XPS Pensions

The University of Aberdeen Superannuation and Life Assurance Scheme

Scheme funding report on the Actuarial Valuation as at 31 July 2022

27 November 2023

Executive summary

94%

Funding level

The Trustees have completed a valuation of the Scheme as at 31 July 2022. This report sets out the approach adopted by the Trustees, the results obtained and the actions taken in the light of those results.

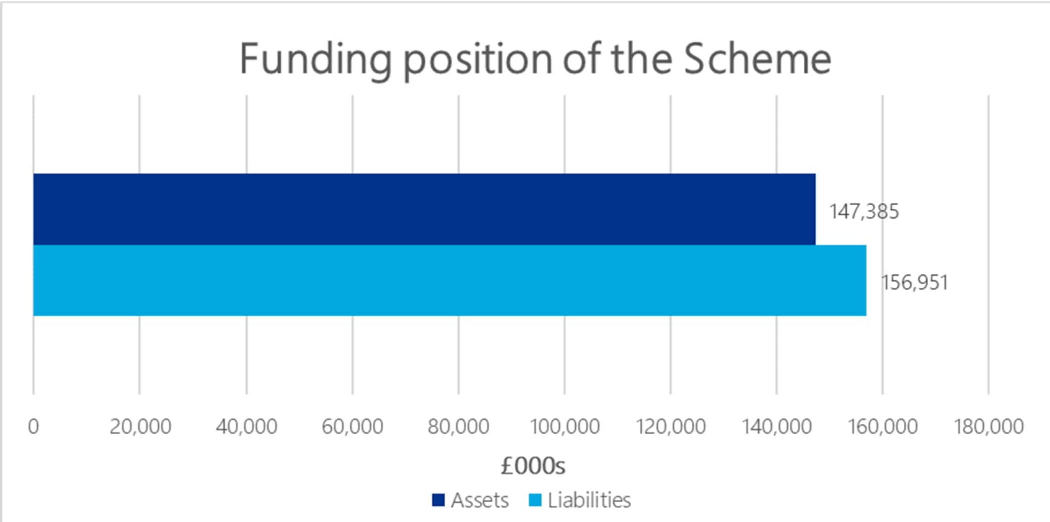
The key results are as follows.

Scheme funding assessment

£9.6m

Estimated scheme funding deficit

In funding the Scheme, the Trustees' key objective is to ensure that there will be sufficient assets to meet all benefit payments as they fall due. With this in mind, the Trustees have set a target reserve for the Scheme based on a prudent estimate of the amount needed to meet all payments in respect of the benefits earned up to the valuation date.



Employer contributions

14.1%

Paid of members' pensionable salaries to fund future accrual of active members.

The Employer has agreed a recovery plan with the Trustees. The aim of the recovery plan is that the shortfall will be made up over a period of 11 years by paying the following deficit recovery contributions:

Period 1 July 2022 to 31 July 2033	£725,000 per annum

To fund the continuing benefits, the Employer will contribute:

- 22.1% of members' pensionable salaries in respect of salary sacrifice members
- 14.1% of members' pensionable salaries in respect of active members

Full details are set out in the schedule of contributions and recovery plan, dated 25 October 2023.

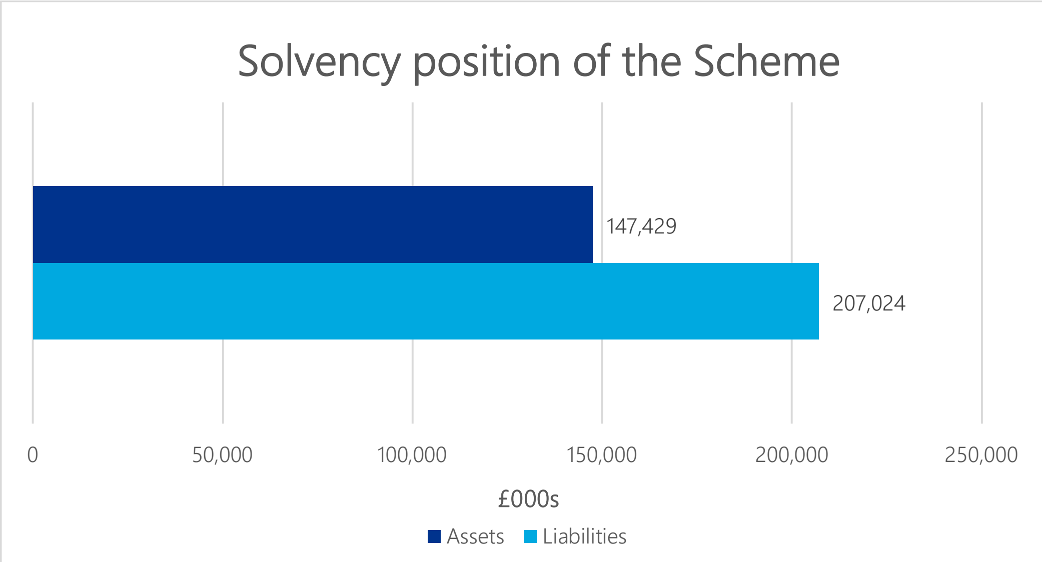
Executive summary

71%

Solvency funding level

£59.6m

Estimated solvency deficit



I have also completed a solvency assessment of the Scheme. This estimates the extent to which the Scheme's assets would be sufficient to secure members' benefits by the purchase of insurance policies if the Scheme were to be wound up at the effective date of the valuation.

