

University of Aberdeen Superannuation & Life Assurance Scheme

AGM 5th June 2018

Member presentation – the actuarial valuation

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Agenda

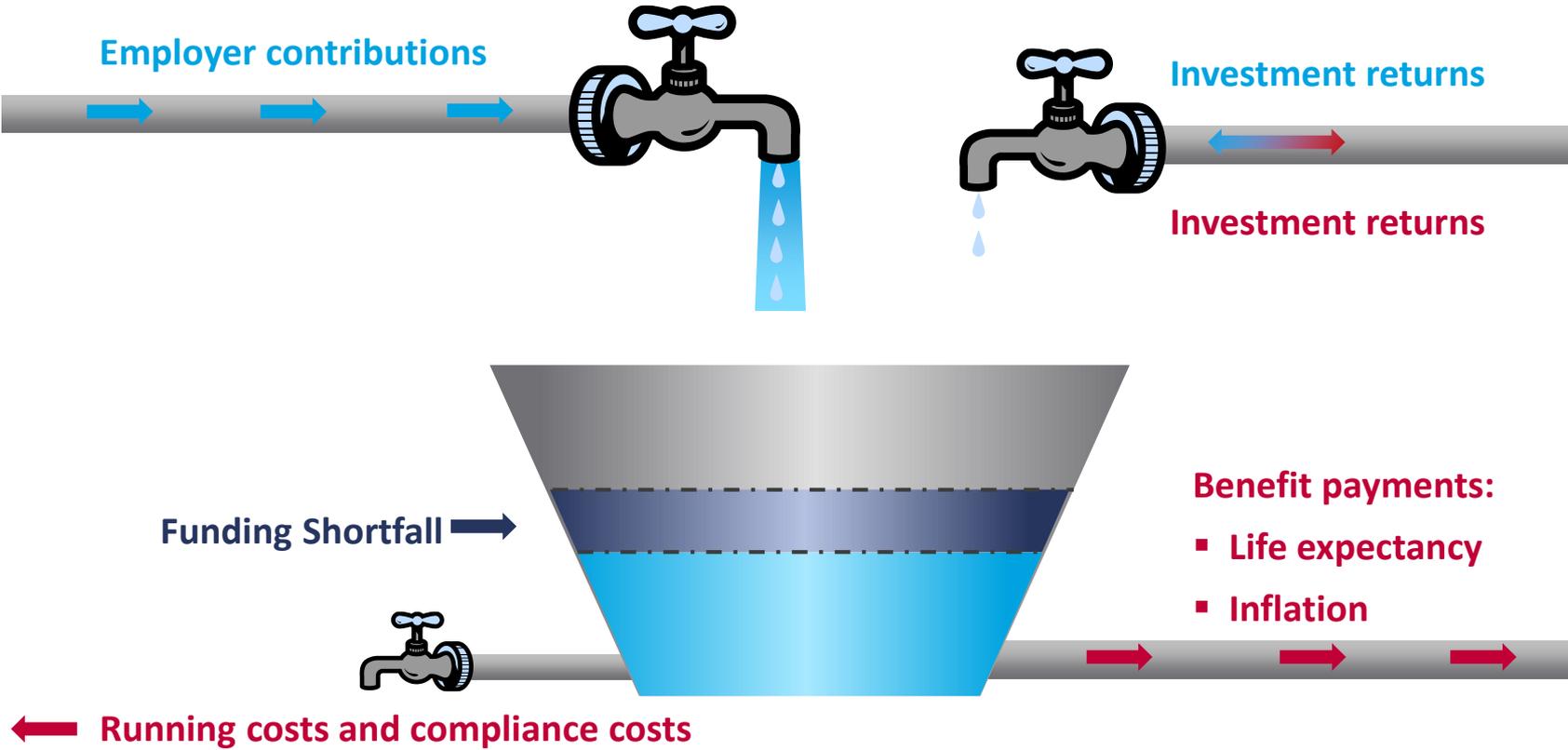
1. The actuarial valuation – what is it?
2. What are the liabilities of the Scheme?
3. What are the assets of the Scheme?
4. Valuation results and current Scheme funding position
5. What else is happening?

