



# UMSS Valuation Special

Updating you on  
the results of the  
valuation as at  
31 July 2019

umss



# From the Chair

Welcome to your valuation special newsletter, which shows you the results from the three-yearly actuarial valuation carried out as at 31 July 2019.

As you might imagine, the actuarial valuation has been a challenging exercise, taking place against the backdrop of the COVID-19 pandemic. The volatility in financial markets and general worldwide uncertainty that this has caused arose part way through the valuation process, and continues to be an area of focus for us.

The results of the valuation shown on the following pages reflect the funding position at July 2019. However, we want to assure you that in formulating and agreeing a financial plan with the University, we have also taken into account the events in the period to October 2020, which is when we finalised the valuation.

More detail concerning the valuation results is set out in the following pages, which I hope you find interesting.

Please remember that the Pensions Team is here to support you. If you have queries about this newsletter or your benefits, please contact us using the details on the back page. Please remember, as the Pensions Team is working from home, response times may be longer than usual – thank you for your patience and understanding.

## Jon Ferns

Chair of the Trustee Board  
University of Manchester Superannuation Scheme ('UMSS' or 'the Scheme')

## The financial plan agreed with the University delivers three key things:

1. The continuation of the Scheme with benefits unchanged.
2. Contribution levels, both for Scheme members that are currently contributing and for the University, remain unchanged. This means that there is **no requirement for higher contributions** to be made in what are unprecedented times. The University will continue to meet the bulk of the cost of providing the benefits members will earn from their service in the Scheme. In addition, the University will continue to pay extra contributions to meet the shortfall between the investments of the Scheme and the Scheme's liabilities.
3. The Trustee has reviewed the Scheme's investment strategy and agreed some changes. In the future, the Scheme will be investing in funds which are expected to more closely track the cost of providing the Scheme's benefits. This will be done by reducing the proportion of assets currently held in stocks and shares. The new investment strategy is therefore expected to provide a more stable financial position for UMSS in the future.

# What is the valuation?

Every three years, an actuary (an independent, qualified professional) carries out a formal valuation of UMSS. The valuation measures the financial health of the Scheme. Each year between formal valuations, the actuary carries out an interim valuation.

## How is UMSS's financial security measured?

To measure UMSS's financial security, the actuary compares its assets with its liabilities. The actuary assesses UMSS's assets by valuing them at their current market price but assesses the liabilities by making assumptions about future life expectancy, inflation, and expected investment returns. The liabilities figures are estimates based on assumptions which might change in the future.

A shortfall occurs when a scheme's total liabilities are greater than its total assets. The 2019 formal valuation showed that UMSS has a shortfall of £133.4m. The 2016 valuation showed there was a shortfall of £207.4m.

The actuarial valuation is carried out on:

- an 'ongoing' basis, which assumes the Scheme will carry on as it is now; and
- a 'discontinuance' basis, which assumes the Scheme is wound-up at the valuation date. This is a legal requirement and does not mean there is any intention to wind up the Scheme.

**Assets:** the money held in the Scheme.

**Liabilities:** money the Scheme needs to provide benefits to members, both now and in the future.



Start



# The financial position of UMSS

Below you can see the results of the formal valuation as at 31 July 2019 compared to the previous formal valuation as at 31 July 2016.

The results show UMSS funding level on an 'ongoing' basis, which assumes that UMSS will continue as it is currently.

	Assets	Liabilities	Shortfall	Funding level
<b>31 July 2019</b>	£ 689.6m	£823.0m	£133.4m	84%
<b>31 July 2016</b>	£500.7m	£708.1m	£207.4m	71%

The improvement in the funding level is due to a combination of several factors. The main factors have been the better-than-expected returns on Scheme assets, offset by changes in economic conditions which caused a rise in the cost of the benefits promised. Additionally, the closure of the final salary section and using updated mortality assumptions contributed to this improved position.

## How will the shortfall be met?

To meet the shortfall, we have agreed a continuation of the Recovery Plan with the University. The Recovery Plan, plus ongoing contributions, aim to make sure there is enough money in the Scheme to pay benefits now and in the future. It will be reviewed again at the next formal valuation.

## Contributions to be paid

The University has agreed that it will pay additional contributions to the Scheme in order to eliminate the shortfall by 30 November 2031.

The University will pay £6,609,000 a year in quarterly instalments, increasing each August in line with the latest annual change in the year to April's RPI (Retail Price Index).

## What would happen if UMSS needed to wind up?

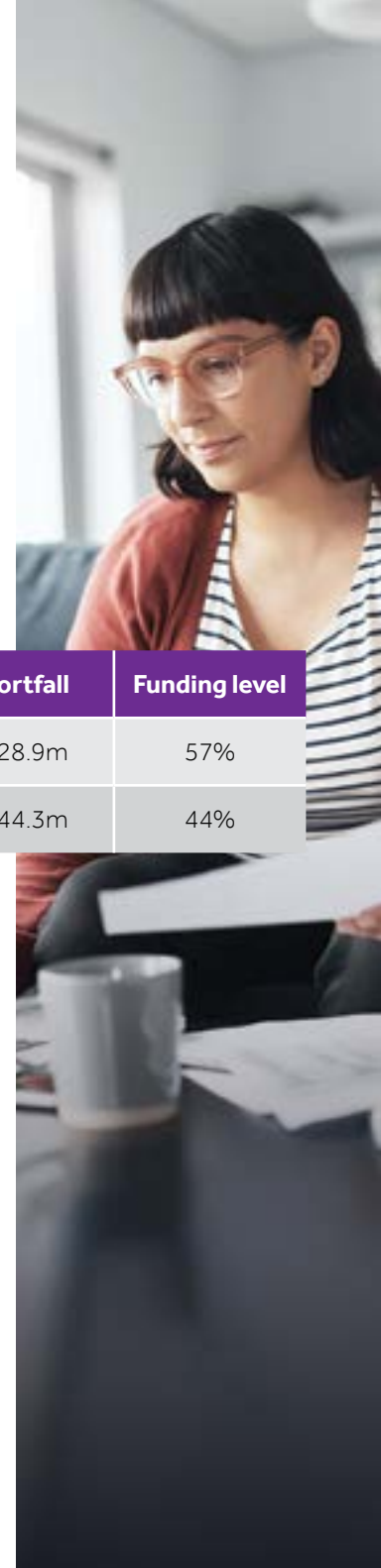
As well as on an 'ongoing' basis, the actuary must also carry out a valuation on a 'discontinuance' basis. This assumes UMSS is wound up on the valuation date. It is a legal requirement for us to inform you of what would happen if UMSS was to wind up. This does not mean that the University has any intention of winding up UMSS.

The assessment assumes that, in the event of a wind up, members' benefits would be paid in full through an insurance policy. As insurers must take a cautious view of the future, the estimated money required to secure benefits through an insurance company is much more than is shown in the ongoing funding level.

	Assets	Liabilities	Shortfall	Funding level
<b>31 July 2019</b>	£689.6m	£1,218.5m	£528.9m	57%
<b>31 July 2016</b>	£500.7m	£1,145.0m	£644.3m	44%

The reasons for the improvement in the funding level for the wind up position are similar to those stated opposite for the 'ongoing' basis. Additionally, the cost of buying benefits with an insurance company in 2019 turned out to be lower than expected.

The Government has also set up the Pension Protection Fund (PPF) to help pension scheme members in the event of a winding up. If the University became insolvent with insufficient assets to meet the discontinuance shortfall at the time, the PPF could take over UMSS and pay compensation to members albeit at a lower level than UMSS provides. Further information and guidance is available on the PPF website at [www.ppf.co.uk](http://www.ppf.co.uk)





## The Pensions Regulator's directions

We are required to tell you whether The Pensions Regulator has used its legal powers (provisions of the Pensions Act 2004) to make directions as to:

- change the rate at which members earn benefits;
- change the way that UMSS values members' benefits;
- set a deadline for making good the shortfall; and
- set the future level of contributions.

Such a course of action is rare, and we can confirm that The Pensions Regulator has not used any of its powers in relation to UMSS.

## Is there anything else I need to know?

Regulations also require us to confirm if the University has taken any money out of UMSS. We can confirm that this has not occurred.

## Is there enough money in the Scheme to pay your pension?

UMSS has a Statement of Funding Principles, which is the Trustee Board's policy for ensuring that the funding objectives are met over a specific time period. You can see the statement at [www.umss.co.uk](http://www.umss.co.uk) or request a copy using the contact details on the back page.



# COVID-19 update

We are continuing to monitor the situation around COVID-19 and we are following the University's advice on this matter which you can find on the University's website and on StaffNet.

Please be reassured that measures are in place to ensure that payment of pensions to retired members will continue.

# Stay pension healthy

You will have a lot on your mind as you try to keep your loved ones – and yourself – safe from the effects of COVID-19.

Whatever precautions you are taking to stay safe, don't forget to keep your pension safe too. Scammers will not hesitate to take advantage of this situation to try and catch you off guard, so stay alert to any unsolicited approaches. We included some information about pension scams in our last newsletter (you can find a copy on the website), but here's a reminder.

Don't forget, any unexpected contact about your pension, such as cold-calling, is illegal.



### Make sure your pension is safe by following these simple steps:

1. Watch out for cold call offers of a "free" financial review – a common trick of scammers
2. Do not be rushed or pressured into making any decisions – if you are it is probably a scam
3. Find out if the company you are dealing with is registered by searching [fca.org.uk/register](http://fca.org.uk/register)
4. Speak to a financial adviser – find one near you at [unbiased.co.uk](http://unbiased.co.uk)
5. Find out more about staying scam smart at [fca.org.uk](http://fca.org.uk)



# Normal Retirement Age in UMSS: a reminder

Normal Retirement Age (NRA) is the age at which you can start to receive your pension without it being reduced for early payment. NRA in UMSS changed from age 65 to age 66 from 1 November 2020. This is to reflect the increase in State Pension Age which is set by the Government. For you, this means that any benefits you built up in UMSS from 1 November 2020 will have an NRA of 66. All your benefits built up before 1 November 2020 will continue to have an NRA of 65. In addition, any benefits you earned before 2012 will continue to have an NRA of 60.

To see what your benefits at retirement might look like, you can use the UMSS modeller at [www.umss.co.uk/modeller](http://www.umss.co.uk/modeller)

The figures that you need are printed in your most recent benefit statement, which we sent to you in August 2020.

## Contact details

While the Pensions Team is working from home, email is the best way to contact us.



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## Remember...

Due to COVID-19, Pensions Team staff are working from home until further notice. We will endeavour to provide our normal service, but we may not always be able to respond within our normal timescales. If you need to contact us please email [umss@manchester.ac.uk](mailto:umss@manchester.ac.uk)

