valuation process.

There have been some improvements in economic conditions since the valuation date, but the world economy is volatile as a result of many of the events which members will be familiar with (global and regional unrest, impacts upon food, gas and oil imports, higher inflation, rising interest rates etc.).

We don't want to ignore the improvements which have recently been seen, but clearly we don't know what the economic conditions will be at the important future point (the end of October 2022) when the valuation report will be signed. Any improvements seen in economic conditions may still persist at that date, or indeed they may have reversed, such is the uncertainty which exists. This is why we have put forward a package of changes based on the position at the valuation date, responding to an increase in costs of 6.55% of salary as explained above. However, if the current economic improvements are sustained, the scheme actuary and trustees have advised that a reduction in the order of 2% of salary might be available – in this case, the increased costs which would need to be met would be 4.55% of salary rather than 6.55% of salary.

If this improvement were available, as a first priority, our plan would be to reduce or eliminate the increase in employer and member contributions which is proposed in the package of changes in this consultation (to increase member contributions from 7.2% to 8.6%). The remaining increased cost of future benefits would then be met through the proposed changes to the normal retirement date and pension / lump sum accrual rate described. We welcome comments from affected employees on this particular preference held by the University, should the trustees and scheme actuary be able to take into account improvements in economic conditions when the valuation report is signed.

(6) YOUR PENSIONS OPTIONS AND A COMPARISON WITH OTHER SCHEMES

This consultation proposes changes to the future benefits, and to the future contributions, of PASNAS. Your workplace pension will therefore change, however it remains an extremely valuable and attractive pension, and for example it will continue to provide DB benefits on a final salary basis, something that is now extremely rare amongst UK pension schemes overall. The University has taken the view that members will consider it desirable to retain the DB nature of the scheme, and its final salary design, if at all possible – and the package of changes has been put forward on this basis.

However, you also have a right not to participate in PASNAS and instead elect to become a member of the University of Southampton Retirement Fund (USRF). This is a defined contribution (DC) type pension which offers an attractive range of benefits.

Comparison of benefits and contributions

The benefits offered for current members in PASNAS are summarised in the table below together with the benefits that would be provided in the future if the proposed changes to PASNAS go ahead (shown in italics) – compared with the benefits and contributions relevant to USRF. For further details of the benefits of USRF please refer to the USRF Member Booklet at
https://www.southampton.ac.uk/finance/services/university-of-southampton-retirement-fund-usrf.page
Please note that all of the proposed changes to PASNAS would affect future benefits only; there is no impact on the benefits which have already been built-up.

	The University of Southampton Pension & Assurance Scheme for Non Academic Staff (PASNAS)	**University of Southampton Retirement Fund (USRF)**
Benefits	Pension based on 1/80th of Final Pensionable Salary for each year of service and 3/80ths lump sum *(proposed to change to 1/85th and 3/85ths respectively)*	Defined Contribution fund for future benefits (plus an accrued pension and lump sum from PASNAS based on Final Pensionable Salary at date of leaving PASNAS)
Normal retirement age	Age 65 *(proposed to change to age 66 and thereafter increased in line with increases in state pension age)*	65 but members can choose a different target retirement date
Early retirement	Retirement available from age 55 (increasing to age 57 from 6 April 2028) but reductions for early retirement may apply if retirement is before age 65	Defined Contribution fund can be accessed from age 55 (plus accrued PASNAS pension which may be reduced for early payment if taken before age 65 – or, as proposed, prior

	(reductions to apply for retirement prior to age 66)	to age 66 for any service which builds-up from 1 January 2023 onwards)
Member contributions	7.2% of salary *(proposed to increase to 8.6% of salary)*	6% is the default contribution rate (but you can pay higher or lower contributions if you wish to)
University contributions	13.85% of salary, plus £2 million per annum to the scheme deficit (planned to be 15.3% of salary, plus £664,000 per annum to the scheme deficit, plus a substantial up-front payment)	10% plus cost of providing death and ill health benefits (approx 1-2%) **plus** deficit contributions to PASNAS of £664,000 per annum
Death in service lump sum	3 x salary plus return of member contributions	5 x salary plus return of member contributions
Death in service pension for spouse or dependant	Pension at rate of 100% of member's salary for first 3 months, then 50% of pension which would have been accrued to age 65	50% of deferred pension from PASNAS revalued to date of death plus return of Defined Contribution fund to member's dependants
Ill health benefits	Total incapacity – pension and cash which would have been accrued to age 65 Partial incapacity – accrued pension and cash payable	Deferred pension from the PASNAS plus income protection cover of 50% of pre-disability salary for 5 years or until age 65 if earlier

