

# **SCHEME FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 JULY 2014 UNIVERSITY OF READING EMPLOYEES' PENSION FUND**

JULY 2015

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## Introduction

This report is addressed to the Trustees of the University of Reading Employees' Pension Fund ("the Fund") 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 2014, 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**

22 July 2015

**Scheme Actuary**

John Hemsley

**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. It may also be disclosed to any participating employer and, if the Trustees and Mercer consent, it may be disclosed to other third parties.

# 2

## Key results of the scheme funding assessment

### 2.1 Past service funding position

The table on the right compares the assets and liabilities of the Fund at 31 July 2014. Figures are also shown for the last valuation as at 31 July 2011 for comparison.

The table shows that at 31 July 2014 there was a shortfall of £4.4m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 97% of its liabilities – this percentage is known as the funding level.

At the previous valuation at 31 July 2011 the shortfall was £11.1m, equivalent to a funding level of 91%. The key reasons for the changes between the two valuations are considered in 3.2.

The liability value at 31 July 2014 shown in the table is known as the Fund's "technical provisions". The technical provisions are calculated using assumptions that the Trustees have determined are appropriate based on the Trustees' assessment of the strength of the Employer covenant, having agreed with the University over the approach to the valuation. Throughout this report "University" means The University of Reading.

The Trustees assessed the strength of the Employer covenant to be strong. Further details of the way in which the technical provisions are calculated are set out in Appendix A.

	£m	
	31 July 2014	31 July 2011
Total assets	136.7	106.2
Liabilities:		
Active members	44.6	46.8
Deferred pensioners	27.7	20.9
Pensioners	68.8	49.6
Total liabilities	141.1	117.3
Past service surplus / (shortfall)	(4.4)	(11.1)
Funding level	97%	91%

## 2.2 Correcting the shortfall

The Trustees and University have agreed a plan to address the shortfall. The shortfall as at 31 January 2015 was estimated to be £13.9m. Based on this updated funding position 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 agreed shortfall contributions payable after that date would be expected to eliminate the shortfall by 31 March 2020.

Given the recovery plan end date of 31 March 2020, the actual shortfall contributions paid in the year commencing 1 August 2019 will be £1.56m (i.e. 8 months of contributions payable at the annualised rate of £2.34m).

Year commencing 1 August	Annual amount (paid in equal monthly amounts)
2014	£2.42m
2015	£1.94m
2016	£2.04m
2017	£2.13m
2018	£2.24m
2019	£2.34m

## 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 2014 and also shows the cost at 31 July 2011 for comparison. As the Fund is closed to new entrants, 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 2017.

	% of Pensionable Salaries	
	31 July 2014	31 July 2011
Cost of pension benefits	30.05%	24.45%
Less members' contributions	(6.25%)	(6.25%)
Employer future service contribution rate	23.80%	18.20%

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. For members who participate in Pensions+, the member pays no contributions and the University's future service rate is the full rate, i.e. 30.05% of Pensionable Salaries at 31 July 2014.

The contributions exclude PPF levies (which are paid for directly by the University) and the expenses of administering the Fund, in respect of which the University pays an additional £600,000 per annum into the Fund. This includes allowance for life assurance premiums paid from the Fund.

# 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 2011. Since the last valuation, no significant Fund events or changes to benefits have occurred.

The average CARE revaluation over the inter-valuation period was 3.3% per annum compared with 2.9% per annum assumed. Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs)) were increased as guaranteed under the Fund Rules as follows:

	<b>Pension earned before 1 August 2011 (i.e. RPI max 6% annual increase)</b>	<b>Pension earned after 31 July 2011 (i.e. CPI max 5% annual increase)</b>
1 April 2014	3.2%	2.7%
1 April 2013	2.6%	2.2%
1 April 2012	5.6%	5.0%

During the inter-valuation period, the investment return on the Fund's assets was approximately 7.8% per annum.

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.

<b>Date</b>	<b>University contributions (£000)</b>	<b>Member contributions (£000)</b>
31 July 2011 to 31 July 2012	5,471	891
31 July 2012 to 31 July 2013	5,954	56
31 July 2013 to 31 July 2014	5,560	51

### 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 £11.1m. The table below sets out the main reasons for the change in the shortfall between 31 July 2011 and 31 July 2014.

