University of Aberdeen
Superannuation & Life Assurance Scheme

Report on the actuarial valuation as at 31 July 2007

30 September 2008
Table of Contents

Section 1: Summary of main conclusions .................................................. 1
Section 2: Background to the valuation .................................................... 5
Section 3: The funding position and future contribution requirements ........... 9
Section 4: The position of the Scheme on discontinuance .............................. 13
Section 5: Sensitivity of the results .......................................................... 17
Appendix A: Summary of Scheme benefits ............................................. 19
Appendix B: The information supplied .................................................... 21
Appendix C: Legislative changes since 31 July 2004 .................................. 23
Appendix D: Statement of Funding Principles ......................................... 27
Appendix E: Recovery plan ..................................................................... 35
Appendix F: Schedule of contributions ..................................................... 37
Appendix G: Statutory certificate ............................................................... 41
Appendix H: Glossary .......................................................................... 43

Throughout this document:

- "Scheme" refers to the University of Aberdeen Superannuation & Life Assurance Scheme
- "Trustees" refers to the Trustees of the Scheme
- "University" refers to the University Court of the University of Aberdeen and other participating companies.

Further definitions and terms in italics are explained in the glossary (Appendix H).
Section 1: Summary of main conclusions

Introduction

1.1 This is my report on the actuarial valuation of the University of Aberdeen Superannuation & Life Assurance Scheme as at 31 July 2007. The report is addressed to the Trustees.

1.2 The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective, as required under the Pensions Act 2004, and to determine the appropriate level of future contributions.

1.3 The valuation is required under the terms of Rule 57 of the 2001 Edition of the Rules dated 21 December 2001 (as amended) and Part 3 of the Pensions Act 2004. Both the Trustees and University have an interest in the valuation process and, as required by law, a copy of this report must be provided to the University. This report has been prepared in accordance with the guidance note GN9 version 8.1 Funding Defined Benefits – Presentation of Actuarial Advice issued by the Board for Actuarial Standards and effective from 1 February 2008.

1.4 This valuation is based on the Statement of Funding Principles prepared by the Trustees, having consulted the University, dated 30 September 2008. The principal conclusions of the valuation are summarised below:

Ongoing funding position

Past service:

1.5 On the assumptions adopted by the Trustees, having consulted the University, the Scheme had a shortfall relative to its statutory funding objective of £5.8 million at the valuation date. This means that the assets of £75.7 million covered 93% of the Scheme’s technical provisions.

Recovery plan:

1.6 The Trustees, having consulted the University, have decided that the University will pay additional contributions of 1.3% of Pensionable Salary from 1 October 2008 until 31 July 2016. If the assumptions set out in the Statement of Funding Principles are borne out in practice, the shortfall will be removed within a period of nine years from the valuation date.
Future service:

1.7 On the assumptions adopted, the University's basic contribution rate required to fund future benefits for employed members is 15.8% of Pensionable Salary. This rate includes an allowance for the administrative expenses of the Scheme including Pension Protection Fund and other statutory levies as they are incurred. This rate however excludes life assurance premiums which are met by the University in addition to these rates.

1.8 The University also contributes 7.05% of Pensionable Salary in respect of members participating in the PensionsPlus salary sacrifice arrangements. Other members of the scheme contribute at this rate themselves.

1.9 The Pensions Act 2004 requires the Trustees, having consulted the University, to prepare a revised schedule of contributions following my signing this report. The Trustees will also need to submit a recovery plan to the Pensions Regulator.

1.10 The Trustees are required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period.

Discontinuance position

1.11 If the Scheme had been discontinued and wound up at the valuation date, there would not have been sufficient assets to secure the accrued benefits through the purchase of annuity policies with an insurer. My estimate of the solvency of the Scheme at the valuation date is 68%. The approach I have followed in making this estimate is specified in Section 4 of this report.

Next actuarial valuation

1.12 The financial position of the Scheme and the level of University contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 July 2010. However in the intervening years the Trustees will obtain annual actuarial reports on developments affecting the Scheme’s assets and technical provisions. The first such report as at 31 July 2008 must be completed by 31 July 2009.

David A Gordon
Fellow of the Institute of Actuaries

30 September 2008

Watson Wyatt Limited
2 Lochnuir Square
96 Fountainbridge
Edinburgh EH3 9QA
The limitations of the investigation

Third parties

I have written this report for the Trustees, as required under Rule 57 of the 2001 Edition of the Rules dated 21 December 2001 (as amended). I have prepared it to satisfy both the requirements of the Rules and the statutory requirements of section 224 of the Pensions Act 2004. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Watson Wyatt Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Watson Wyatt Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to the University or to meet any statutory requirements.

Data supplied

The Trustees bear the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the University who must provide and update certain membership information. Even so it is the Trustees’ responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Assumptions

The choice of assumptions, as set out in the Scheme’s Statement of Funding Principles dated 30 September 2008 is the responsibility of the Trustees, having consulted the University, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme’s experience from time to time, to be better or worse than that assumed. The Trustees and the University must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The structure of the Watson Wyatt global asset model, used to determine the spread of likely future outcomes for the Scheme’s finances, is based on an
historical analysis of investment returns, although Watson Wyatt has incorporated its subjective judgement to complement the information provided by historical returns. The model is designed to illustrate the future range of returns stemming from different asset classes and their inter-relationship and the consequent uncertainty in the future financial development of the Scheme. It should be noted that no economic model could be expected to capture future uncertainty perfectly or to be precise about the risk of extreme events. In particular, it should be noted that the timeframe in establishing our asset model and the assumptions used in this investigation are intentionally long-term, and are not meant to be reflective of the possible, or even likely, course of the investment markets in the short term.

Authorised and regulated by the Financial Services Authority
Section 2: Background to the valuation

Purposes of the valuation

2.1 The main purposes of the actuarial valuation are to:

- review the financial position of the Scheme relative to its *statutory funding objective* as required by section 224 of the Pensions Act 2004, and to determine the level of future University contributions required; and

- examine the extent to which the Scheme’s resources would have been adequate to secure accrued benefits if it had discontinued at the valuation date.

Previous valuation and the contributions paid since then

2.2 The previous actuarial valuation of the Scheme was carried out by David Boyd as at 31 July 2004. The main results were:

- a past service shortfall on an ongoing basis of £6.8 million which meant that the Scheme’s assets of £52.0 million were expected to cover 88% of the benefits earned for service up to 31 July 2004. The University has paid additional contributions of 6.6% of Pensionable Salary since 1 August 2005, which was expected to make good the shortfall over 13 years from 31 July 2004.

- University contributions to fund future service benefits of 11.1% of Pensionable Salary, inclusive of all administrative expenses and *Pension Protection Fund* and other statutory levies. Life assurance premiums are paid by the University in addition to these rates.

2.3 The actual contributions paid between 31 July 2004 and 31 July 2007 were as set out in the table below. The increases in University contributions were in accordance with actuarial recommendations.

<table>
<thead>
<tr>
<th>Date</th>
<th>Contribution rate (% of Pensionable Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>University</td>
</tr>
<tr>
<td>1 August 2004 – 31 July 2005</td>
<td>13.5%</td>
</tr>
<tr>
<td>1 August to 30 September 2005</td>
<td>17.1%</td>
</tr>
<tr>
<td>1 October 2005 -</td>
<td>17.1%</td>
</tr>
</tbody>
</table>
Legislative changes and other material developments

2.4 This is the first actuarial valuation subject to the requirements of the Pensions Act 2004 and associated regulations (including the codes of practice issued by the Pensions Regulator).