The following sets out in more detail the contribution levels which are payable under the USRF scheme:

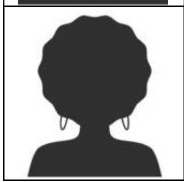
USRF Contributions	
Employee	**Employer**
0%	10%
2%	10%
4%	10%
6% (default contribution rate)	10%

Whilst this is not part of the formal consultation, in terms of a comparison of benefits between PASNAS and USS, a comparison table is shown in the FAQs (in the annex to this guide).

(7) WHAT THIS MEANS FOR YOU – THE EFFECT OF THE PROPOSED CHANGES

The proposed changes to PASNAS will have different impacts upon individuals depending upon their individual circumstances, and notably specific factors such as how much you earn (because the contributions which you pay are paid as a percentage of salary). Your age, the extent of the benefits you have already built-up, and how long you have to go to retirement are also important in assessing the potential impact of the proposed changes. It should be remembered that the benefits you have already built-up are protected, and therefore any changes can only affect the future benefits you earn under PASNAS.

We set out below illustrative examples of the benefits payable to eight different members who have different ages, different planned retirement ages and different amounts of existing benefits which have already been built up in PASNAS. It is important to emphasise that these are illustrative only, designed to show the broad effect of the proposed changes, and they do not cover all circumstances. If you would like more details regarding the particular impact in your circumstances, you should contact the Pensions Team via e-mail pasnasmc22@soton.ac.uk

Eight illustrative personas	
	**Margaret** is age 50 and has worked for the University, and been a member of the PASNAS scheme, for 18 years. She plans to work until age 65, so she has another 15 years of employment, and membership of PASNAS, to go.
	**Terry** is age 45 and has worked for the University, and been a member of the PASNAS scheme, for 21 years. He is aiming to retire at age 63, so another 18 years of employment (and membership of PASNAS) remaining.
	**Andrew** is younger at age 30 and been with the University, and been a member of the PASNAS scheme, for 6 years. He would like to retire at age 60, so another 30 years of employment (and membership of PASNAS) remaining.
	**Alisha** is age 32 and been with the University, and been a member of the PASNAS scheme, for just 3 years. She plans to retire at age 65, which means she has 33 years of employment (and membership of PASNAS) remaining.
	**Zaid** is age 55 and been with the University, and been a member of the PASNAS scheme, for 25 years. He plans to retire at age 65, which means he has 10 years of employment (and membership of PASNAS) remaining.
	**Sarah** is age 62 and been with the University, and been a member of the PASNAS scheme, for 30 years. She plans to retire at age 65, which means she has 3 years of employment (and membership of PASNAS) remaining.
	**Sebastian** is age 41 and been with the University, and been a member of the PASNAS scheme, for 5 years. He plans to retire at age 60, which means he has 19 years of employment (and membership of PASNAS) remaining.
	**Simone** is age 64 and been with the University, and been a member of the PASNAS scheme, for 10 years. She plans to retire at age 65, which means she has 1 year of employment (and membership of PASNAS) remaining.

The above personas are very general, but hopefully you can find circumstances which are in some way similar to yours. The following table summarises the personas which have been used to illustrate the effect of the proposed changes, showing an illustrative salary level which we will use as we estimate the effect of the proposed changes:

#	Name	Sex	Age	Accrued Years	Current Salary	Pre 2010 years*	Post 2010 years*	Assumed retirement age	Years to retirement
1	Margaret	F	50	18	£22,500	6	12	65	15
2	Terry	M	45	21	£24,500	9	12	63	18
3	Andrew	M	30	6	£21,000	0	6	60	30
4	Alisha	F	32	3	£23,400	0	3	65	33
5	Zaid	M	55	25	£24,500	13	12	65	10
6	Sarah	F	62	30	£27,500	18	12	65	3
7	Sebastian	M	41	5	£22,000	0	5	60	19
8	Simone	F	64	10	£20,600	0	10	65	1

** It should be noted that the periods of pensionable service which were before or after 2010 are relevant under the PASNAS rules, and in these calculations, as the normal retirement date rules were changed at that time (and different rules apply to pre and post October 2010 service)*

