Queen Mary
University of London

Accounting for Pension Liabilities

Outcome requested:	Finance & Investment Committee is invited to **note an update** in relation to our pension schemes in respect of: • Employer costs of the pension schemes • FRS102 accounting treatment for backlog pension deficits • Changes implemented for employees from April 2016 • Changes to personal tax allowances for pensions from April 2016
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. Prior to the implementation of FRS102 we were not required to account for the assets and liabilities of any of the pension schemes in our financial statements. From 2015/16 onwards we are required to account for backlog deficit of the USS and SAUL pension schemes. This paper outlines the implications of the changes for our financial reporting as well as providing an update on the pension costs to the university and implications of the pension scheme and tax changes for our staff.
QMUL Strategy: strategic aim reference and sub-strategies [e.g., SA1.1]	6.1 Achieve enhanced investment in resources and facilities, for the benefit of students and staff, with an appropriate balance of contributions from across all components of QMUL
Internal/External regulatory/statutory reference points:	Statutory requirements, risk management
Equality impact assessment:	No equality and diversity impacts or issues have been identified by this paper.
Subject to prior and onward consideration by:	QMSE September 2016 FIC September 2016
Confidential paper under FOIA/DPA	No

Timing:	N/A
Author:	Joanne Jones Finance Director
Date:	7 September 2016
Senior Management/External Sponsor	Laura Gibbs Chief Operating Officer

QMUL Pension Schemes

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.

During 2016 both USS and SAUL pension schemes made changes to benefits of the scheme and increases in contribution rates for both employers and employees to address their deficits (at March 2015 USS 72% funded with deficit of £19.5 billion and as at March 2014 SAUL 88% funded with a deficit of £310m). The next actuarial valuations for both USS and SAUL are due in March 2017.

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

1. Current Pension costs and rates

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

Pension Costs	Cost 2015-16 £m	Cost 2014-15 £m	Current Rate %
Contribution paid to USS	19.7	18.1	18
Contribution paid to SAUL	3.3	2.9	16
Contribution to paid NHS	2.2	2.1	14.3
Total	**25.2**	**23.2**	

With effect from 1st April 2016 the USS employer contribution rate increased from 16% to 18% and the employer contribution rate for the SAUL scheme increased from 13% to 16%.

There were no changes to the NHS employer contribution rate.

2. Impact of FRS102 on accounting for pension scheme liabilities

Following the introduction of FRS102 for our 2015/16 financial statements we are required to account for the backlog deficit of the USS and SAUL pension schemes. As the financial statements include a comparator year we must therefore ensure this is also included in the restated opening balance sheet as at 31st July 2014 and in the restated 2014/15 financial statements.

The tables below shows the impact of FRS102 on recognising the pension liabilities and accounting for adjustments to their liabilities their values.

Total pension liabilities Pre FRS 102	**31st July 2014 £k**	**31st July 2015 £k**	**31st July 2016 £k**
London Hospital Medical College (LHMC) pension liability	**225**	**161**	**414**
Impact on I&E	0	0	0

N.B. Prior to FRS102 any changes to the value of the provision did not impact the income and expenditure account as it is accounted for through the statement of recognised gains and losses.

Total Pension Liabilities Post FRS102	**31st July 2014 £k**	**31st July 2015 £k**	**31st July 2016 £k**
LHMC	225	161	414
SAUL			2,165
USS	20,156	41,515	41,341
Total pension liability	**20,381**	**41,676**	**43,920**

Impact on the consolidated statement of comprehensive income and expenditure increase/(reduction) of surplus	**31st July 2014 £k**	**31st July 2015 £k**	**31st July 2016 £k**
LHMC		64	(253)
SAUL			(2,165)
USS	(20,156)	(21,359)	174
Total	(20,156)	(21,295)	(2,244)

N.B. A change in discount rate following Brexit increased the USS pension liability by £2.7m.

As changes to the valuation of the backlog pension liabilities are accounted for through the consolidated statement of comprehensive income and expenditure, this can have a material impact on the volatility of the university group surplus and will generally not known until the year end.

3. Pension Scheme changes for staff

USS

All benefits accrued by members up to 31st March 2016 under either the final salary scheme or the current career revalued benefits (CRB) were secure. From 1st April 2016 the final salary scheme closed and all members moved to the new scheme, which is being implemented on a phased basis.