The actuarial valuation



- Must be carried out every three years by the Scheme Actuary for the Trustees
- Compares the market value of assets with the assessed value of the liabilities
- The triennial valuation is important because it determines how much will be paid into the Scheme
- The approach must be prudent, to ensure your benefits are secure
- The Trustees are responsible for setting the assumptions and funding plan (with advice from the Scheme actuary and support from other advisors)
- The primary focus is on the security of accrued benefits

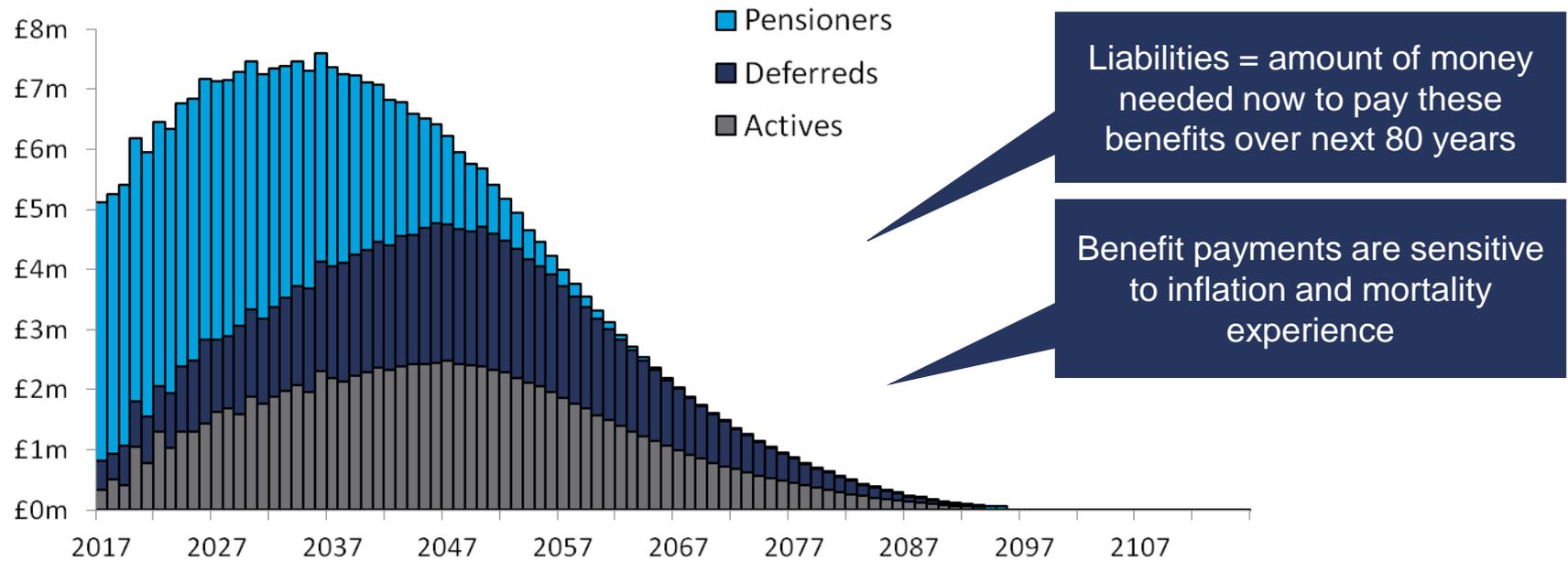
What is an Actuarial Valuation?



The actuarial valuation – what are the liabilities?