Estimation of the effect of the proposed changes for the eight illustrative personas

Persona Name	Age	Accrued Years	Current Salary	Assumed retirement age	Existing estimated pension	Existing estimated lump sum	New estimated pension	New estimated lump sum	Difference Pension	Difference lump sum	Reduced Pension %	Reduced Lump Sum %
Margaret	50	18	£22,500	65	£9,281	£27,844	£8,835	£26,790	-£447	-£1,054	4.81	3.79
Terry	45	21	£24,500	63	£11,071	£34,398	£10,560	£33,102	-£511	-£1,296	4.62	3.77
Andrew	30	6	£21,000	60	£7,437	£24,920	£6,821	£23,209	-£617	-£1,711	8.29	6.86
Alisha	32	3	£23,400	65	£10,530	£31,590	£9,508	£29,178	-£1,022	-£2,412	9.71	7.64
Zaid	55	25	£24,500	65	£10,719	£32,156	£10,394	£31,391	-£324	-£765	3.03	2.38
Sarah	62	30	£27,500	65	£11,344	£34,031	£11,235	£33,774	-£109	-£258	0.96	0.76
Sebastian	41	5	£22,000	60	£5,194	£17,404	£4,785	£16,269	-£409	-£1,135	7.88	6.52
Simone	64	10	£20,600	65	£2,833	£8,498	£2,805	£8,433	-£27	-£64	0.96	0.76

Notes:

- *The above figures are an estimation of the effect of the proposed changes, and individual circumstances will vary (and if you require further details regarding your own specific circumstances, or have questions, you should contact the Pensions Team via e-mail pasnasmc22@soton.ac.uk*
- *The figures make no adjustment for inflation, use current salary, and express pension outcomes in today's money terms*
- *The figures are based only on a change to a normal retirement age of 66 from 1 January 2023 (they do not at this stage include any further change in the future to age 67 and higher etc. in line with state pension age). The plan is that PASNAS retirement age will follow increases in state pension age, but further formal changes would be needed to implement a normal retirement age higher than age 66 which is proposed in this consultation.)*

The impact on take-home pay of the proposed higher member contributions

The following table shows, for the eight personas, the estimated effect on take-home pay (or net pay) of the increase in contributions from 7.2% to 8.6% of salary. Please note that these figures assume that the employee participates in the salary sacrifice arrangement:

#	Name	Current age	Current salary	Reduction in net pay per month
1	**Margaret**	50	£22,500	£17.57
2	**Terry**	45	£24,500	£18.99
3	**Andrew**	30	£21,000	£16.47
4	**Alisha**	32	£23,400	£18.29
5	**Zaid**	55	£24,500	£19.00
6	**Sarah**	62	£27,500	£21.42
7	**Sebastian**	41	£22,000	£17.07
8	**Simone**	64	£20,600	£16.05

So, for example, if the proposed changes proceed as presented in this consultation, and member contributions rise from 7.2% to 8.6% of salary, a member like Margaret above earning a salary of £22,500 per year would see her monthly net pay reduce by £17.57. This assumes that Margaret participates in the salary sacrifice arrangement; all figures assume the same.

(8) NEXT STEPS

The University has given careful consideration to the development of these proposals, which it puts forward openly for comment and response from affected employees. We value your views and the consultation is your chance to have your say and provide feedback on the proposals as well as your chance to ask questions. All responses will be considered before a final decision is made on the changes which are to be implemented.

We recognise that you are likely to have questions on the proposed changes. Therefore, a series of group member presentations will be held in July 2022 and you can book onto these through Eventbrite by following the links on SUSSED – https://www.southampton.ac.uk/blog/sussed-news/2022/06/29/pasnas-consultation-2 These sessions will provide an opportunity for employees to hear more about the proposals and raise questions and/or concerns.

