PASNAS Member Consultation 2022 – Questions and Answers

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|  | **Question** | **Response** |
| 1 | What has caused the deficit? | It is primarily from a reduction in forecast future investment returns as a result of significant uncertainty and volatility in the global market. These concerns are not expected to settle in the short term |
| 2 | Given the 2018 assessments have already been shown to be £10m off, what credibility do the current calculations have? Why should we trust that these will not result in increased contributions further down the line? | Volatility in markets means there are no guarantees in terms of future investment returns, Assessments can only be made on the information available at the time and these are made on a prudent basis. The Trustees are looking at how they can review and change the future investment strategy to try to dampen some of the volatility in scheme funding, but this is a complex issue; the University’s contribution to the past service deficit is intended to reduce risk and volatility. |
| 3 | Does this affect people who are due to retire at 67 with the state pension? | The change to Normal Retirement Age (NRA) is intended to align the PASNAS scheme retirement age with the state pension age. The State Pension age is expected to change in the future; the current timeline for this outlined by the government may change. It’s possible that the scheme will look to amend the NRA in the future to move again with changes in the state pension age, but in this consultation the proposed change is to move the normal retirement date under PASNAS to age 66 for all benefits which build up from 1 January 2023. |
| 4 | You’re showing the employer contribution as 13.85%, I thought this had gone up by 5.1% to a total of 18.95%, why is this only being shown at the lower amount? | The University’s deficit contributions, which have been paid since the last (2018) valuation, were at a rate of 5.1% of salary. Given that the PASNAS scheme closed to new entrants these deficit contributions were expressed in an equivalent cash form of £2m per year (as otherwise deficit contributions would reduce as the active membership of PASNAS becomes smaller over time). In the future, deficit contributions will continue to be expressed in cash form. |
| 5 | PASNAS has been closed to new starters for a while. How many paying members are there currently in the scheme? | Approximately 1200 |
| 6 | When and how are the University planning to pay the mentioned £30 million to the deficit, and do you think it will be a help in clearing the deficit? | It is intended that the additional contribution will be paid before the end of the current financial year (31/7/22). It is to be invested to reduce risk, and in particular in liability-matching assets which will help to improve the cushion against volatility in the markets (and changes in interest rates in particular) and is expected to make a considerable positive impact. |
| 7 | Can we top up, like in USS, to improve our final pensions? | Yes, you can make additional voluntary contributions. More information is available on the PASNAS page or from the Pensions team. |
| 8 | Is there any flexibility to the date shown of 01/01/23 as the point that any changes will be introduced from? | Yes, but the implementation date forms part of the total package being consulted on, so if that moves, there would need to be a corresponding move in another area in order to balance any adjustment to the package. |
| 9 | Has Covid had a negative or positive effect on the value of the investments? | The value of the scheme’s assets was affected by Covid, with growth during 2020 much slower than anticipated but with some recovery in the period to 31 July 2021. The concerns around investments are about the future returns from this point forwards, and that future economic growth will be lower and more uncertain. A further potential impact, but not necessarily directly linked to Covid, is on the expected longevity of scheme members. In the past there have been increasing allowances for longevity, assuming that the *rate of improvement* in longevity is increasing, although more recently there are signs that this is slowing down.  |
| 10 | What is meant by 'future' (in terms of predicted low investment returns) - 5 years / 10yrs/ 3 years until next review? | The ‘future’ for the scheme encompasses all of the future duration of the scheme. The role of the Trustees is to oversee the Scheme and make assumptions for the long-term (although assumptions are reviewed at least every three years in the valuation).  |
| 11 | If salaries cannot keep up with the cost of living, how will it be possible to contribute to the pension when food and shelter may be the priority? | The Trustees are conscious of the timing of the valuation as it runs parallel to such dramatic increases in the cost of living. Unfortunately, there is no control over when the valuation is carried out (it is a legal requirement). The Trustees, like the University, are keen to find a cost-effective solution for the membership.  |
| 12 | Has closing the scheme to new members had a positive or negative impact on pension funds, and PASNAS in particular? | At this stage it’s not easy to tell; any changes would develop over time. From the perspective of the valuation, at the moment the scheme is treated in a not too dissimilar way to an open/active scheme. But this will change over time as the scheme gradually matures.  |
| 13 | If the benefits are being reduced (rather than just contributions increasing), and in 3 years time the valuation is more positive, would it be possible to increase the benefits again, i.e. change the pension age back to 65 for example? | It is possible although unlikely that the normal retirement age of the scheme would be reversed in the event of a more positive valuation result in the future. However, future contribution rates or indeed future accrual rates (for example) could be reviewed ,and are perhaps more likely to be so, should the scheme’s financial position improve.  |
| 14 | If you already have 40 years of contributions to PASNAS, does it still count as early retirement if you want to retire before the Normal Retirement Age of 65 (proposed to increase to 66)? | Yes, early retirement adjustments will still be made for the years between your chosen (earlier) retirement age and the designated normal retirement age for the scheme. |
| 15 | Do you have to wait until the Normal Retirement Age to draw benefits from the scheme? | No, you can currently choose to retire from the age of 55, but adjustments will be made for the number of years between your earlier chosen retirement age and the designated Normal Retirement Age. And remember, any change to normal retirement date applies only to future benefits that are earned from (it is proposed) 1 January 2023. |
| 16 | Are the proposed changes comparable to changes made to USS? | The proposals do bring some elements in line with USS (in relation to the accrual rate and the initial change to Normal Retirement age in particular), so they would be more closely aligned, however, there are still differences. PASNAS is intended to remain as a Final Salary pension, whereas USS moved some time ago to a Career Average basis and the increase to Normal Retirement age for USS is on an automatic escalator to increase in line with the State Retirement Age whereas with PASNAS the proposal is a change to 66 on this occasion only (and in PASNAS any further changes to NRA would be subject to future consultation with members). |
| 17 | Can you see the accrual rate increasing further (by which we mean the fraction for pension accrual becoming smaller)? | This is possible although clearly undesirable as there’s probably a limit to how much further the accrual rate could be weakened before it becomes unsustainable. |
| 18 | It feels like members will be paying more in, but for a reduced pension pot? | A balance has to be struck to achieve a package of changes that spreads the burden and is achievable & sustainable for both members and employers. |
| 19 | Will contributions/benefits change every 3 years with each valuation? | There are no guarantees because future economic conditions are unknown and uncertain, but these fundamentally affect any review / update to the scheme’s finances at a valuation. However, the steps being taken by the University and the Trustees in respect of the up-front contribution to the deficit (and its investment in liability-matching investments of the scheme’s portfolio) is planned to reduce some of the future volatility. |
| 20 | How feasible will increased contributions be for employees versus lack of pay rises etc? | Direct Benefit (DB) pensions are a really valuable asset to members, but they are becoming more expensive to maintain so there can be no guarantees around future changes. Individuals should, however, consider how valuable the benefits are in relation to the cost of accessing those benefits. |
| 21 | Accrual rates of 1/80th, 1/85th and 1/90th have been referred to, where do accrual rates come from and how do they impact? | All DB pension schemes have to set an accrual rate, which is the fraction of benefit earned for each full year of service. As the denominator of the accrual rate fraction increases it means a smaller proportion of benefit is earned from each year of service. |
| 22 | Would it be possible to put an online calculator up so members can see the difference in contributions up to retirement age and the benefits they will receive after they retire? | There have been 8 online personas provided for different ages and stages. These examples should hopefully cover or be close to most individuals’ scenarios. If you are unable to find a persona that reflects your circumstances, please email pensions to request estimated figures.  |
| 23 | If this is a genuine consultation, why is it being run for a legal minimum length of time across the part of the year with the fewest staff at work? Why can it not be extended to 90 days? Brendan even went so far as to say it "concerns" him to see people making decisions on their pension too quickly. | This is a genuine consultation process but the University is constrained by the deadline for completing the valuation process so is unable to extend the consultation beyond the current closing date. Whilst it is appreciated that not all staff will be working over the summer break, the University has taken measures to ensure all members are informed of the consultation process, timelines and options to respond with their views [and the consultation will run until 16 September 2022, a period of 73 days overall]. |
| 24 | This is the first valuation after the scheme was closed to new members why are you proposing these changes so soon. One data point does not make a dataset. The funding level has been far lower in the past and no changes were made then, why the kneejerk reaction? | The valuation of 2018 was indeed the trigger for the decision to close the scheme on the 31 December 2018, but the intervening updates also give a broader picture of deteriorating funding position. Changes have needed to be made in response, such as the closure of the scheme to new members and pension contribution increases. |
| 25 | To increase staff contributions, could the university simply increase current staff salaries? Is future pay increases taken into account when looking at the scheme? | Predicted future increases to member’s salaries are considered for the valuation figures. Pay awards are separate to the scheme valuation. The purpose of the scheme valuation is to address the deficit and set the future cost of scheme benefits. |
| 26 | Will the feedback from the consultation be made available to members, in an anonymised form? How can members be sure that member feedback is fully considered? | The University takes the feedback from scheme members very seriously and is encouraging members to express their views through the various options advised. We will be preparing a report analysing the consultation responses for consideration by the University and by the trustees. |
| 27 | You’ve acknowledged that older members with more past contributions will inevitably be impacted less by these changes than younger / newer staff. Is the University taking any steps to mitigate this or is it simply accepted that younger / newer employees are disproportionately worse off? | The impact of the changes upon individual members is different as they will each have different circumstances, and factors affecting this include the age, length of scheme membership and planned retirement date of affected members (and the fact that all past service benefits are unaffected by any proposed changes to future benefits). The impact on members of the proposed changes will be assessed by the University through an Equality Impact Assessment, which looks at the affected employees from an equality perspective and in particular how changes might affect those relative to their protected characteristics (so for example by sex, disability, race etc.). |
| 28 | You mentioned the possibility of a (rough) 2% of salary decrease in the funds required should current market conditions carry through to October 2022. The University has indicated that if this occurred it would look to reduce member contributions. Are you able to say to (roughly) what level, and are you able to confirm whether they would consider revising the formula of 1/85th back to 1/80th of salary (or even somewhere between the two)? | Currently the expectation is that any benefit from market value improvements, in the event these gains carry through to the October 2022 valuation sign-off, will be used to reduce or eliminate increases to member contributions, however, if there is a strong opinion from members that these potential gains should be utilised in a different way, these will be considered with all the feedback from the consultation process. |
| 29 | Can you confirm are all PASNAS members on a DB final salary scheme irrespective of the date they began paying into PASNAS? | Yes, PASNAS is a DB final salary scheme and all members are in the scheme under the same criteria. |
| 30 | At the 2016 valuation the deficit recovery plan was set to be completed by 2026 – why has this plan not worked and why should we believe that any of these proposed plans will also work? | Changes to global markets have impacted the position of the scheme’s assets and liabilities which has impacted on the current deficit level (and this continues to change at each three-yearly valuation, at which point you are required by law to assess the then economic circumstances and update the financial assumptions upon which the scheme is based). The University’s one-off contribution is intended to be used to reduce volatility in the value of the scheme’s funding position over time. |
| 31 | Does the funding percentage level in the consultation notice include the one-off payment? Is the yearly deficit payment decreasing from £2m? | The figures in the consultation notice are before any lump sum contribution is made by the University. Overall the University contribution isn’t reducing, but is being paid in a different way with a front-loaded payment of £30m to significantly reduce the deficit which will allow for smaller annual repayments going forward. |
| 32 | Can email be used as primary method of communication as not everyone looks at SUSSED? | We will aim to use a combination of SUSSED announcement and e-mail notification for future updates. |
| 33 | Could the lump sum multiplier be reduced to make savings? | Yes, but this would only apply to future benefits earned and not to benefits already accrued. The impact would need to be evaluated to assess whether it might be possible to incorporate as part of the overall package, if feedback from members indicated this was a preferred option. |
| 34 | The changes are based on the current valuation, if the next valuation is significantly improved could the proposed changes be reversed? | Yes, potentially future benefits could be improved following future valuations if the position had improved significantly. Any future changes would need to be considered to produce a proposal with the best range of options/changes (for example, there may be a wish to reduce member contributions should future valuations reveal a better financial position). |
| 35 | Is the cost to the employer lower now than before? | When the scheme closed, active member numbers started to reduce so, if the University had continued to pay the deficit recovery as a % of payroll (initially 5.1% of the payroll) the amount paid would have started to reduce. To avoid that happening the deficit recovery amount was redefined to an amount in £s (initially £2m per year) rather than as a percentage to avoid that ongoing reduction in deficit recovery contribution. |
| 36 | Does the 2021 valuation deficit figure incorporate the one-off £30m contribution? | No |
| 37 | Why doesn’t the University wait to see what happens with the £30m one-off contribution before introducing other changes? | It isn’t possible to wait for the next valuation before action is taken. The University is trying to address the increased cost of accrued benefits by settling the deficit in part (with the £30m contribution) but the valuation also has to look at the increasing costs of future benefits. The proposed changes to benefits and future contribution levels won’t make any impact on the deficit and that isn’t what they intended to do, those changes are to address the increasing cost of future benefits which has to be dealt with as part of the 2021 valuation process. If the University and the scheme Trustees don’t make the right choices now it could increase costs in the future (and the trustee has to conclude this valuation with changes which re-balance the financial position of the scheme). |
