Pension Scheme Update

Outcome requested:	Finance & Investment Committee is invited to **note** the following update in relation to our pension schemes: • Employer costs of the pension schemes; • Current backlog pension deficits; • The latest valuations of USS and SAUL.
Executive Summary:	University staff are members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme. We also operate a closed scheme for the non-teaching staff of the London Hospital and St Bartholomew's hospital medical college prior to their merger with the University. Our financial statements include the backlog pension deficit of the USS and SAUL pension schemes. In summary: Employer pension costs increased to £30.3m from £28.7m in 2016/17, an increase of 5.6%. As there has been no change to the employer contribution rates since April 2016, the increased pension costs are attributable to increased staff numbers and salary costs. Our backlog pension liabilities reduced to £37.6m from £39.5m at the 31st July 2017. Our cash contribution to this reduction was £3.4m. Both USS and SAUL had tri-annual valuations in March 2017 and were required to have agreement to the valuation and documentation submitted to the pension regulator by June 2018. The 2017 tri-annual valuation for the SAUL pension scheme was concluded and the balance sheet pension liabilities updated at 31st July 2018 accordingly. The 2017 triannual valuation for the USS pension scheme is still in progress and as such the value of the backlog deficit detailed in the 2017/18 Financial Statements does not reflect this valuation. We anticipate that this will be accounted for in 2018/19. An update of the current position of the valuation is included in this paper.

QMUL Strategy: strategic aim reference and sub-strategies [e.g., SA1.1]	6.1 Achieve enhanced investment in resources and facilities, for the benefit of students and staff, with an appropriate balance of contributions from across all components of QMUL
Internal/External regulatory/statutory reference points:	Statutory requirements, risk management
Strategic Risks:	
Equality Impact Assessment:	Not required
Subject to prior and onward consideration by:	FIC September 2018
Confidential paper under FOIA/DPA	No
Timing:	N/A
Author:	Andrew Gladin, Deputy Director of Finance
Date:	11 September 2018
Senior Management/External Sponsor	Joanne Jones, Finance Director

QMUL Pension Schemes

University staff are members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme.

The figures included in this paper have been obtained from the first draft 2017/18 financial statements which are subject to final internal review and external audit. The paper also details the impact of the 2017 triennial valuation of the SAUL pension scheme and the current position in relation to finalising the 2017 USS pension scheme valuation.

1. 2017/18 Pension costs and rates

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

Pension Contribution Costs	**Cost 2017/18**	**Cost 2016/17 £m**	**Current Rate %**
Contribution paid to USS	23.7	22.5	18.0
Contribution paid to SAUL	4.2	3.9	16.0
Contribution to paid NHS	2.4	2.3	14.3
Total	**30.3**	**28.7**	

There were no changes to the employer contribution rates during 2017/18.

2. Pension scheme liabilities

The pension scheme liabilities shown on our balance sheet are in respect of:

- All liabilities in respect of the closed London Hospital and St Bartholomew's Hospital Medical College.
- The backlog deficit of the USS scheme based on 2014 valuation. (2017 valuation not finalised).
- The backlog deficit of the SAUL scheme based on the 2017 valuation.

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

Balance sheet Pension Liabilities £m	**31st July 2018 £m**	31st July 2017 £m	31st July 2016 £m
LHMC	**0.1**	0.3	0.4
SAUL	**0.0**	0.6	2.2
USS	**37.5**	38.6	40.9
Total pension liability	**37.6**	**39.5**	**43.5**
(Charge)/credit to Consolidated Statement of Comprehensive Income and Expenditure Statement	**1.9**	**4.0**	**(4.8)**

As changes to the valuation of the backlog pension liabilities are accounted for through the consolidated statement of comprehensive income and expenditure, this can have a material impact on the volatility of the university group surplus.

As the USS valuation has not yet been finalised, the British Universities Finance Directors Group have issued guidance for University 2017-18 statutory accounts to include impact scenarios of potential changes to the backlog deficit liability.

The following scenarios will therefore be included in our 2017-18 financial statements:

USS Backlog Pension Liability	13 years (as per existing recovery plan) £'000	16 years (additional 3 years) £'000	19 years (additional 6 years) £'000
2.1% contribution to deficit (as per existing recovery plan)	37,444	46,545	50,615
3.1% contribution to deficit (additional 1%)	52,366	65,093	70,786
6.0% contribution to deficit (additional 3.9%)	87,932	109,303	118,862

This shows, for example, that if the outcome of the valuation is to increase the our existing backlog pension contribution from 2.1% to 3.1% over the same recovery period the pension liability would increase from £37.4m to £52.4m, leading to an additional £15m charge to the statement of comprehensive income and expenditure. As our forecast 2018-19 surplus is currently £13.5m, this would place us in deficit.

3. Latest pension scheme valuations

Both USS and SAUL had tri-annual valuations in March 2017 and were required to have agreement to the valuation and documentation submitted to the pension regulator by June 2018.

SAUL

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

USS

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

Following failure in April 2018 to agree proposed changes to the Scheme, proposals were withdrawn by the Joint Negotiating Committee. A Joint Expert Panel was established with an equal membership of UUK and UCU personnel and an independent Chair to review the assumptions underpinning the 2017 valuation. The panel is due to report back to UUK and UCU in September. Any recommendations from the panel will require consultation with Employers and staff members as well as being acceptable to USS Trustees and the pension regulator.

As a backstop position the USS Trustee Board has stated, that in the absence of an agreed way forward it will enforce the 'cost-sharing' rule (Clause 76.4) from April 2019. This would increase the contributions to the value required to maintain existing benefits (based on the current USS valuation) and would split this increase 35:65 between members and employers respectively.

USS intends to phase the implementation of additional contributions (instead of imposing the increases in full from April 2019). The proposed increase in contributions for staff and employers are as follows:

Contribution of salary	Current level	Increase		
		From April 2019	From Oct 2019	From April 2020
Member (staff)	8%	8.8%	10.4%	11.7%
Employer	18%	19.5%	22.5%	24.9%

In terms of the University, an increase in contributions to 24.9 per cent relates to £9.2m per year, and schools, institutes and professional services are currently developing plans to mitigate this additional cost if required.

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

USS have commenced a 60-day consultation for the implementation of Clause 76.4, which concludes on 2nd November 2018. This will then enable Clause 76.4 to be actioned from April 2019 if required.

Assuming that UCU, UUK, USS and the Pensions Regulator can get to an agreed position on the valuation following the JEP report, the Joint Negotiation Committee (JNC) will then have to consider any possible changes in benefits and contributions in accordance with the USS governance. The JNC will then make a recommendation to the Trustee to consider. As mentioned above, any changes to benefits and/or contributions will need to go through another 60-day consultation. This gives an indication of timescales involved and should be considered alongside the timescales proposed for the contribution increases

A verbal update of the JEP recommendations will be provided to the committee at the meeting if available.