

FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 JULY 2011

UNIVERSITY OF READING EMPLOYEES' PENSION FUND

September 2012



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Introduction

This report is addressed to the Trustees of the University of Reading Employees' Pension Fund ("the Trustees") and is provided to meet the requirements of Section 224(2)(a) of the Pensions Act 2004. It describes the factors considered by the Trustees when carrying out the actuarial valuation as at 31 July 2011 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Trustees to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Fund (the "assets").
- An appropriate plan for making up the shortfall if the Fund has less assets than liabilities.
- The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund.

Signature



Date of signing

11 September 2012

Fund Actuary

Chris Maggs

Qualification

Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with the version of the *Pensions Technical Actuarial Standard* current at the date this report is signed. It also complies with the relevant requirements of *Technical Actuarial Standards R: Reporting Actuarial Information, D: Data and M: Modelling*, where they apply to this report. These Standards are all issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Trustees if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. If the Trustees and Mercer consent, this report may be disclosed to other third parties.

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Key results of the funding assessment

2.1. Past service funding position

The table on the right compares the assets and liabilities of the Fund at 31 July 2011. Figures are also shown for the last valuation as at 31 July 2008 for comparison.

The table shows that at 31 July 2011 there was a shortfall of £11.1m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 91% of its liabilities – this percentage is known as the funding level of the Fund.

At the previous valuation at 31 July 2008 the shortfall was £16.9m, equivalent to a funding level of 83%. The key reasons for the changes between the two valuations are considered in 3.2.

The liability value at 31 July 2011 shown in the table above is known as the Fund's "technical provisions". The technical provisions are calculated using assumptions that the Trustees have determined are appropriate, having agreed with the University over the approach. Throughout this report "University" means The University of Reading.

Further details of the way in which the technical provisions are calculated are set out in Appendix A.

	£m	
	31 July 2011	31 July 2008
Total assets	106.2	80.4
Liabilities:		
Active members	46.8	44.8
Deferred pensioners	20.9	16.2
Pensioners	49.6	36.3
Total liabilities	117.3	97.3
Past service surplus / (shortfall)	(11.1)	(16.9)
Funding level	91%	83%

2.2. Correcting the shortfall

The Trustees and University have agreed a plan to address the shortfall. Based on the assumptions used to determine the Technical Provisions the shortfall would be eliminated by 28 February 2017 by paying the shortfall contributions shown in the table opposite. These are the same contributions as were agreed as part of the 2008 valuation. However, the shortfall as at 31 January 2012 is estimated to be £26m, which is considerably higher than that calculated at the valuation date. Based on the updated funding position at 31 January 2012 and with allowance made for additional investment return out-performance of 0.6% p.a. in excess of that assumed in the Technical Provisions, the shortfall would be corrected by 31 July 2021.

Contributions are to be paid monthly, equal to one-twelfth of the amounts shown in the table.

2.3. Future service contributions

The valuation also looks at the cost of the benefits that will be built up in the future. A summary of the assumptions used is provided in Appendix A.

The table on the right gives a breakdown of the future service cost at 31 July 2011 and also shows the cost at 31 July 2008 for comparison. As the Fund closed to new entrants from the valuation date the average age of in service members will increase over time. The cost of future benefit accrual allows for an increase in average age over the 3 years to 31 July 2014.

Active members pay contributions to the Fund as a condition of membership, at the rate of 6.25% of Pensionable Salary. They are therefore deducted from the future service rate to calculate the University's future service contribution rate.

Year commencing 1 August	Annual Amount (£)
2011	2.00m
2012	2.25m
2013	2.33m
2014	2.42m
2015	2.51m
2016	2.61m
2017	2.70m
2018	2.81m
2019	2.91m
2020	3.02m

	31 July 2011	31 July 2008
Cost of pension and death benefits	24.45%	29.45%
Less employees' contributions	(6.25%)	(6.25%)
Less age-related NI rebates*	-	(2.80%)
Employer future service contribution rate	18.20%	20.40%
Administration expenses**	-	3.70%
Total	18.20%	24.10%

* From 1 August 2011, members are contracted-out of S2P under the Reference Scheme Test. As a result, the Fund no longer receives age-related NI rebates.

