UNIVERSITY OF CAMBRIDGE

CU Pension Trustee Ltd (CUPTL)

April 2016

Dear Member

Cambridge University Assistants' Contributory Pension Scheme (CPS) - Summary Funding Statement as at July 2015

Purpose

This statement compares, in summary form, the funding position of the CPS at 31 July 2015 (the latest full valuation of the Scheme) and at 31 July 2014 (the previous approximate valuation). It also mentions any important changes since the last statement was issued.

Background

The CPS is a defined benefit scheme and therefore we, the Trustee, must give you, as a CPS member, an annual summary funding statement, intended to give you an idea of the financial state of the CPS. Unfortunately, this sensible objective can get a bit lost complying with "one size fits all" legal requirements. In particular, we would prefer not to include anything about the discontinuance of the CPS because (a) we are confident about the University's continuing commitment to it and (b) there is no realistic risk of the University going bust. But we have to comply with the law.

Anything to do with valuing pension schemes is difficult because there are so many uncertainties. How long will members live? Life expectancy has been increasing in recent decades so that pensions have to be paid for longer. What will the rate of inflation be? Inflation is comparatively low at the moment, but what about five, ten, twenty years from now? What return will the scheme earn on its investments? Investment markets can be volatile, particularly over one year, a very short period in pension terms.

These and other uncertainties are reflected in the assumptions used by the Scheme Actuary, a qualified actuary independent of the University, who carries out a full valuation of the CPS once every three years and an approximate valuation each year between full valuations.

Howard Jacobs
Chairman, CU Pension Trustee Limited

How well funded is the Scheme?

This question is answered by comparing the Scheme's liabilities (the pensions which it has to pay now and in the future in respect of pensionable service already completed) with its assets (the money it has available) using the 'ongoing basis', which assumes the Scheme carries on as now.

At 31 July 2015, the date of the latest full valuation, the funding position was:

Market value of scheme assets:	£551,094,000
Scheme liabilities:	£612,578,000
Scheme funding shortfall:	£ 61,484,000
Ongoing funding level:	90%

At 31 July 2014, the date of the previous approximate valuation, the funding position was:

Market value of Scheme assets	:	£510 million
Scheme liabilities	:	£555 million
Scheme funding shortfall	:	£ 45 million
Ongoing funding level	:	92%

The slight increase in the funding shortfall between the 2014 approximate valuation and the 2015 full valuation mainly reflects an agreement between the Trustee and the University to take a more cautious view of the future by lowering the assumption for future investment returns.

What are the contribution rates?

Based on assumptions agreed by the Trustee and the University, the Scheme Actuary calculated that the contribution rates required to provide benefits were as follows:

	% of Pensionable Salaries	
	Members **%**	**Employers** **%**
Pre-2013 members	5.0	11.5
Post-2013 members	3.0	5.8

For Post-2013 members, the Employers also make Employer contributions of 5.0% of Pensionable Salaries into the separate Defined Contribution (DC) arrangement administered by SEI.

Contributions have been paid at these rates from 1 August 2013.
Some members who joined the Scheme prior to 1 December 2009 have elected to pay an additional member contribution of 3.5% of Pensionable Salary in exchange for improved early retirement terms. Where a member participates in a Salary Sacrifice Arrangement, the Employer meets the cost of the member contributions shown above in exchange for an equivalent reduction in the member's earnings.

In addition to the above contributions, the Employers are paying contributions at a rate of £14,595,000 p.a. to reduce the funding shortfall. These contributions are projected to eliminate the shortfall by 31 January 2019, provided that the assumptions made in the 2015 valuation are borne out.

How well funded is CPS on a discontinuance basis?

As required by law this statement includes the Scheme's funding level on a 'discontinuance basis', which assumes that the University ceases to support the Scheme, requiring accrued pensions to be "bought out" with an insurance company. As already noted, we, the Managing Committee, believe this to be an inappropriate assumption.

Insurance companies make very conservative assumptions about future investment returns and need to make a profit so that at 31 July 2015, the Scheme's discontinuance position was estimated to have been:

Market value of scheme assets:	£551,094,000
Discontinuance liabilities:	£ 1,963,000
Discontinuance funding shortfall	£785,869,000
Discontinuance funding level:	41%

Further information

There have been no payments to any of the Employers out of the Scheme since 31 July 2014.

The next full actuarial valuation will be as at 31 July 2018, with the results being available no later than 31 October 2019.

Additional documents about the CPS are available to members on request, or from the website at http://www.pensions.admin.cam.ac.uk/cps/scheme-guides-archive-library. These include:

Scheme Guides and Factsheets – which give an overview of the scheme and more detailed information which you may need at specific stages in your membership of the scheme.

Statement of Investment Principles – how the money being paid into the CPS is invested.

Trustee's Annual Report and Accounts – the CPS income and expenditure in each scheme year.

Actuarial Valuation Report – the full report of the Actuary on the valuation as at 31 July 2015, this includes the Statement of Funding Principles and the Schedule of Contributions for the Scheme.

If you have any questions or would like further information, please contact Sue Curryer, Head of Pensions Administration, University of Cambridge, Greenwich House, Madingley Road, Cambridge CB3 0TX or e-mail her at sue.curryer@admin.cam.ac.uk.