- The promised future benefit payments to ALL members in respect of service completed before the valuation date
 - **Pensioners** - *Future instalments of pensions currently in payment*
 - **Deferreds** - *Future benefit payments to former employees who have not yet retired*
 - **Actives** - *Future benefit payments to current employees in respect of service completed before the valuation date*
 - **All members** - *Future benefit payments to dependants*

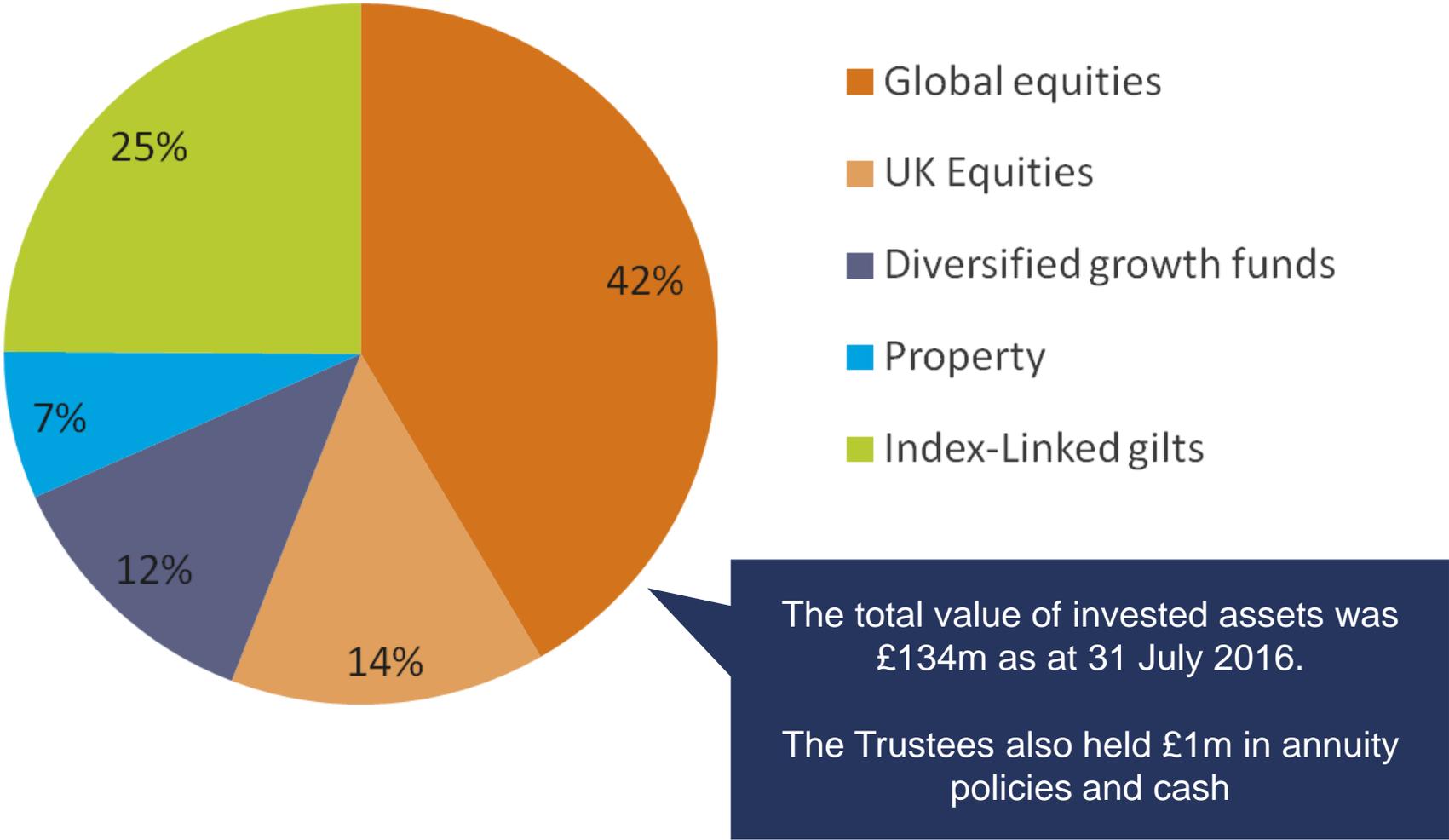
The actuarial valuation – what are the liabilities?