2.5 Key to the new requirements is the process for meeting the statutory funding objective. A further key change is that, under the Pensions Act 2004, the Trustees no longer have sole power to determine the contributions to the Scheme. Instead the Trustees must consult the University when making this decision.

2.6 A more detailed summary of this important change, as well as other material legislative changes since 31 July 2004, is provided in Appendix C.

Scheme benefits valued

2.7 I have valued the Scheme's benefits as set out in the 2001 Edition of the Rules dated 21 December 2001 (as amended). A summary of the main benefits applying to employed members is shown in Appendix A. The treatment of discretionary benefits, including discretionary increases in benefit, is described in the Statement of Funding Principles dated 30 September 2008 in Appendix D.

2.8 There have been no changes to the Rules in the three years to the valuation date that materially affect the results of the actuarial valuation. The Rules were amended from 6 April 2006 to reflect some of the flexibility introduced by the Finance Act 2004 in particular allowing members to elect to take a higher lump sum on retirement. Additional options have also been introduced to allow early retirement on a reduced basis. The rules were also amended in 2008 to comply with age discrimination regulations.

2.9 There is still legislative uncertainty about whether the Scheme will need to adjust benefits to counter the effect of unequal GMPs. In this valuation no allowance has been made for the cost implications of such a requirement.

2.10 I have excluded the assets and corresponding liabilities in respect of pensions wholly secured by annuities with insurance companies.

Membership data

2.11 In order to carry out the present valuation, I have obtained detailed information regarding the membership of the Scheme from the administrators. A summary of the data supplied is shown in Appendix B.
2.12 I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purpose of the valuation.

**Assets**

2.13 I have been provided with audited accounts for the period since the previous valuation. The market value of the Scheme’s assets was £75.7 million at the valuation date. A summary of the main classes of the Scheme’s assets is shown in Appendix B.

2.14 The corresponding market value of assets at the previous valuation date was £52.0 million.
Section 3: The funding position and future contribution requirements

3.1 This part of the actuarial valuation reviews the financial position of the Scheme relative to its statutory funding objective. From this assessment we determine the level of University contributions required to meet the funding objective.

3.2 There are normally three stages to the assessment of the financial position relative to its funding objectives:

- First, we compare the Scheme’s assets with the value of the benefits earned in respect of service up to the valuation date (the technical provisions);

- If this reveals a shortfall, a recovery plan to remove this shortfall with additional University contributions over a suitable period is required;

- Finally, we calculate the cost of the continuing accrual of benefits for employed members after the valuation date, so that the funding plan remains on track.

Funding objectives

3.3 Having considered the support available for the Scheme from the University, the Trustees having consulted the University, have decided the funding objectives for the Scheme, and the method and assumptions for calculating the Scheme’s technical provisions. These are set out in the Statement of Funding Principles dated 30 September 2008, which is included as Appendix D.

3.4 The Scheme’s statutory funding objective is to have sufficient and appropriate assets to cover its technical provisions (i.e. the amount that the Trustees have determined should be set aside to meet the Scheme’s liabilities).

3.5 The funding objectives are consistent with those adopted at the last valuation although this was carried out under the prevailing legislative requirements.

Method and assumptions for calculating technical provisions

3.6 The funding method is to determine the discounted capital value of the prospective benefits arising from service completed before the valuation date, including allowance for prospective Pensionable Salary increases.
for employed members at the valuation date. This is the same method that was used for the last valuation.

3.7 The assumptions for calculating the technical provisions are set out in the Statement of Funding Principles dated 30 September 2008 in Appendix D.

3.8 The key changes to the assumptions since the previous actuarial valuation are a reduction in the net discount rate in excess of the assumed rate of inflation and stronger mortality assumptions. The amendments are summarised in further detail as follows:

- In light of further trends for increasing longevity, the mortality rates were amended for this actuarial valuation. First, the base table was adjusted from the “92” to the “00” series tables. Secondly, the allowance for future improvements was amended from a calendar year approach to using the medium cohort projection factors.

- Following clarification of the University’s treatment of members in service on 1 August 2004, the assumed retirement ages for these individuals has been adjusted to 62. At the 2004 valuation, retirement was assumed to be in line with the equalisation guarantees.

- Following the A Day changes which allow members to take greater levels of lump sum, an allowance for commutation has been introduced where members are assumed to exchange 10% of their pension for an additional lump sum at retirement.

3.9 My investigations revealed that, apart from investment returns, the experience of the Scheme since the last valuation did not vary significantly from the assumptions at that valuation. The investment return achieved on the Scheme's assets was 14.8% per annum over the three year period which compares with 6.75% per annum implied by the assumptions derived for the 2004 actuarial valuation.

3.10 Administrative and other non-investment expenses together with Pension Protection Fund and other statutory levies are met from Scheme resources. The University’s contribution rate is therefore inclusive of these costs. Investment management costs are assumed to be met out of future investment income, and so the valuation discount rate is net of such costs.

3.11 The Trustees hold a group life assurance policy with Canada Life to provide for the lump sum benefits payable on death in service. Since the University meets them directly, the University contribution rates set out in this report are in addition to the premiums payable under this insurance policy.

3.12 As Scheme Actuary I am required to certify that the technical provisions were calculated in accordance with section 222 of the Pensions Act 2004. My certificate for this purpose is included at Appendix G.
3.13 Please note that the technical provisions are not an estimate of the cost of securing the benefits if the Scheme were to wind up.

Past service – comparing assets with technical provisions

3.14 A comparison of the Scheme’s technical provisions in respect of service up to 31 July 2007 with the market value of the Scheme’s assets is as follows:

### University of Aberdeen Superannuation & Life Assurance Scheme

Valuation statement as at 31 July 2007

<table>
<thead>
<tr>
<th>Technical provisions in respect of:</th>
<th>£million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed members, in respect of service up to 31 July 2007</td>
<td>33.7</td>
</tr>
<tr>
<td>Deferred pensioners</td>
<td>13.7</td>
</tr>
<tr>
<td>Pensioners and dependants</td>
<td>34.1</td>
</tr>
<tr>
<td><strong>Total technical provisions</strong></td>
<td><strong>81.5</strong></td>
</tr>
<tr>
<td>Market value of assets</td>
<td>75.7</td>
</tr>
<tr>
<td>Past service shortfall (assets less technical provisions)</td>
<td>(5.8)</td>
</tr>
<tr>
<td>Funding level (assets / technical provisions)</td>
<td>93%</td>
</tr>
</tbody>
</table>

3.15 I confirm that, for the purpose of this comparison, the basis for valuing the Scheme’s assets is compatible with the basis for determining the Technical Provisions.

3.16 The figures above compare with a shortfall of £6.8 million, corresponding to a funding level of 88%, revealed at the 31 July 2004 actuarial valuation.

3.17 The main factors contributing to this improvement in the funding position are shown below:

<table>
<thead>
<tr>
<th>Contribution</th>
<th>£million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortfall at 31 July 2004</td>
<td>(7)</td>
</tr>
<tr>
<td>Interest on the shortfall</td>
<td>(1)</td>
</tr>
<tr>
<td>Investment returns in excess of discount rate</td>
<td>13</td>
</tr>
<tr>
<td>Contributions in excess of the cost of accruing benefits</td>
<td>2</td>
</tr>
<tr>
<td>Demographic and miscellaneous experience items</td>
<td>1</td>
</tr>
<tr>
<td>Change in mortality and other demographic assumptions</td>
<td>(8)</td>
</tr>
<tr>
<td>Change in real discount rate</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Shortfall at 31 July 2007</strong></td>
<td><strong>(5)</strong></td>
</tr>
</tbody>
</table>

3.18 It is advisable to monitor the Scheme’s finances on a regular basis because movements in the market value of assets can make the funding position volatile. The Trustees are required by law to obtain annual actuarial reports on developments affecting the Scheme’s assets and technical provisions in years when a formal actuarial valuation is not
carried out. The first such actuarial report as at 31 July 2008 must be completed by 31 July 2009.

Recovery plan

3.19 As there was a shortfall relative to the technical provisions at the valuation date, the Trustees, having consulted the University, must determine a recovery plan. This specifies how and by when the statutory funding objective is expected to be met.

3.20 The Trustees, having consulted the University, have decided that additional contributions aimed at meeting the deficit by 2016 will be paid to the Scheme by the University as follows:

- 1.3% of Pensionable Salary
- The balance of the funding shortfall is expected to be met by investment returns on the Scheme's assets in excess of those assumed in the calculation of the Scheme's technical provisions. If the other assumptions are borne out, the required rate of investment return is 3.85% per annum above the increase in the Retail Prices Index.

Future service contribution rate

3.21 The annual University contribution rate required, in addition to members' normal contributions, to cover the accrual of benefits for future service over the period to the next actuarial valuation is 15.8% of Pensionable Salary. This rate includes an allowance of 1.5% of Pensionable Salary for administrative expenses, PPF and other statutory levies. It does not include the premiums for insured death benefits, as these are paid directly by the University.

3.22 The University contribution rate has been calculated as the rate required, in addition to the member contributions payable, over the year following the valuation date, to meet the cost of the benefits expected to be earned over that year. On this basis, this rate will be sufficient, if the assumptions are borne out in practice, to cover the accrual of benefits in the future provided the age, sex and salary profile of the employed membership remains stable which is consistent with the Scheme remaining open to new entrants.

3.23 In April 2008, the University introduced PensionsPlus, a salary sacrifice arrangement for members' ordinary contributions to the Scheme. From that date, the University's contributions to the Scheme therefore increased by 7.05% of Pensionable Salary in respect of members who joined the PensionsPlus arrangements. Other members of the Scheme continue to pay contributions at the rate of 7.05% of Pensionable Salary.

3.24 Members' additional voluntary contributions are payable in addition to the above rates.
Section 4: The position of the Scheme on discontinuance

4.1 This section of the report considers what would happen to the Scheme on discontinuance. This would occur, for example, if the University were to terminate its liability to contribute, or if the University were to go into liquidation.

4.2 If the Scheme were discontinued, employed members would become deferred pensioners with no entitlement to future service benefits. The Scheme would then have liabilities comprising:

- the pensions payable to pensioners and deferred pensioners (and contingent pensions payable to their dependants);
- future increases in the deferred pensions;
- future increases to pensions whilst in payment; and
- future expenses.

4.3 On discontinuance, the Trustees could seek to meet the Scheme’s liabilities either by winding up the Scheme or by continuing it as a closed fund. The appropriate approach would depend mainly on the financial position of the University, the level of the Scheme’s assets, whether the Scheme would be eligible for entry to the Pension Protection Fund (PPF), and whether a buy out of the liabilities would be possible in practice. In paragraphs 4.6 to 4.13 below, I consider a number of possible eventualities.

4.4 If the Scheme had wound up at 31 July 2007, legislation would impose a debt on the University (the "employer debt") equal to the Scheme Actuary’s estimate of the full cost of securing all accrued benefits with an insurance company, allowing for expenses, less the value of the Scheme’s assets.

4.5 The amount of any such employer debt that would actually be paid would depend on the University’s ability to pay what could be a substantial sum of money. The outcome for the Scheme would then depend significantly on whether the University remained solvent or not, as follows.

Discontinuance when the University is solvent

4.6 If the University paid the employer debt in full, all of the Scheme’s benefits would be met. The Trustees might then either buy out the Scheme’s liabilities immediately or continue to run the Scheme as a closed fund.
4.7 Given the size of the Scheme and the associated risks in particular in relation to investment, it is likely that the Trustees would only decide to run the Scheme as a closed fund for a limited period before deciding to buy out the members’ accrued benefits with an insurance company.

Discontinuance when the University is insolvent

4.8 If the University had been, or had become, insolvent, any such employer debt due may have a low or nil rate of recovery. The Scheme would then have been assessed for possible entry to the PPF.

4.9 If the assets were insufficient to secure benefits at PPF compensation levels, the Scheme would be likely to enter the PPF.

4.10 If the full PPF compensation was covered, the Scheme would have been required to wind up and the Trustees would be required to secure the benefits with an insurance company, cutting back the benefits where necessary to comply with the statutory priority order.

Pension Protection Fund

4.11 The Government introduced the PPF in April 2005 to ensure that members of private sector occupational defined benefit schemes receive compensation (the “PPF compensation”) if the scheme sponsor becomes insolvent. The level of compensation provided would not normally be at the full level promised by the Scheme. A summary of the current PPF compensation is provided in Appendix C.

4.12 The Trustees are required by Section 179 of the Pensions Act 2004 to submit routinely an assessment of the Scheme’s discontinuance position, based on assumptions specified by the PPF Board and accrued benefit entitlements similar in form to the PPF compensation. The results of the Section 179 valuation for the Scheme as at 31 July 2007 revealed that the Scheme’s assets covered approximately 85% of this measure.

4.13 As the level of cover for PPF compensation was less than 100% at the valuation date, the Scheme would have been expected, on discontinuance with an insolvent employer at that date, to enter the PPF, as described in paragraph 4.8. This would mean that the members would receive 100% of the PPF compensation but no other benefits.

Estimate of the solvency of the Scheme

4.14 I am required by law to provide the Trustees with an estimate of the solvency of the Scheme. Normally, this means an estimate of the level of cover of accrued benefits if the Trustees were to secure (or buy out) the Scheme’s liabilities with an insurance company, on the premise that no further contributions would be available from the University.
4.15 To estimate this cost, I have assumed that:

- the funds would have been invested at the valuation date in a portfolio of index-linked gilts, matched as far as possible with the liabilities;
- around £3.2 million of the Scheme’s assets would be set aside to cover the expenses of winding up;
- a further reserve would be required for the remaining investment and other uncertainties, which I have allowed for by assuming the investment return on the assets to be 0.5% a year less than that available on gilts as at 31 July 2007 (the resulting real discount rate assumed is 1.4% per annum);
- the mortality rates used by insurance companies would be those specified by the PPF Board for purposes of Section 179 valuations; and
- other relevant assumptions are as set out in the Statement of Funding Principles in Appendix D.

4.16 My estimate of the solvency of the Scheme at 31 July 2007 is that the assets of the Scheme would have met 68% of the cost of buying annuities to meet the accrued benefits at that date. The coverage for particular benefits depends on where they fall in the statutory priority order, for which four categories are identified in Appendix C. I estimate that 100% of the benefits in category 1, approximately 85% of the benefits in category 2, and none of the benefits in categories 3 and 4 would have been covered on this basis.