	£m
<b>Surplus / (shortfall) at 31 July 2011</b>	<b>(11.1)</b>
Expected interest on shortfall	(1.9)
Assumed investment return in recovery plan	2.2
Contributions vs accrual	8.0
<b>Expected surplus / (shortfall) at 31 July 2014</b>	<b>(2.8)</b>
Higher than assumed investment returns	7.3
Change in gilt yields	(19.0)
Change in market expectations of future RPI	5.0
Changes to funding principles	7.3
Miscellaneous experience	(2.2)
<b>Surplus / (shortfall) at 31 July 2014</b>	<b>(4.4)</b>

# 4

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## 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 put in place a recovery plan expected to eliminate the shortfall by 31 March 2020. The next actuarial valuation will take place with an effective date no later than 31 July 2017. If experience up to that date is in line with the assumptions made for this current actuarial valuation (including the increase in shortfall over the period to 31 January 2015) and contributions are paid at the agreed rates or amounts, the funding level at 31 July 2017 would be approximately 95%.

### 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 shortfalls 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 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 2014 would have differed given small changes in the key assumptions.

Date	Change in liabilities at 31 July 2014 (£m)	Increase in future service contribution rate at 31 July 2014 (%)
Pre-retirement investment return is 0.25% lower than assumed	1.6	0.6
Post-retirement investment return is 0.25% lower than assumed	4.5	0.9
Long-term inflation is 0.25% higher than assumed	5.8	1.4
Members live one year longer than assumed	4.4	0.7
Mortality tables with 1.75% future improvement trend	2.0	0.4

# 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' technical provisions 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 2014 assuming all benefits were bought out with an insurer. The wind-up position at 31 July 2011 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 £48.9m if it had been wound up at 31 July 2014. This means that, on average, members could expect to receive around 74% 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 31 July 2014 technical provisions, and contributions are paid at the agreed rates or amounts, the funding level at 31 July 2017 on a wind-up basis would be approximately 77%.

	£m	
	31 July 2014	31 July 2011
Total assets	136.7	106.2
Liabilities:		
Active members	64.2	62.3
Deferred pensioners	44.6	32.5
Pensioners	71.4	50.4
Expenses	5.4	5.8
Total liabilities	185.6	151.0
Past service surplus / (shortfall)	(48.9)	(44.8)
Funding level	74%	70%

# APPENDIX A

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## 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.

<b>Assumption</b>	<b>Why it is important and how it impacts on the liabilities</b>
Discount rate	<p>The majority of benefits in a pension scheme 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 either RPI or CPI 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%).</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 by 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 be 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 2011 actuarial valuation.

<b>Financial assumptions</b>	<b>31 July 2014</b>	<b>31 July 2011</b>
Discount rate:		
Pre-retirement	5.30% p.a.	6.10% p.a.
Post-retirement	3.60% p.a.	4.40% p.a.
Price inflation (RPI)	3.30% p.a.	3.50% p.a.
Price inflation (CPI)	2.50% p.a.	2.90% p.a.
Salary increases	4.30% p.a.	4.50% p.a.
CARE revaluation	2.50% p.a.	2.90% p.a.
Deferred revaluation (pension accrued pre 2009)	2.50% p.a.	2.90% p.a.
Deferred revaluation (pension accrued post 2009)	2.50% p.a.	2.50% p.a.
Pension increases in payment:		
Pension accrued pre-2011 (RPI up to 6% p.a.)	3.30% p.a.	3.50% p.a.
Pension accrued post-2011 (CPI up to 5% p.a.)	2.50% p.a.	2.90% p.a.
Post 88 GMP (CPI up to 3% p.a.)	2.50% p.a.	2.50% p.a.

<b>Demographic assumptions</b>	<b>31 July 2014</b>	<b>31 July 2011</b>
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 is 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 are also assumed to retire at age 60. The remaining in-service members and deferred pensioners are assumed to retire at age 65.	
Mortality – base table	S2NA year of birth table with no adjustment	S1NA year of birth tables with no adjustment
Mortality – future improvements	In line with CMI 2013 projection model allowing for a 1.5% long term improvement trend	In line with CMI 2009 projection model allowing for a 1.5% long term improvement trend
Commutation	70% of members take maximum allowed cash using current commutation factors	None assumed
Proportions married	Age-related table with 90% of members married at age 65	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 2014 valuation result in the following life expectancies. This information may be useful to the Trustees when completing the annual scheme return.

