Statement of Funding Principles

University of Manchester Superannuation Scheme

This statement was prepared by the trustee for the purposes of recording the principles underlying the funding of the scheme and to satisfy the requirements of section 223 of the Pensions Act 2004.

This document was prepared in the context of the scheme funding valuation of the scheme as at 31 July 2022 (the "valuation"). This Statement of Funding Principles supersedes all previous versions and will be reviewed in conjunction with the next scheme funding valuation.

Trustee's funding objective

The trustee's sole funding objective is the statutory funding objective. The statutory funding objective is defined in Section 222 of the Pensions Act 2004 and states that a scheme must have sufficient and appropriate assets to cover its technical provisions.

The technical provisions are an estimate, made using actuarial principles, of the assets needed at any particular time to make provision for benefits already accrued under the scheme. These include pensions in payment (including those payable to survivors of former members) and benefits accrued by members which will become payable in the future.

Trustee's policy for achieving their funding objective

The trustee's policy for achieving their funding objective is to commission the Scheme Actuary to review whether or not the trustee's funding objective is being met (a scheme funding valuation) and, if necessary, the trustee will agree a recovery plan with the University.

Scheme funding valuations will, in normal circumstances, be carried out every three years. The trustee may call for a full actuarial valuation earlier than scheduled if, after considering the actuary's advice, they are of the opinion that events have made it inappropriate to continue to rely on the results of the previous scheme funding valuation as the basis for future contributions. However, the trustee will consult the University before doing so.

The recovery plan will be based on the technical provisions calculated in accordance with the method and assumptions set out in the statement of funding principles.

The employer contributions under the recovery plan will be such as to eliminate the shortfall over an appropriate period, taking into account the following factors:

- The size of the funding shortfall;
- The business plans of the University;
- The trustee's assessment of the financial covenant of the University;
- Any contingent security offered by the University.

The recovery plan resulting from this valuation is based on a recovery period of 6 years commencing from 1 November 2023.

Principles for the setting of assumptions

The statement of funding principles and, in particular, the derivation of the actuarial assumptions will be reviewed at each actuarial valuation and possibly at other times. Such reviews will consider legal, demographic and economic circumstances at the time, the strength of the University's covenant and the scheme's investment strategy. Changes in any of the above factors could lead to a change in the assumptions and/or their derivation.

In particular, the derivation of the discount rate will be reviewed each time to make sure this remains consistent with the trustee's investment strategy and the latest view of the University's covenant. The mortality assumptions will also be specifically reviewed at each actuarial valuation so that they continue to take into account up to date information published by the actuarial profession's Continuous Mortality Investigation and make prudent allowance for future improvements in longevity.

When calculating the recovery plan contributions the trustee can assume higher investment returns on the assets than that implied by the discount rates (investment outperformance). Any allowance for investment outperformance will be consistent with the investment strategy and will reflect how the investment allocation is expected to evolve over time. Any such allowance will be applied to the scheme's assets and expected future contributions.

For this valuation allowance has been made for investment outperformance of 0.14% per annum on average for all investments over the entire recovery period. It is assumed that the funds will be invested in growth and matching assets in order to achieve this level of outperformance. This approach will not allow for the proportion of non-pensioner liabilities, and hence growth assets, to reduce over time.

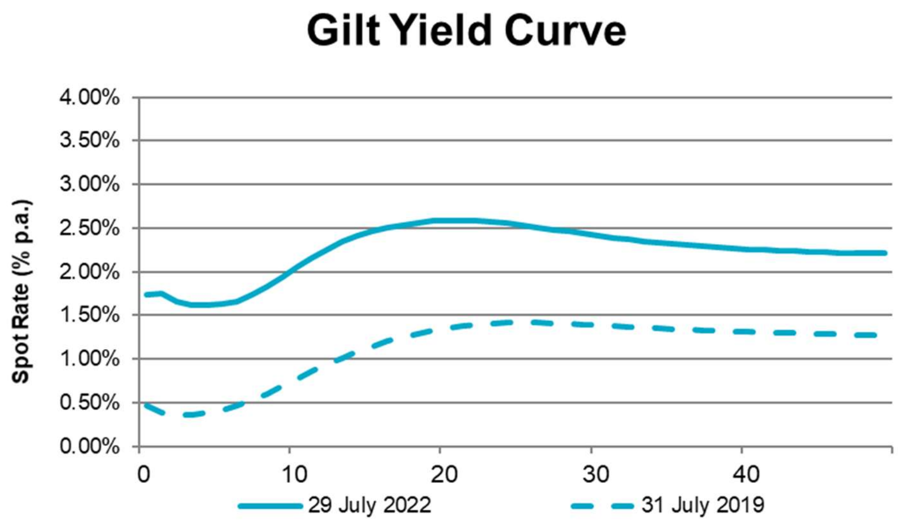
In the absence of any such review by the trustee, or specific instruction to the contrary, the actuary should use the derivations set out in this statement to generate consistent market related assumptions for calculating funding updates. In particular, this will apply for the actuarial report on developments affecting the scheme's funding level, which will be obtained at each intermediate anniversary of the valuation date when a full valuation is not commissioned.