Member briefings

Session #	Date	Time	Format	Details
1	Friday 8 July 2022	10am	Online MS Teams	
2	Monday 11 July 2022	11am	Online MS Teams	
3	Monday 11 July 2022	3pm	Online MS Teams	
4	Tuesday 12 July 2022	9.30am	Online MS Teams	
5	Tuesday 12 July 2022	2pm	Online MS Teams	
6	Thursday 14 July 2022	9am	On site	B85 / 2207
7	Thursday 14 July 2022	1pm	On site	B85 / 2207
8	Thursday 14 July 2022	6pm	On site	B35/1001

(9) PROVIDING YOUR FEEDBACK

As well as asking questions about the proposals, the consultation gives you the chance to provide feedback and share your views on the proposed changes. There are several ways to submit questions and provide feedback including:

- Attending one of the briefings listed above
- Completing the feedback questionnaire available through https://www.southampton.ac.uk/finance/services/pasnas.page
- Email to pasnasmc22@soton.ac.uk
- Write to PASNAS Consultation c/o Clerk to the PASNAS Trustees, University of Southampton, Highfield, Southampton, SO17 1BJ

Questions about the proposals will be answered in a "Frequently Asked Questions" document which is included in the annex to this Guide and which will be updated periodically during the consultation process and posted on the Finance Department Intranet which can be found at https://www.southampton.ac.uk/finance/services/pasnas.page .

Regular updates will also be posted on SUSSED during the consultation process, and feedback on the proposals will be collated and sent to the University for review and consideration. Please refer to your recent Annual Benefits Statement for details of your pension to date.

(10) CONSULTATION TIMELINE

April 2022	Initial valuation results reviewed by the University's Pensions Committee and preliminary responses considered
May 2022	Council reviews position and approves University contributions to address past service funding position. All scheme employers consulted on proposals.
May 2022	Trustees review valuation outcome and note the planned responses
May 2022	Initial plan for proposed changes shared with trade unions, and meetings take place with unions to discuss valuation outcomes
June 2022	Initial communication published on SUSSED for all affected employees explaining the issues and potential responses
6 July 2022	Formal consultation on proposed changes commences (minimum 60 days)
9 September 2022	Formal consultation closes – comments and views should be made no later than this date
31 October 2022	Final decisions need to be taken and valuation finalised
31 January 2023	Planned commencement date of changes

(11) FINANCIAL ADVICE

Neither the University nor the Trustees can provide you with advice in relation to these changes. If you want individual financial advice you should contact a financial advisor. You can find an advisor in your area at www.unbiased.co.uk; please note that you would be personally responsible for any costs associated with obtaining such advice.

Questions and Answers

and Glossary

QUESTIONS AND ANSWERS

SECTION 1: QUESTIONS ON THE PROPOSED CHANGES

1. What is being proposed?

The University is proposing to change the future benefits which you build up in the scheme, and the level of contributions which you pay; this is to address the financial imbalance which has emerged following the latest assessment of the scheme's financial health. Any changes can only affect the future benefits which you earn in the scheme; they cannot affect the benefits which you have already built-up. The changes are proposed to come into effect from 1 January 2023.

2. What pension benefits do I build up at the moment?

The University of Southampton Pension & Assurance Scheme for Non Academic Staff ("PASNAS") is a 'final salary scheme' which is a type of defined benefit (DB) pension scheme. The scheme will stay as a final salary scheme, although the rate at which you build up pension in the future is proposed to change (from 1/80th of final pensionable salary as pension for each year of service to 1/85th. The lump sum automatically payable on retirement will still be calculated as three times the annual pension payable – and as the amount of pension payable will be impacted by the above proposed change, this would also be reflected in the calculation of the lump sum. It is also proposed to change your normal retirement date to age 66 in line with increases in state pension age; the current normal retirement date is age 65.

3. What would happen to the pension I've built up so far, if the changes go ahead?

The benefits you have already built up within PASNAS are protected and not affected by this consultation.

4. How can I check on the value of the benefits I've built up?

You will have received the most recent Annual Statement of your current benefits, but if you need a copy you can ask for it from the Pensions Team via Pensions@soton.ac.uk

6. Will my benefits be reduced significantly by the proposed changes?

In this guide there are eight example members, or personas, which can give you a guide as to the effect of the proposed changes given different circumstances such as age, salary, planned retirement age etc. Hopefully one of these personas will be similar to yours (although we do recognise that each situation is different) and this can hopefully give you a sense of the likely change to your benefits at retirement.

7. How much extra contributions will I pay?

The member contribution rate will rise from 7.2% of salary to 8.6% of salary, and the exact impact on your take-home pay will therefore depend, for example, on your salary and for example whether or not you participate in the salary sacrifice arrangement. You can see the effect on take-home pay for the eight examples, or personas, in section 7 of this guide (and in particular the section entitled 'The impact on take-home pay of the proposed higher member contributions').

8. I would rather avoid increases in my contributions right now – can we instead cover the member's share of the increase in costs just through changes to future benefits?

