Cambridge University Assistants' Contributory Pension Scheme (CPS)

Summary Funding Statement 2012

The CPS Managing Committee is pleased to provide members with the Scheme's seventh Summary Funding Statement.

Trustees of all UK defined benefit schemes are required by law to provide an annual summary funding statement to scheme members. The purpose of the statement is to summarise the funding position at the scheme's most recent valuation.

As pension schemes go on for many years, any review of a scheme's finances can only be a 'snap-shot' based on what is known at a given date, and estimates of what might happen in the future. Amongst other things, estimates include: how long people will live; what the rate of inflation will be; and what return the scheme will earn on its investments. This 'snap-shot' is known as an actuarial valuation and is carried out by the Scheme Actuary (normally every three years). The results of the valuation will form the basis for decisions about future contributions to the scheme.

The last full valuation of the CPS was at 31 July 2009. This statement summarises the funding position of the Scheme at that date, gives updates on the position at 31 July 2010 and 31 July 2011, and covers all of the information which we are required by law to tell you. As some of this information is rather technical and detailed, we have divided the statement into sections.

Please note that important information about the relocation of the Pensions Section is included at the end of this statement.

Dr. Reg Hinkley
Chairman, CPS Managing Committee

1. How well funded is the Scheme?

This question is answered by establishing how well the Scheme's liabilities (the pensions which it has to pay now and in the future in respect of pensionable service already completed) are covered by its assets (the money it has available).

There are many different ways of measuring a scheme's funding position. The most relevant measure is the 'ongoing basis' – which assumes the Scheme carries on as now. At the most recent actuarial valuation at 31 July 2009, the Scheme's funding position on an ongoing basis was:

Market value of scheme assets:	£275,925,000
Scheme liabilities:	£414,746.000
Scheme funding shortfall:	£138,821,000
Ongoing funding level:	67%

Based on the assumptions used in the 'ongoing basis' which were agreed by the CPS Managing Committee and the University the Scheme Actuary estimated that the joint contribution rate, that is the sum of employer and employee contributions, to provide the benefits which accrue in the future was 26.3% of Pensionable Salary. This includes an allowance for future Scheme expenses and Pension Protection Fund (PPF) levies.

The joint contribution rate was 29.7% of Pensionable Salaries from 1 August 2009 until 31 July 2011, so that an additional 3.4% of Pensionable Salaries was being paid towards reducing the funding shortfall. This additional contribution rate increased to an annual contribution rate of £14,595,000 p.a. with effect from 1 August 2011. This is projected to eliminate the shortfall by 31 July 2025, provided that the assumptions made are borne out.

2. How has the position changed since 31 July 2009?

The next full actuarial valuation is not due to be undertaken until 31 July 2012, with the results being available within 15 months of that date. In the intervening period the CPS Managing Committee obtains an annual report from the Scheme Actuary, providing an approximate update of the funding position of the Scheme at 31 July each year. These updates are not as detailed as the full actuarial valuation, as they are intended simply to give a broad indication of the trends in funding. Consequently, the calculations which the Scheme Actuary undertakes for these updates are only approximate, and the results are therefore indicative only.

The annual update which looked at the funding position on 31 July 2010 showed that the approximate position at that date was as follows:

Market value of Scheme assets	:	£320million
Scheme liabilities	:	£446million
Scheme funding shortfall	:	£126million
Ongoing funding level	:	72%

The reduction of approximately £13million in the size of the funding shortfall (compared to the position as at 31 July 2009) was mainly due to good investment returns on the Scheme's assets over the year and the payment of contributions by the employers towards reducing the shortfall.

3. Funding position as at 31 July 2011

A further review was undertaken as at 31 July 2011. Again, the calculations which the Scheme Actuary has undertaken for this purpose are only approximate, and intended just to indicate the general trend in funding.

This update to 31 July 2011 showed that the approximate funding position at 31 July 2011 was as follows:

Market Value of Scheme Assets	:	£359 million
Scheme Liabilities	:	£482million
Scheme funding shortfall	:	£ 123 million
Ongoing funding level	:	74%

The further reduction in the size of the funding shortfall (compared to the position as at 31 July 2010) was again mainly due to better than expected investment returns on the Scheme assets over this period. A further factor was that the contributions paid to the Scheme were slightly greater than those required to meet the costs of the pensions accrued during this period.

4. Market Volatility

You will be aware that investment markets have been particularly volatile recently. This has been reflected in the Scheme funding positions reported in each year's Summary Funding Statement. We would like to stress that the funding positions we report are inevitably simply a snapshot of the position at a particular date. If markets continue to be highly volatile then the funding position can be expected to continue to fluctuate.

5. How well funded is the Scheme on a discontinuance basis?

Another measure of the Scheme's funding position is the 'discontinuance basis' i.e. what would happen if the Scheme was wound up (the University ceased to support the Scheme) and the Managing Committee had to purchase all pensions from an insurance company.

Discontinuance liabilities are higher than those calculated on the ongoing basis because the insurance company will make very conservative assumptions about future investment income and also needs to make a profit.

If the Scheme had discontinued at 31 July 2009, the Scheme's discontinuance position was estimated to have been:

Market value of scheme assets:	£275,925,000
Discontinuance liabilities:	£658,668,000
Discontinuance funding shortfall	£382,793,000
Discontinuance funding level:	42%

This means that the Participating Employers would be required to pay £382,793,000 into the Scheme to meet all of the Scheme's liabilities.

A pension scheme whose sponsoring employer becomes insolvent and is unable to meet the costs of providing pensions, will normally apply to the PPF. The PPF was set up under the Pensions Act 2004 to provide compensation to members and beneficiaries of defined benefit pension schemes in such cases.

The CPS Managing Committee and Scheme actuary are satisfied that the Participating Employers are committed to continue to support the Scheme.

6. Have there been any payments from the Scheme to any of the Participating Employers?

The CPS Managing Committee can confirm that there have not been any payments to any of the Participating Employers out of the Scheme in the previous 12 months.

7. Where can I get further information?

A number of additional documents about the CPS are available to members on request, or from the website at www.admin.cam.ac.uk/offices/pensions/cuacps/ and these include:

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

Statement of Funding Principles – this sets out the funding basis for the CPS agreed by the CPS Managing Committee and the University.

Recovery Plan – this explains how the funding shortfall is being met.

Schedule of Contributions – this shows how much money is being paid into the CPS.

Managing Committee's Annual Report and Accounts – these show the CPS income and expenditure in each scheme year.

Actuarial Valuation Report – this is the full report of the Actuary on the valuation as at 31 July 2009.

Explanatory Note – this explains the benefits offered by the CPS.

If, after reading this statement, you have any questions or would like further information about the Scheme, please contact Sue Curryer, Head of Pensions Administration, University of Cambridge, 10 Peas Hill, Cambridge, CB2 3PN or e-mail her at sec28@cam.ac.uk.

Please note that the Pensions Section will be closed during the week commencing 28 May 2012 as it is relocating to 4 Mill Lane, Cambridge, CB2 1RZ. Our telephone and fax numbers will remain the same.