** In addition to the cost of future benefit accrual the Fund incurs costs related to ongoing administration and levies such as the PPF levy. The University directly meets the costs of the PPF levy. The Trustees have agreed with the University that it will make a contribution of £600,000 p.a. to the Fund to cover the remaining ongoing administration costs.

3

Experience since last valuation

3.1. Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 July 2008. Since the last valuation, the following significant events have occurred:

- a) During 2011 the basis for statutory minimum pension increases changed from RPI to CPI. The implications of this are that:
 - Expected future revaluations on non-GMP have reduced.
 - Expected future increases in payment for post 88 GMP have reduced.
- b) Benefit changes were introduced with effect from 1 August 2011. In particular:
 - The Fund closed to new entrants.
 - Benefits post 31 July 2011 will accrue on a Career Average Revalued Earnings (CARE) basis; all pension accrued up to 31 July 2011 will be increased between 31 July 2011 and date of leaving using CARE revaluation (in line with CPI inflation subject to a maximum of 5% each year).
- c) The average Pensionable Salary increase for the Fund members who were in service for the whole of the inter-valuation period was 3.8% per annum.
- d) Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs)) were increased in line with RPI (subject to a maximum of 6% each year) as guaranteed under the Fund at the following rates:
 - 1 April 2009: 5.0%
 - 1 April 2010: 0%
 - 1 April 2011: 4.6%

- e) Over the inter-valuation period, the average investment return was approximately 7% per annum compared to an average assumed return of 6.7% per annum in the recovery plan agreed for the 31 July 2008 valuation and 6.2% assumed in the technical provisions.

The table summarises the contributions paid over the inter-valuation period. These figures are from the audited accounts and are in line with the rates agreed at the last actuarial valuation plus University contributions for augmentations.

Date	University contributions £000s	Member contributions £000s
31 July 2008 to 31 July 2009	4,133	899
31 July 2009 to 31 July 2010	5,411	925
31 July 2010 to 31 July 2011	5,302	897

3.2. Reasons for the change in funding position since the last actuarial valuation

As noted in 2.1, the shortfall at the last valuation date was £16.9m. The table below sets out the main reasons for the change in the shortfall between 31 July 2008 and 31 July 2011

	£m
Shortfall at 31 July 2008	(16.9)
Expected interest on shortfall	(3.4)
Expected University contributions in excess of cost of benefits built up over inter-valuation period	4.0
Anticipated shortfall as at 31 July 2011	(16.3)
Higher than expected investment returns	3.1
Change in underlying financial conditions	(15.2)
Projected shortfall based on half-yearly monitoring	(28.4)
Lower than expected salary increases	1.7
Lower than expected pension increases	0.8
Lower than expected revaluation for deferred pensions	0.8
Membership movements different to assumed (eg withdrawals, cash commutations)	1.9
Higher than expected expenses	(0.2)
Lower than expected age related rebates	(0.2)
Shortfall at 31 July 2011 allowing for experience	(23.6)

	£m
Impact of benefit changes (to CARE)	9.1
Change from RPI to CPI (revaluation for deferred pensions)	1.4
Impact of allowing for change in assumed life expectancy	2.0
Shortfall at 31 July 2011	(11.1)

4

Projected future funding level and volatility

4.1. Projected funding position at next actuarial valuation

As part of this valuation, the Trustees have agreed with the University to retain the recovery plan payments set-up as part of the 2008 valuation. The next actuarial valuation will take place with an effective date no later than 31 July 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed rates or amounts, the shortfall at 31 July 2014 would be approximately £5m, equivalent to a funding level of 97%.

4.2. Material risks faced by the Fund

The Fund is subject to some potentially material risks that are, to an extent, outside the Trustees' control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Trustees manage them, are:

- If the University becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. The Trustees regularly monitor the financial strength of the University.
- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Trustees have a process in place to monitor investment performance quarterly, and they review the Fund's investment strategy alongside each actuarial valuation. In order to mitigate the risk the investment strategy takes the make up of the Fund's membership into account (for example investing in gilts in respect of pensioner liabilities), which reduces the effect of market movements on funding levels.
- If gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding level against the technical provisions and on the wind-up basis (see section 5) will be worse than expected. In order to mitigate the risk a proportion of the Fund's assets is invested in gilts.

- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Trustees manage this risk by ensuring that the assumptions they make about members' life expectancy take the most recent information available into account.
- If members make decisions about their options which increase the Fund's liabilities, the funding level will be worse than expected. The Trustees manage this risk by ensuring that their treatment of member options is reviewed at each valuation and remains appropriate.

4.3. Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Trustees have agreed with the University, then the projected future funding level will be different from the level described above in 4.1.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 July 2011 would have differed given small changes in the key assumptions.

Date	Increase in shortfall at 31 July 2011 (£m)	Increase in future service contribution rate at 31 July 2011 (%)
Pre-retirement investment return is 0.25% p.a. lower	1.4	0.7
Post-retirement investment return is 0.25% p.a. lower	3.9	0.9
Long-term inflation is 0.25% p.a. higher	5.3	1.5
Members live one year longer	3.5	0.6
Equity markets fall by 25%	15.1	n/a
Gilt yields fall by 1%	18.5	7.0

5

Wind-up position

If the University were to become insolvent or decide not to support the Fund, the Trustees could decide to wind up the Fund and secure the benefits built up with an insurance company. Insurance companies use different assumptions to the Trustees when calculating the value of the Fund's liabilities and the price they would charge to provide the benefits.

The table on the right shows an estimate of the funding level of the Fund at 31 July 2011 assuming all benefits were bought out with an insurer. The wind-up position at 31 July 2008 is also shown for comparison. The wind-up position is shown for information only, and does not mean that the Trustees or University are considering winding up the Fund.

As the table shows, the Fund would have had a shortfall of around £44.8m if it had been wound up at 31 July 2011. This means that, on average, members could only expect to receive 70% of the benefits earned to date (although the percentage coverage would differ between members depending on age and when their benefit was earned).

In practice, if the Fund was wound up due to the University becoming insolvent, the members may be eligible for compensation from the Pension Protection Fund (PPF) if the Fund's assets were less than needed to buy that compensation from an insurance company. If this was the case, members could receive a higher proportion of the benefits they have earned to date. Further details of the compensation payable from the PPF are given in Appendix E.

If experience is in line with the assumptions underpinning the agreed recovery plan, and contributions are paid at the agreed rates or amounts, the shortfall at 31 July 2014 on a wind-up basis would be approximately £50m, equivalent to a funding level of 73%.

	£m	
	31 July 2011	31 July 2008
Total assets	106.2	80.4
Liabilities:		
Active members	62.3	49.3
Deferred pensioners	32.5	20.8
Pensioners	50.4	36.8
Expenses	5.8	2.1
Total liabilities	151.0	109.0
Shortfall	44.8	28.6
Funding level	70%	74%

APPENDIX A

Assumptions

A.1. How the benefits are valued

In order to calculate the liabilities, the Trustees need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	<p>The majority of benefits in a pension Fund are paid many years in the future. In the period before the benefits are paid, the Trustees invest the funds held by the Fund with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as “discounting”.</p> <p>The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the “discount rate” is higher.</p> <p>The Trustees’ investment policy is to invest the funds held in respect of retired members in lower risk assets (which therefore have a lower expected return) than those held for members who are still some way from retirement. Therefore, the discount rate assumption is split into pre and post-retirement rates (with pre-retirement being higher).</p>
Inflation	<p>Pensions in payment typically increase in line with price inflation, subject to a cap. Salary growth is also normally linked to price inflation. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.</p>
CARE revaluation	<p>Pensions for active members are based on their accrued pensions revalued each year in line with CPI inflation (subject to a maximum of 5%), so it is necessary to make an assumption about future CPI inflation. The higher this assumption, the higher the value placed on the liabilities for active members.</p>
Life expectancy	<p>Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.</p>

The liabilities of the Fund are calculated projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

A.2. Assumptions used to calculate technical provisions

The tables below summarise the key assumptions used in the calculation of the technical provisions and those used for the 31 July 2008 actuarial valuation.