Graph shows projected annual outgo from the Scheme (estimated using the initial valuation assumptions)

- Annual outgo is projected to increase from £5m to £7.5m in early 2030s and then slowly tail off
- Total (estimated) future outgo is approximately £300m
- Existing assets of circa £135m plus future returns plus deficit contributions must be sufficient to meet all outgo with a high degree of confidence

What assets did the Scheme have at 31 July 2016?



Future investment returns expectations



Graph shows 15 year gilt yields over time

Or, the risk free return over a 15 year period

Risk free returns have fallen significantly.

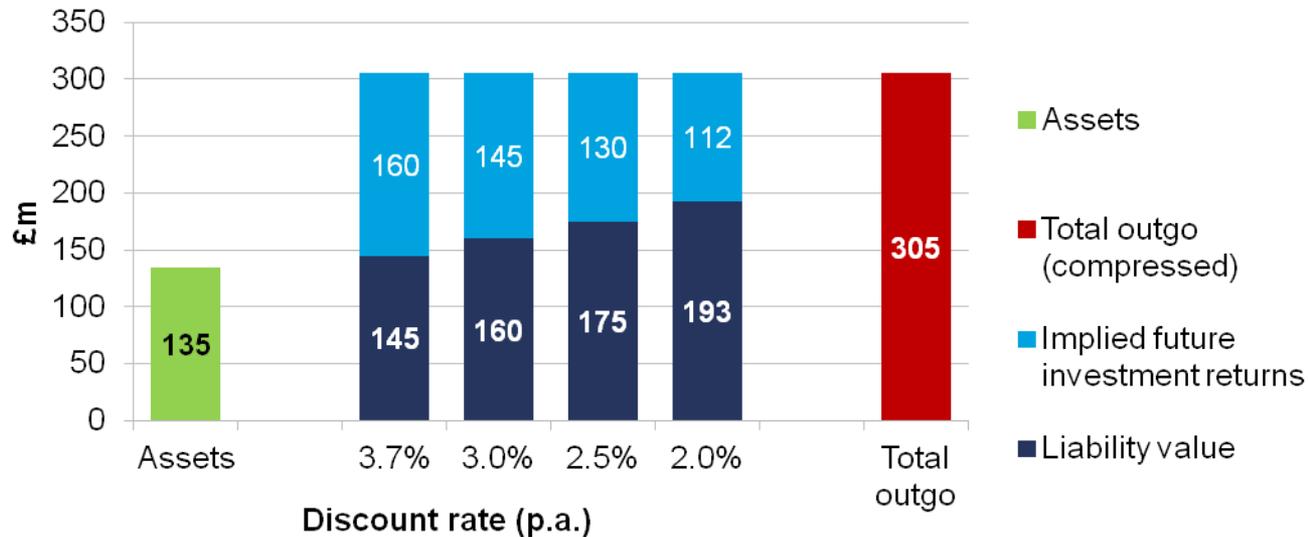
Q - What is the impact of falling risk-free returns?

- If you are saving money to pay a fixed amount in 15 years' time you need to save more....
- With a return of 5% per annum, £100 invested in early 2008 would grow to over £200 after 15 years.
- With a return of 1.66% per annum, you would need to invest £156 now to get £200 in 15 years. That's 56% more than you needed to invest in 2008.

A - The cost of providing a given level of pension has increased significantly

The actuarial valuation – what affects the liability value?