4.17 This figure is only an estimate of the position at the valuation date and should not be relied upon to indicate the position on a future winding up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by completing a buy out.

4.18 The corresponding level of cover at the previous valuation was approximately 57%. The increase in the estimated buy out cover is due mainly to the investment return achieved on the Scheme’s assets over the three year period exceeding the rate that was assumed.

4.19 The solvency position of the Scheme is expected to improve from the valuation date if the assumptions are borne out in practice and University contributions are paid as set out in Section 3 above. On this basis, at the actuarial valuation due at 31 July 2010, I estimate that overall coverage will have improved to around 70% and the coverage in category 2 will have improved to around 90%.
Relationship between the technical provisions and the buyout liabilities

4.20 If the statutory funding objective had been exactly met on 31 July 2007 (ie there had been no shortfall), I estimate that the solvency of the Scheme would have been approximately 73%.
Section 5: Sensitivity of the results

5.1 The assumptions used to determine the Scheme’s funding and discontinuance positions each represent only one possible scenario of future events. To the extent that the actual experience turns out to be different from the assumptions the financial position of the Scheme will be affected.

5.2 The results of the valuation are especially sensitive to the assumptions made regarding investment returns and longevity.

Sensitivity to investment conditions

5.3 The assumed future investment returns are unlikely to be precisely borne out. The possible variation in outcomes is considerable, particularly given the substantial proportion of the assets expected to be invested in ‘return-seeking’ assets (e.g. equities) the value of which may not move in line with the value of the technical provisions. The Trustees and the University should therefore be aware of the sensitivity of the results to future investment conditions.

5.4 If future investment returns over the long term are lower than assumed, then other things being equal the cost of providing the benefits will be higher than calculated in this valuation, which means that unless contributions are adjusted to reflect the experience, the funding position of the Scheme will fall short of the expected position.

5.5 To illustrate this we have considered the following examples:

- If bond yields at the valuation date had been higher by 0.5% per annum, with a corresponding impact on the Scheme’s bond assets held but without any change in the technical provisions or in other asset values, or

- If the value of the return-seeking investments, such as equities fell by 20%, assuming no movement in the value of the other assets held.

<table>
<thead>
<tr>
<th></th>
<th>Actual funding level at 31 July 2007</th>
<th>Funding level assuming 0.5% pa increase in bond yields</th>
<th>Funding level assuming 20% fall in equity values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical provisions</td>
<td>93%</td>
<td>91%</td>
<td>80%</td>
</tr>
<tr>
<td>Estimated solvency</td>
<td>88%</td>
<td>67%</td>
<td>58%</td>
</tr>
</tbody>
</table>

5.6 ‘Catastrophic’ investment conditions which would produce significantly worse funding positions than those shown in the above table are also possible.
Sensitivity to mortality experience

5.7 The future financial position of the Scheme is also particularly susceptible to future variations in the mortality experience of its pensioners relative to the assumptions adopted for the valuation. For example, if mortality rates going forward continued to improve for ever by at least 1.0% per annum rather than tending to stop improving in the longer term as currently assumed under the medium cohort projections, this would add 0.3 years to the life expectancy of a male member currently aged 65 but would add 1.0 years to the life expectancy of a member aged 65 in 20 years’ time. On this assumption the funding level relative to the technical provisions would fall from 93% to approximately 91% at the valuation date.

5.8 If the minimum annual rate of future improvement was instead 2.0% per annum, this would add 1.4 years to the life expectancy of a member currently aged 65 and around 4.0 years to the life expectancy of a member aged 65 in 20 years’ time. The Scheme’s funding level relative to the technical provisions would then fall to approximately 87% at the valuation date.
Appendix A: Summary of Scheme benefits

The Scheme is a registered pension scheme under the Finance Act 2004 and is contracted-out of the State Second Pension. The main provisions of the Scheme at the valuation date are summarised as follows:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Pension Date (NPD):</td>
<td>65th birthday for men and women</td>
</tr>
<tr>
<td>Pensionable Salary:</td>
<td>Basic annual salary (before adjustment for PensionsPlus or other salary sacrifice arrangements) excluding any bonus, commission or payment for overtime but including any contractual overtime.</td>
</tr>
<tr>
<td>Final Pensionable Salary:</td>
<td>The greater of: (i) Pensionable Salary averaged over the 12 months immediately before retirement or leaving service. (ii) The highest average of 3 consecutive Pensionable Salaries prevailing on 1 August in the last 13 years of service.</td>
</tr>
<tr>
<td>Pensionable Service:</td>
<td>The years and complete months as a contributing member in the Scheme.</td>
</tr>
<tr>
<td>Retirement at NPD:</td>
<td>A pension equal to one eightieth of Final Pensionable Salary for each year of Pensionable Service. A tax free cash lump sum equal to three eightieths of Final Pensionable Salary for each year of Pensionable Service. Members have the option to commute pension to provide an additional lump sum within HMR&amp;C limits.</td>
</tr>
<tr>
<td>Retirement before NPD, on grounds of permanent illness or permanent incapacity:</td>
<td>Provided the member has completed at least five years Pensionable Service, an immediate pension calculated as for retirement at NPD with additional Pensionable Service credits based on Pensionable Service completed at retirement.</td>
</tr>
<tr>
<td>Retirement before NPD, on grounds of illness or incapacity:</td>
<td>An immediate pension calculated as for retirement at NPD but with an actuarial reduction applied.</td>
</tr>
<tr>
<td>Retirement before NPD, not on grounds of ill-health:</td>
<td>Provided the member is aged 50 or over, an immediate pension based on the Final Pensionable Salary and Pensionable Service at the date of retirement, with an early retirement reduction applied. Special terms apply for members in service on 1 August 1994 or who retire with the consent of the University.</td>
</tr>
<tr>
<td>Retirement after NPD:</td>
<td>An actuarially increased pension for each complete month of service after NPD. Final Pensionable Salary and Pensionable Service are calculated as at NPD. If contributions continue after NPD, pension calculated on Pensionable Service and Final Salary at actual retirement date. Pension will not be less than as calculated at NPD with actuarial increases.</td>
</tr>
<tr>
<td>Death after Retirement:</td>
<td>A dependant’s pension equal to one half of the pension in payment at the date of death. On death within five years of retirement, an additional lump sum equal to the value of the unpaid balance of five years pension payments.</td>
</tr>
<tr>
<td>Death in service:</td>
<td>A lump sum of three times Pensionable Salary plus a refund of the member’s contributions and interest at 4% per annum. A dependant’s pension, equal to one half of the pension.</td>
</tr>
<tr>
<td>Benefit</td>
<td>Details</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Leaving Service:         | If more than two years' Pensionable Service has been completed, the member is awarded a deferred pension calculated as on retirement at NPD.  
A transfer of 'years of service' may be taken to another scheme that is part of the 'Transfer Club', or a transfer value may be taken to a 'non-club' scheme.  
If less than two years' Pensionable Service have been completed, the member may take a refund of contributions for the whole period together with interest at 4% per annum or a transfer of 'years of service' to a 'Transfer Club' scheme or, if the member has completed three months' Pensionable Service, a transfer value may be taken to a 'non-club' scheme. |
| Pension increases:       | Pensions in payment (above the Guaranteed Minimum Pension, or GMP) increase annually in line with the Pensions Increase Act.  
A member's GMP earned after 5 April 1988 will be increased in payment at the rate of 3% per annum compound or in line with prices if less.  
The overall increase is subject to a minimum of 3% per annum. |
| Contributions:           | Members pay contributions at the rate of 7.05% of Pensionable Salary. Members participating in PensionsPlus pay no contributions since their salary is adjusted. The University pays contributions at the above rate in respect of these members. Members may also pay additional voluntary contributions to increase their benefits.  
The University makes up any balance of cost of meeting the Scheme's benefits. |
Appendix B: The information supplied

The information supplied to us for the purposes of the valuation is summarised below; the corresponding 2004 figures are shown for comparative purposes.

