Dear Member,

University of Leicester Pension and Assurance Scheme (PAS) – Summary Funding Statement 2014

I am writing to provide you with an annual update of the funding position of the PAS. The information contained in this letter is important and follows the requirements set out by the Pensions Act 2004.

The main purpose of this Statement is therefore:

(a) to provide you with information about the latest funding position of the PAS;
(b) to inform you of changes made to PAS in the year; and
(c) to provide you with all the required statutory information.

The PAS is administered by six Trustees, four who are nominated by the University:

- Professor John Holloway, Chairman of the Trustees;
- Dr Michael Chamberlain, (a former University Treasurer);
- Mr James Hunt (a former Director of Finance of the University);
- Mr John Foster (a former Chairman of the University Council);

and two who are nominated by the PAS members:

- Mr Manohar Patel (Estates and Facilities Office); and
- Ms Jane Yardley (Department of Infection, Immunity and Inflammation).

The Trustees are legally required to undertake a formal, full actuarial valuation every three years and also to undertake an annual update. This year the Summary Funding Statement will concentrate on the latest full triennial actuarial valuation as at 31 July 2013 as carried out by Aon Hewitt as well as a more recent update as at 31 July 2014.
The Actuarial Valuation as at 31st July 2013

The outcome of the 2013 PAS actuarial valuation (with comparable figures for the last full valuation in 2010) is set out below:

The table shows that the PAS’ assets (the investments that the PAS holds) have increased since 2010 to £124m, but at the same time the PAS’ liabilities (the present value of the pensions and benefits that the scheme will be required to pay out over future years) have also increased.

As can be seen from the above figures the PAS had a shortfall of £30 million as at 31 July 2013, which represented a funding level of 81% (77% as at 31 July 2010). This is a significant improvement on the estimated funding position at 31 July 2012 reported in the last Summary Funding Statement (a funding level of 68%).

The reason for the improvement is a continuation of good returns on the PAS's assets and a fall in the value of the PAS's liabilities as bond yields rose from their historic lows.

In response to this shortfall, the PAS Trustees and the University agreed the following recovery plan, which aims to remove the shortfall by 2027:

- Annual payments of £1.8 million p.a. payable each year from 2014 to 2027; and
- Contributions by the University of 26.5% of pensionable pay (19% for members not using salary sacrifice) to meet the costs of continuing accrual; plus
- Annual payments of £321,000 (increasing each year with RPI) payable each year from 2014 to meet expected expenses.
A review of the valuation position as at 31st July 2014

The results of the approximate update of the funding position at 31 July 2014 are set out below:

The results show that the funding deficit has slightly increased from £30 million at the 2013 valuation date to £34 million at 31 July 2014. This is mainly due to a further fall in bond yields which has increased the PAS's liabilities. However the impact of this has been partly offset by contributions paid and positive asset returns which have acted to increase the assets. Although this is a slightly worse position to be in, you should be aware that the funding level is sensitive to changes in various factors, particularly stock market performance, gilt yields and life expectancy. This means that the funding level can be volatile and can go up or down in the future.

The Trustees regularly reassess the funding position, and will provide a further update in the Summary Funding Statement next year.

How the PAS operates

What is the structure of the PAS?

The PAS is a final salary pension scheme. That is, it provides a pension that is based on a members’ Final Pensionable Salary and the number of years of pensionable service that the member has accrued. Both PAS active members and the University make contributions, based on a percentage of members’ pensionable salary, to the cost of providing these benefits.

These contributions are held in a common fund (i.e. they are not held in separate funds which are allocated to each individual member). The fund is invested and is used to pay members’ benefits upon retirement. The fund excludes members Additional Voluntary Contributions (AVCs), which are held in separate funds in respect of individual members.
How is my pension paid for?

The University and active members pay contributions into the PAS based on members’ Pensionable Earnings. PAS members currently contribute 7.5% of Pensionable Earnings and the University contributes the balance of the cost of providing the accrued benefits.

The University operates a salary sacrifice scheme in relation to the PAS whereby, in exchange for a reduced salary, the University pays all of the pension contributions into PAS on behalf of PAS members.

Current contribution rates as a percentage of pensionable pay for continuing service are as follows:

<table>
<thead>
<tr>
<th></th>
<th>% Employee Contribution</th>
<th>% Employer Contribution</th>
<th>Total % Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Salary Sacrifice Members</td>
<td>7.5%</td>
<td>19.0%</td>
<td>26.5%</td>
</tr>
<tr>
<td>Salary Sacrifice Members</td>
<td>0.0%</td>
<td>*</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

* This is just the Employer contribution rate for continuing service. The total Employer contribution includes the annual payments of £1.8m to meet the deficit as well as further annual payments of £0.321m (increasing each year in line with RPI) to meet expenses.

How is the amount the Scheme needs worked out?