Section 179 assessment

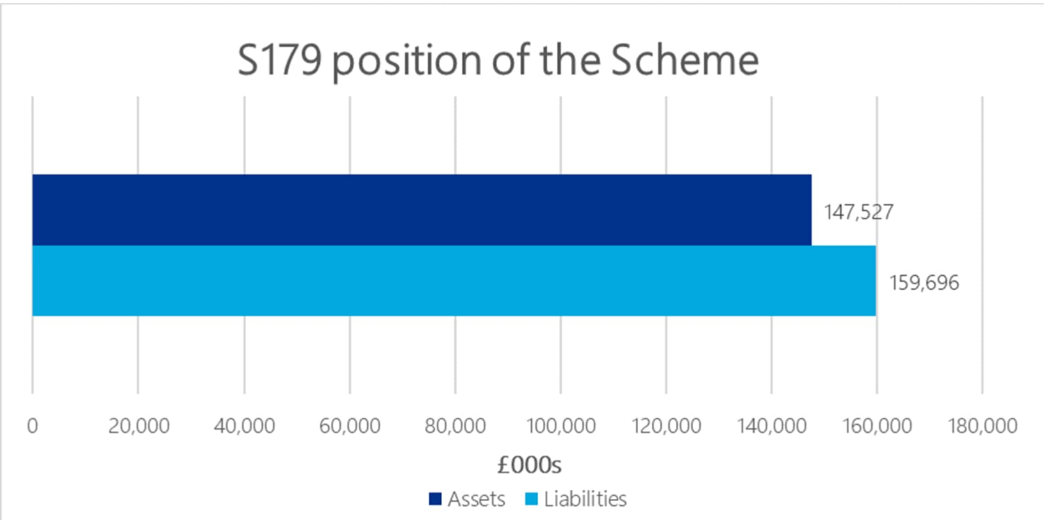
92%

Section 179 funding level

£12.2m

Estimated section 179 deficit

I have completed a section 179 assessment of the Scheme. Once submitted, the Pension Protection Fund (PPF) will base the Scheme's levy on the results of this valuation.



Contents

Throughout the report:

'Scheme' refers to University of Aberdeen Superannuation and Life Assurance Scheme

'Trustees' refers to the trustees of the University of Aberdeen Superannuation and Life Assurance Scheme

'Employer' refers to University of Aberdeen

Disclaimers, confidentiality and non-disclosure

This report has been commissioned by and is addressed to the Trustees of University of Aberdeen Superannuation and Life Assurance Scheme. The intended users of this report are the Trustees and it is for their exclusive use. Its scope and purpose is to provide the Trustees with the final results of the Scheme's funding valuation as at 31 July 2023 and to satisfy the legislative requirements of reporting and certifying the results of the valuation. I am providing this report under the terms of our engagement and in my capacity as Scheme Actuary.

This report may not be shared with any other party without my prior written consent, except to comply with statutory requirements. No other parties other than the Trustees may rely on or make decisions based on this document (whether they receive it with or without consent. XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This advice has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This advice is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

This report, and the work undertaken to produce it, is compliant with Technical Actuarial Standard (TAS) 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply.

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. Penfida Limited Registered No. 08020393. All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB. XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

01 **Introduction**

This report should be made available to the University within 7 days of receipt.

Background

The Trustees of the Scheme have undertaken a formal valuation of the Scheme as at 31 July 2022.

I have already provided the Trustees with all of my advice in relation to the valuation, including the results, in a number of previous reports and letters. The purpose of this report is to set out in one place the final results of the valuation and to satisfy the legislative requirement for reporting and certifying the results of the valuation, within 15 months of its effective date.

The report is addressed to the Trustees. Legislation requires the Trustees to make it available to the University within 7 days of receipt. As a recovery plan is required, a summary of the actuarial valuation must be submitted to the Pensions Regulator ("TPR") within 10 working days of the schedule of contributions being certified.

The following documents are relevant to the results in this report:

> My report "Initial assumptions and results", dated March 2023

> The Trustee position papers, dated June 2023 and September 2023

> The previous Scheme actuary's report "Report on the actuarial valuation as at 31 July 2019", dated 25 November 2020

> Minutes of the Trustees' meetings/emails etc.

> The report "XPS Analytics - DB demographic assumptions", dated November 2023

> The report "Estimating the potential impact of GMP equalisation", dated 28 June 2019

02 Funding objectives and assumptions

The methodology used in deriving the assumptions are described in detail in the statement of funding principles, dated 25 October 2023

The funding objective

The Trustees' key funding objective is to ensure that there will be sufficient and appropriate assets to cover its technical provisions (value of the liabilities on the Scheme's funding assumptions).

Method and assumptions

In carrying out the valuation of the Scheme, a number of assumptions need to be made. For the scheme funding valuation the method and assumptions are set out in the Trustees' statement of funding principles dated 25 October 2023, which has been agreed with the University.

Tending to Strong Employer Covenant

Employer covenant

The Scheme is supported by the covenant of the University. Generally speaking, covenant is the extent of a sponsor's obligation and financial ability to support its pension scheme now and in the future. The sponsor's covenant underwrites the risks to its pension scheme.

An assessment of the covenant of the Employer was carried out by the Trustees on 31 July 2022. The Trustees concluded that the Employer's covenant has improved since the 31 July 2019 valuation and is considered to be "Tending to Strong". This assessment is subjective and the covenant strength may change in the future.