Financial assumptions	31 July 2011	31 July 2008
Discount rate:		
Pre-retirement	6.10% p.a.	6.90% p.a.
Post-retirement	4.40% p.a.	5.40% p.a.
Price inflation (RPI)	3.50% p.a.	3.75% p.a.
Price inflation (CPI)	2.90% p.a.	n/a
CARE revaluation (CPI capped at 5%)	2.90% p.a.	n/a
Salary increases (limited application at 31 July 2011)	4.50% p.a.	5.25% p.a.
Pension increases in payment:		
RPI maximum 6%	3.50% p.a.	3.75% p.a.
CPI maximum 5%	2.90% p.a.	n/a
CPI maximum 3% (for post 88 GMP)	2.50% p.a.	3.00% p.a. (RPI based)
Revaluation:		
CPI capped at 5% (non-GMP accrued pre 2009)	2.90% p.a.	3.75% p.a. (RPI based)
CPI capped at 2.5% (non-GMP accrued post 2009)	2.50% p.a.	n/a

Demographic assumptions	31 July 2011	31 July 2008
Retirement	For members who were in service at 1 April 1988 (or female entrants between 1 April and 30 October 1988 who elected a pension age of 60), it will be assumed that 50% of in-service male members, 100% of in-service female members and 100% of deferred pensioners retire at age 60 with an unreduced pension. Female deferred pensioners who left before 1 April 1988 will also be assumed to retire at age 60. The remaining in-service members and deferred pensioners will be assumed to retire at age 65.	
Mortality – base table	S1NA 'standard' year of birth tables with no adjustment	PA92 year of birth tables with no adjustment
Mortality – future improvements	In line with the CMI projection models (standard parameters) allowing for a 1.5% long term improvement trend from 2009	Medium cohort projections with 1% minimum improvement per annum
Commutation	None assumed	None assumed
Proportions married	An age-related table with 90% of members married at age 65	An age-related table with 90% of members married at age 65
Spouse's age	Females 3 years younger than male partners	Females 3 years younger than male partners

The mortality assumptions used for the 31 July 2011 valuation result in the following life expectancies. This information is required when completing the annual Scheme Return.

	Cohort	Period
Life expectancy for a male aged 65 now	87.5	85.1
Life expectancy at 65 for a male aged 45 now	89.7	n/a
Life expectancy for a female aged 65 now	89.7	87.3
Life expectancy at 65 for a female aged 45 now	92.1	n/a

Cohort life expectancy is calculated using age specific mortality rates which allow for known or projected changes in mortality in later years whereas period life expectancy does not allow for known or projected changes. For example, period life expectancy at age 65 in 2011

would be worked out using the mortality rate for age 65 in 2011, for age 66 in 2011, for age 67 in 2011, and so on. Cohort life expectancy at age 65 in 2011 would be worked out using the mortality rate for age 65 in 2011, for age 66 in 2012, for age 67 in 2013, and so on.

These assumptions have been selected by the Trustees to reflect their funding objective, after reaching agreement with the University. In setting the assumptions, the Trustees have assumed that the Fund is ongoing (i.e. it continues to have the support of the University and is not in the process of being wound up). The Trustees' stated funding objective (which has also been agreed with the University) is to reach a position where the assets are sufficient to fully cover the technical provisions.

A.3. Assumptions used to calculate future service cost

The assumptions used to calculate the cost of future benefit accrual are the same as those used to calculate the technical provisions.

A.4. Assumptions used to calculate the wind-up position

The wind-up position looks at the Fund's funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company. In doing this, it is assumed that no further benefits accrue, no further contributions are paid and active members are entitled to benefits on the basis they had left service on the valuation date. There is no allowance for any discretionary benefits being paid in the future.