	<b>Cohort</b>	<b>Period</b>
Life expectancy for a male aged 65 now	87.9	85.8
Life expectancy at 65 for a male aged 45 now	90.1	n/a
Life expectancy for a female aged 65 now	90.0	87.8
Life expectancy at 65 for a female aged 45 now	92.2	n/a

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 (it 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 since it is not based on an actual quotation. The true position could only be established by completing a buyout. 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.

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 2011 are also shown for comparison.

<b>Financial assumptions</b>	<b>31 July 2014</b>		<b>31 July 2011</b>	
Discount rate:	Non-pensioners	Pensioners	Non-pensioners	Pensioners
Pre-retirement (under 15 years to retirement)	3.40% p.a.	n/a	3.40% p.a.	n/a
Pre-retirement (15 years or more to retirement)	2.90% p.a.	n/a	3.40% p.a.	n/a
Post retirement	3.30% p.a.	3.20% p.a.	4.10% p.a.	4.10% p.a.
Deferred revaluation (pension accrued pre 2009)	3.20% p.a.	n/a	3.50% p.a.	n/a
Deferred revaluation (pension accrued post 2009)	2.50% p.a.	n/a	2.50% p.a.	n/a
Pension increases:				
RPI up to 6% p.a.	3.70% p.a.	3.20% p.a.	4.00% p.a.	3.40% p.a.
CPI up to 5% p.a.	3.50% p.a.	3.00% p.a.	n/a	n/a
CPI up to 3% p.a.	2.40% p.a.	2.30% p.a.	2.70% p.a.	2.60% p.a.
Expense allowance	In line with PPF expense allowance		4% of liabilities	

<b>Demographic assumptions</b>	<b>31 July 2014</b>		<b>31 July 2011</b>	
Retirement	Members in service at 1 April 1988 are assumed to retire at age 60 and female deferred members who left prior to 1 April 1988 are assumed to retire at 60. All other members are assumed to retire at 65.			
Mortality – base table	S2PA year of birth tables with no adjustment		S1NA year of birth tables with no adjustment	
Mortality – future improvements	In line with CMI 2013 projection model allowing for a 2.0% long term improvement trend for males and 1.5% long term improvement trend for females		In line with CMI 2009 projection model allowing for a 1.5% long term improvement trend	
Commutation	None assumed		None assumed	
Proportion 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	

# 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 2014	31 July 2011
<b>Active members</b>		
Number	522 <sup>(1)</sup>	786
Total Pensionable Salaries (£000s p.a.)	10,319 <sup>(3)</sup>	16,891 <sup>(2)</sup>
Average Pensionable Salary (£ p.a.)	19,768	21,490
Average age	50.8	47.6
Average past service	11.1	8.2
<b>Deferred pensioners</b>		
Number	948	857
Total deferred pensions revalued to valuation date (£000s p.a.)	1,459	1,211
Average deferred pension (£ p.a.)	1,539	1,413
Average age	48.1	47.6
<b>Pensioners</b>		
Number	984	876
Total pensions payable (£000s p.a.)	3,651	2,806
Average pension (£ p.a.)	3,710	3,203
Average age	73.4	72.6

- (1) In addition, there are 3 members still in service who are receiving part of their benefit as pension and have been included in the pensioners
- (2) Full-time equivalent salaries at 31 July 2011.
- (3) Actual salaries over the year to 31 July 2014.

# APPENDIX C

## Assets

The market value of the Fund's assets was £136,705,000 on the valuation date.

The Trustees' investment strategy is to proportion the Fund's assets by asset class as shown in the table. 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 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 31 July 2014 audited accounts for the Fund.