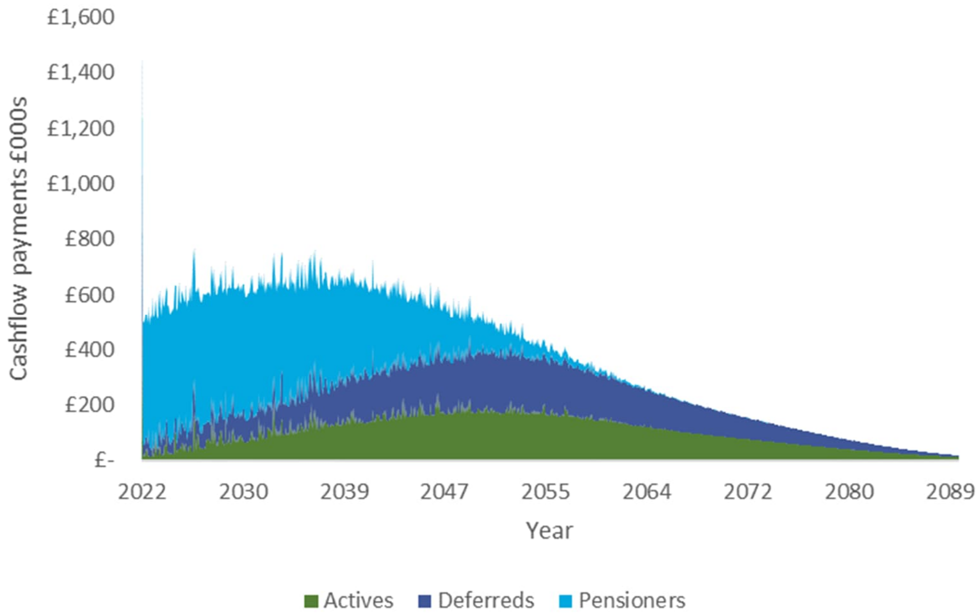
03 Scheme funding results

2036

Projected peak of Scheme benefit payments

Projected benefit payments

I have used the scheme funding assumptions to project the estimated benefits that will be paid to all members in respect of their entitlements at the valuation date. These projections are set out in the chart below and represent all cash payments expected to be made over the lifetime of the Scheme.



The Scheme is made up of those members who have already retired (pensioner members) and those who have not yet retired (active and deferred members). The Scheme is still open to new members however the current youngest member is expected to retire in 2065.

The projected cashflows are calculated on the scheme funding assumptions and are therefore dependent on these assumptions being realised.

The level of benefits paid will depend on:

> the actual level of future inflation compared to that assumed (which affects salary increases and increases to pensions in deferment and in payment).

The timing of the cashflows will be dependent on factors such as:

> how long members and dependants live compared to assumed,

> whether members take cash at retirement (it is assumed that members commute 5% of their pension for cash)

> whether members retire early or late, and

> members transferring out their benefits from the Scheme (which is not allowed for in the assumptions).

Scheme funding results

£9.6m

Deficit at 31 July 2022

The funding position

The technical provisions are compared to the present value of the assets to give the funding position at the valuation date below. The corresponding results of the last valuation are shown for comparison purposes.

	As at 31 July 2019 £000s	As at 31 July 2022 £000s
Past service liabilities		
Active members	44,403	31,073
Deferred pensioners	39,954	34,575
Current pensioners	87,530	90,066
Insured pensioners	1,014	629
GMP Equalisation Reserve	679	608
Total past service liabilities (L) ('Technical provisions')	**173,580**	**156,951**
Assets		
Total assets shown in accounts	162,941	146,756
Insured pensioners	1,014	629
Total assets (A)	**163,955**	**147,385**
Funding surplus / (deficit) (A minus L)	**(9,625)**	**(9,566)**
Funding level (A as a percentage of L)	**95%**	**94%**

The value of Additional Voluntary Contributions held within the Scheme has been excluded from both the assets and liabilities in the above results.

Reconciliation with the results of the previous valuation

The funding position is broadly similar to the last valuation. The most significant influences on the funding position have been as follows:

> Changes in financial conditions underlying the actuarial assumptions used to value the liabilities has resulted in a significantly lower value being placed on the liabilities which, in isolation, has served to reduce the deficit.

> Returns on the Scheme's investments were lower than expected, which has increased the deficit.

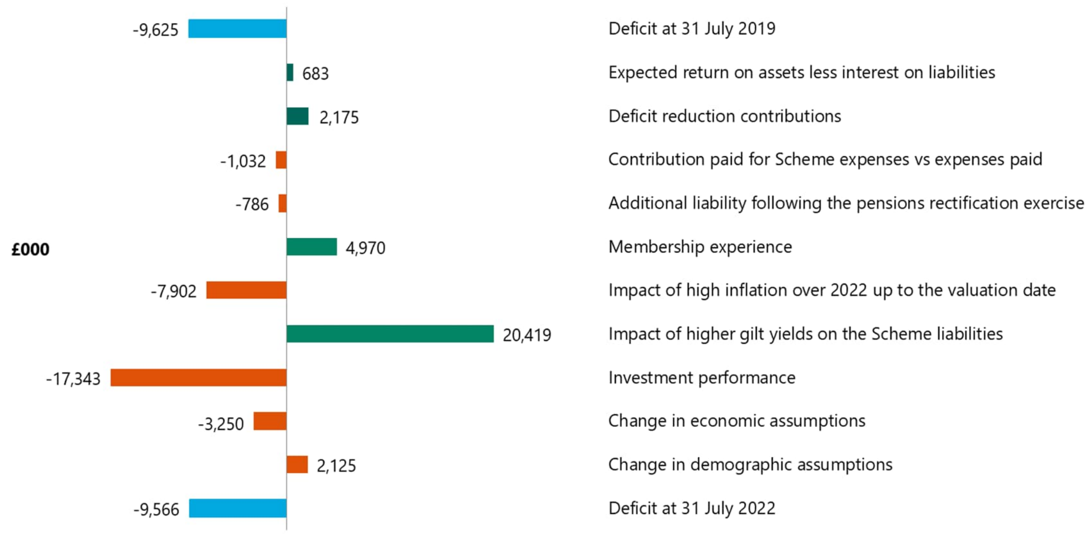
> Inflation was higher than expected which served to increase the deficit.

> Continued contributions by the University have served to improve the funding position.

> Membership experience over the period since the last valuation has served to improve the funding position.