### Active members

<table>
<thead>
<tr>
<th></th>
<th>31 July 2007</th>
<th>31 July 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Number</td>
<td>222</td>
<td>444</td>
</tr>
<tr>
<td>Average age</td>
<td>50.3</td>
<td>46.7</td>
</tr>
<tr>
<td>Total Pensionable Salary (£pa)</td>
<td>4.71m</td>
<td>7.52m</td>
</tr>
<tr>
<td>Average Pensionable Salary (£pa)</td>
<td>21,200</td>
<td>16,950</td>
</tr>
</tbody>
</table>

### Deferred Pensioners

<table>
<thead>
<tr>
<th></th>
<th>31 July 2007</th>
<th>31 July 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Number</td>
<td>146</td>
<td>395</td>
</tr>
<tr>
<td>Average age</td>
<td>52</td>
<td>47</td>
</tr>
<tr>
<td>Deferred pension at exit (£pa)</td>
<td>0.26m</td>
<td>0.43m</td>
</tr>
<tr>
<td>Average deferred pension (£pa)</td>
<td>1,800</td>
<td>1,100</td>
</tr>
</tbody>
</table>

### Pensioners

<table>
<thead>
<tr>
<th></th>
<th>31 July 2007</th>
<th>31 July 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Number</td>
<td>277</td>
<td>574</td>
</tr>
<tr>
<td>Average age</td>
<td>70.5</td>
<td>69.5</td>
</tr>
<tr>
<td>Total pension (£pa)</td>
<td>1.10m</td>
<td>1.31m</td>
</tr>
<tr>
<td>Average pension (£pa)</td>
<td>4,000</td>
<td>2,300</td>
</tr>
</tbody>
</table>
Assets

According to the audited accounts supplied as at 31 July 2007, the market value of the Scheme’s assets was £75.73 million.

The assets were invested as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Market value as at 31 July 2007</th>
<th>Market value as at 31 July 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Overseas equities</td>
<td>28.96</td>
<td>38</td>
</tr>
<tr>
<td>UK equities</td>
<td>24.92</td>
<td>33</td>
</tr>
<tr>
<td>Fixed interest securities</td>
<td>10.27</td>
<td>14</td>
</tr>
<tr>
<td>Index linked securities</td>
<td>10.26</td>
<td>13</td>
</tr>
<tr>
<td>Cash and net current assets</td>
<td>1.32</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>75.73</td>
<td>100</td>
</tr>
</tbody>
</table>

The following consolidated revenue account, which is based on the Scheme’s audited accounts, summarises its financial transactions over the period since the previous actuarial valuation:

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of assets at 31 July 2004</td>
<td>52.02</td>
</tr>
<tr>
<td>University contributions</td>
<td>6.09</td>
</tr>
<tr>
<td>Member contributions</td>
<td>2.18</td>
</tr>
<tr>
<td>Additional voluntary contributions</td>
<td>0.11</td>
</tr>
<tr>
<td>Transfers in</td>
<td>0.59</td>
</tr>
<tr>
<td>Life assurance proceeds</td>
<td>0.38</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>9.35</strong></td>
</tr>
<tr>
<td>Pensions</td>
<td>6.74</td>
</tr>
<tr>
<td>Lump sums and other benefits</td>
<td>2.44</td>
</tr>
<tr>
<td>Life assurance premiums</td>
<td>0.25</td>
</tr>
<tr>
<td>Non-investment expenses</td>
<td>0.63</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>(10.06)</strong></td>
</tr>
<tr>
<td>Investment income</td>
<td>5.18</td>
</tr>
<tr>
<td>Changes in market values</td>
<td>20.04</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(0.80)</td>
</tr>
<tr>
<td><strong>Net investment returns</strong></td>
<td><strong>24.42</strong></td>
</tr>
<tr>
<td>Market value of assets at 31 July 2007</td>
<td>75.73</td>
</tr>
</tbody>
</table>

The above account and all other asset figures contained in this report exclude the value of members’ money purchase AVC amounts. These are invested with Prudential and amounted to £0.3 million at the valuation date.
Appendix C: Legislative changes since 31 July 2004

Pensions Act 2004 (and associated regulations)

Since the previous valuation the Government has enacted the Pensions Act 2004 which introduced new requirements on the funding of UK defined benefit pension arrangements and several other measures that affect the Scheme.

Scheme funding

The Pensions Act 2004 replaced the prescriptive statutory funding test (the Minimum Funding Requirement) with a scheme-specific standard for actuarial funding valuations with an effective date on or after 22 September 2005. The legislation was supplemented with regulations and Regulatory codes of practice. This is the first actuarial valuation of the Scheme under this new funding regime. Central to the new funding regime are the following:

- **Statutory funding objective** – this is a requirement that the Scheme has sufficient and appropriate assets to meet its technical provisions. The technical provisions mean the Actuary's assessment, calculated on the scheme-specific assumptions determined by the Trustees, of the amount required to meet the Scheme's liabilities as they fall due.

- **Statement of Funding Principles**: this is a document prepared by the Trustees which must set out its policy for ensuring that the statutory funding objective is met. That is, it must in particular set out the Trustees' choice of methods and assumptions for determining the Scheme's technical provisions, after taking advice from the Actuary. The regulations require the Trustees to consult with the University on the content of the Statement of Funding Principles.

Under Rule 12, the Trustees had the power to determine the contributions the University should pay to the Scheme having taken the advice of the Actuary. Under the new funding regime, the Trustees are now required to consult the University on the contributions to be paid. This represents a formalisation of the process that in practice previously applied.

The principal purpose of the actuarial valuation is to assess whether the Scheme meets its technical provisions at the effective date of the valuation, based upon the method and assumptions specified in the Statement of Funding Principles. The Actuary has to certify that the calculation of the technical provisions at the valuation was in accordance with the prescribed requirements.

It is important to note that the legislation does not require schemes to fund at a level sufficient to meet the buy out cost of the liabilities, or even the buy out cost of the 'protected liabilities' under the Pension Protection Fund. The Trustees are
required, however, to obtain the Actuary's estimate of the Scheme's solvency position at the effective date of the valuation.

If the valuation reveals that the Scheme does not have sufficient assets to cover its technical provisions, the Trustees are required to prepare a recovery plan to bring the Scheme back to full funding (i.e., sufficient assets to cover the technical provisions) over a certain time frame. The recovery plan must be based upon advice from the Actuary and have regard to the nature and circumstances of the Scheme. The Trustees must also consult the University.

On receiving the report on the actuarial valuation, the Trustees, having consulted the University, must prepare a schedule of contributions which specifies the contributions to be paid to the Scheme by the members and the University and the dates by which they are required to be paid. This schedule must be certified by the Actuary.