The PAS’ Statement of Funding Principles, agreed with the University, aims to ensure that, on a prudent assessment, there will be enough funds in the PAS to pay all of the Scheme’s liabilities (i.e. members’ pensions) now, and in the future. The level of assets and future contributions required to deliver this requirement is determined by the triennial actuarial valuation, the most recent of which was carried out as at 31st July 2013.

What would happen if the Scheme were to be wound up?

Whilst the PAS remains ongoing, even though there may be a temporary funding shortfall, benefits will continue to be paid in full.

If, in the future, the University decided that it needed to wind up the PAS, the law requires that the University pay enough into the scheme to enable members’ accrued benefits to be completely secured through an insurance policy. Whilst the University is not contemplating winding up the PAS, regulations require that Summary Funding Statements include an estimate of the amount needed to secure such an insurance policy. As at 31st July 2013, the estimate was £235 million (i.e. a shortfall of £111 million which is equivalent to a funding ratio of 53%). Insurance companies have to invest in ‘low risk’ assets, which are likely to give low returns and their policy prices will include administration charges and a profit margin. This means that even if a plan is fully funded on the ongoing basis, the solvency figure is likely to be less than 100%.

Were the PAS to be wound up, and the University were not able to pay the full amount required, e.g. the University became insolvent, the Pension Protection Fund (PPF) would take over the PAS and pay compensation to members. However, if such circumstances were ever to occur, the benefits you would receive from the PPF may be less than the full benefit you have earned in the scheme. Further information and guidance is available on the Pension Protection Fund’s website at www.pensionprotectionfund.org.uk. Alternatively you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Inclusion of this information in the Summary Funding Statement is a legal requirement and does not imply that the University is thinking of winding-up the PAS.
What is the Scheme invested in?

The PAS' primary investment objectives are set out in the Statement of Investment Principles which is regularly reviewed and updated by the Trustees. The principles are:

- To ensure that the Trustees can meet the members’ entitlements they fall due;
- To achieve a long term positive real return;
- To manage the volatility of the returns to control the level of volatility in the contributions;
- To reduce the risk of the assets failing to meet the liabilities over the long term;
- To minimize the long term costs of the Scheme by maximizing the return on the assets whilst having regard to the above objectives.

In the light of these principles, the Trustees’ policy is to set the overall investment target and then monitor the performance of their managers against that target. The day-to-day management is delegated to the professional fund managers, who are responsible for stock selection and the exercise of voting rights. The Trustees also take advice from their professional advisors, Barnett Waddingham LLP.

The Trustees have continued their program of reducing risk and volatility in the asset portfolio, with the long term aim of ensuring that by the time the last active member retires, the fund will be entirely invested in corporate and government bonds.

As at 31st July 2013, the PAS had three investment managers, Legal & General, BNY Mellon (Newton) and BlackRock, and the current PAS asset holdings as at 31st July 2012 and 2013 are set out below:

![Graph showing asset holdings]

**Pensions scams**

There has been a recent rise in the incidence of pension scams in the form of ‘pension liberation offers’. These scams usually claim to allow you to access your pension savings outside of the normal rules. However, taking up one of these offers could make you liable to high levels of tax and charges, and you could potentially lose all of your pension savings. The Pensions Regulator has stepped up its campaign against such scams and you can visit www.pension-scams.com for more information.

If you are tempted by any kind pension offer, please take independent financial advice before making a decision and never let yourself be rushed into anything. You can report any offer you think may be a scam to Action Fraud on 0300 123 2040.
Other Information

I am required to include certain additional regulatory statements in the Summary Funding Statement. These additional statements relate to payments from the PAS to the University and interactions with the Pensions Regulator.

No payments have been made to the University out of PAS funds since the last Summary Funding Statement was issued other than reimbursement of the costs associated with operating the pensioner payroll and PAS administration.

The PAS has not been subject to any modifications or directions imposed by the Pensions Regulator.

Where can I get more information?

If you have any questions, or would like more information, please contact the University Pensions Office at:

Mr G. R. Hague, Secretary to the PAS Trustees, Finance Office, University of Leicester, University Road, Leicester, LE17RH

The following documents are available on request:

- The full Actuarial Valuation as at 31st July 2013, including the Schedule of Contributions and the Recovery Plan
- The latest Annual Actuarial Report following an actuarial review
- The Statement of Funding Principles which sets out the PAS’s funding plan.
- The Statement of Investment Principles which explains how the Trustees invest the money.
- The 2013 Annual Report and Accounts of the PAS which shows income and expenditure in the year up to 31st July 2013.
- The Scheme booklet

I am also enclosing with this letter a form (Notification of Potential Beneficiaries) to enable you to allocate your lump sum benefits in the event of death.

Next Summary Funding Statement

As the outcome of the next annual actuarial review will not be available until late next year, I anticipate that the next Summary Funding Statement will be sent to you in late 2015.

May I also request that if you change address please let us know so we can update our records.

Important: If you are considering leaving the PAS for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action.

Yours sincerely

Professor J H Holloway
Chairman of Trustees
University of Leicester Pension & Assurance Scheme