Scheme funding results

The full reconciliation of the changes in the Scheme's funding position since the valuation carried out as at 31 July 2019:



£17.3m

Asset loss over the valuation period due to investments being lower than expected

Further information on the investment returns and the contributions paid in the period between the two valuations can be found in Appendix C.

£20.4m

Net decrease in Scheme liabilities over the valuation period due to changes in gilt yields

Addressing the deficit

In order to address the deficit the Trustees and the University have revised the recovery plan. The aim of the recovery plan is for the deficit to be removed over a period of 11 years from the valuation date through regular deficit recovery contributions. More information is shown in the Schedule of Contributions, dated 25 October 2023.

All Scheme expenses, including Pension Protection Fund ("PPF") levies, are met by the Scheme.

Scheme funding results

0.7%

Increase in the cost of future pension accrual since the last valuation

Future service results

I have assessed the contributions required to fund benefits that are being accrued by in-service members as set out below. At the 31 July 2019 valuation the future service rate was calculated using a discount rate that was 0.25% p.a. higher than that used to value the past service liabilities and included an allowance for expenses.

For the 31 July 2022 valuation, I have used the same discount rate assumption to value the past service liabilites and to determine the future contribution rate. The allowance for expenses has also been increased from 1.2% p.a. to 2.8% p.a.

	As at 31 July 2019 % Pensionable Salaries	As at 31 July 2022 % Pensionable Salaries
Benefit accrual	21.40%	22.10%
Less member contributions	(8.00)%	(8.00)%
University's future service contribution rate	**13.40%**	**14.10%**

Developments since the effective date

Since the effective date of the valuation, 31 July 2022, to the date of this report, financial conditions have been volatile with significant movements in the equity and gilt markets. These movements may have had a material impact on the valuation results shown above. The impact of changes in market conditions since the valuation date will be assessed as part of the 31 July 2023 annual funding update..

The Trustees and the University have agreed that they will not explicitly take any account of any post-valuation experience when agreeing the recovery plan. I have therefore, as agreed, certified the schedule of contributions as at the effective date of the valuation.

Projected funding level to the next valuation

I have projected the funding position to 31 July 2025 when the next formal valuation of the Scheme is due, when the funding position and future contributions are required to be reviewed again.

I have assumed that experience is in line with the assumptions as set out in the statement of funding principles and contributions will be in line with those paid since the valuation date and the newly agreed schedule of contributions.

The results of my estimated projection are shown in the table below.

	Valuation as at 31 July 2022	Projection to 31 July 2025
Ongoing funding level	94%	95%

Scheme funding results

My projection is for an improvement in the funding position. This projected improvement is principally due to:

> The substantial deficit reduction contributions due to be paid under the agreed recovery plan.

In practice the Scheme is exposed to a number of risks as set out in the next section, which mean that the funding level at the next valuation date is uncertain.

Risk and prudence

Key Risks

There are a number of risks which might ultimately affect the Trustees' ability to pay benefits to members. Foremost among these are the risks relating to:

> Funding risks – if experience turns out to be less favourable than was assumed for the funding assessment, for example members living longer than assumed, inflation higher than assumed or legislation introduces unanticipated liabilities, additional contributions are likely to be required from the University.

> Employer covenant – the University may become less able to continue to make contributions or unwilling to support the Scheme, therefore leading to a loss of long-term security.

> Investment risks – where future investment returns are below those assumed or there is an asset/liability mismatch where an increase in liabilities (e.g. from decrease in bond yields) is not matched by an increase in asset values.

Risk mitigation measures

The Trustees have taken a number of actions to mitigate the risks. These include:

> Funding - the assumptions used in the funding assessment have been chosen prudently, making it less likely that experience will turn out to be worse than assumed.

> Monitoring - regular updates are received by the Trustees to keep abreast of any changes in the University's covenant and the funding position.

> Investment - the Trustees have invested some of the Scheme assets in bonds. Movements in the value of these assets act partially offset movements in the technical provisions when bond yields change.

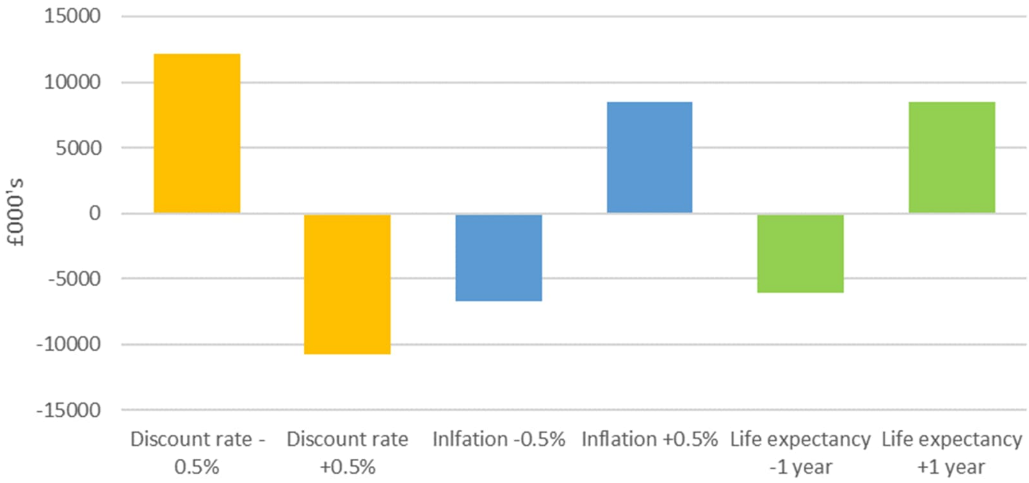
> Bank guarantee - the full Technical Provisions deficit is covered by a bank guarantee in the event of the University's insolvency.

Scheme funding results

Sensitivity to assumptions

To give an idea of the extent of some of the key risks, I set out below the sensitivity of the technical provisions to some of the key assumptions. These show the impact on the technical provisions of changing each assumption in isolation. Please note that these calculations are approximate and intended for illustration only.