Liabilities – impact of assumed future rate of return



The discount rate must be consistent with the long term investment strategy and with the employer covenant

Graph shows simplified cashflow where all outgo is compressed into one year with the similar duration to the actual cashflows

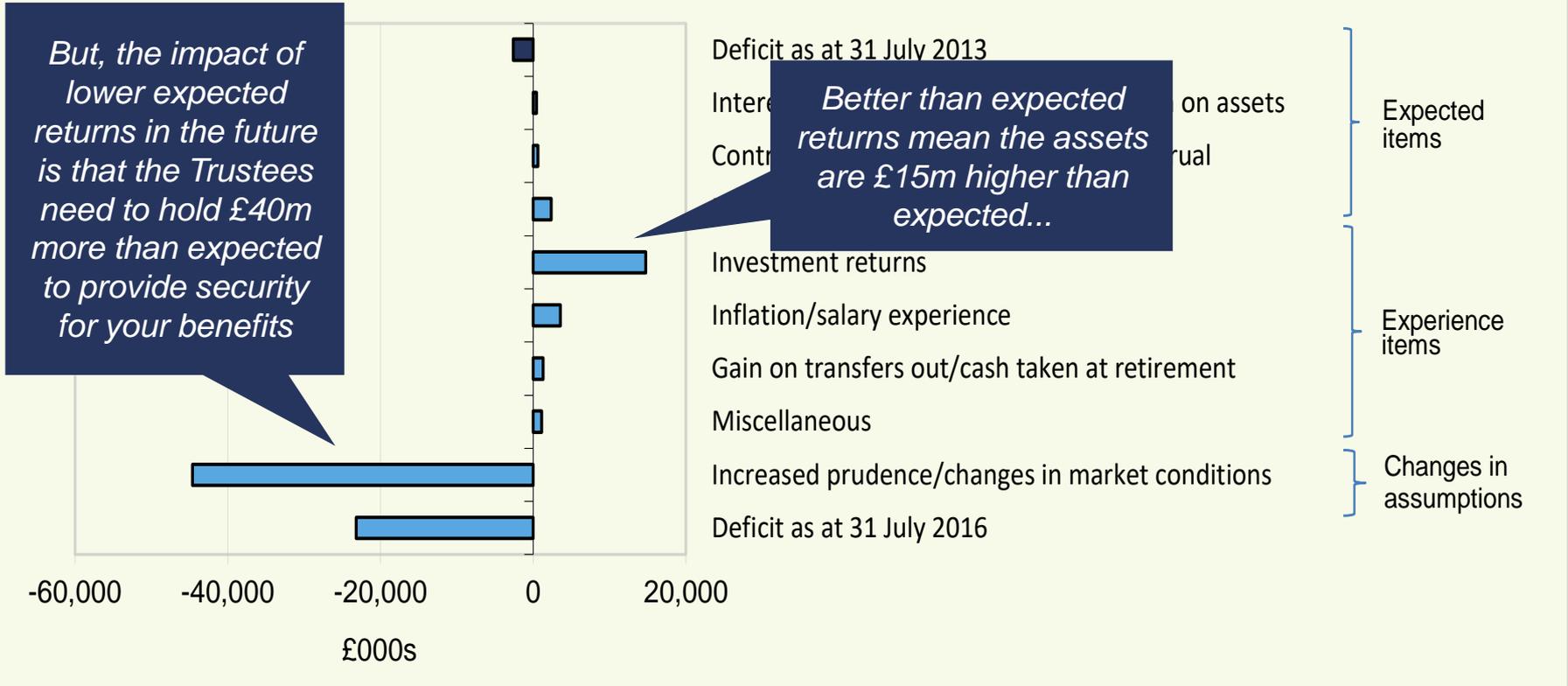
- The assumptions that determine the **level** of the cashflows can be ‘tweaked’ within acceptable ranges, but
- The critical assumption tends to be the assumed rate of return or discount rate used to place a **value** on the cashflows. This must be prudent.