The University has put forward a package of changes which involves some changes to future benefits and some increase in member contributions – but the exact balance of the package is yet to be finalised and this is a point on which we would particularly welcome feedback and comment.

9. Do the proposed changes affect the benefits that would be payable should I die in service?

The changes would have minimal impact on the lump sum death benefit which would be payable in the case of death in service (normally to your nominated beneficiary), which is three times your salary at the date of death plus a refund of your contributions (which will increase if the proposals are implemented) without interest.

For the calculation of a pension for your spouse or other dependant, if you die in service before normal retirement rate the spouse's pension payable is based on one-half of the pension you have built-up up to the date of death, with an addition which takes account of the pensionable service you would have completed if you had remained in service to normal retirement date (and this calculation would reflect that the rate of accrual of ordinary pension would change under these proposals from 1/80th to 1/85th of salary in relation to pensionable service on and from 1 January 2023).

10. Does the change to the normal retirement date mean that I have to work longer?

No, you can still retire at any point you choose from the minimum retirement age (which is currently age 55, and which will increase under government rules to age 57 from 2028). However, if you do retire before normal retirement date your benefits are adjusted – reduced – to reflect the fact that they are being paid earlier. The proposed change will if implemented introduce a normal retirement date of age 66 from 1 January 2023, and if therefore you are retiring at age 60, the benefits which you earn from 1 January 2023 onwards would be adjusted in that case for early payment of six years (66 – 60), rather than a five year (65 – 60) reduction which would have applied before the change. Remember, this change to the normal retirement date would not affect the benefits you have already earned.

11. I transferred some previous pension rights into PASNAS. Would these be affected?

No, any pension rights which you have already transferred-in to PASNAS are unaffected by the proposed changes.

12. How are you helping me to understand the proposed changes?

Pensions can be complicated, so helping you to understand the proposed changes is a big part of what consultation is all about. Different people prefer to get information, ask questions and provide feedback in different ways – so there are several ways for you to do this including:

- Attending one of the briefings which are listed in section 8
- You can email the "PASNAS proposal for change" email address at pasnasmc22@soton.ac.uk
- You can write to PASNAS Consultation c/o Clerk to the PASNAS Trustees, University of Southampton, Highfield, Southampton, SO17 1BJ

Please ensure you take the necessary time to consider this guide carefully and submit any feedback or additional queries no later than Friday 9 September 2022. Please note that neither the University nor the Trustees are allowed to give financial advice. If you want to talk to an independent financial advisor for impartial advice you can find one by visiting www.unbiased.co.uk.

13. Can I vary my contribution rate?

There is a single uniform contribution rate for members to PASNAS, although you can pay additional voluntary contributions if you want to increase your pension benefits. You do have the option to leave PASNAS and join the University's USRF pension scheme, which has different (and lower) rates of member contributions and which provides benefits on a different (money purchase or defined contribution) basis, and there is more information about USRF in section 6 and also at https://www.southampton.ac.uk/finance/services/university-of-southampton-retirement-fund-usrf.page

14. What if I don't accept the proposed changes?

The University recognises that making changes to future benefits and to contributions is unwelcome, however, it is hoped that this guide has explained why changes are needed given the financial position of the scheme in this latest valuation. Even with the changes, PASNAS will remain a valuable pension and still provide benefits on a DB final salary basis, something which is increasingly rare. Under the scheme's rules, it is for the University to decide – after consultation – on any changes to the scheme, subject to the consent of the trustees.

15. Are other universities reviewing their pension schemes?

The University is not alone in proposing changes like this. Other universities have taken tough decisions to change their pension provision as the cost of providing DB benefits has continued to rise.

SECTION TWO: THE CONSULTATION PROCESS AND WHY THIS IS TAKING PLACE

1. Why is the University proposing these changes?

At the last valuation in 2018 the costs of PASNAS had risen and, despite the changes which were then made, there was a risk of further increases in the future (often for reasons over which the University and the Trustees have no control, for example reduced expectations of future investment returns). The Trustees need to ensure that an acceptable financial plan exists for the scheme, and the University needs to control the costs of PASNAS in a Higher Education sector funding environment which is uncertain.

