Queen Mary
University of London

Pension Scheme Update 2019/20

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 • An update of the impact of the latest valuations of the Universities Superannuation Scheme (USS), the NHS scheme and the London Hospital and St Bartholomew's Hospital Medical College (LHMC).
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. In summary: Employer pension costs increased to £38.3m from £32.1m in 2018/19, an increase of 19.3%. £3.0m of this increase related directly to the increase in employers' contributions to the USS Scheme in April 2019 from 18.0% to 19.5% and from 19.5% to 21.1% in October 2019, required following the 2017 and 2018 valuations. The employer contribution for the NHS scheme also increased from 14.4% to 16.2% in April 2019. Overall our backlog pension liabilities decreased from £106.7m in July 2019 to £64.7m at the 31st July 2020. This is predominantly driven by the outcome of the 2018 USS pension valuation. In addition to changes to contribution rates and the value of the backlog deficit, the trustees are also seeking remedies to maintain the strength of the employer covenant, including enhanced monitoring, *pari passu* for any new secured debt and no departure from the scheme. These proposed changes were discussed at Council in July 2019 as part of the 2018 consultation and continue to be an area of discussion as part of the 2020 valuation required to conclude within 18 months from 31st March 2020. Early discussions from the 2020 valuations indicate potential for significant increases in deficit and future service cost contributions.

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:	
Not required	Not required
Subject to prior and onward consideration by:	SET September 2020, FIC September 2020
Confidential paper under FOIA/DPA	No
Timing:	N/A
Author:	Andrew Gladin, Deputy Director of Finance Louise Parr-Morley, Interim Director of Finance
Date:	16 September 2020
Senior Management/External Sponsor	Louise Parr-Morley, Interim Director of Finance

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.

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.

The figures included in this paper have been obtained from the first draft 2019/20 financial statements which are subject to final internal review and external audit.

2019/20 Pension costs and rates

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

Pension Contribution Costs	**Cost 2019/20**	**Cost 2018/19**	**Current Rate %**
Contribution paid to USS[1]	30.4	25.0	21.1
Contribution paid to SAUL	4.8	4.4	16.0
Contribution paid to NHS[2]	3.1	2.6	16.2
Total	**38.3**	**32.1**	

1 The employer contribution rate to the USS Scheme increased in April 2019 to 19.5% from 18.0% and again in October 2019 to 21.1% from 19.5%, costing an additional £3.0m in 2019/20.

2. The total employer contribution rate to the NHS Scheme is 20.7% of which 4.5% is underwritten by the Government.

Further agreed employer pension cost increases

Based on the 2018 valuation the employer contribution rate will increase to 23.7% from 1st October 2021. However, in line with the pension regulator guidance a triennial valuation is due in 2020. Despite some initial decisions to consider whether to delay the USS has agreed that a new valuation will be carried out in 2020 to incorporate the JEP Stage 2 recommendations, allowing a much needed informed debate about the long-term sustainability of the pension scheme.

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
- The backlog deficit of the SAUL scheme (currently zero)

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

Balance sheet Pension Liabilities £m	**31st July 2020 £m**	31st July 2019 £m	31st July 2018 £m
LHMC	**0.2**	0.1	0.1
SAUL	**0.0**	0.0	0.0
USS	**64.7**	106.6	37.5
Total pension liability	**64.9**	106.7	37.6
Charge/(credit) to Consolidated Statement of Comprehensive Income and Expenditure Statement	(41.8)	69.2	1.9

As changes to the valuation of the backlog pension liabilities are accounted for through the consolidated statement of comprehensive income and expenditure, this has had a material impact on the 2019/20 reported university group surplus (2019/20 +£42.0m, 2018/19 -£69.2m).

3. Latest pension scheme valuations

SAUL

There were no updates to the SAUL scheme during 2019/20, and the 2017 valuation and employers' contributions remained in effect throughout the year.

The last 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 although contributions from employers and employees being less than the cost of benefits being built up in the future, this was deemed manageable in the short term. It was 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 would be undertaken prior to the 2020 valuation.

SAUL launched the 2020 valuation on 31st March 2020 and advised that due to the sector's links with the USS its' covenant strength would be based on a TENDING to STRONG. This also currently assumes that top 10 employers could sustain an increased contribution of up to 5% and that a deficit increase of up to £500m could be mitigated through higher contribution rates over a 5-10 year period. We await the technical provision valuation.

USS

The 2018 Valuation showed a scheme deficit of £3.6bn and a funding level of 95% (2017 Valuation: £7.5bn and a funding level of 89%).

USS: Contribution Rates

Following the failure to conclude the 2017 valuation, increased contributions were implemented in April 2019 in accordance with Section 76.4.

On 23rd August 2019, USS announced changes to the proposed increases, summarised below.

% of Salary	From April 2019	From October 2019	From October 2021
Member (staff)	8.8%	9.6%	11.0%
Employer	19.5%	21.1%	23.7%

The increase to the revised 23.7 per cent will increase the universities staff costs by c £7.6m per annum (the original proposed increase to 24.9% equated to c £9.2m per annum).

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

USS: Backlog Deficit

Following the implementation of Section 76.4 and the resulting Schedule of Contributions, the year-end backlog deficit was forecast to increase by an additional £65.6m compared to budget to £100.8m. This was based on the Mercer discount rates of 2.265% as at 28th February 2019. Discount rates had decreased significantly by the 31st July 2019 to 1.6%. As a result, the deficit was £5.8m higher than forecast at £106.6m. Following the 2018 valuation the deficit will reduce by approximately £44m included in the 2019/20 budget. Mercer have applied a discount rate of 0.735% at 31st July 2020 resulting in a £42m positive adjustment

2020 Valuation

The 31st March 2020 valuation is underway and will be completed by 30th June 2021.

An initial consultation was issued to assess the willingness for *Pari passu* and debt monitoring in order to support a STRONG covenant rating. Discussions are still underway but the technical provision will now be assessed on a TENDING to STRONG rating. As at 7th September there was a potential for the fund's deficit to range from £9.8bn to £17.9bn. The relative cost of recovering the deficit is estimated to be 11.4% to 30.3% of payroll. Whilst the costs of continuing to offer the current benefits (the future service cost) ranges from 29.4% to 37.6% of payroll. These are subject to the final agreed technical provisions, agreed timelines to recover the deficit and the market assumptions on asset and liability valuations.

Louise Parr-Morley
Interim Finance Director
17 September 2020