Impact of change in assumptions on technical provisions (£000s)



Scheme funding results

Level of prudence in funding results

The assumptions used in calculating the technical provisions must be chosen prudently, usually including an appropriate margin for adverse deviation. One measure of prudence contained within the funding assumptions is the ratio of the Technical Provisions to the Buyout liabilities. In simple terms, the higher this ratio then the higher the level of prudence. The ratio for the Scheme on the technical provisions basis is 75.8.

The table below shows how the Scheme compares to a survey of UK DB schemes.

	Key Funding ratio*
95th Percentile	91.6
Upper Quartile	77.3
Median	68.7
Lower Quartile	60
5th Percentile	46.8

Source: TPR Scheme Funding Statistics (Annex) 2022 (Tranche 12). *Ignoring covenant and maturity factors.

04 **Solvency assessment**

Background

I am required to assess the winding-up or "solvency" position of the Scheme assuming that it ceases at the valuation date, where all benefits would be secured by the purchase of insurance policies. This differs from the scheme funding valuation, which assumes that the Scheme operates until its last member dies.

Methodology

The only accurate way to assess the true cost of winding up would be to obtain quotations from a number of insurance companies. I have not done this, but instead have estimated the cost using assumptions that have been derived with reference to general pricing information received from insurers.

Clearly, this approach will not be as accurate as obtaining actual quotations, but I am satisfied that it is sufficient for the present purpose. An actual wind-up, at a different date, could have a significantly different funding position and would depend on investment market conditions and the terms available from insurance companies at the date of securing benefits or obtaining a firm quotation.

While it is difficult to say if my estimate is prudent relative to buy-out terms which might have been available at the valuation date, I have not added explicit margins for prudence. Full details of the assumptions used are set out in Appendix D.

The solvency valuation is also my statutory estimate of the solvency of the Scheme as required under section 7 of the Occupational Pension Scheme (Scheme Funding) Regulations 2005 and I have set the assumptions for the estimate based on the principles set out above.

Solvency assessment

£59.6m

Estimated Solvency deficit at 31 July 2022

Results

A breakdown of the solvency assessment results at the 2022 and 2019 valuation dates (for comparison) is set out below.

	Solvency Assessment as at 31 July 2019 £000s	Solvency Assessment as at 31 July 2022 £000s
Solvency liabilities		
Active members	77,975	46,597
Deferred pensioners	76,559	55,239
Current pensioners	97,703	99,557
Insured pensioners	1,079	673
GMP equalisation reserve	1,066	827
Solvency and payment expenses	15,199	4,131
Total Solvency liabilities (L)	**269,581**	**207,024**
Assets		
Total invested assets shown in accounts	164,022	146,998
Insured pensioners	1,079	673
Net current assets	(1,082)	(242)
Total assets (A)	**164,020**	**147,429**
Solvency surplus / (deficit) (A minus L)	**(105,561)**	**(59,595)**
Solvency funding level (A as a percentage of L)	**61%**	**71%**

Comparison to scheme funding results

The funding level on the solvency basis is much lower than the scheme funding basis set out in Section 3 of this report. This is due to the different assumptions used to reflect the difference between the anticipated cost of providing the benefits from the Scheme on an ongoing basis and the cost of securing those benefits through the purchase of insurance policies.

The cost of winding-up the Scheme is larger than the expected cost of running the Scheme on an ongoing basis, due principally, to the more conservative assumptions insurers are required to adopt and the profit margins expected to be targeted by the insurance market.

Solvency assessment

Effect on members' benefits

If the Scheme had begun winding up as at 31 July 2022, and the University was unable to pay any of the University's wind-up debt due to insolvency (i.e. the difference between the assets and the liabilities on the solvency basis), then the Scheme would normally be eligible to enter the PPF. In this situation, members' benefits would be reduced to the compensation levels paid by the PPF.

The" compensation" paid by the PFF is based on the benefits accrued by each member within their own pension scheme, but with some adjustments. For example:

>Members yet to reach their Normal Pension Age have their benefits reduced by 10% and restricted so that they are no greater than a cap set by the PFF.

>No increases are applied to pension accrued before April 1997.

>Increases to pension accrued after April 1997 are limited to a maximum of 2.5% each year (or the increase in the Consumer Price Index if lower).

05 Section 179 valuation

Background

I have carried out a Pension Protection Levy (section 179) valuation of the Scheme as at 31 July 2022 and enclose, in Appendix F, a copy of my certified results. The assumptions are set by the PPF and are designed to broadly reflect the cost of buying out the PPF benefits with an insurance company. Details on the assumptions used are set out in Appendix D. We have submitted the results onto Exchange. From there it will be shared with the PPF who will use it to calculate the Scheme's annual PPF levy.

Assumptions

The PPF's benefits are generally lower than the Scheme's benefits and are prescribed under legislation. Further information is available on the PPF website: www.ppf.co.uk. The assumptions I have used are those set by the PPF in its guidance. More details of these can be found in:

> version A10 of its paper "Guidance on assumptions to use when undertaking a valuation in accordance with section 179 of the Pensions Act 2004"; and

> version G9 of its paper "Guidance for undertaking the valuation in accordance with section 179 of the Pensions Act 2004".

Method of calculation

I have estimated the value of the Scheme's section 179 liabilities as at 31 July 2022 using the same cashflow liability model and same data that was used for the scheme funding assessment, as described in this report.

The PPF requires that insured annuity contracts are taken into account in the section 179 valuation. Accordingly, we have:

> Valued as a liability the PPF compensation which would be paid to insured pensioners, as described above.

> Valued as an asset the full annuities payable to the Trustees in respect of the insured pensioners.