| 38 | The increase to future contributions is split between the employer and employees but why are the other changes to future benefits being entirely borne by employees? | This is part of a package of responses, and because of the significant one-off payment (and indeed future, ongoing payments) being made by the University to reduce the deficit it was felt appropriate that costs of future benefits would be shared in the way outlined in the proposal. |
| 39 | Past and future benefits are two separate things but they have to be addressed as a collective solution so the impact of the University’s contribution may not be appropriate? | The consultation sets out the package of responses proposed to be implemented, but if members have different views about the package they are encouraged to provide their feed back through the various routes outlined in the consultation pack. |
| 40 | Why are younger members being penalised? | The rate of contributions, and the level of future benefits will be the same for all members regardless of age. By law, all past service benefits must be protected. The University is addressing the past service position by making the one-off deficit contribution. It is hoped that this will reduce volatility in future valuations. All of the proposed changes will be reviewed from an equality perspective, including relative to protected characteristics such as age. |
| 41 | It feels like too many changes are being put through at once. | If this is how members feel, it’s a view that needs to be put forward via the feedback options available, with a view on which alternative approaches might be followed. The Trustees have a legal obligation to address the issues and an outcome will have to be decided by the valuation deadline. |
| 42 | Have pensions schemes ever improved benefits following earlier reductions to future benefits? | It’s not something that has tended to happen, primarily because economic conditions over the last 10-15 years have meant DB schemes are becoming more challenging to operate on a cost-effective basis. This is why many DB schemes have closed in recent years, however it’s impossible at this stage to predict what the 2024 valuation may reflect. |
| 43 | Who are the trustees of the scheme? | The Trustee board is made up of some University Trustees, some member trustees (both active and retired) and 2 independent trustees. The full list can be found on the PASNAS webpage. |
| 44 | If there are University-appointed Trustees on the scheme board, how can it be said to be separate from the University? | The scheme is a separate legal entity but, because the scheme is run exclusively for the 3 employers (with the University as the principal employer) it is appropriate (and part of the scheme’s constitution) for the University to have the ability to appoint some of the trustees and, whilst on the board, they act under trust law in accordance with the best interests of the scheme’s beneficiaries.  |
| 45 | The proposed increases feel unsustainable for members in the current economic climate. | The University is very aware of the financial challenges facing employees and is looking to mitigate the impact. It’s really important for members to provide their feedback so the University can assess the view of members as clearly as possible and use this to inform their decision on the final shape of the package of changes. |
| 46 | As the scheme is closed to new members and the valuation takes place every three years, how is this taken into account in setting University deficit contribution levels? | Because of reducing numbers the annual deficit recovery amount paid by the University was redefined from a percentage of payroll to a fixed cash sum per year so the amount doesn’t reduce as active member numbers gradually decline. The employers will continue to look at actual amounts for annual deficit recovery payments rather than a percentage payment for future valuations.Management of the deficit recovery is being looked at with the intention that the £30m one-off contribution will help to address a change to the investment strategy for the scheme to improve liability protection and help to reduce the likelihood of significant volatility in future valuations.When the scheme closed to new members it was agreed that in order to keep the scheme open for existing members there would need to be more engagement in the discussions around how funding challenges are addressed. |
| 47 | How does the University contribution for PASNAS vary from other pension options? | USS has higher member and employer contribution rates. The Pay and reward packages are different for those employees eligible for USS and those eligible for PASNAS/USRF and the University continues to try to address any potential fairness aspects within this. |
| 48 | Is it likely that the consultation will be extended? | As there is a statutory deadline for the valuation process to be completed by 31st October 2022 it is not expected that the consultation period will be extended beyond 16th September 2022. Time has to be given for members to express their views and this may result in alternative proposals for consideration however the regulator would expect any outstanding issues to be resolved by the regulatory deadline which wouldn’t allow for a further extension to the consultation period. |
| 49 | Is there, or has there been in the past, a defined period for which you are allowed to be a member of PASNAS? | This might be referring to the fact that there used to be tax rules effectively limiting members to a maximum of 40 years contributions to the scheme, but these tax rules were replaced and superseded many years ago. There is no limitation in the PASNAS rules for the number of years of pensionable service that members can accrue. |