	Investment strategy	Actual market value of assets at 31 July 2014	
	%	£m	%
<b>Bonds:</b>			
Fixed gilts	0.0	0.5	0.4
Index-linked gilts	25.0	28.9	21.1
Corporate bonds	20.0	25.6	18.7
<b>Equities:</b>			
UK	20.0	24.6	18.0
Overseas	30.0	45.1	33.0
Property	5.0	6.3	4.6
Alternatives	0.0	2.2	1.6
Cash and net current assets	0.0	3.5	2.6
Total	100.0	136.7	100.0

# APPENDIX D

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## Benefit summary

The benefits valued are set out in the benefit summary provided to the Trustees dated 24 November 2014. This 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).

The Government was expected to issue guidance on GMP conversion in Spring 2014, as a way to deal with GMP equalisation. The method of equalizing GMPs is yet to be confirmed and there is no longer an expected date for receiving guidance. The valuation makes no allowance for 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.

# APPENDIX E

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## 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 (PPF). 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 CPI subject to a maximum of 2.5% per annum for service post-5 April 2009.
- Where scheme 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 scheme's normal pension age when the scheme 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 2015/16 the cap is £36,401 at age 65 – so, the maximum amount of compensation for members retiring at their normal pension age of 65 will be 90% of this, £32,761 per annum.

# APPENDIX F

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## 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 £4.4m, equivalent to a funding level of 97% on the PPF funding basis.

<b>Scheme / Section details</b>		<b>s179 valuation</b>	
Full name of scheme:	University of Reading Employees' Pension Fund	Effective date of this valuation (dd/mm/yyyy)	31/07/2014
Name of section if applicable:		<b>Guidance and assumptions</b>	
Pension Scheme Registration Number	10131880	S179 guidance used for this valuation	G6
Address of scheme (or section, where appropriate)	Whiteknights PO Box 217 Reading	S179 assumptions used for this valuation	A7
	Post code: RG6 6AH		

<b>Assets</b>		<b>Liabilities</b>			
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)	£136,705,000	Please show liabilities for:			
Date of relevant accounts (dd/mm/yyyy)	31/07/2014	Active members (excluding expenses)	£46,879,000		
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 scheme accounts.	0%	Deferred members (excluding expenses)	£31,610,000		
		Pensioner members (excluding expenses)	£57,619,000		
		Estimated expenses of winding up	£2,861,000		
		Estimated expense of benefit installation /payment	£2,113,000		
		External liabilities	£0		
		Total protected liabilities	£141,082,000		
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:			
			Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	0%	Active members	12.48%	51.27%	36.24%
Deferred members	0%	Deferred members	18.98%	69.61%	11.41%
Pensioner members	0%	Pensioner members	50.74%	49.26% (all post 6 April 1997)	n/a

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**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	522	54
Deferred members	948	51
Pensioner members	984	70

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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	<input type="text"/>	Qualification	<input type="text" value="Fellow of the Institute and Faculty of Actuaries"/>
Name	<input type="text" value="John Hemsley"/>	Employer	<input type="text" value="Mercer Limited"/>
Date	<input type="text" value="22 July 2015"/>		

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" within 15 months of the effective date. **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.

<b>Key assumptions</b>	
Investment return:	
• In deferment (allowing for revaluation in deferment): pre 5 April 2009 benefits	-0.40%
• In deferment (allowing for revaluation in deferment): post 5 April 2009 benefits	1.04%
• In deferment (no revaluation allowed in deferment):	3.14%
• For pensions in payment (flat) :	2.97%
• For pensions in payment (increasing):	0.87%
Mortality	
Base table	S2PA year of birth table with a weighting of 90% Males: CMI 2012 for year of birth, with a 1.5% p.a. floor applying from year 2000 Females: CMI 2012 for year of birth, with a 1% p.a. floor applying from year 2000
Future improvements	
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: £1,000 per pensioner (dependent on age): Under 60 £900 60 to 70 £800 70 to 80 £600 80 or over £500

The benefits valued for the section 179 valuation are in line with the benefit summary provided to the Trustees dated 24 November 2014 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

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## 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 2014 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 22 July 2015.

Signature

Name

John Hemsley

Date of signing

22 July 2015

Name of employer

Mercer Limited

Address

Four Brindleyplace  
Birmingham  
B1 2JQ

Qualification

Fellow of the Institute and Faculty of Actuaries



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