My liability calculations consider the future benefit payments from the Scheme, which are then discounted to the valuation date. I am comfortable that my representation of the Scheme, including any approximations made is appropriate for the purpose the valuation, in terms of its relevance and completeness and is as permitted by the PPF in part 3 of its guidance. An approximation is generally considered "prudent" if actual experience has a more than 50% chance of being better than assumed. This means that, where I have had to make approximations I have erred on the side of being cautious.

As a result of the Lloyds case judgment on 26 October 2018 the PPF has confirmed how it expects actuaries to allow for the effects of GMP equalisation in section 179 valuations.

The PPF has set out that they expect schemes to include an interim allowance for GMP equalisation as a result of the October 2018 judgment to be used within the section 179 calculations. They acknowledge that this may need to be amended once GMP equalisation for the affected group of members is implemented.

The PPF expects that the GMP equalisation method used for a section 179 valuation should be consistent with the analysis undertaken for another purpose. It is therefore appropriate to look to the Scheme's existing analysis when making an allowance for GMP equalisation in the Scheme's section 179 valuation.

On 20 November 2020 a further judgment was passed down on the Lloyds case, confirming that pension scheme trustees are also responsible for equalising GMP benefits that have already been transferred out of their schemes by individual members. This new judgment therefore relates to members who have left the Scheme; these members were not in the scope of the original estimate of the impact of GMP equalisation as that judgment applied to members in the Scheme. I do not believe that the Scheme has experienced any significant historical transfers out that are likely to lead to a material impact when considering GMP equalisation on these transfers out. Detailed calculations will need to be carried out in due course and an additional allowance may need to be made at that point. In any case, the PPF has confirmed that schemes do not need to make an allowance for this second ruling at this time. I have therefore not included an allowance.

I am satisfied that the allowance for GMP equalisation of expected future payments as a result of the first (2018) ruling is appropriately prudent for use in the Scheme's section 179 valuation. In addition, the PPF have confirmed that an allowance for GMP equalisation as a result of the second (2020) ruling does not need to be made at this time. I have therefore included an allowance of 0.3% of the Scheme's active and pensioner liabilities and 0.7% of the Scheme's deferred liabilities in the section 179 valuation to allow for the impact of GMP equalisation in respect of expected future payments as a result of the first (2018) ruling.

Results

92%

Section 179 funding level

On the section 179 basis, as at 31 July 2022, the Scheme had assets of £147.5m and liabilities of £159.7m, equivalent to a funding level of 92% and deficit of around £12.2m. This compares with assets of £161.4m and liabilities of £199.4m assessed at 31 July 2019, equivalent to a funding level of 82% and deficit of £35.3m. Further details are provided in Appendix F.

Experience analysis since the previous valuation

The improvement in the deficit on the section 179 basis is primarily due to changes in market conditions (leading to more favourable financial assumptions) and the deficit reduction contributions paid by the University in the intervaluation period. However, this has been partially offset by lower than expected investment returns and higher than expected inflation.

06 **Next steps**

Next steps

The signing of this document, the statement of funding principles, the recovery plan and the schedule of contributions concludes the valuation formalities. The results of this valuation have already been submitted to TPR.

Between now and the next valuation

The next valuation is due on 31 July 2025. Between now and then I will provide the statutory annual reports to the Trustees, setting out how the funding position has evolved and the key reasons for any changes.

These reports, along with regular reviews of the University's covenant, will enable the Trustees to monitor the funding of the Scheme. If it appears to the Trustees that the recovery plan is no longer likely to meet the funding objective, the Trustees should consider what remedial actions might be taken.

I would highlight that a more stringent funding regime is being implemented across all UK DB schemes over the next few years. Consequently, there is a strong likelihood that at the Scheme's next triennial valuation in 2025 there may be significant upward pressure on the deficit and therefore on the monetary amount of the security given to the Trustees by the University.

Signature

Date
27 November 2023

Name
Gerry Devenney
Scheme Actuary

Qualification
Fellow of the Institute
and Faculty of Actuaries

Address
3rd Floor
East Wing
40 Torphichen Street
Edinburgh
EH3 8JB

Employer
XPS Pensions Limited

Appendix A
Scheme benefits

The Scheme benefits are described in the Scheme's definitive trust deed and rules and subsequent amending deeds and announcements for the Scheme. A summary of the benefits is set out in the members' booklet.

Equalisation

The Scheme appears to comply with the main equal treatment requirements of the European Court, as far as these are known, and the valuation has been prepared on this basis. I have assumed that these requirements have been validly incorporated in the trust deed and rules and the benefits supplied by the administrators reflect the rules.

Like many UK pension schemes, however, the Scheme's benefits still differ between men and women as a result of differences in Guaranteed Minimum Pension (GMP). My valuation allows for any additional liabilities that would arise if benefits were to be equalised to remove these differences for the members with GMP. Details of the GMP equalisation methodology are shown in the report titled 'Estimating the potential impact of GMP equalisation' dated 28 June 2019.

Discretionary practice

There has been no recent history of discretionary increases or discretionary benefits being awarded under the Scheme. In line with this past practice, I have therefore made no allowance in the valuation for discretionary increases or benefits being granted in future.

Scheme developments since the 2019 valuation

There have been no amending deeds implemented since the 2019 valuation. Any changes that are material to the valuation are covered above.

A number of legislative developments have occurred or have been proposed since the 2019 valuation. These developments have been brought to the Trustees' attention where appropriate are covered in this report where they are relevant to the valuation.

Appendix B
Membership data

2,289

Total Scheme membership at current valuation date

2,208

Total Scheme membership at previous valuation date

I have been provided with membership data as at 31 July 2022 by the Scheme Administrators, EQ Ltd (for active and deferred members) and Prudential (for pensioner members). I have performed a number of checks on the data, and I am satisfied that it is sufficiently accurate for the purposes of this valuation. A summary of the data is set out below.