Pension Protection Fund (PPF)

The Pensions Act 2004 introduced the Pension Protection Fund with effect from 6 April 2005. The PPF is intended to ensure that members of private sector occupational defined benefit pension schemes can be assured that they will receive a certain level of compensation if their employer's business fails. That is, on an insolvency event of the employer, a pension scheme will be assessed for possible admission to the PPF and if it meets prescribed criteria (in particular, but not limited to, the scheme having insufficient assets to secure on its own the minimum level of compensation on a prescribed actuarial basis) then the PPF will absorb the Scheme's assets and provide compensation to members currently as described below:

- For non-pensioner members younger than normal pension age: a deferred pension equal to 90% of the pension built up to date, subject to a maximum amount and payable from normal pension date;
- For non-pensioner members over normal pension age: the full deferred pension;
- For pensioners younger than normal pension age who retired in normal health: 90% of the pension in payment subject to a maximum amount which varies by age;
- For other pensioners and dependants the pension in payment;
- Deferred pensions are increased in line with Retail Price Inflation (capped at 5% a year) between the assessment date and normal pension age;
- Pensions built up before 6 April 1997 will receive no increases in payment. Pensions built up on or after that date will increase in line with Retail Price Inflation (capped at 2.5% a year);
- Survivor benefits are provided if they were provided under the Scheme Rules.
In the above, normal pension age is essentially the earliest age at which members can receive an unreduced pension under a scheme’s rules.

Consequently, the PPF does not in general provide compensation at the same level as the benefits provided by the Scheme.

The PPF is funded through a combination of scheme-based and risk-based levies on UK occupational defined benefit pension schemes; although in the event of it having insufficient funds to meet its liabilities it can decide to reduce the compensation payments. In order for the PPF Board to calculate levies for individual schemes, pension scheme trustees are required under Section 179 of the Pensions Act 2004 to submit routinely an assessment of their scheme’s discontinuance position, based on assumptions specified by the PPF Board and accrued benefit entitlements in a similar form to the compensation payments that would be provided by the PPF.

The Government established the PPF Board to oversee the fund and also to collect annual levies from defined benefit schemes to finance its liabilities and its running costs. The government also introduced the Pensions Regulator, one of whose roles is to protect the PPF.

**Statutory priority orders**

Since 6 April 2005, on winding up a scheme, the scheme’s benefits must be secured in broadly the following order of priority (after allowing for expenses and any potential debts to third parties):

- **category 1** – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- **category 2** – the cost to the Scheme of securing the liabilities for pensions and other accrued benefits that would be payable by the PPF (if the Scheme were eligible for entry to the PPF);
- **category 3** – benefits in respect of defined benefit AVCs not already covered above (money purchase liabilities are to be excluded from the priority order and should therefore normally be secured in full);
- **category 4** – all other pensions and benefits provided by the Scheme, including pension increases (where these exceed those under the PPF).

**Other**

The Pensions Act 2004 introduced a number of other measures, including:

- For benefits built up after 5 April 2005, the statutory minimum annual increase to pensions in payment is Retail Price Inflation subject to a cap of 2.5% a year. Note that the rules of the Scheme already provide a higher minimum increase to pensions in payment.
There were a number of measures relating to the pensions aspects of commercial transactions and business reorganisations.

There were minor modifications to the provisions covering contracted-out rights.

**Finance Act 2004**

In essence this Act and associated Regulations were intended to simplify the entire taxation framework for UK pensions. From 6 April 2006 the former Inland Revenue maximum limits on benefits payable from approved pension schemes were replaced by a system of tax "allowances" by the new HMRC. More specifically:

- Members can receive any amount of benefit from a registered occupational pension scheme. However, if the benefits provided have a value higher than a specified amount (the 'Lifetime Allowance', £1.6 million for 2007/08) then the excess value over the Lifetime Allowance is subject to additional tax.

- The value of benefits for the purpose of comparing with the Lifetime Allowance is calculated as 20 times the pension provided plus the face value of the cash sum provided. Benefits provided from money purchase arrangements are based upon the fund value.

- Cash sums at retirement are restricted to 25% of the value of the member's benefits.

- If the assessed value of benefit accrual in and contributions to tax-advantaged pension arrangements for an individual exceed an Annual Allowance of £225,000 a year for 2007/08, the excess is subject to a special tax charge.

- Dependants' pensions are not tested against the Lifetime Allowance, but lump sums provided to dependants are tested against the member's unused allowance.

- The technical details of benefits that can be provided as 'authorised benefits' from a tax-advantaged pension arrangement were specified.

- The statutory surplus test was abolished.

- The minimum age at which members may retire early will increase from age 50 to age 55 from 6 April 2010.

Transitional arrangements were introduced for cases where the new requirements would adversely impact a member's benefits compared to pre-6 April 2006 limits.
Appendix D: Statement of Funding Principles

Introduction

This statement has been prepared by the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme ("the Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, David Gordon. The Trustees have consulted the University Court of the University of Aberdeen ("the University") in preparing this statement.

This statement covers the Scheme’s statutory funding objective, the principles used in determining that objective, and the policy for securing that it is met. It contains other information required under the Act, and applies to the actuarial valuation as at 31 July 2007.

Statutory funding objective

The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions and this statement sets out the Trustees’ policy for securing that this objective is met.

Method and assumptions

The Trustees having consulted the University have decided that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective Pensionable Salary increases for those members in active service at that date i.e. the accrued liabilities. This method of calculating technical provisions is defined in the professional actuarial guidance GN26: pension fund terminology as the projected unit method. The contribution rate in respect of the cost of accruing benefits under this method will remain stable provided that the overall membership profile remains stable.

The Trustees, having consulted the University, have further decided that:

- the discount rate used to calculate the capital value of future cashflows will be based on a prudent estimate of the long term return expected on the Scheme’s assets. At the 2007 valuation the Trustees determined this by reference to a confidence level of 66.7% based on their prevailing investment strategy.

- the future Pensionable Salary increase assumption for active members will be taken as price inflation plus a margin to be determined after consultation with the University at each valuation;
future price inflation will be set by considering the market expectation of future inflation levels. Such expectations are derived by reference to the Bank of England's implied long term inflation statistics appropriate to the term of the liabilities.

the price inflation assumption will be used as the basis for determining the pension increase assumption.

demographic assumptions will have regard to an analysis of recent changes in the Scheme's membership and those of other schemes with a similar profile and views about how these may change in future.

Taken together, the assumptions derived as described above are prudent given the current investment allocation of the Scheme, and are consistent with the Trustees' desired confidence that assets equal to the technical provisions will prove adequate to meet accrued benefits as they fall due without the need for further contributions from the University.

The Trustees, after consulting with the University, have agreed to adopt the same methodology and assumptions to determine the cost of ongoing benefit accrual in respect of active members as for determining the technical provisions.

Discretionary benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustees and/or the University, the principal details of which are set out below:

Under Schedule Provision 4 b (i), members aged over 60 who retire from the University with its consent with more than five years Pensionable Service may do so with no actuarial reduction being applied. The University will pay special contributions to meet the cost of waiving this actuarial reduction.

There are a number of further discretions that enable members to convert their benefit from one form into another, but these do not have a material impact on the determination of the technical provisions.

Assumptions as at 31 July 2007

The actuarial assumptions are shown in the appendix to this document.

