Queen Mary University of London

Pension Scheme Update 2021/22

Outcome requested:	Finance & Investment Committee is invited to **note** the following update in relation to our pension schemes: • Employer costs of the pension schemes • Current backlog pension deficits • An update of the impact of the latest valuations of the Universities Superannuation Scheme (USS), the NHS scheme and the London Hospital and St Bartholomew's Hospital Medical College (LHMC).
Executive Summary:	University staff are members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme. We also operate a closed scheme for the non-teaching staff of the London Hospital and St Bartholomew's hospital medical college prior to their merger with the University. In summary: Employer pension costs increased in the year by £2.9m, from £38.3m to £41.2m. Overall, our backlog pension liabilities increased from £69.0m in July 2021 to £164.8m at the 31st July 2022. This is primarily due to the final results of the 2020 USS valuation. Following 2020 valuations of both the USS and SAUL pension schemes there was an increase in employer contribution rates for both schemes in 2021/22. In addition, the USS scheme has now implemented a debt monitoring framework, *pari passu* arrangements, and a rolling 20-year moratorium on employer exits from the scheme.
QMUL Strategy	Improved cash generation to enable investment
Internal/External regulatory/statutory reference points:	Pension legislation, accounting guidelines
Strategic Risks:	12. (2) Failure to control expenditure to levels that enable adequate cash generation for investment in the 2030 strategic objectives.
Equality Impact Assessment:	Not required
Subject to prior and onward consideration by:	FIC September 2021
Confidential paper under FOIA/DPA	No

Timing:	Relates to 2021-22 financial year
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Date:	21st September 2022
Senior Management/External Sponsor	Karen Kröger, Chief Financial Officer

QMUL Pension Schemes

University staff are eligible to be members of either the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS scheme.

We also operate a closed scheme for the non-teaching staff of the London Hospital and St Bartholomew's hospital medical college prior to their merger with the University.

The figures included in this paper have been obtained from the draft 2021/22 financial statements which are subject to final internal review and external audit.

2021/22 Pension costs and rates

A summary of our employer pension contributions paid and the current rates is detailed below:

Pension Contribution Costs	**Current Rate %**	**Cost 2021/22**	Cost 2020/21	Cost 2019/20	Cost 2018/19
Contribution paid to USS[1]	**21.6**	**32.8**	30.7	30.4	25.0
Contribution paid to SAUL[2]	**19.0**	**5.2**	4.6	4.8	4.4
Contribution paid to NHS[3]	**16.2**	**3.2**	3.0	3.1	2.6
Total		**41.2**	**38.3**	**38.3**	**32.1**

[1] The employer contribution rate to the USS Scheme increased from 21.1% to 21.4% from 1 October 2021 and increased again to 21.6% from 1 April 2022.

[2] The employer contribution rates to the SAUL scheme increased from 16% to 19% from April 2022.

[3] The total employer contribution rate to the NHS Scheme is 20.7% of which 4.5% is underwritten by the Government.

Further employer pension cost increases

Following the completion of the USS 2020 Valuation and the agreement on various changes impacting on members of the scheme and employers, contributions were agreed to rise in October 2021, and again in April 2022, with a small reduction in contributions for employers in April 2024. The schedule of contribution rates are set out in the below table. The institution estimated that the impact of the first 0.3% rate increase in October 2021 equated to a rise in contributions of c. £0.3m.

Pension Contribution Costs	**Employees %**	**Employers %**
Contributions to 30 September 2021	9.6	21.1
1 October 2021 – 31 March 2022	9.8	21.4
1 April 2022 – 31 March 2024	9.8	21.6

1 April 2024 onwards	9.8	21.4

The outcome of the March 2020 valuation of the SAUL pension scheme was that employer contributions increased from 16% to 19% in April 2022 and will rise to 21% in January 2023. The impact of these increases was an additional cost in 2021/22 of c. £0.3m, in 2022/23 of c. £0.8m and in 2023/24 onwards of c. £1m.

Pension scheme liabilities

The pension scheme liabilities shown on our balance sheet are in respect of:

- All liabilities in respect of the closed London Hospital and St Bartholomew's Hospital Medical College.
- The backlog deficit of the USS scheme
- The backlog deficit of the SAUL scheme (currently zero)

No liability is required to be accounted for by institution for the NHS pension scheme as this is an unfunded public service scheme which operates on a pay-as-you-go basis.

Balance sheet Pension Liabilities £m	**31st July 2022**	31st July 2021	31st July 2020	31st July 2019
LHMC	**(0.1)**	0.1	0.2	0.1
SAUL	**0.0**	0.0	0.0	0.0
USS	**164.8**	68.9	64.7	106.6
Total pension liability	**164.7**	**69.0**	**64.9**	**106.7**
Charge/(credit) to Consolidated Statement of Comprehensive Income and Expenditure Statement	95.7	4.1	(41.8)	69.2

Latest updates on pension scheme valuations

Both USS and SAUL had valuations as at 31st March 2020. The SAUL valuation was finalised in June 2021. The USS valuation was finalised in September 2021.

SAUL

The last SAUL valuation resulted in a deficit in the fund, but once post valuation experience was taken into account this was eliminated. However, there was significant contribution strain in relation to future service costs of c. £75m p.a. SAUL agreed to address £25m of the strain through changes to SAUL's investment strategy, employers will cover £25m of the strain through increased contributions and the remaining £25m will come through benefit change, achieved by the introduction of a 3-year defined contribution feeder scheme for new joiners.

The next Valuation date for SAUL will be no later than 31 March 2023.

USS

In March 2021 the USS Trustee published its actuarial report (known as the section 76.1 report) under the 2020 valuation, placing the Scheme's deficit at between £14.9bn and £17.9bn. Over the summer of 2021, the USS Joint Negotiating Committee (JNC) worked to reach an agreement in relation to the 2020 Valuation Report. After an agreed extension to their three-month negotiations, the JNC voted in favour of the package of changes put forward by UUK which changed the benefits package for future scheme membership effective from April 2022. These changes included a defined benefit threshold to £40,000, revised accrual rate of 1/85 and an inflation cap at 2.5%, with a defined contribution scheme for members above this salary threshold. Additionally for employers a number of changes were implemented including a debt monitoring framework, pari passu arrangements for new secured debts raised by employers, and a rolling 20-year moratorium on employer exits from the scheme without the consent of USS.

The USS provides financial monitoring reports between formal valuations. It is important to note that the latest financial monitoring reflects current changing market conditions based on a pre-agreed methodology with limited judgement being applied. It is not a prediction of the likely outcome of a full actuarial valuation at any particular date. It is, instead, more an indication of the direction of travel.

The latest financial monitoring at 30th June 2022 indicated an improved overall position with a small surplus in funding level at this date. This improved position reflects the impact of the employer covenant support (debt monitoring, pari passu and 20-year moratorium) and the agreed change in benefits, as well as investment performance since the 2020 valuation date, with particularly high returns in equity markets. Rising gilt yields have also reduced the future valuation of scheme liabilities (partly offset by higher inflation expectations). However, the volatility of financial markets and significantly heightened risks posed by the inflationary environment are flagged as future risks to the funding position, which could again deteriorate by the next valuation of the USS.