University Of Southampton Pension and Assurance Scheme for Non Academic Staff

2014 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. The last actuarial valuation of the Scheme was carried out as at 31 July 2012 and at that date there was a deficit of £36.5 million.

Since the valuation as at 31 July 2012, an actuarial update with an effective date of 31 July 2013 has been carried out. The purpose of the actuarial update is to estimate the financial position of the Scheme based on approximate calculations. The Scheme Actuary has estimated that the funding position of the Scheme has improved since the valuation date and there was a deficit in the Scheme of approximately £21.2 million as at 31 July 2013. The funding level of the Scheme has improved over the period since the last valuation primarily due to better than expected investment returns and more favourable market conditions as at 31 July 2013.

The results of the actuarial valuation and the actuarial update are set out in the Scheme Actuary's reports dated 26 April 2013 and 18 October 2013 respectively and the headline figures are set out in the table below. Further details on how to obtain copies of these reports are set out at the end of this Statement.

Funding position	31 July 2012 (£000s)	31 July 2013 (£000s)
Assets (excluding AVCs)	119,843	136,836
Liabilities (excluding AVCs)	156,363	158,010
Surplus/(Deficit)	(36,520)	(21,174)
Funding level	77%	87%

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 the actuarial valuation carried out every three years. The University currently pays total contributions at the rate of 17.25% of total Pensionable Salaries for all active members.

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.

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.**

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

Following the 2012 actuarial valuation it was decided that active member contributions would 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.

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 four investment managers: BlackRock Investment Managers, Longview Partners, 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.

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.

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.

Data Protection Act

In accordance with guidance issued by the Information Commissioners Office (ICO), the Scheme Actuary and the Trustees of the Scheme are considered "joint data controllers" (the holders, users and processors of personal data) for the purposes of the Data Protection Act 1998.

The Trustees and the Scheme Actuary will keep your data safe and secure and have agreed between them an allocation of responsibilities under the Data Protection Act.

The Scheme Actuary uses your data to advise the Trustees on the financial management of the Scheme. This advice helps the Trustees to ensure that the Scheme is able to meet its obligations to pay members' benefits in the future. The Scheme Actuary may also use your data in research which assists actuaries in providing this type of advice - for example research into the mortality experience (life expectancy) of pension scheme members in general. This may include the provision of data on a no-names basis to a recognised external authority, for example to the Continuous Mortality Investigation (CMI) which investigates mortality experience on behalf of the Institute and Faculty of Actuaries.

The Scheme Actuary does not process any "sensitive personal data". The Scheme Actuary will not pass your personal data to any third party without the prior agreement of the Trustees.

Circumstances may mean it is necessary for the Trustees to appoint a different Barnett Waddingham actuary as Scheme Actuary to the Scheme. In such cases, the Trustees will notify you as soon as practicable – usually when the next Summary Funding Statement is due.

The ICO describes the processing in more detail in a register which is available to the public for inspection at http://www.ico.gov.uk. If you would like to know more about what information the Trustees or the Scheme Actuary holds about you, or the way we use your information, you can contact the Trustees at the address given at the end of this Statement.

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. A copy is available at:*

http://www.southampton.ac.uk/finance/payandpensions/pasnas

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

Actuarial Update Report – *the full report on the Actuarial Update following the Actuary's assessment of the Scheme's financial position at 31 July 2013.*

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/payandpensions/pasnas/).*

An Annual Benefit Statement – *Benefit Statements for the 2013 scheme year are due to be issued to active members in September 2014. 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.

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

February 2014