Expenses

Investment management expenses are assumed to be met out of future investment returns. The valuation discount rate is therefore net of such costs.
Administrative and other non-investment expenses are included within the ongoing contribution rate. An allowance for Pension Protection Fund and other statutory levies is also included within the ongoing contribution rate. The University meets the costs of life assurance premiums in addition.

Assets

The assets are taken into account at their market value at the valuation date. The economic assumptions are set by reference to market conditions at the valuation date, for consistency with the asset valuation.

Eliminating a shortfall

The Trustees having consulted the University have decided that any shortfall of funds below the statutory funding objective should be made good as quickly as is reasonable, taking into account the size of the shortfall and the overall financial position of the Scheme and the University.

The shortfall contributions are assessed using the technical provisions basis, together with an allowance for additional investment returns over the recovery period.

Frequency of actuarial valuations

Each actuarial valuation should be made no more than three years after the preceding one. As at each 31 July between valuations the scheme actuary will provide the Trustees with an estimate of the up-to-date financial position of the Scheme relative to the statutory funding objective.

The Trustees recognise that there is likely to be short-term volatility between the value of the assets and the technical provisions, and the updates provided by the scheme actuary will not normally lead to changes in the required contributions ahead of the next valuation unless, after discussion, the Trustees and University agree upon them.

The Trustees, after having considered the scheme actuary's opinion, may call for a valuation if they are of the opinion that events have made it inappropriate to continue to rely upon the results of the previous valuation. The Trustees may wish to consider doing so

- following a request from the University
- if there is a significant fall in the value of the assets
- if there is any event which might have a significant effect upon the University covenant
- if there is a significant change in the membership for any reason.
Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the University or a member of the Scheme to contribute to the assets held by the Scheme.

Paying funding surpluses to the University

The Rules do not include provision for the Trustees to make payments to the University out of funds held unless a surplus exists following the winding up of the Scheme.

Cash equivalent transfer value calculations and policy on reduction

The Trustees will ask the scheme actuary to advise it at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values to members without adversely affecting the security of the benefits of other members and beneficiaries. The Trustees’ policy is to reduce cash equivalent transfer values paid to members if the scheme actuary advises that the assets are not sufficient to provide cash equivalent transfer values in full to all members, on the method and assumptions adopted for that purpose.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustees either

- within 15 months after the effective date of each actuarial valuation
- or
- within a reasonable period after any occasion on which the Pensions Regulator has
  - used its powers to modify future accrual of the Scheme
  - directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the statutory funding objective is to be remedied, or
  - imposed a schedule of contributions.
The Trustees may also elect to review, and if necessary revise, this statement at other times.

Date of preparation of statement: 30 September 2008
Signed on behalf of the University:
Signature: [Signature]
Print name: [Print Name]
Position: [Position]
Date: 30/9/08

Signed on behalf of the Trustees:
Signature: [Signature]
Print name: [Print Name]
Position: [Position]
Date: 30/9/08
Appendix to the statement of funding principles

Actuarial assumptions for the 31 July 2007 valuation

This appendix details the financial and statistical assumptions that are used to calculate the technical provisions for the purposes of the 31 July 2007 actuarial valuation of the Scheme.

Financial assumptions as at 31 July 2007

The Trustees, having taken the advice of the Scheme Actuary and consulted the University, have adopted assumptions for the valuation as at 31 July 2007. These assumptions are as follows.

<table>
<thead>
<tr>
<th>Financial assumptions as at 31 July 2007</th>
<th>Real % per annum</th>
<th>Nominal % per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Price inflation (RPI)</td>
<td>-</td>
<td>3.1</td>
</tr>
<tr>
<td>Pensionable Salary increases</td>
<td>1.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Increases to deferred pensions in deferment</td>
<td>-</td>
<td>3.1</td>
</tr>
<tr>
<td>Pension increases</td>
<td>-</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Statistical assumptions as at 31 July 2007

The statistical assumptions set out in this appendix are:

1. Mortality
2. In service statistical assumptions
3. Proportion married and age differences of members and dependants
4. Normal retirement
5. Commutation

1. Mortality

The mortality tables to be used before and after retirement in respect of a member and the member’s dependant are the standard PNMA00 (males) and PNFA00 (females) tables, as appropriate, in each case with the medium cohort mortality improvement rates applicable to the year of use 2007 and rated up by one year.
2. In service statistical assumptions

<table>
<thead>
<tr>
<th>Age</th>
<th>Withdrawal rate</th>
<th>Ill-health retirement</th>
<th>Mortality rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
<td>Men</td>
</tr>
<tr>
<td>25</td>
<td>90</td>
<td>125</td>
<td>0.3</td>
</tr>
<tr>
<td>30</td>
<td>66</td>
<td>105</td>
<td>0.4</td>
</tr>
<tr>
<td>35</td>
<td>46</td>
<td>80</td>
<td>1.1</td>
</tr>
<tr>
<td>40</td>
<td>27</td>
<td>55</td>
<td>2.0</td>
</tr>
<tr>
<td>45</td>
<td>12</td>
<td>30</td>
<td>3.5</td>
</tr>
<tr>
<td>50</td>
<td>-</td>
<td>10</td>
<td>6.5</td>
</tr>
<tr>
<td>55</td>
<td>-</td>
<td>-</td>
<td>14.1</td>
</tr>
<tr>
<td>60</td>
<td>-</td>
<td>-</td>
<td>29.5</td>
</tr>
</tbody>
</table>

Rates are per 1,000 members per year at each age

3. Proportion married and age differences of members and dependants

The proportion of members assumed to leave dependants eligible for pensions is 90% of males and females at retirement.

Males are assumed to be three years older than their partners and females are assumed to be three years younger than their partners.

4. Normal retirement

Employees and deferred pensioners who joined the Scheme after 31 July 1994 are assumed to retire at age 65.

Employees in Pensionable Service on 31 July 1994 are assumed to retire at age 62 with unreduced benefits (with the exception of males in this category whose benefits derived from Pensionable Service completed before 17 May 1990 are reduced for early payment).

Deferred pensioners with Pensionable Service over the period 17 May 1990 to 31 July 1994 are assumed to retire at age 60 with unreduced benefits (with the exception of males in this category whose benefits derived from Pensionable Service completed before 17 May 1990 are reduced for early payment).

Deferred pensioners whose Pensionable Service ceased before 17 May 1990 are assumed to retire at age 60 (females) or 65 (males).

5. Commutation

10% of the member’s lifetime pension is assumed to be commuted for an additional lump sum at retirement, based on the Scheme’s commutation rates.
Appendix E: Recovery plan

This recovery plan has been prepared by the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme (the “Scheme”) to satisfy the requirements of Section 226 of the Pensions Act 2004, after obtaining the advice of the scheme actuary. The Trustees have consulted the University Court of the University of Aberdeen ("the University") when drawing up this recovery plan.

The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions. The actuarial valuation as at 31 July 2007 calculates the technical provisions to be £81.5 million, whereas the market value of the assets is £75.7 million. Hence at the valuation date the assets fall short of the Technical Provisions by £5.8 million.

The Trustees having consulted the University have decided that the funding shortfall of £5.8 million should be met by the payment of deficiency contributions of 1.3% of Pensionable Salary with effect from October 2008. The deficiency contributions are payable on a monthly basis. In determining this level of contributions, the Scheme’s investment returns over the recovery period are assumed to be 0.85% above the discount rate used in determining the Technical Provisions.