Currently, members in PASNAS contribute 7.2% of salary towards the cost of providing future benefits being built up, the University currently contributes 13.85% towards these costs and, in addition, the University also pays an extra £2m per annum (equivalent to 5.10% of earnings per member per year as at 31 July 2018, and 7.6% of salary as at 31 July 2021) to contribute towards the PASNAS deficit. The deficit is the shortfall in the assets held by PASNAS compared to what is required to pay all the benefits built up to date. As at 31 July 2018, the total University contribution rate was 18.95% of salary.

The deficit in PASNAS has been persistent, and over recent valuations has been as follows:

PASNAS Valuation	2012	2015	2018	2021
Scheme Deficit	£36.5m	£40.2m	£38.5m	£56.5m

Despite the additional contributions that have been paid, the latest valuation shows that the deficit has increased further as at 2021. The cost of providing future benefits in PASNAS has also increased (an increase of 6.55% of salary).

As a result of the factors above, the University concluded that it needed to put forward a package of changes which would help to rebalance, and further stabilise, the scheme's finances.

2. Why has the cost and risk posed by PASNAS increased?

The main reason for the increased deficit in PASNAS, and for the increase in the cost of future benefits, is the lower assumption for investment returns which can be reasonably expected in the future. The trustees have to assume lower investment returns because of global uncertainty regarding economic growth, something which all trustees of DB pension schemes are having to take into account. If the fund can only achieve lower returns, then more money is needed to provide the pension promises. There are other reasons for the increased cost, including to the assumption for future inflationary increases, but the primary issue is of future investment returns.

3. How would these proposed changes to the pension provision help?

The PASNAS pensions are more expensive to provide, and the proposed changes would bring in more money through higher contributions. But the University does not believe this can be the only solution; contributions would need to increase too far. So, as a result, the proposal is to make some increases to member and employer contribution, but also to lower the amount of DB pension and lump sum built-up in the future; these changes are needed to re-balance the scheme's financial position. The University is also making substantial contributions to correct the past-service funding position (by which we mean the increased deficit of £56.5m).

4. What are the implications of not making any changes?

The trustees must finalise the valuation of the scheme (the check on its financial health) and if no changes to future benefits are made, the trustees would have no option other than to increase contributions. This would mean an increase in future contributions of 6.55% of salary.

5. Could there be further changes?

There can be no guarantee that future changes will not be needed, however the University is making substantial extra contributions to stabilise the past service position so that the deficit is less volatile from valuation to valuation, and it is hoped that the changes to future benefits will lower contributions and make the scheme more sustainable in the longer-term.

6. Have any alternatives been considered?

The University has looked at the alternatives. It is believed that the trustee's assumptions for the funding of the scheme go as far as possible in terms of flexibility, given their legal duties and the need to deliver the valuable pensions promises that have been earned and which will be earned in the future. It would be possible to address the increased costs solely by means of increased contributions, or solely through changes to future benefits, however the University believes that a package approach – with some changes to contributions and to future benefits – offers the appropriate balance. The views of affected employees on this are welcomed as part of this consultation.

7. What is meant by consultation?

The University has a legal responsibility to consult on any relevant changes to the scheme, and it does so in a genuine and open manner – and for example a series of pensions briefings have been arranged to ensure that the explanation of the changes, and the opportunity to ask questions, is as full as possible. Consultation also takes place with the appropriate trade union representative bodies. No decisions will be taken until after the consultation has closed, and all responses read and considered.

8. What will happen after the University has considered the feedback?

The University will consider all of the feedback and decide on the proposed final form of the changes, which it will put forward to the Trustees for final approval. Any confirmed changes will be communicated to affected employees and the representative bodies in a formal statement following any decision.

9. Are the Pension Trustees aware of the proposal?

Yes, the Trustees have been informed of the proposal. If the proposed changes go ahead, the Trustees will be asked to implement the changes to the scheme rules so that benefits build-up at a different rate in the future, with a later normal retirement date, and member and employer contributions will increase.

10. Will any changes to my benefits or contributions be made during the consultation period?

No, the proposed changes would only come into effect from 1 January 2023 if implemented; no other changes will take place during the consultation period.

11. Will the proposed changes affect former members or current pensioners?

No. The proposed changes can only affect the future benefits earned, and future contribution levels.