The key features of the new scheme were:

- Career Revalued Benefits (CRB) for all members on earnings up to £55,000 accrued at a new rate of 1/75th and 3/75th for a lump sum
- Defined contribution (DC) section for members based on earning above £55,000
- An option for all members to make additional contributions to the DC section of the scheme

From 1st April 2016 member contributions increased to 8% for all members. This was an increase from 6.5% for CRB scheme members and from 7.5% for final salary scheme members.

SAUL
The final salary scheme and current career average revalued earnings (CARE) plan was closed on 31st March 2016 and replaced with an enhanced CARE plan. All benefits accrued by members up to 31st March 2016 under either the final salary scheme or the current CARE plan were secure.

The key benefits of the new scheme were:

- Career Average Revalued Earnings for all members accrued at a new rate of 1/75th and 3/75th for a lump sum

- The member contribution rate remained unchanged at 6%

4. Changes to personal tax allowances in relation to pensions

There are two tax allowances that relate to an individual's pension.

The Annual Allowance

The annual allowance (AA) is a limit on the amount that can be contributed to an individual's pension in any one year while still receiving tax relief. It is measured annually over a Pension Input Period in the following ways:

- **Defined Benefit** – the real increase in the value of a member's pension promise (i.e. net of inflation) from the end of one Pension Input Period to the end of the next, multiplied by HMRC's AA Factor (flat rate of 16).

- **Defined Contribution (DC)** – the total amount of contributions paid into a DC arrangement by an individual or anyone else, including employer contributions, employee contributions and additional voluntary contributions during the PIP. Investment returns are not included.

For 2015/16 tax year the AA was capped at £40,000 although a lower limit of £10,000 may be applied if individuals were flexibly accessing their benefit. This applied across all of the schemes an individual belonged to and it was not a "per scheme" limit.

From April 2016 the annual allowance reduced for those with an income over £150,000 (including the value of pension contributions) by removing £1 of AA for each £2 of income over £150,000.

The Lifetime Allowance
The standard Lifetime Allowance (LTA) is the limit on pension benefits which an individual build up over their working lifetime without incurring additional tax charges.

The LTA covers both retirement income **and** any lump sums

It is measured at the point that a pension benefit is put into payment (known as a benefit crystallisation event). Each time a member crystallises a pension benefit, they "use up" a percentage of the LTA. This percentage does not change as the LTA changes and when all of an individual's LTA is "used up", an LTA charge may be payable on excess.

The tax rate applicable to the excess over the LTA depends on the form of the benefit taken. The rates currently applicable are:

- 25% if taken as income (e.g. annual pension or annuity);
- 55% if it is taken as a cash lump sum

The lifetime allowance was reduced from £1.25m to £1m from April 2016.

5. Implications for Universities

The changes to the tax allowances mean that more staff will be affected at lower salary levels and shorter services lengths. The pension schemes are seeking more flexibility in their options for members who are affected by these changes, however the combination of changes to tax allowances and the pension scheme benefits may mean that for some individuals it is in their best interests to leave their pension scheme.

Although pensions and personal taxation is an individual matter, we have a role in raising the awareness of these changes. During the year we've run two sets of briefings at all sites both to inform people about the initial changes and more recently, Mercers have provided briefings on the new USS structure. At each of these sessions we have had a representative from Austin Chapel (Independent Financial Advisers) available so that staff can arrange to seek further advice from them if they wish to.

The Remuneration Committee have been advised of moves by some universities in the sector to offer cash alternatives to staff who have left their pension scheme as a result of the changes to the pension tax allowances. It is also recognised that the changes to the structure of USS may have the impact of more staff wanting to opt-out of the new defined contribution arrangements and seeking a cash alternative. We have therefore arranged for Mercers to present these issues to QMSE and ensure they are fully informed about the options available in order that policy decisions can be made. In addition we are aware of some further support services that Mercer could provide to staff to help them understand their current and future tax position in relation to pensions and we may decide to commission them to provide additional advice and support to staff. This will be considered further at the next Remuneration Committee in October 2016.

Joanne Jones
Finance Director
7 September 2016