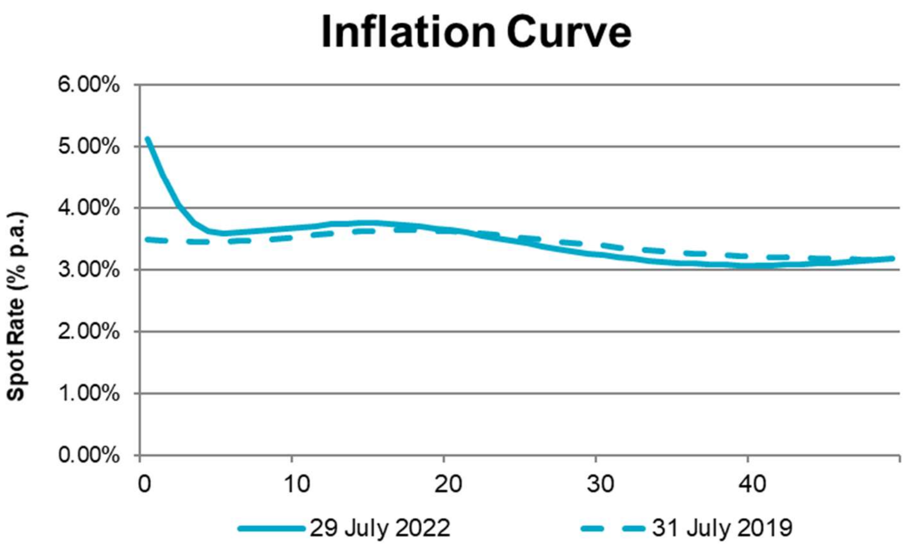
We are looking to adopt a Cash-flow Driven Investment (CDI) approach linking the discount rate to the return expected on the investments. At the valuation date this resulted in a discount rate of gilts + 1.11% per annum being used.

Financial assumptions

Past service Discount rate	The past service discount rate will be calculated using the Nominal Gilt Yield Curve (see chart under this table for the spot rates at the valuation date), plus 1.11% per annum at each term.
Future service Discount rate	The future service discount rate will be calculated using the Nominal Gilt Yield Curve (see chart under this table for the spot rates at the valuation date), plus 1.5% per annum at each term.
Return on existing assets and new contributions over the deficit recovery period	The return on assets over the deficit recovery period will be calculated as 0.14% above the assumptions used to value the technical provisions at each term. This is higher than the assumptions used to value the technical provisions, in order to take some advance credit for the additional investment returns anticipated from the trustee's investment strategy.
Rate of inflation – Retail Prices Index (RPI)	The rate of inflation as measured by RPI growth will be calculated using the Gilt Inflation Curve (see chart under this table for the Gilt Inflation Curve spot rates at the valuation date), less 0.1% p.a. at each term to reflect the "inflation risk premium" for fixed interest gilts and the high demand/low supply of index linked gilts relative to fixed interest gilts.

Rate of inflation – Consumer Prices Index (CPI)	The assumption for CPI growth will be calculated as the assumption for RPI Inflation less 1.0% p.a. at each term until 2030 and no adjustment thereafter.
Rate of salary increase	The rate of pensionable salary increase will be calculated in line with the CPI Inflation plus 0.75% p.a. at each term.
Revaluation of pensions in deferment	Elements of pension in deferment which have future revaluation in line with RPI/CPI subject to a maximum of 5% per annum will be calculated as revaluing at the assumed rate of RPI/CPI inflation, subject to a minimum assumption of 0% per annum and a maximum assumption of 5% per annum. The maximum and minimum are calculated cumulatively over the period between date of leaving and retirement for each member and compared with actual RPI/CPI increases over that period.
Increases to pensions in payment	Pension increases will be calculated using the Black-Scholes stochastic model applying any applicable maximum and/or minimum rates, the RPI/CPI inflation assumption and an assumed inflation volatility of 1.75%. The model is applied to the RPI/CPI inflation for each term in the curve.





Demographic assumptions

The size of the scheme is not sufficiently large as to allow any meaningful analysis of scheme statistics to determine future demographic assumptions. Consequently, standard assumptions will be adopted, with the exception of the loadings applied to the base mortality tables.