The wind-up position has been estimated using Mercer's experience of recent buyout quotations and our understanding of the factors affecting this market. Detailed analysis of the reserves that would need to be held by an insurance company has not been carried out. Consideration has been given to the market terms for the financial instruments in which insurance companies would be expected to invest. An approximate allowance has been made for the reserves an insurance company would maintain to cover the risks involved and the statutory reserving requirements. The results are, therefore, only a guide to the wind-up position and should not be taken as a quotation. Market changes, both in interest rates and in supply and demand for buyout business, mean that if a buyout ultimately proceeds, actual quotations may differ.

The wind-up funding level is only an estimate as it is not based on an actual quotation. The true position could only be established by completing a buyout.

The tables below set out the assumptions used to assess the funding level in the event of the Fund being wound up. The assumptions used at 31 July 2008 are also shown for comparison.

Financial assumptions	31 July 2011	31 July 2008
Discount rate:		
Pre-retirement	3.40% p.a.	4.80% p.a.
Post-retirement	4.10% p.a.	5.20% p.a.
Pre-retirement revaluation of non-GMP pension		
Non-GMP accrued pre 2009	3.50% p.a.	3.70% p.a.
Non-GMP accrued post 2009	2.50% p.a.	n/a
Pension increases:		
Non-pensioners		
RPI (6% maximum) on non-GMP pension	4.00% p.a.	3.70% p.a.
RPI (3% maximum) on post-88 GMP	2.70% p.a.	2.80% p.a.
Pensioners		
RPI (6% maximum) on non-GMP pension	3.40% p.a.	3.70% p.a.
RPI (3% maximum) on post-88 GMP	2.60% p.a.	2.80% p.a.
Demographic assumptions		
Retirement	31 July 2011	31 July 2008
	Members who were in service at 1 April 1988 (or female entrants between 1 April and 30 October 1988 who elected a pension age of 60) and female deferred pensioners who left before 1 April 1988 will be assumed to retire with an unreduced pension at age 60. Other members will be assumed to retire at age 65.	Members who were in service at 1 April 1988 (or female entrants between 1 April and 30 October 1988 who elected a pension age of 60) and female deferred pensioners who left before 1 April 1988 will be assumed to retire with an unreduced pension at age 60. Other members will be assumed to retire at age 65.

Demographic assumptions	31 July 2011	31 July 2008
Mortality – base table	S1NA 'standard' year of birth tables with no adjustment	PA92 tables using year of birth
Mortality – future improvements	In line with the CMI projection models (standard parameters) allowing for a 1.5% long term improvement trend from 2009	Medium cohort projections with 1.5% (males) or 1% (females) minimum improvement per annum starting from 2007
Commutation	None assumed	None assumed
Proportions married	An age-related table with 90% of members married at age 65	An age-related table with 90% of members married at age 65
Spouse's age	Females 3 years younger than male partners	Females 3 years younger than male partners
Expense allowance	4% of liabilities	2% of liabilities

As the Trustees' current investment policy includes investment in different assets than would typically be held by an insurer, the wind-up position on a given date may be significantly different from the position estimated at the valuation date.

APPENDIX B

Summary membership data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Trustees, via the Fund's administrator. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

	31 July 2011	31 July 2008
Active members		
Number	786	759
Total Pensionable Salaries (£000s p.a.)	16,891*	15,206*
Average Pensionable Salary (£ p.a.)	21,490*	20,034*
Average age	47.6	49.8
Average past service	8.2	9.3
*Full-time equivalent Pensionable Salaries are shown for part-timers		
Deferred pensioners		
Number	857	766
Total deferred pensions revalued to valuation date (£000s p.a.)	1,211	1,047
Average deferred pension (£ p.a.)	1,413	1,366
Average age	47.6	47.3
Pensioners		
Number	876	720
Total pensions payable (£000s p.a.)	2,806	2,091
Average pension (£ p.a.)	3,203	2,905
Average age	72.6	72.4

APPENDIX C

Assets

The market value of the Fund's assets was £106,210,000 on the valuation date.

The Trustees' investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

The Trustees also hold additional voluntary contributions (AVCs) which are separately invested and a group life insurance policy with Aviva which insures the lump sum death benefit. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund.