Valuation results

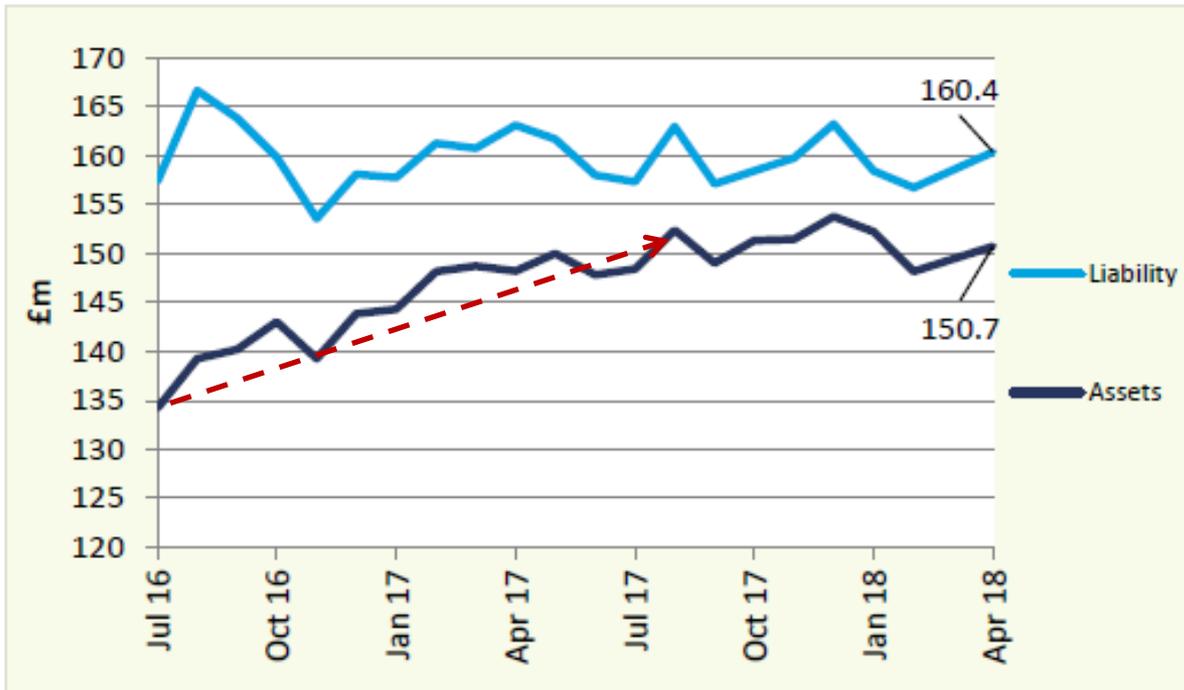
	31 July 2016 2013 basis - updated £000s	31 July 2013 Valuation £000s
Active members	38.0	35.7
Deferred pensioners	36.4	21.9
Current pensioners	84.3	52.2
Total Liabilities	158.7	109.9
Total Assets	135.5	107.3
Shortfall	(23.2)	(2,6)
Funding Level	85%	98%
Employer's Future Service Rate	18.2%	11.7%

What were the main factors affecting the Scheme between 2013 and 2016?

Reconciliation of the funding position



What has happened since 31 July 2016?



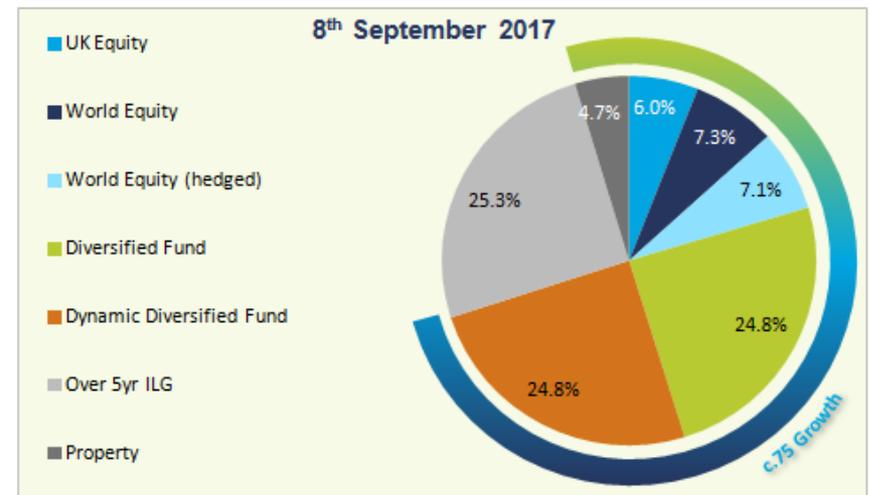
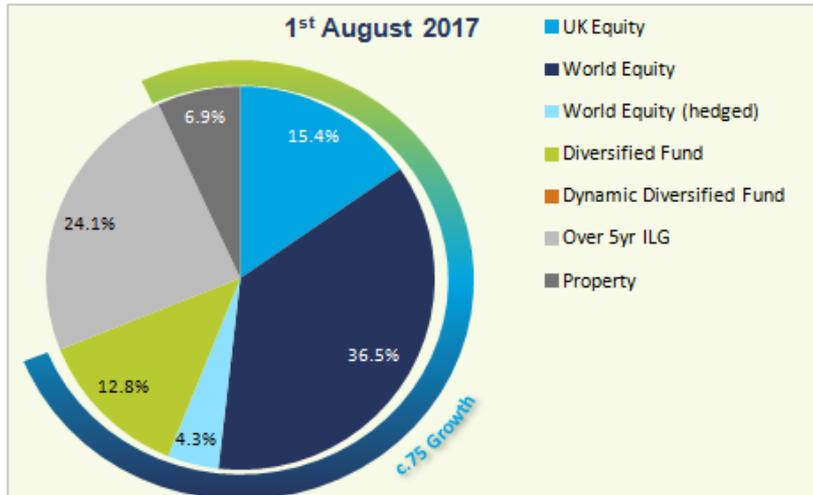
- The Trustees have been monitoring the Scheme's funding position
- The position has improved significantly since 31 July 2016
- Investment returns added £17m to the Scheme assets over the year to 31 July 2017
- The liabilities are largely unchanged
- The deficit reduced from £23m to £9m during the year

What is the Trustees' funding plan?

- The Trustees measured the deficit at 31 July 2017 rather than at 31 July 2016. This was to allow time for markets to settle following the unexpected Brexit vote in June 2016
- This means funding a deficit of £9m rather than the £23m figure at 31 July 2016
- The Trustees have obtained security over University properties worth £9m to provide increased security for your benefits and to provide the University with more flexibility on paying off the deficit
- Deficit contributions will continue at current levels (£725,000 per annum) over the period to 31 January 2029
- Future service contributions increased from 11.2% to 18.4% with effect from 1 January 2018
- The plan has been reviewed and agreed by the Pensions Regulator

What else is happening?

- Assets – having taken advice, the Trustees repositioned the Scheme assets to obtain greater diversification and to reduce the level of risk in the Scheme



- Benefit changes – the University is consulting on proposed changes to the benefits provided under UASLAS in the future.
 - This will only affect benefits earned in the future and **does not affect any benefits that members have already earned**
 - The Trustees are not involved in the consultation, which is a matter between the University and affected employees

Important notes

- This presentation is solely for the purpose of providing information to members with respect to the triennial Scheme funding valuation as at 31 July 2016.
- It should not be relied upon for any other purpose and it should be noted that neither I nor Xafinity accept liability to any third party in respect of the contents of this presentation.
- Actuarial work carried out in connection with the Scheme funding assessment is within the scope of Technical Actuarial Standards on Data, Modelling, Reporting and Pensions issued by the Financial Reporting Council. This presentation complies with those standards.