WARWICK
THE UNIVERSITY OF WARWICK

SUMMARY FUNDING STATEMENT

as at 31 March 2019

The University of Warwick Pension Scheme (UPS)-Defined Benefit Section

This statement explains the funding that supports benefits in the Defined Benefit Section of The University of Warwick Pension Scheme (UPS) ("the Scheme"). It tells you about the longer-term outlook for the Scheme and the financial support provided by The University of Warwick (Principal Employer). The University of Warwick Science Park Limited is a participating employer in the defined benefit section.

The previous summary funding statement as at 31 March 2018 showed that the Scheme had an estimated funding deficit of £23.4m equivalent to a funding level of 90%.

Since then, a formal valuation of the Scheme was undertaken as at 31 March 2019, which was agreed by the Trustee and the University and signed 5 June 2020.

As at 31 March 2019, the Scheme Actuary found that UPS had an estimated deficit of £18.6m or a funding level of 92%.

It had liabilities of £240.3m - under its technical provisions (the amount prudently calculated to be needed to meet its obligations).

It had a portfolio of various investments totalling £221.7m - the value of the Scheme's assets.

The difference results in a deficit of £18.6m.

The funding ratio at 31 March 2019 of 92% is higher than the 87% figure disclosed at the time of the 2016 valuation and the 90% figure shown in the previous summary funding statement. This is mainly due to better-than-expected investment returns, a change in mortality assumptions and a change to the Scheme's short and long-term investment strategy; partially offset by a worsening in financial market conditions and higher-than-expected inflation over the period.

Understanding the statement

As Trustee of UPS, we are responsible for developing a funding plan for the Scheme. We set out our aims, the funding target we believe is suitable, and how we plan to achieve this. To work out the funding target, the actuary needs to make a number of assumptions and considers how the outcome could change if any one of these turns out to be too low or too high. We then use our judgement to consider how prudent we want to be in setting the assumptions, and we decide on a suitable safety margin to build into our target.

In the valuation, the actuary works out the amount the Scheme needs to cover its funding target under the technical provisions. In any actuarial valuation, the Trustee puts a value on the liabilities while assuming that the Scheme is ongoing which simply means calculating what assets are expected to be needed to meet these liabilities. Of course over time these figures change so this is why we have valuations to ensure that we are putting sufficient monies aside to meet these benefits which are expected to be paid over many decades. The actuary then compares the value of the Scheme's assets (after making any necessary adjustments relating to the value placed on annuities held by the Scheme) from the audited accounts with the funding target. This gives the funding level as shown in the above calculations, i.e. 92% as at 31 March 2019.

The University's support

The "technical provisions" funding target we agree for the Scheme meets the requirements of the Pensions Act 2004. It aims to produce a prudent reserve of money to hold against the Scheme's future benefit payments and expenses. We have discussed our funding plan with the University and it has accepted the target and agreed to make the contributions needed.

The Scheme relies on the University and its financial support to:

- Pay the expenses of running the Scheme each year;
- Make extra contributions when there is a funding shortfall: and
- Put in more money if the target set for funding the Scheme turns out to be too low.

Following the completion of the 31 March 2019 valuation, it was agreed that from 1 June 2020 the University would pay contributions of £3.29m a year until 31 March 2027 (paid in monthly instalments) to meet the following:

- Ongoing accrual of benefits being earned by current DB Section members
- The deficit identified as at 31 March 2019
- The expenses of running the Scheme
- The Pension Protection Fund levy and other levies collected by the Pensions Regulator.

By 1 April 2027 the deficit is expected to have been removed and the University will then meet the cost of future service benefits, the expenses of running the Scheme and any PPF / other levies.

The next valuation of the Scheme is due 31 March 2022 at which point the contributions the University is paying will be reviewed and may change depending on the funding position at that time.

What if the Scheme started to wind up?

As part of the valuation, the actuary must also look at the Scheme's solvency position if it started to wind up (come to an end).

The actuary looked at whether the Scheme had enough money at the valuation date to buy insurance policies to provide members' benefits. 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 Scheme is fully funded on its ongoing basis, the solvency figure is likely to be less than 100%.

If the Scheme had started winding up at 31 March 2019, the actuary estimates the amount the Scheme needed to ensure benefits were paid in full (the full solvency position) was £293.9m and the assets were £221.8m (this asset value differs very slightly from the one used to compare with the technical provisions quoted in 2019 to reflect the different value placed on the Scheme's existing annuity assets on the solvency basis). On this basis, the Scheme's solvency shortfall at 31 March 2019 was estimated to be £72.1m.

To assist the readers understanding it might be helpful to point out:

- The solvency figure will be updated again following completion of the 2022 actuarial valuation, using an updated asset value
- The deficit on a solvency basis is normally much higher than the technical provision because unlike the Trustee, the insurance company would not be able to ask the University for more money once the "buy-out" is completed so the assumptions it makes are very conservative. Another consideration is that as a commercial organisation, the insurance company will want to make a profit.

The Pension Protection Fund

If the Scheme starts to wind up before you retire, the University must pay whatever the Scheme needs to buy the insurance policies for members. If the University was to become insolvent (very unlikely but we are required to inform you about the PPF), the Pension Protection Fund (PPF) may step in and pay some compensation to members.

There are more details on the PPF website at **www.pensionprotectionfund.org.uk**

Statutory Statement

By law, the Trustee has to tell you the following about the Scheme. Firstly, there has been no payment out of the Scheme's assets to the Scheme's sponsoring employers over the period since the last summary funding statement was provided, nor has this happened previously. Secondly, there has been no intervention from the Pensions Regulator to use its power to modify the Scheme or to impose a direction or schedule of contributions.

Use of personal data

The Trustee holds and uses personal information about UPS members and beneficiaries to meet its legal duties and for other legitimate purposes solely to do with running UPS in line with the General Data Protection Regulations. To prepare this statement, information was shared with the Scheme's actuary and support team at Willis Towers Watson.

The UPS's privacy notice is available on the University of Warwick website (**warwick.ac.uk/services/humanresources/internal/rewardandbenefits/corebenefits/pensions/ups/gdpr/**). However, if you have any questions or want to know more about the information the Trustee holds and why, or about the Scheme's data protection arrangements, please contact Joseph Devlin:

Write to: HR Department,
University House,
University of Warwick,
Coventry, CV4 8UW

Email: **J.devlin.1@warwick.ac.uk**

Any questions?

If you have any questions about UPS or your benefits, please visit the scheme web-site at **warwick.ac.uk/services/humanresources/internal/rewardandbenefits/corebenefits/pensions/ups**