	Investment strategy	Actual market value of assets at 31 July 2011	
	%	£m	%
Bonds:			
Fixed and index-linked gilts	40.0	33.9	31.9
Corporate bonds	-	2.7	2.6
Equities:			
UK	33.0	30.2	28.4
Overseas	22.0	30.3	28.5
Property	5.0	4.6	4.3
Alternatives	-	0.8	0.8
Cash and net current assets	-	3.7	3.5
Total	100.0	106.2	100.0

APPENDIX D

Benefit summary

The benefits valued broadly reflect the benefits communicated to members via membership booklets, announcements and correspondence outlining special terms where applicable.

No allowance has been made for any discretionary benefits.

The benefits that will emerge from money purchase AVCs paid by members have been excluded from the valuation, as have the corresponding assets, since the value of these liabilities is exactly matched by these assets.

The law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgement) and this includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMPs). There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes which are not in the PPF. The valuation makes no allowance for the removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Trustees seek further professional advice if they are concerned about this issue.

The Government has recently changed its process for determining the level of statutory increases for pensions in payment and in deferment. The Trustees' legal adviser has confirmed that this change will mean that non-GMP pensions in deferment and post-88 GMPs in payment will increase in line with the Consumer Prices Index (CPI) inflation rather than the Retail Prices Index (RPI) inflation. This valuation allows for these benefit changes. In addition, increases in payment on pension accrued after 31 July 2011 and revaluation of CARE benefits before retirement for active members are linked to CPI, subject to a maximum of 5% each year.

APPENDIX E

Summary of PPF benefits

If the Fund winds up when the University is insolvent, its members may be eligible for compensation from the Pension Protection Fund. Normally, a Fund's assets and liabilities would only transfer to the PPF if the assets were insufficient to buy out the benefits provided by the PPF. The compensation that the PPF could provide would be broadly 100% of the pension in payment for members over pension age and 90% of a capped amount of the pension built up for members under pension age. Under the current PPF provisions:

- Pensions in payment will be increased annually, at the lower of 2.5% and the change in the Consumer Price Index (CPI), in respect of service after 5 April 1997 only. Pensions accrued before April 1997 are not increased.
- Benefits in deferment are revalued in line with the Fund's rules for any period between the member's exit and the Fund's entry into the PPF. Revaluation between the entry date and the member's normal pension age will be in line with increases in the CPI subject to a maximum of 5% per annum compounded over the revaluation period in respect of service pre-6 April 2009, and subject to a maximum of 2.5% per annum for service post-5 April 2009.
- Where Fund rules do not provide for revaluation in respect of a period of service, then no revaluation will be provided under the PPF in respect of that service.
- Spouses' pensions will be 50% of members' PPF compensation.
- The pensions of members aged less than their Fund's normal pension age when the Fund enters the PPF will be capped. The cap depends on the member's age when the pension is paid and is increased from time to time. For example, in 2012/13 the cap is £34,050 at age 65 – so, the maximum amount of compensation for members retiring at their normal pension age of 65 will be 90% of this, £30,645 per annum.

APPENDIX F

Section 179 certificate

This appendix includes a copy of the section 179 valuation certificate which sets out the information required to complete the section 179 section of the Scheme Return. The certificate is in the format required by the PPF; the terminology used in the certificate reflects the wording used in the section 179 valuation guidance.

In summary, the results of the valuation disclose a deficit of £1,923,000, equivalent to a funding level of 98% on the PPF funding basis.

Scheme / Section details		s179 valuation	
Full name of Scheme:	University of Reading Employees' Pension Fund	Effective date of this valuation (dd/mm/yyyy)	31/07/2011
Name of section if applicable:		Guidance and assumptions	
Pension Scheme Registration Number	10131880	s179 guidance used for this valuation	G5
Address of Scheme (or section, where appropriate)	Whiteknights PO Box 217 Reading	s179 assumptions used for this valuation	A6
	Post code: RG6 6AH		