Active members	31 July 2019	31 July 2022
Number	647	661
Total Pensionable Salaries (£000s)	13,453	14,307
Average age*	55	54.7

Deferred members	31 July 2019	31 July 2022
Number	669	723
Total annual pension at date of valuation (£000s)	1,035	1,046
Average age*	53.4	54.4

Pensioner members	31 July 2019	31 July 2022
Number**	892	905
Total annual pension (£000s)	4,732	5,349
Average age*	70.6	71.7

* Average ages are weighted by liability at date of valuation.

** The pensioner membership included 94 members at 31 July 2019 and 75 members at 31 July 2022 with fully or partly insured pensions in payment.

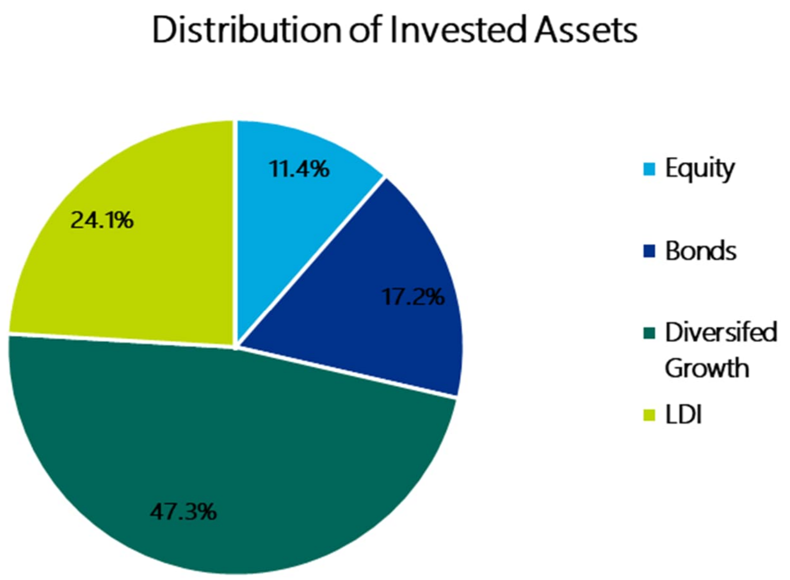
Appendix C
Assets and investment strategy

Assets held at the valuation date

I have taken the value of the Scheme's assets from the Trustees' audited Report and Accounts as at 31 July 2022. The accounts state that at that date the Scheme had invested assets of £147m (excluding AVCs). The following chart illustrates how those assets were invested.

30%

Benchmark allocation to return seeking assets



70%

Benchmark allocation to matching assets

In addition to the assets set out above, the accounts show that there were net current assets. This gives a total asset value (excluding AVCs & insured pensioners) for use in my assessment, as follows.

	Assets as at 31 July 2019 £000s	Assets as at 31 July 2022 £000s
Invested assets (excluding AVCs)	164,022	146,998
Net current asset / (liability)	(1,082)	(242)
Total available assets	162,941	146,756

Assets and investment strategy

-4.45%

Actual average return on Scheme investments over the valuation period

7.20%

Expected average return on Scheme investments over the valuation period

£11.15m

Total contributions paid by the University and members over the valuation period

A number of Scheme pensions are paid from annuity policies held in the name of the Trustees. In the valuation calculations, I have shown the value of these as both an asset and liability.

Investment strategy

The assets held at the effective date of the valuation broadly reflected the Trustees' investment strategy, as set out in the Trustees' statement of investment principles dated October 2021. This strategy consists of investing approximately 70% of the assets in return-seeking asset classes, such as equities, and approximately 30% of assets in matching assets such as bonds. This distribution is intended to reflect the liability profile of the Scheme and the Trustees will keep the division of assets under review. For the purposes of this valuation the Trustees have instructed me to assume that the distribution of assets will remain unchanged over the term of the recovery plan.

Investment returns

The scheme funding assumptions adopted for the 31 July 2019 actuarial valuation anticipated returns on the fund assets averaging around 2.30% per annum over the period to 31 July 2022. The returns on the Scheme's assets during the period were -1.51% per annum.

Contributions paid to the Scheme

The University paid £2,175,000 to the Scheme over the valuation period in order to help remove the Scheme's deficit. In addition, the University and the members of the Scheme paid regular contributions of £8,974,000 in respect of benefit accrual.

Appendix D Summary of Key assumptions

Key financial assumptions – scheme funding basis

	As at 31 July 2019	As at 31 July 2022
Discount rate before retirement	Gilt Curve + 2.75% p.a.*	Gilt Curve + 2.75% p.a.
Discount rate after retirement	Gilt curve + 0.75% p.a.*	Gilt curve + 0.75% p.a.
Future price inflation (RPI)	RPI curve - 0.15% p.a.	RPI curve - 0.15% p.a.
Future price inflation (CPI)	RPI curve - 0.85% p.a.	Pre 2030: RPI - 0.85% p.a. Post 2030: In line with RPI
Salary Inflation	Equal to the RPI assumption	Equal to the CPI assumption

* Future Service contributions had a 0.25% pa allowance for outperformance

Pension increase assumptions – scheme funding basis

	As at 31 July 2019	As at 31 July 2022
Revaluation of deferred pensions before retirement:		
Before retirement - Statutory	CPI	CPI
In payment*:		
Pre88 GMP – nil Post88 GMP – CPI max 3% Excess - RPI	Nil CPI capped at 3% p.a. RPI uncapped	Nil CPI capped at 3% p.a. RPI uncapped

* Subject to minimum overall increase of 3% p.a.

