University Of Southampton Pension and Assurance Scheme for Non-Academic Staff

2023 Summary Funding Statement

The purpose of this Statement is to explain the funding of the University of Southampton Pension and Assurance Scheme for Non-Academic Staff (the "Scheme").

Summary of the financial position of the Scheme

An "actuarial valuation" is a detailed assessment of the financial position of the Scheme. Actuarial valuations of the Scheme are completed every three years and actuarial updates are provided each year between valuation dates. The last summary funding statement gave detail on the actuarial valuation as at 31 July 2018, actuarial valuation as at 31 July 2021 and the actuarial update as at 31 July 2022.

Since the last summary funding statement, a further actuarial update as at 31 July 2023 has been completed. The table below displays the results as at 31 July 2023 and compares these to the results of the 31 July 2021 valuation along with the updated position as at 31 July 2022:

Funding position	31 July 2023 (£m)	31 July 2022 (£m)	31 July 2021 (£m)
Assets	208.8	284.4	283.1
Liabilities	212.4	276.7	339.5
Surplus/(Deficit)	**(3.6)**	**7.8**	**(56.5)**
Funding level	**98%**	**103%**	**83%**

How has the financial position of the Scheme changed since the date of the last summary funding statement?

As can be seen in the table above, the funding position of the Scheme can vary substantially depending upon market conditions. The funding level also depends upon the expected return from the Scheme's investment strategy.

The funding position as at 31 July 2023 indicated that there was a deficit of approximately £3.6m, which equated to a funding level of 98%. The primary reason for the development of a deficit during the year was poor returns on the Scheme's invested assets. The performance of the Scheme's assets is kept under close review.

This negative has been partly offset by a rise in gilt yields (the rate of return on bonds issued by the British Government) which has resulted in a lower value being placed on liabilities. Overall, the impact of these changes was to worsen the Scheme's funding position slightly.

The results of the actuarial valuation as at 31 July 2021, and the actuarial updates as at 31 July 2022 and 31 July 2023 are set out in the Scheme Actuary's reports dated 28 October 2022, 18 November 2022 and 9 November 2023 respectively. The headline figures are set out in the table above. Further details on how to obtain copies of these reports are set out at the end of this Statement.

How are the Scheme's assets invested?

The Trustees have set a benchmark for investing 25% of the Scheme's assets in a diversified portfolio of global equities, 15% in a mixture of diversified growth funds, 15% in Property funds and a further 10% in a range of credit holdings via pooled funds. The remainder of the Scheme's assets are invested in protection assets that aim to match the movements of the Scheme's liabilities to changes in interest rates.

Subject to certain restrictions imposed by the Trustees, the day-to-day management of the Scheme's assets has been delegated to their investment managers. The investment objectives for the Scheme set by the Trustees is set out in the "Statement of Investment Principles" which is available on request.

Role of the Trustees

The Scheme is set up under trust and looked after by Trustees who are responsible for paying the benefits provided by the Scheme, investing the Scheme's assets and ensuring that the Scheme is properly funded.

The benefits provided by the Scheme are described in the Scheme's Trust Deed & Rules and the Scheme Booklet.

The Scheme's assets are looked after by the Trustees, on behalf of the members, and are kept separate from those of the University. The main assets of the Scheme are invested collectively; they are not invested in individual funds for each member.

The Trustees rely on the financial support of the University to ensure that the Scheme has enough money to provide the promised level of benefits. Unfortunately, the cost of providing final salary pension benefits cannot be predicted with any certainty; it depends on what happens in the future such as investment returns and how long people live. Therefore, the amount of money required will vary depending on how these things turn out in practice.

Role of the Scheme Actuary

The Scheme Actuary to the University of Southampton Pension and Assurance Scheme for Non-Academic Staff is currently Paul Hamilton of Barnett Waddingham LLP, who is an independent professionally qualified actuary appointed by the Trustees. The Scheme Actuary carries out the actuarial valuations of the Scheme every three years, which determines whether there is a shortfall in the scheme, and the contributions payable to meet future benefits, and pay off the shortfall.

What contributions are being paid to the Scheme at the moment?

Following the 2021 actuarial valuation it was decided that active member contributions would be kept at 7.2% of Pensionable Salaries.

Active members have the option of paying more ("Additional Voluntary Contributions", or "AVCs") into a money purchase scheme with Prudential which are held in separate funds for each individual.

Following the completion of the 2021 actuarial valuation, the University agreed to pay total contributions of 15.6% of total pensionable salaries for all active members with effect from 1 January 2023, which is an increase from 13.85%. Following the lump sum contributions of £30,250,000 paid in July 2022, the University agreed to reduce the contributions from £2 million per annum to £625,000 per annum from 1 January 2023, payable in equal monthly instalments. In addition to these contributions, the University agreed to pay an additional £400,000 per annum from 1 January 2023, payable in monthly instalments, to meet insurance premiums and expenses relating to the Scheme.