Assets		Liabilities			
Total assets (this figure should <u>not</u> be reduced by the amount of any external liabilities and should <u>include</u> the insurance policies referred to below)	£106,210,000	Please show liabilities for:			
Date of relevant accounts (dd/mm/yyyy)	31/07/2011	Active members (excluding expenses)	£43,605,000		
Percentage of the assets shown above held in the form of a contract of insurance where this is <u>not</u> included in the asset value recorded in the relevant Fund accounts.	0%	Deferred members (excluding expenses)	£20,973,000		
		Pensioner members (excluding expenses)	£39,897,000		
		Estimated expenses of winding up	£2,545,000		
		Estimated expense of benefit installation /payment	£1,113,000		
		External liabilities	£0		
		Total protected liabilities	£108,133,000		
Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:		Please show the proportion of liabilities which relate to each period of service for:			
Active members	0%	Active members	Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Deferred members	0%	Deferred members	19.4%	61.8%	18.8%
Pensioner members	0%	Pensioner members	29.0%	67.5%	3.5%
			56.0%	44.0%	n/a
				(all post 6 April 1997)	


Number of members and average ages

For each member type. Please show the number of members and the average age (weighted by the protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

	Number	Average age
Active members	786	54
Deferred members	857	51
Pensioner members	876	70

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature



Qualification

Fellow of the Institute and Faculty of Actuaries

Name

Chris Maggs

Employer

Mercer Limited

Date

11 September 2012

As required, under Part 9 of the Guidance on undertaking a section 179 valuation, the section 179 certificate should form part of the Scheme Actuary's section 179 valuation report. The details contained in this certificate should be separately submitted to the PPF as part of the annual Scheme Return via the Pension Regulator's system "Exchange". **This certificate should not be sent directly to the Pension Protection Fund.**

The key assumptions used to calculate the section 179 liabilities are set out in the table below.

Key assumptions	
Investment return:	
• In deferment (allowing for revaluation in deferment): pre 5 April 2009 benefits	0.15%
• In deferment (allowing for revaluation in deferment): post 5 April 2009 benefits	1.31%
• For pensions in payment (flat) :	3.99%
• For pensions in payment (increasing):	1.49%
Mortality	Males: PCMA00 mc for year of birth, with a 1.5% p.a. floor applying from year 2000 Females: PCFA00 mc for year of birth, with a 1% p.a. floor applying from year 2000
Proportions "married"	85% (males) / 75% (females)
Age differences between member and dependant	Female 3 years younger than male
Children's pensions	Children's pensions already in payment assumed to stop at 18 (or 23 if already over 17) No other allowance
Expenses:	
Wind-up (% of liabilities)	3% up to £50m; plus 2% between £50m and £100m; plus 1% over £100m
Benefit installation/payment	per non-pensioner member: £500 per pensioner (dependent on age): Under 60 £450 60 to 70 £400 70 to 80 £300 80 or over £250

The benefits valued for the section 179 valuation broadly reflect the benefits communicated to members via membership booklets, announcements and correspondence outlining special terms where applicable except as follows:

- The provisions outlined in Appendix E (Summary of PPF benefits) are assumed to override the Fund's own benefit provisions for the purpose of the section 179 valuation only.
- Revaluation of benefits in deferment after the effective date of the valuation has been ignored as revaluation is allowed for implicitly by the yield in the section 179 assumptions which takes account of increases between the valuation date and NPA.
- Money purchase benefits have been ignored.
- Normal pension age is the normal retirement date under the Fund rules or such earlier age specified where the only condition for the member to retire without actuarial reduction is the attainment of a particular age or length of service. It is possible for different tranches of benefits to have different normal pension ages.

The data used for the section 179 valuation is as set out in Appendix B and the assets used are as set out in Appendix C.

APPENDIX G

Certificate of technical provisions

Name of the Scheme

University of Reading Employees' Pension Fund

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund's technical provisions as at 31 July 2011 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 Fund and set out in the statement of funding principles dated 25 July 2012.

Signature



Name

Chris Maggs

Date of signing

11 September 2012

Name of Employer

Mercer Limited

Address

Four Brindleyplace
Birmingham
B1 2JQ

Qualification

Fellow of the Institute and Faculty of Actuaries



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