	As at 31 July 209	As at 31 July 2022
CARE pension increases:		
In service - CPI max 3%	CPI capped at 3%	CPI capped at 3%
In deferment – CPI max 2.5%	CPI capped at 2.5%	CPI capped at 2.5%
In payment:		
Post 11	CPI capped at 5%	CPI capped at 5%
Post 19	CPI capped at 3%	CPI capped at 3%

Summary of key assumptions

Demographic assumptions – scheme funding basis

	As at 31 July 2019	As at 31 July 2022
Base table	S3PA	S3PA
Adjustment to base table	116% (M), 106% (F)	118% (M), 112% (F)
Projection	CMI 2018 1.25%	CMI 2022 1.5% (M), 1.1% (F), IA 0.2%
Commutation	5% of pension	5% of pension

A description of all the assumptions including their derivation for the scheme funding assumptions is included in the statement of funding principles.

Key financial assumptions – Solvency basis

	As at 31 July 2019	As at 31 July 2022
Discount rate for non-pensioners	Based on a swap curve to replicate insurers' pricing and expenses	Bank of England nominal gilt curve - 0.15%
Discount rate for pensioners		Bank of England nominal gilt curve + 0.30%
Future price inflation (RPI)	Bank of England RPI inflation swap curve	Market implied inflation based on the swaps RPI curve
Future price inflation (CPI)	Equal to the RPI inflation assumption less 0.6%	RPI less 0.6% until 2030 then RPI thereafter

Pension increase assumptions – Solvency basis

As per the funding basis, using the solvency assumptions for RPI and CPI

Demographic assumptions – Solvency basis

	As at 31 July 2019	As at 31 July 2022
Base table	S3PA	S3PA
Adjustment to base table	116% (M), 106% (F)	118% (M), 112% (F)
Projection	CMI 2017 1.5% (M), 1.25% (F)	CMI 2021 1.5% (M), 1.25% (F), IA 0.2%
Commutation	No allowance	No allowance

Summary of key assumptions

Expenses – Solvency basis

	As at 31 July 2019	As at 31 July 2022
Allowance for insurer wind-up expenses	3.5% of liabilities	£1,000 per non-pensioner member £250 per pensioner member
Allowance for non-insurer wind-up expenses	2.5% of liabilities	1% of liabilities + £500k

Section 179 valuation basis

The PFF prescribes the assumptions and the calculation methodology to be used for the section 179 valuation can be summarised as follows.

	As at 31 July 2019	**As at 31 July 2022**
Version of the guidance for undertaking a valuation in accordance with section 179	G8	G9
Version of the assumptions to use when undertaking a valuation in accordance with section 179	A9	A10

Appendix E
Documents and certificates

Actuary's certificate of the calculation of technical provisions

Name of Scheme: University of Aberdeen Superannuation and 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 2022 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 25 October 2023.

.... 27 November 2023

Gerry Devenney FFA
Fellow of the Institute and Faculty of Actuaries
XPS Pensions
3rd Floor, East Wing
40 Torphichen Street
Edinburgh
EH3 8JB

Appendix F
Section 179 Certificate

Scheme/section details:

Full name of scheme:	University of Aberdeen Superannuation and Life Assurance Scheme
Name of section, if applicable:	N/A
Pension Scheme Registration Number:	10052894
Address of Scheme (or section, where appropriate):	University of Aberdeen University Office Kings College Aberdeen AB24 3FX United Kingdom

s179 valuation

Effective date of this valuation (dd/mm/yyyy)	31 July 2022

Guidance and assumptions

s179 guidance used for this valuation	G9
s179 assumptions used for this valuation	A10

Assets

Total assets (this figure should <u>not</u> be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£147,527,000
Date of relevant accounts (dd/mm/yyyy)	31 July 2022
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts.	0.14%

Liabilities

Please show liabilities for:

Active members (excluding expenses)	£ 38,175,000
Deferred members (excluding expenses)	£ 39,729,000
Pensioner members (excluding expenses)	£ 78,913,000
Estimated expenses of winding up	£ 1,056,000
Estimated expenses of benefit installation/payment	£ 1,823,000
External liabilities	£ 0
Total protected liabilities	£ 159,696,000

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts:

Active members:	0%
Deferred members:	0%
Pensioner members:	0.98%

Proportion of liabilities

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:	3.34%	23.18%	73.48%
Deferred members:	24.66%	41.68%	33.66%
	Before 6 April 1997	After 5 April 1997	
Pensioner members:	47.29%	52.71%	

Number of members and average ages

For each member type, please show the number of members and the average age (weighted by 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:	661	52.30
Deferred members:	723	51.52
Pensioner members:	905	71.77

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 have taken account of Section 4.9 of version G9 of the PPF's paper "Guidance for undertaking a valuation in accordance with section 179 of the Pensions Act 2004". That document states that,

- where, having regard to the 2018 judgement of the High Court in the case of 'Lloyds Banking Group Pensions Trustees Limited vs Lloyds Bank plc and others', a section 179 valuation includes an interim allowance for GMP Equalisation, such allowance may be calculated using a best estimate basis rather than applying the principle of prudence;
- no allowance need be made in respect of impacts arising from the 2020 judgement of the High Court in the case of 'Lloyds Banking Group Pensions Trustees Limited vs Lloyds Bank plc and others' if the trustees have not yet decided what action they will take in

response to the judgement, or if the trustees are uncertain what impact (if any) it will have on the scheme assets and/or liabilities; and

- the principle of prudence applies to all other elements of the protected liabilities.

With the exception of the allowance for GMP equalisation as described above, I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature	Date
	27 November 2023

Name	Qualification
Gerry Devenney FFA	Fellow of the Institute and Faculty of Actuaries

Address

XPS Pensions
3rd Floor East Wing
40 Torphichen Street
Edinburgh
EH3 8JB

As required, under Part 6 of the Guidance on undertaking a s179 valuation, the s179 certificate should form part of the Scheme Actuary's s179 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.

Contact us
xpsgroup.com