University Of Southampton Pension and Assurance Scheme for Non Academic Staff

2013 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").

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 from the University will vary depending on how these things turn out in practice. This is explained in more detail below.

How is the Scheme funded?

The Scheme is funded by the payment of contributions from existing active members and the University. Active members currently pay 6.35% of Pensionable Salary each month. The University's contribution is determined by an "actuarial valuation" every three years.

What is an actuarial valuation?

The actuarial valuation is a detailed assessment of the financial position of the Scheme on an "ongoing" basis and a "winding up" basis. The actuarial valuation is carried out by the "Scheme Actuary" who is an independent professionally qualified actuary appointed by the Trustees.

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.

When was the last actuarial valuation of the Scheme?

The last actuarial valuation of the Scheme was carried out with an effective date of 31 July 2012.

What was the financial position of the Scheme at 31 July 2012?

The results of this valuation are set out in the Scheme Actuary's report dated 26 April 2013. Details of how to request a copy of this report are set out later in this Statement. On an "ongoing" basis, using the assumptions described in the Scheme Actuary's report, the financial position of the Scheme was as follows:

Market value of the Scheme's assets at 31 July 2012:	£119.8 million
Estimated value of the Scheme's accrued liabilities:	£156.3 million
Deficit at 31 July 2012:	£36.5 million

The next actuarial update of the Scheme's financial position will be carried out with an effective date of 31 July 2013.

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

Following the 2012 actuarial valuation it was decided that active member contributions will remain at 6.35% of Pensionable Salaries.

Active members have the option of purchasing additional service within the Scheme by paying Additional Voluntary Contributions ("AVCs") of up to 15% of salary. Active members also have the option of paying AVCs into a money purchase scheme with Prudential which are held in separate funds for each individual.

The University currently pays total contributions at the rate of 17.25% of total Pensionable Salaries for all active members. This includes 11.6% of Pensionable Salaries in respect of future Scheme benefits and an additional 5.65% of Pensionable Salaries, paid with the aim of clearing the ongoing deficit in the Scheme by 31 August 2022.

When will the University's contribution rate be reviewed?

An actuarial valuation is to be carried out with an effective date of 31 July 2015 and the University's contribution rate will be reviewed as part of this exercise. The statutory deadline for completing this valuation is 31 October 2016.

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 Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

On a "winding up" basis the estimated deficit as at 31 July 2012 was £125.7 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.**

How are the Scheme's assets invested?

The Trustees have invested approximately 50% of the Scheme's assets in a diversified portfolio of UK and overseas equities, with another 25% invested in a portfolio of Government and investment grade corporate bonds. The remainder of the Scheme's assets are held in a mixture of target return funds, property and cash. Subject to certain restrictions imposed by the Trustees, the day to day management of the Scheme's assets has been delegated between three investment managers: BlackRock Investment Managers, Baring Asset Management and Newton Investment Management. The Trustees' investment strategy is set out in the "Statement of Investment Principles" which is available on request.

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.

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 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.*

Valuation Report - *the full report on the Actuarial Valuation following the Actuary's assessment of the Scheme's financial position at 31 July 2012.*

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).*

An Annual Benefit Statement - *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.*

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

August 2013