Queen Mary
University of London

Pension Liabilities Update 2020/21

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), and the Superannuation Arrangements of the University of London (SAUL) scheme.
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. Employer pension costs remained the same as 2019/20 at £38.3m. Overall our backlog pension liabilities increased from £64.7m in July 2020 to £69.0m at the 31st July 2021. This is predominantly driven by increases to the expected future headcount as set out in our most recent five year plan. Following 2020 valuations of both the USS and SAUL pension schemes there will be an increase in employer contribution rates in 2021/22. In addition, the USS scheme will implement a debt monitoring framework and pari passu arrangements, with no gap between the end of the current short-term moratorium on employer exits and the start of a rolling 20-year moratorium.
QMUL Strategy: strategic aim reference and sub-strategies	Financial sustainability
Internal/External regulatory/statutory reference points:	N/A
Strategic Risks:	12. Ensuring improved cash generation to enable investment
Equality Impact Assessment:	The University has fed back equality impacts of proposed benefits and contribution changes under both the recent USS and SAUL valuations.
Subject to prior and onward consideration by:	N/A

Confidential paper under FOIA/DPA	No
Timing:	
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Date:	17 September 2021
Senior Management/External Sponsor	Karen Kroger, Chief Financial Officer

University staff are eligible to be 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 draft 2020/21 financial statements which are subject to final internal review and external audit.

2020/21 Pension costs and rates

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

Pension Contribution Costs	**Current Rate %**	**Cost 2020/21**	Cost 2019/20	Cost 2018/19
Contribution paid to USS[1]	**21.1**	**30.7**	30.4	25.0
Contribution paid to SAUL	**16.0**	**4.6**	4.8	4.4
Contribution paid to NHS[2]	**16.2**	**3.0**	3.1	2.6
Total		**38.3**	**38.3**	**32.1**

[1] The employer contribution rate to the USS Scheme was constant at 21.1% throughout the year

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

Further employer pension cost increases

Based on the 2018 USS valuation the employer contribution rate was due to increase to 23.7% from 1st October 2021. However, under the proposed Schedule of Contributions for the 2020 valuation the employer rate will increase to 21.4% from 1 October 2021. This rate will continue, provided the debt monitoring framework and pari passu arrangements are effective from 1 October 2021 and the Benefit Change Deed is agreed by 28 February 2022. Should these not be in place then the proposed Schedule of Contributions provides a 'back-stop' position which would result in increased contributions, increasing between April 2022 and October 2025 up to a figure of 38.2% for employers. The Schedule of Contributions is currently formally in consultation between the USS Trustee and UUK. The impact of the 0.3% rate increase is a rise in contributions (based on current staffing) of c. £0.3m from the current cost.

The outcome of the March 2020 valuation of the SAUL pension scheme is that employer contributions will increase from the current 16% to 19% in April 2022 and 21% in January 2023. The impact of these increases is an additional cost in 2021/22 of c. £0.3m, in 2022/23 of c. £0.8m and in 2023/24 onwards of c. £1m.

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 2021**	31st July 2020	31st July 2019
LHMC	**0.1**	0.2	0.1
SAUL	**0.0**	0.0	0.0
USS	**68.9**	64.7	106.6
Total pension liability	**69.0**	64.9	106.7
Charge/(credit) to Consolidated Statement of Comprehensive Income and Expenditure Statement	4.1	(41.8)	69.2

Latest pension scheme valuations

Both USS and SAUL had valuations in March 2020. The SAUL valuation was finalised in June 2021. The USS valuation has not yet been finalised.

SAUL

The SAUL valuation resulted in a deficit in the fund, but once post valuation experience was taken into account this was eliminated. However, there was significant contribution strain in relation to future service costs of c. £75m p.a. SAUL agreed to address £25m of the strain through changes to SAUL's investment strategy, employers will cover £25m of the strain through increased contributions and the remaining £25m will come through benefit change, achieved by the introduction of a 3-year defined contribution feeder scheme for new joiners.

USS

In March 2021 the USS Trustee published its actuarial report (known as the section 76.1 report) under the 2020 valuation, placing the Scheme's deficit at between £14.9bn and £17.9bn. Over the summer, the USS Joint Negotiating Committee (JNC) has been working to reach an agreement in relation to the 2020 Valuation Report. After an agreed extension to their three-month negotiations, the JNC voted in favour of the package of changes put forward by UUK. In summary, the UUK proposals result in changes in future benefits from April 2022: a defined benefit threshold of £40,000, an accrual rate of 1/85 and an inflation cap at 2.5%, with a defined contribution scheme above this salary threshold. Additionally, there is a debt monitoring framework and pari passu arrangements and no gap between the end of the current short-term moratorium on employer exits and the start of the rolling 20-year moratorium.

There is now a formal consultation between the USS Trustee and UUK on the proposed recovery plan, a revised Schedule of Contributions (SoC) and the Statement of Funding

Principles. The consultation period is short to enable time to conclude the arrangements for the new schedule of contributions to replace the higher contributions scheduled from October under the 2018 valuation. The changes are also subject to a statutory employer-led consultation with affected employees and their representatives, due to be launched in the autumn and run for a minimum of 60 days.