STATEMENT OF FUNDING PRINCIPLES

CAMBRIDGE COLLEGES' FEDERATED PENSION SCHEME

Status

This Statement has been prepared by the Management Committee for the purposes of the actuarial valuation as at 31 March 2020 after obtaining the advice of Robert Sweet, the Scheme Actuary and after consulting the Colleges.

Statutory Funding Objective

This statement sets out the Management Committee's policy for securing that the statutory funding objective is met.

The statutory funding objective is defined in Section 222 of the Pensions Act 2004. Every scheme must have sufficient and appropriate assets to cover its technical provisions.

Technical provisions – method

The actuarial method used in the calculation of the technical provisions depends on whether or not the Section is open or closed to new entrants.

If a Section is open to new entrants, the Projected Unit Method is to be used.

If the Section is closed to new entrants then the Attained Age Method or the Projected Unit Method may be used, as agreed with the College concerned.

For those Colleges closed to new entrants, but who have retained the Projected Unit Method for funding purposes, the Colleges and Management Committee understand that normal contribution rates will increase over time.

For those Colleges closed for all accrual the Defined Accrued Benefit Method is used.

Technical provisions – assumptions

The assumptions will be based upon the following marker yields:

Fixed Interest Gilt Yield

Annualised yield on the 18 year Bank of England spot gilt yield, rounded down to the nearest 0.05% per annum.   As at 31 March 2020 this yield was 0.81% rounded to 0.8% per annum.

Implied Inflation

Annualised yield on the 18 year Bank of England Implied Inflation spot curve, rounded to the nearest 0.05% per annum. As at 31 March 2020 this yield was 3.04% per annum, rounded to 3.05% per annum.

Discount Interest Rate

Technical provisions are determined using a single rate of interest for all pre and post-retirement benefits.

On retirement, Members' pensions are paid from the fund. Assets providing a risk free rate of return, such as Government bonds (gilts) provide a good match for pensions in payment.

The Management Committee invests in a wide range of assets including equities and property, which are expected to give long term returns in excess of those available on gilts. The Management Committee wishes to take credit for some of this out-performance and to that end will use an interest rate based on the Bank of England's published nominal gilt yield curve at 18 years plus a margin to allow for this expected out-performance. The Management Committee has determined that for the purposes of the calculations as at 31 March 2020 the margin to be adopted is 1.9% per annum.

Retail Price Inflation (RPI)

RPI will be determined at the valuation date and is based on the above Implied Inflation rate.

As RPI may be over- or under-stated using this method due to varying demand for index linked gilts, the Management Committee can adjust the calculated yield by up to 0.25% per annum. For the calculation at 31 March 2020 they applied a reduction of 0.15% per annum.

Consumer Price Inflation (CPI)

CPI will be determined by making an adjustment to the assumption adopted for RPI. The Management Committee have agreed to determine the assumption for CPI by making a 0.8% per annum deduction from the assumption for RPI.

Pension Increases in payment

Pension increases in payment, depending on the College Section and where benefits were accrued, are defined in the Rules as either:

- Increasing in line with RPI;
- Increasing in line with RPI to a maximum of 5% per annum compound;
- Increasing in line with CPI to a maximum of 3% per annum compound (post April 1988 GMP);
- Increasing in line with CPI to a maximum of 2.5% per annum compound (post March 2016 pensions);
- Level in payment (pre April 1988 GMP only).

To derive these increases the Management Committee will adopt the Black-Scholes analytic pricing model resulting in the following:

Pension Increase	Assumption
RPI (min 0%; no max)	2.90% p.a.
RPI (min 0%; max 5%)	2.85% p.a.
CPI (min 0%; max 3%)	1.90% p.a.
CPI (min 0%; max 2½%)	1.75% p.a.

Pension Increases in Deferment

The Management Committee's assumption is the same as the expected future increase in the CPI up to a maximum of 5% per annum (2.5% per annum for Pensionable Service after 5 April 2009).

Pay Increases

After discussion with the Colleges, the Management Committee believe that, due to Colleges' salary banding structure and limits to comparable salaries in the Public Sector, it is appropriate to assume that from 2021 future salary increases will be limited to CPI plus 0.5% per annum. For 2020, no salary increase has been allowed for.

Mortality

It is the intention of the Management Committee to use both pre- and post-retirement mortality tables that reflect, as much as possible, actual Scheme experience with a suitable allowance for likely mortality improvements over the medium to long term.

The Management Committee have agreed to adopt the S3PxA mortality base tables produced by the Continuous Mortality Investigation Bureau (CMIB).

In addition, the Management Committee wish to make provision for future longevity improvements by adopting the CMI_2019 projection model produced by the CMIB, with a long term improvement rate of 1.25% per annum for males and 1.0% per annum for females. An additional improvement rate of 0.25% per annum with the standard smoothing factor 7.0 have also been adopted.

These tables and adjustments are subject to regular review and will be updated in future valuations as more up-to-date data becomes available.

New Entrants

The Management Committee does not allow explicitly for new entrants. However, by adopting the Projected Unit Method for Colleges open to new entrants, to give a stable normal contribution rate, they are implicitly assuming that the active membership average age remains relatively constant – i.e. that new entrants will continue to join the Scheme.

Commutation

The Management Committee believe that the vast majority of members take the maximum tax free cash option at retirement.