12. How does PASNAS compare with USS?

Whilst this is not part of the formal consultation, the following table compares the current benefits of PASNAS with USS:

A brief comparison of PASNAS and USS

	University of Southampton Pension and Assurance Scheme for Non-Academic Staff	Universities Superannuation Scheme
DB scheme design	Final Salary	Career Revalued Benefit
Member contribution	7.2%	9.8%
Pension accrual rate†	1/80	1/85
Lump sum accrual rate†	3/80	3/85
Death in service lump sum	3 x salary plus a refund of contributions with interest	3 x salary
Normal pension age	Age 65	Increasing in line with state pension age to age 68
Inflation proofing	Post 1 October 2010 benefits capped at 2.5% per annum, pre October 2010 benefits have no capping	Post April 2022 benefits capped at 2.5%*, prior benefits capped once CPI exceeds 5%, pre 2011 benefits no capping

† *Note that in USS the DB benefits are earned up to a salary threshold, which (from 1 April 2022) is £40,000 per annum. Benefits are provided on a defined contribution (DC) basis on salary above the threshold*

* *Note that the commencement date in USS of the 2.5% cap on inflationary increases has been deferred*

GLOSSARY

Accrual rate: this is the rate at which defined benefits build-up in the scheme. Currently, members build-up pension at an accrual rate of 1/80th of salary for each year of service; it is proposed to change the pension accrual rate to 1/85th. The lump sum automatically payable on retirement will still be calculated as three times the annual pension payable – and as the amount of pension payable will be impacted by the above proposed change, this would also be reflected in the calculation of the lump sum.

Contributions: these are the amounts paid into the scheme by members and by the employer. The rate of contributions required to be paid is set at each valuation.

Deferred pension (or deferred benefits): these are the benefits which have been earned by someone who has left the scheme, but who has not yet started to receive the benefits.

Defined benefit: a type of pension where the amount paid out to the member depends on a formula incorporating salary and length of service. The amount of pension which builds up is defined in advance (through an accrual rate), although the ultimate cost of providing this is uncertain and is reviewed at each valuation.

Defined contribution: a type of pension where the contributions paid by a member and his/her employer build up, together with investment returns, in an individual account. At retirement the member can decide how the money that has built-up should be used within the rules, for example to be used to provide a regular pension, and/or to take a proportion as a tax-free lump sum.

Expenses and death benefits: the scheme's expenses include the costs of operating and running the scheme and for example the payment of the statutory levy to the Pension Protection Fund. The scheme's death benefits involve the payment of a lump sum of three times annual salary upon death in service. These benefits are paid for by the employer, and at this valuation the University has made special provision for the increased costs of these benefits.

Future benefits: these are the pension benefits that will be earned in the future by members, based on the future contributions payable by members (and the employer) through to retirement and/or leaving the scheme.

Inflation (and inflationary increases): is a general increase in prices and a fall in the purchasing power of money; inflation is commonly measured by changes in the Consumer Prices Index (CPI). Most defined benefit pension schemes, including PASNAS, adjust how benefits are increased in order to help to protect against inflation.

Normal retirement age (NRA): this is the age from which benefits are normally paid under the scheme. The NRA for PASNAS is currently age 65, and it is proposed to move to age 66 from 1 January 2023. This does not mean that members must work until age 65 (or 66) to receive benefits; there is the option to draw benefits from the minimum pension age of 55 (this will change to age 57 from April 2028) once employment has ceased, although the benefits then payable will be reduced to reflect that payment has been made earlier than the NRA.

Past service benefits: these are the benefits that have already been earned by members up to a defined date (they are measured in a valuation, the latest of which took place as at 31 July 2021). These benefits cannot be altered by any changes proposed in this consultation.

Salary sacrifice: this is an arrangement run by many employers, including the university, to reduce the cost of pension scheme membership. It is an option for employees. It works by allowing an employer to effectively reduce the salary of an employee in return for payment by the employer of the pension contributions otherwise payable by the employee. This leads to a saving in national insurance contributions for the employee and employer.

Trustees: they administer the PASNAS scheme in accordance with the Trust Deed and Rules and are responsible for delivering the pensions promises built-up by members. The relevant rules state that there must be seven or more trustees, including three nominated by the University, three who are scheme members elected by the active and pensioner members of the scheme, and an Independent Trustee.

Valuation: this is a financial health check of the fund undertaken by the trustees which must take place at least every three years by law. The Pensions Regulator sets the guidelines and standards by which valuations must be undertaken, and the trustees take the advice of an actuary, a specialist on pension schemes and on their funding. The valuation examines if there is sufficient money in the fund to meet the pensions promises built-up and, if there is a deficit, how this is remedied. It also sets the required rate of contributions to provide future benefits.