Based on the assumptions set out in the statement of funding principles dated 30 September 2008, the deficiency contributions are expected to meet the statutory funding objective within a period of 9 years from the date of the valuation i.e by 31 July 2016; half of the deficiency contributions will have been paid by 31 July 2012.

Date of preparation of recovery plan: 30 September 2008

Signed on behalf of the University: 

Signature: ...............................................................

Print name: ...............................................................

Position: ...............................................................

Date: ...............................................................

Signed on behalf of the Trustees: 

Signature: ...............................................................

Print name: ...............................................................

Position: ...............................................................

Date: ...............................................................

Watson Wyatt Confidential
Appendix F: Schedule of contributions

This schedule has been prepared by the Trustees of the University of Aberdeen Superannuation & Life Assurance Scheme (the “Scheme”) to satisfy the requirements of Section 227 of the Pensions Act 2004 after obtaining the advice of the Scheme Actuary, David Gordon. The Trustees have consulted the University Court of the University of Aberdeen (“the University”) when drawing up this schedule.

This schedule specifies the rates and due dates of University and employee contributions to the Scheme for the period from the date of certification of this schedule until 31 July 2016. It is subject to review, and if necessary revision, from time to time as required by legislation and following actuarial valuations.

University contributions

The University shall contribute the amounts set out below by the dates shown:

- 15.8% of members’ Pensionable Salary in respect of future accrual of benefit
- 7.05% of Salary Sacrifice members’ Pensionable Salary in respect of future accrual of benefit
- 1.3% of members’ Pensionable Salary in respect of shortfall contributions

These contributions shall be paid to the Scheme no later than 19 days after the end of the calendar month to which they relate.

In addition to the contributions shown above, the University shall pay the following:

- Additional contributions to fund early retirement, the amounts and due dates of such contributions to be advised by the Scheme Actuary.
- The premiums for insuring death-in-service lump sums, such amounts to be paid directly to the insurer as and when they fall due.
- Such other contributions as may from time to time be agreed by the Trustees and the University.
Employee contributions

Employees shall contribute the amounts set out below by the dates shown:

- Salary Sacrifice members – nil
- Other members – 7.05% of Pensionable Salary

These contributions shall be deducted from members’ pay and paid to the Scheme by the University no later than 19 days after the end of the calendar month in which they were deducted from pay.

PPF levies

Provision for the payment of Pension Protection Fund and other statutory levies is included within the University’s contribution rate for the future accrual of benefits. PPF levies are expected to vary from year to year due to changes in the PPF’s annual Levy Determination, and the Scheme’s financial position and other factors. In deriving the above contribution rate an annual levy of £0.1 million has been assumed.

Date of preparation of schedule: 30 September 2008
Signed on behalf of the University: Signed on behalf of the Trustees:
Signature: ................................................................. Signature: .................................................................
Print name: ................................................................. Print name: .................................................................
Position: ................................................................. Position: CHAIRMAN
Date: ................................................................. Date: .................................................................
Actuary's certification of schedule of contributions
University of Aberdeen Superannuation & Life Assurance Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 July 2007 to be met by the end of the period specified in the recovery plan dated 30 September 2008.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 30 September 2008.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

David A Gordon
Fellow of the Institute of Actuaries
30 September 2008

Watson Wyatt Limited
2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA
Appendix G: Statutory certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: University of Aberdeen
Superannuation & Life Assurance Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme’s technical provisions as at 31 July 2007 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 30 September 2008.

[Signature]

David A Gordon
Fellow of the Institute of Actuaries

30 September 2008

Watson Wyatt Limited
2 Lochar Square
96 Fountainbridge
Edinburgh
EH3 9QA
Appendix H: Glossary

This glossary describes briefly the terminology of the new regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004. Defined terms are in italics.

**Actuarial report:** this is a financial check carried out by the scheme actuary in between actuarial valuations to estimate the level of coverage of the technical provisions. This financial check is carried out using more approximate methods than for an actuarial valuation. The estimates are based upon the assumptions set out in the *Statement of Funding Principles*.

**Actuarial valuation:** this is a financial check carried out by the scheme actuary that assesses whether the assets are sufficient to meet the funding target. It also determines the contributions required to meet the target both in respect of benefits built up to date for all members and the benefits that are building up to employed members. The calculations are based upon a number of assumptions.

**Discount rate:** this is the investment return expected to be achieved on the scheme's assets in the future. The lower the investment return assumed the more cautious the assumption.

**Employer covenant:** this is the ability and willingness of the sponsoring employer to support the scheme; under the new funding regime the Trustees are required to take this into consideration in making funding decisions.

**Funding target/objective:** this is a policy to achieve, by the end of a specified period, the minimum amount of assets expected to be sufficient to pay benefits built up to date as they fall due over the lifetime of the scheme. It is usually based on a scenario that requires assumptions to be made about the future.

**Pension Protection Fund (PPF):** established by the Pensions Act 2004, this provides compensation to members of an occupational scheme in the event that the scheme is wound up with insufficient assets and the employer has gone insolvent.

**Recovery plan:** this will be drawn up where an actuarial valuation discloses that the assets held are less than the technical provisions. This sets out the steps to be taken with the aim to ensure there are sufficient assets to cover the technical provisions at the end of an agreed period.

**Schedule of contributions:** this is a document that sets out the contributions payable into a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

**Statement of Funding Principles:** the Trustees are responsible for preparing and maintaining this document (having consulted the employer and taking into account the advice of the actuary). It sets out the Trustees' policy for ensuring...
that the \textit{statutory funding objective} is met and in particular the method for determining the assumptions for calculating the \textit{technical provisions}.

\textbf{Statement of Investment Principles:} the Trustees are responsible for preparing and maintaining this document. It sets out the policy for investing the Scheme's assets.

\textbf{Statutory funding objective:} every pension scheme is subject to the \textit{statutory funding objective}, which is to have sufficient and appropriate assets to cover its \textit{technical provisions}. The Trustees may establish other funding objectives in addition to the \textit{statutory funding objective}.

\textbf{Statutory Priority Order:} this sets out the order in which the assets of a scheme should be applied in securing the benefits of different members in the event of a wind-up. In broad terms it requires that, after allowing for expenses, a scheme first secures benefits that are in line with those that would be provided by the \textit{Pension Protection Fund} with any remaining assets then being used to secure any other benefits.

\textbf{Summary funding statement:} the Trustees must issue a statement to members following each \textit{actuarial valuation} and each \textit{actuarial report} to disclose the Scheme's funding position and certain other information.

\textbf{Technical provisions:} this is the amount of assets required to make provision for the accrued liabilities of the Scheme. Over the lifetime of the Scheme, this amount is expected to be sufficient to pay all of the benefits built up to date as they fall due, based upon the method and assumptions set out in the \textit{Statement of Funding Principles}.

\textbf{The Pensions Regulator:} the statutory body established with the aim to ensure the security of members' benefits and reduce the claims for compensation from the \textit{Pension Protection Fund}. As part of this role it monitors the funding plans of all occupational defined benefit schemes and has wide ranging powers to ensure these are adequate.

\textbf{Wind-up:} a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to the scheme (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy a policy with an insurance company that pays as much of the scheme's benefits as possible in accordance with the \textit{statutory priority order}. 

University of Aberdeen Superannuation & Life Assurance Scheme