The Committee therefore wish to make allowance for this as follows:

- 100% of members take maximum tax free cash at retirement;
- Commutation (cash) factors are those in force at the valuation date.

This feature will be monitored at each future valuation.

Withdrawals from Active Service

The Scheme is relatively large; as it is prudent to assume that no-one leaves early, the Management Committee therefore makes no allowance for early leavers. Any members leaving early are likely to release a surplus to the Scheme; this will be used to reduce future contribution rates when appropriate.

Retirement

The Scheme's Pensionable Age is 65 although many members have the right to take at least part of their pension benefits without actuarial reduction at age 60. The Management Committee wishes to fund member benefits to the following assumed average expected ages of retirement:

Assumed Retirement Age for Service accrued to 31 March 2016	Active Members	Deferred Members
Male – Option 1	63	62
Male Options 2&3	65	63
Female – Option 1	63	62
Female Options 2&3	64	62

For service accrued on or after 1 April 2016 all members are assumed to retire at age 65.

These retirement ages will continue to be reviewed by the Actuary

Age Difference of Dependants

Husbands are assumed to be 3 years' older than their wives.

Percentage with Dependant's Benefits at Death

80% of members are assumed to be married at death.

Expenses

Expenses of administering the Scheme are borne by the Scheme.

The Management Committee's policy is for the Actuary to review the allowance for expenses at each valuation.

The Actuary has reviewed the expense provisions in the light of recent experience and recommended that a per member and per College Section charge be made to each College Section. These are as follows:

- College Section Charge = £3,000.00 per annum
- Active Member Charge = £230.38 per annum
- Deferred Member Charge = £87.96 per annum
- Pensioner Member Charge = £171.75 per annum

These charges will be reviewed at each future valuation.

In addition, each College will pay the directly attributable PPF levies plus any directly attributable actuarial or legal fees.

Policy on discretionary increases and funding strategy

No allowance has been made for any discretionary increases in benefits in the calculation of the technical provisions.

Period within which and manner in which a failure to meet the Statutory Funding Objective is to be rectified

Any funding shortfalls identified at an actuarial valuation are to be eliminated by the payment of additional contributions. In determining the length of the recovery period at any particular valuation the Management Committee's principles are to take into account the following factors:

- the size of the funding shortfall;
- the maturity of the Section concerned;
- the Management Committee's assessment of the financial covenant of the Colleges; and
- any contingent security offered by the Colleges.

The assumptions to be used in the calculations to determine the additional contributions required will be those set out above for calculating the Technical Provisions, except that the expected rate of return (the return on existing assets and on new contributions paid during the recovery period) will be the gross redemption yield on Bank of England's published gilt yield at duration 18 years plus a margin of up to 4% per annum, the exact level of the margin will be such as the Management Committee determine to be appropriate in any particular case.

The assumption adopted for the valuation at 31 March 2020 is 3.6% per annum, i.e. a margin of 2.8% over gilt yields.

Arrangement by a person other than the Colleges or a Scheme member to contribute to the Scheme

There are no arrangements for a person other than the Colleges or a Scheme member to contribute to the Scheme.

Policy on reduction of cash equivalent transfer values (CETVs)

The Management Committee asks the Scheme Actuary to advise them at each valuation of the extent to which assets are sufficient to provide CETVs for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

If at any time, after obtaining advice from the Scheme Actuary, the Management Committee are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Management Committee will commission a report from the Scheme Actuary to decide whether, and to what extent, CETVs should be reduced.

Payments to the Colleges

If the Scheme is not being wound up and the assets of the Scheme exceed the estimate by the Scheme Actuary of the cost of buying out the benefits of all beneficiaries from an insurance company, including the expenses of doing so, the Colleges may receive a payment of the excess. If the Scheme Actuary certifies that the requirements of the Pensions Act 2004 have been met and certifies the maximum amount that may be paid, the Management Committee will consider whether a payment would be in the interest of the members, and if so, the Management Committee will give notice to the members of the proposal.

Frequency of Valuations and circumstances for extra Valuations

The Scheme's most recent actuarial valuation under Part 3 of the Pensions Act 2004 was carried out as at the effective date of 31 March 2020 and subsequent valuations will in normal circumstances be carried out every three years thereafter. An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of that date for College Sections whose membership exceeds 100.

The Management Committee may call for a full actuarial valuation instead of an actuarial report when, after considering the Scheme Actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Management Committee will consult with the Colleges before doing so.

Signed on behalf of the Management Committee

Signature:

Name: Robin Ellison

Position: Chair

Date: 21 May 2021

APPENDIX

Financial Assumptions as at 31 March 2020

Economic	Assumptions for valuation as at 31 March 2020 (% per annum compound)
Rate of interest: • before retirement • after retirement	 2.70 2.70
Asset return for Recovery Plan:	3.60
Rate of salary increases:	Year 1 – Nil Thereafter - 2.60
Rate of increase in pensions in payment: • Guaranteed Minimum Pension (GMP) earned for service before 6 April 1988 • GMP earned for service between 6 April 1988 and 5 April 1997 • Pension in excess of GMP earned to 31 March 2004 • Pension earned between 1 April 2004 and 31 March 2016 • Pension earned after 31 March 2016	 0.0 1.90 2.90 2.90/2.85 1.75
Rate of increases in pensions in deferment: • Excess pension accrued prior to 6 April 2009 • Excess pension accrued from 6 April 2009 • GMP	 2.10 2.10 Statutory