<table>
<tr><td>Rate of withdrawals from the scheme</td><td>Allowance will be made for active members leaving the scheme at the following sample rate (per annum).
<table>
<tr><th>Age</th><th>Males</th><th>Females</th></tr>
<tr><td>25</td><td>14.6%</td><td>18.8%</td></tr>
<tr><td>35</td><td>8.6%</td><td>10.8%</td></tr>
<tr><td>45</td><td>3.0%</td><td>3.6%</td></tr>
<tr><td>55</td><td>Nil</td><td>Nil</td></tr>
</table></td></tr>
<tr><td>Members taking transfer values</td><td>No allowance will be made for members taking transfer values from the scheme.</td></tr>
<tr><td>Rate of ill health early retirement from the scheme</td><td>Allowance will be made for active members to retire early from the scheme due to ill health at the following sample rates (per annum):
<table>
<tr><th>Age</th><th>Males</th><th>Females</th></tr>
<tr><td>25</td><td>Nil</td><td>Nil</td></tr>
<tr><td>35</td><td>0.1%</td><td>0.1%</td></tr>
<tr><td>45</td><td>0.2%</td><td>0.3%</td></tr>
<tr><td>55</td><td>1.0%</td><td>1.4%</td></tr>
</table></td></tr>
<tr><td>Retirements</td><td>Active members
Members with more than 5 years’ service are assumed to retire at 62 unless over age 62, in which case they will be assumed to retire immediately.
Members with less than 5 years’ service are assumed to retire at age 65 unless over age 65, in which case they will be assumed to retire immediately. Appropriate early and late retirement factors will be applied to each tranche of service based on the member’s normal pensionable age applicable to each tranche. No early retirement factor will be applied between 62 and 65 for members with more than 5 years’ service for service accrued before 1 April 2012
Deferred members
Members with more than 5 years’ service and pre 24 February 1992 leaving females with less than 5 years’ service are assumed to retire at age 60 unless over age 60, in which case they will be assumed to retire immediately.
All male members with less than 5 years’ service and female members leaving service post 24 February 1992 with less than 5 years’ service are assumed to retire at age 65 unless over age 65, in which case they will be assumed to retire immediately. Appropriate early and late retirement factors will be applied to each tranche of service based on the member’s normal pensionable age applicable to each tranche.</td></tr>
<tr><td>Cash commutation</td><td>None.</td></tr>
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Mortality - pre retirement	No allowance will be made.
Mortality - post retirement	The basis adopted for the valuation was: Base mortality table: 97% of the mortality rates in S3PMA_H for males and 105% of S3PFA_H for females, projected to the valuation date in line with the approach below. Allowance for future improvements: CMI core projection model with a 1.5% per annum long term projected rate of improvement and a smoothing parameter (Sk) of 7.0 (CMI_2022 [1.50%,S=7]), using a year of birth approach. The S3PMA_H/S3PFA_H identify a mortality assumption for each member which reflects his or her individual mortality characteristics.
Contingent dependants' pensions	80% of males and 80% of females will be assumed to be married at retirement. This proportion reduces each year after retirement based on the mortality assumptions relating to the spouse. This allowance is designed to cover all contingent dependants' pensions (including non-married partners and children's pensions where applicable) rather than separate assumptions being made for such benefits.
Spouses' ages	Males will be assumed to be three years older than females.
Discretionary benefits	There has not been any practice of granting discretionary benefits or increases in benefits under the scheme and consequently no allowance will be made for this.
Allowance made in respect of GMP equalisation	0.23% of scheme liabilities plus £345,000 for historic transfer values.

Further calculation principles

The actuarial method used in the calculation of the technical provisions will be the projected unit method with a one year control period.

Where pensions have been secured by the purchase of annuities, the corresponding liabilities will be excluded from the technical provisions and the corresponding assets will be excluded from the actuarial valuation.

The contribution rate for future benefits will be calculated at each actuarial valuation as a percentage using the method and assumptions used to calculate the technical provisions. Member contributions (where applicable) will reduce the amount required from the University.

Treatment of scheme expenses

The University will pay £2,100,000 per annum for the expenses of running the scheme, including the Pension Protection Fund levies with effect from 1 August 2024. The University will continue to pay £1,700,000 per annum until then. A further 0.5% per annum of pensionable salaries will be paid in respect of Death in Service benefits

At each valuation the Trustee and University will review if the costs of any insurance premiums and the expenses of running the scheme should be met separately or if a prudent allowance will be made within the schedule of contributions. If included within the schedule of contributions, this may be as an additional percentage or as a specific monetary allowance, as appropriate, and the figures will be based on recent experience and reasonable future expectations.

Policy on reduction of transfer values

At each valuation, the trustee will consider whether to ask the actuary to advise if the provision of full transfer values is likely to affect adversely the security of the benefits of other members and beneficiaries. If the actuary then advises that the scheme is not fully funded on this basis then the trustee will consider whether transfer values should be reduced and if an "insufficiency report" should therefore be commissioned from the actuary.

If at any other time the trustee is of the opinion that the payment of transfer values at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, they will consider commissioning advice from the actuary to decide whether and to what extent transfer values should be reduced.

Other matters

Directions by the Pensions Regulator as to the funding of the scheme

No directions under section 231(2) of the Pensions Act 2004 have been made by the Pensions Regulator as to the funding of the scheme.

Arrangements by a person other than a participating employer or a scheme member to contribute to the scheme

There are no such arrangements.

Payments to the employer

No payments to the University and participating employers are permitted under the scheme rules.

Disclosure requirements

The statement of funding principles is available on the Scheme website.

Signatures

This statement has been agreed by the trustee.

Signed on behalf of the trustee:

Name:

Position:

Date:

This statement has been agreed by the University of Manchester.

Signed on behalf of the University of Manchester:

Name:

Position:

Date:

This statement has been agreed by the trustee after obtaining actuarial advice from me.

Signed

Name: Charles Cowling

Fellow of the Institute and Faculty of Actuaries

Position: Scheme Actuary

Date: