

University of Reading Employees' Pension Fund



University of
Reading

Your Summary Funding Statement

April 2008



Your Summary Funding Statement

Welcome to the latest annual 'Summary Funding Statement', designed to help you understand more about how your pension is paid for and the state of the Fund's finances.

The idea of this statement is to give you a clear view of what the financial figures mean in terms of the Fund's ability to pay all the benefits that have been earned during the period of your membership.

It is important that you read all of the statement carefully, so you can understand what the figures mean and how they are used to assess the financial health of the Fund.

You don't need to do anything. The information in the statement is for your information only and is to help you to keep an annual track of the financial health of the Fund.



Measuring the Fund's financial security

For each year you pay contributions to the Fund, you earn benefits that are linked to your salary. If you have left the Fund you will have earned benefits during your membership which will be payable on retirement. If you are a former member who has now retired or the widow, widower or registered civil partner of such a member, in general you will now be receiving a pension from the Fund.

The estimated cost of providing the benefits you and other members have earned to date is known as the Fund's 'liabilities'. The University pays in contributions, as do those members still employed by the University. These are then invested to help provide members' benefits. All contributions and investment income are held in a communal fund, and make up the Fund's 'assets'.

To check the Fund's financial security the Trustees compare the value of its liabilities to its assets:

- if the value of the Fund's assets is less than the value of the Fund's liabilities, it is said to have a 'shortfall';
- if the value of the Fund's assets is more than the value of the Fund's liabilities there is said to be a 'surplus'.

We carry out an in-depth look at the Fund's finances at least once every three years. The Fund Actuary, a qualified independent professional, undertakes this 'actuarial valuation'. We also check the financial security of the Fund regularly in between the full actuarial valuations.

The latest full actuarial valuation was carried out as at 31 July 2005 and the results are shown below:

The estimated value of the Fund's liabilities was	£72.5 million
The Fund's assets were valued at	£63.4 million
This means that there was a shortfall of	£9.1 million

The University agreed to make up this shortfall by paying an additional £1 million a year into the Fund from August 2007 for 15 years so that the shortfall is paid off by 2022. To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future, for example, the rate at which the Fund's assets will grow. If the assumptions do not all turn out to be exactly right, it may be necessary to adjust the level of contributions to the Fund to pay off the shortfall.

The next full actuarial valuation is scheduled for 31 July 2008 and, in the light of the financial position this reveals, future contribution levels by the University will be reviewed.

The fact that there was a shortfall at the last valuation has not affected the pensions paid from the Fund and all members who have retired have received the full amount of their pension.

The position last year

The Summary Funding Statement we issued last year explained that as at 31 July 2005 the Fund was estimated to have a shortfall of £9.1 million between the amount of money the Fund held (the assets) and the cost of providing the benefits (the liabilities). Since the latest full valuation was carried out, a more recent financial health check at 31 January 2007 showed that the financial security of the Fund had improved significantly and the shortfall had fallen to £4.2 million. The reduction in the shortfall was due to:

- the effect of increasing investment returns on gilts which in turn reduced the Fund's liabilities (although this was offset to some extent by rising inflation);
- the overall investment return on the Fund's assets being higher than expected.

The position this year

A more recent financial health check has shown that the financial position of the Fund has deteriorated and as at 31 January 2008 the shortfall had risen to £14.1 million. The large increase in shortfall from £4.2 million to £14.1 million is mainly due to:

- the effect of reducing investment returns on gilts and an increase in expected future inflation which in turn increased the Fund's liabilities;
- the lower than expected investment return on the Fund's assets over the year to 31 January 2008.

The liability and asset figures were £96.9 million and £82.8 million respectively.

Paying for your pension

The University currently pays contributions to the Fund of 20.6% of members' total pensionable salaries each year, as well as the additional £1 million yearly payment. Employed members currently pay contributions of 6.25% of their pensionable salary.

Over the last five years the University's contributions have been rising steadily, from 8.5% of pensionable salaries in 2003. During this time, members' contributions have remained at the same level of 6.25% of pensionable salary.

Assets held by the Fund

We invest contributions in a broad range of assets.

The distribution as at 31 January 2008 was roughly as follows:

Company shares (equities)	48%
Government securities and corporate bonds	32%
Property	3%
Cash	17%

The Trustees review the Fund's investment policy from time to time.

Financial support for the Fund

Following each actuarial valuation, the Actuary estimates the contributions the University needs to pay to cover future accrual as well as any past service shortfall. We then agree a level of contributions into the Fund with the University and record this in a document called the Schedule of Contributions.

The Trustees review and update the Schedule of Contributions each time the Fund has an actuarial valuation.

Making good any shortfall in the Fund's financial position is dependent on future investment performance and continuing additional contributions from the University.

If the Fund had to be wound-up

Neither the Trustees nor the University has any plans to wind up the Fund. However, we are required by law to let you know the Fund's financial position if this were to happen. If the University stopped contributing to the Fund, the Fund may be "wound-up" and the University could be required to pay additional money to buy all members' benefits with an insurance company.

The comparison of the Fund's assets to the cost of buying the benefits with an insurance company is known as the "buy-out position". A scheme's buy-out position will often show a larger shortfall than the standard actuarial valuation as

insurers are obliged to take a very cautious view of the future and need to make a profit. The actuarial valuation showed that the Fund's assets would not have been enough to buy all members' benefits earned to date with an insurance company.

The amount needed, in addition to the existing assets of the Fund, on 31 January 2008 to make sure that all members' benefits could have been paid in full through an insurance company was estimated to be £39 million (the buyout deficit).

The Government has set up the Pension Protection Fund (PPF) to pay certain benefits to members if a Fund were wound-up, where the Fund and its sponsor do not have enough money to cover the cost of buying at least the PPF level of benefits with an insurance company. A pension from the PPF may be less than the benefit built up in a Fund.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk.

Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.



Can I leave the Fund before I am due to retire?

You can leave the Fund before you reach retirement and you will be entitled to a pension from the Fund at Normal Pension Age. This will be based on your length of pensionable service and salary when you leave. You will not build up any future benefits under the Fund.

If you are thinking of leaving the Fund for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action. The law prevents us from providing you with financial advice.

Sources of further information

If you have any other questions, or would like any more information, please contact the Pensions Office, University of Reading, Whiteknights, PO Box 217, Reading, RG6 6AH or by e-mail to pensions@reading.ac.uk or on 0118 378 7121. At the end of this statement is a list of formal documents which provide further information about the Fund. Copies are available from the Pensions team. As part of our commitment to keep you informed about your pension the Trustees will be sending you a Summary Funding Statement, like this one, each year. It is important to keep us informed of address changes to ensure our communications reach you so if you change address you should let us know so that we can update our records. If you are a contributing member employed by the University please log on to Employee Self Service by following the

link from the HR homepage (see website address at the bottom of this page). Alternatively, please contact the HR Department. Pensioners and members who are no longer employed by the University should send their new address details to Northgate, the new Fund administrator (quoting your National Insurance number) - contact details can be found in the letter enclosed with this statement.

Additional formal documents available on request from the University Pensions Officer:

- [The Statement of Investment Principles](#) - explains how we invest the money paid into the Fund.
- [The Schedule of Contributions](#) - shows how much money is being paid into the Fund.
- [The Annual Report and Accounts of the Fund](#) - shows the Fund's income and expenditure for the year ending 31 July 2007.
- [The Formal Actuarial Valuation Report as at 31 July 2005](#) - contains the details of the Actuary's financial check of the Fund's situation as at 31 July 2005.
- [The members' explanatory booklet](#) - explains how the Fund works (you should have been given a copy when you joined but we can let you have another copy).

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