When will the contribution rate be reviewed?

The next actuarial valuation is to be carried out with an effective date of 31 July 2024 and the contribution rates will be reviewed as part of this exercise. The statutory deadline for completing this valuation is 31 October 2025.

Has the University received any payments from a surplus in the Scheme?

No payments have ever been made to the University from a surplus within the Scheme.

How is the actuarial valuation carried out?

Actuarial valuations are carried out on both an "ongoing" basis and a "winding up" basis.

The "ongoing" basis assumes that the Scheme continues in its present form and has the continued financial support of the University. It is the basis used by the Trustees to fund the Scheme. The Scheme Actuary looks at how much money is in the Scheme now and estimates how much will be needed to pay pensions in the future based on a number of assumptions such as future inflation, investment returns and how long members will live.

The "winding up" basis assumes that the Scheme is immediately wound up and members' benefits are secured by purchasing individual annuity policies from an insurance company. Therefore, the winding up position depends on the cost of buying these annuities. The cost of buying annuities is usually significantly higher than the value placed on the benefits for "ongoing" purposes. This is because insurance companies take a very cautious view of the future and invest very conservatively. In addition, insurance companies are trying to make a profit. By contrast, the Trustees invest some of the Scheme's assets in equities and assume that, over the long term on an "ongoing" basis, these investments will provide higher returns than more cautious investments such as government bonds. The winding-up basis is used to estimate the deficit that would need to be recovered from the University in the event of the Scheme winding-up.

Has the Pensions Regulator exercised any of its powers in relation to the Scheme?

The Pensions Regulator can change the Scheme, give directions about working out its liabilities or impose a schedule of contributions. The Trustees are pleased to say that the Regulator has not needed to use its powers in this way for the Scheme.

What happens if the Scheme winds up?

If the Scheme winds up the University has a statutory obligation to ensure that the Scheme has enough money to buy individual annuity policies from an insurance company for all members of the Scheme. If the University is not able to do this because it is insolvent the Scheme should be protected by the Pension Protection Fund. The Pension Protection Fund is a compensation scheme set up by Government to protect pension schemes in the event of employer insolvency.

The Pension Protection Fund should protect a significant proportion of your benefits but it would not pay your pension in full. Further information on the benefits it will provide and other useful information is available on the Pension Protection Fund website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

On a "winding up" basis (i.e. if the Trustees cease to look after the Scheme, and an insurance company would take over responsibility for paying benefits), the estimated deficit as at 31 July 2021 was £305 million. This is a theoretical calculation which must be carried out as part of the actuarial valuation process.

Please note that this does not mean that the University is currently considering winding up the Scheme. For the avoidance of doubt, winding up the Scheme is very different to closing the Scheme. The consultation process run by the University in 2018 looked at options for closing the Scheme, but was not suggesting the Scheme wind up – a closed scheme can continue to run, looked after by the Trustees without needing to wind up.

Where can I get more information?

If you have any other questions, or would like any more information, please contact us at the address below. The following additional documents are available on request:

The Statement of Investment Principles - *this explains how the Trustees invest the money paid into the Scheme.*

The Implementation Statement – *this covers how the Scheme's policies on stewardship have been followed during the year and describes the voting behaviour by or on behalf of the Trustee over the year. The Scheme's implementation statement can be found at: https://www.southampton.ac.uk/finance/services/pasnas.page*

The Statement of Funding Principles - *this explains the Trustees' approach to funding the Scheme.*

The Schedule of Contributions - *this shows how much money is being paid into the Scheme.*

The Annual Report and Accounts - *this shows the Scheme's income and expenditure in the 12 months up to 31 July each year. A copy is available at:*

http://www.southampton.ac.uk/finance/services/index.page

Valuation Report - *the full report on the Actuarial Valuation following the Actuary's assessment of the Scheme's financial position at 31 July 2021.*

Actuarial Update Reports – *the full report on the Actuarial Update following the Actuary's assessment of the Scheme's financial position at 31 July 2023.*

The University of Southampton Pension and Assurance Scheme for Non Academic Staff Booklet *(you should have been given a copy when you joined the Scheme, but further copies are available at: http://www.southampton.ac.uk/finance/services/index.page).*

An Annual Benefit Statement – *Benefit Statements for the 2023 scheme year were issued to active members towards the end of the year. If you are not already in receipt of a pension from the Scheme (and have not received a benefit statement in the previous 12 months) you can ask for a statement that provides an illustration of your likely pension.*

If you are thinking of transferring your benefits from the Scheme for any reason, you should consult a professional advisor, such as an independent financial adviser, before taking any action.

Please help us to keep in touch with you by telling us if you change address.

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The Trustees of the University of Southampton Pension and Assurance Scheme for Non-Academic Staff

December 2023