Annual Funding Update as at 31 July 2022

Dear member

As a member of the University of Dundee Superannuation and Life Assurance Scheme ("the Scheme") you are entitled to receive an update of the Scheme's funding level. Legislation requires that this information is made available to all Scheme members following completion of each Actuarial Valuation or following each Annual Funding Update.

No action is needed from you. This statement is for your information only and is provided to help you understand the way in which the Scheme's financial position is assessed. Should you wish to obtain more information or copies of the Scheme documents, you can contact us and we will be pleased to assist. Contact details are given at the end of this statement.

How does the Scheme operate?

The Scheme is intended to provide members and their dependants with pensions and lump sums when they retire or die. The University of Dundee and the Dundee University Students' Union ("The University") contribute to the Scheme, and their contributions together with any contributions the members make are invested. These contributions together with the investment returns are used to pay for members' benefits. This money is held in a common fund, which means that there are no separate funds for each individual.

How is the financial security of the Scheme assessed?

An in-depth assessment of the Scheme's financial situation is carried out at least every three years in a process known as an Actuarial Valuation. The most recent Actuarial Valuation was carried out as at 31 July 2020, the results of which are shown in this statement. The Actuarial Valuation is carried out by a qualified, independent professional known as the Scheme Actuary.

The Scheme Actuary also carries out annual checks on the financial security of the Scheme between full Actuarial Valuations. The results of these checks are shown in the Actuarial Report for the Scheme and sometimes referred to as Actuarial or Annual Funding Updates. The most recent Actuarial Funding Update was carried out as at 31 July 2022, and the results of that update are also shown in this statement.

The approach adopted for the Actuarial Valuation is agreed with the University and is set out in a document known as the Statement of Funding Principles.

The purpose of the Actuarial Valuation is to compare the Scheme's liabilities to the Scheme's assets on an ongoing basis.

- If the value of the assets is less than the value of the liabilities, the Scheme is said to have a "shortfall".
- If the value of the assets is more than the value of the liabilities, the Scheme is said to have a "surplus".

The Scheme's funding level is expressed as the percentage of the Scheme's assets relative to the value of the Scheme's liabilities.

The Actuarial Valuation also compares the Scheme's liabilities on a solvency basis to the value of the Scheme's assets.

The main purpose of the Actuarial Report is to show an approximate update on the progress of the Scheme's ongoing funding level since the Actuarial Valuation.

Ongoing Funding Position

Jargon Buster

Scheme liabilities are the estimated cost of providing benefits for all members included in the Scheme.

Scheme assets are the funds built up from monies invested, together with returns on the Scheme's investments.

The **Ongoing basis** for an Actuarial Valuation assumes that the Scheme will continue in the future and has no plans to wind up.

The **Solvency basis** for an Actuarial Valuation estimates the amount needed to fully secure all benefits built up to date from an insurance company if the Employers decided to wind up the Scheme.

An Annual Funding Update was carried out as at 31 July 2022 and the results of this update together with those at 31 July 2021 are shown below. The results of the Actuarial Valuation as at 31 July 2020 are also shown below for comparative purposes.

	31 July 2020 (£m)	31 July 2021 (£m)	31 July 2022 (£m)
Scheme liabilities	200.6	202.1	165.3
Scheme assets	129.9	145.6	120.5
Surplus/(Shortfall)	(70.7)	(56.4)	(44.8)
Funding level	65%	72%	73%

Change in Funding Level Since the Actuarial Valuation

The funding level of the Scheme increased over the period from 31 July 2021 to 31 July 2022 with the Scheme going from a shortfall of £56.4m to a shortfall of £44.8m. The main reasons for the change in the funding level since 31 July 2021 are set out below:

- The most material change in the funding level is due to the change in market conditions leading to a large reduction in the Scheme's liabilities. The Scheme's assets also fell in value but by less than the liabilities leading to a positive impact on the funding position
- The payment of deficit reduction contributions over the year also served to improve the funding position

The Trustee of the Scheme ("the Trustee") and the University will continue to monitor the funding level on a regular basis in order to ensure that the Scheme's funding remains on track over the long-term.

Further Update - Impact of Higher Interest Rates

As you may be aware, UK Gilt yields rose substantially in the second half of 2022. This has a number of impacts on the operation of the Scheme, as follows:

- The value of the Scheme's liabilities have reduced further;
- The value of the Scheme's fixed income investments, which are used to match the movements in the value of the Scheme's liabilities, also fell in value; and
- The value of certain scheme options (transferring your benefits out of the Scheme and exchanging pension for cash at retirement) will be lower as result of the higher interest rate environment.

It should also be noted that your Scheme pension is not impacted by the changes in the value of the Scheme's assets.

The Trustee and the Employer will continue to monitor the funding level on a regular basis in order to ensure that the Scheme funding remains on track over the long-term.

Eliminating the Shortfall

The Actuarial Valuation as at 31 July 2020 showed a deficit and so a recovery plan was agreed to eliminate the shortfall with deficit contributions. The Trustee estimate that the shortfall will be cleared by 31 July 2031.

Details of the contributions payable into the Scheme and details of how expenses are paid is contained in a document called the Schedule of Contributions. We can provide a copy if requested.

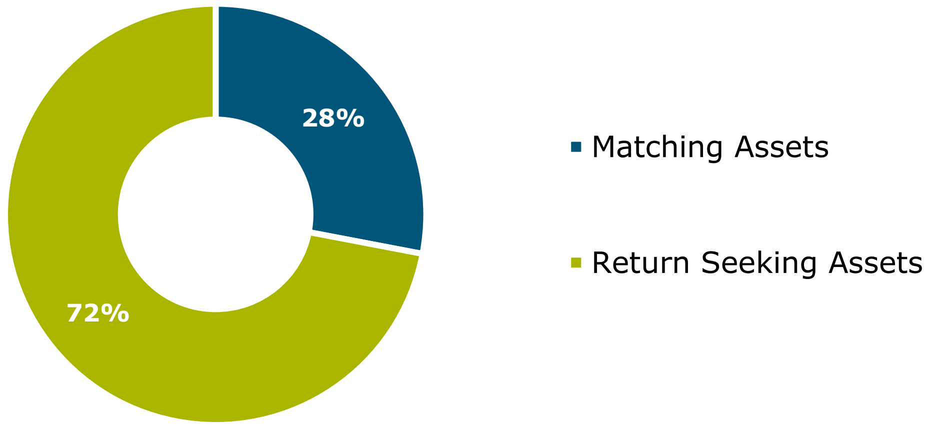
How are the Scheme's assets invested?

The Trustee's policy is to invest in a wide range of assets.

ASSET DISTRIBUTION

The most recent Statement of Investment Principles ("SIP") was agreed in May 2022. The SIP sets out the principles governing decisions about how the Scheme's assets are invested. The actual allocation of assets held at a particular time may differ from the strategic allocation within acceptable limits. You can find a copy of the latest SIP at https://www.dundee.ac.uk/corporate-information/uodss-statement-investment-principles-sip

The Scheme's asset value includes the Scheme's invested assets and net current assets. The Scheme's long term target asset allocation from the most recent SIP is shown below. Matching assets are assets that are expected to move in line with the Scheme's liabilities. This protects against risks caused by changes in interest rates and inflation. Return Seeking Assets are assets that are expected to provide the required rate of investment return.



Financial Support for the Scheme

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, the Scheme relies on the University continuing to support it because:

- The funding level can fluctuate, and when there is a funding shortfall, the University will usually need to put in more money;
- The target funding level may turn out not to be enough so the University will need to put in more money; and
- The University is paying the future expenses of running the Scheme.

What would happen if the Scheme had to wind up?

Although the Scheme is not in the process of winding up, we are required by legislation to advise you what would happen in these circumstances. If the Scheme had started winding up as at 31 July 2020, the additional assets needed to secure full member benefits with an insurance company would have been approximately £190.7m.

Inclusion of this information does not imply that the University is thinking of winding up the Scheme.

If the Scheme were to wind up, the University would need to pay sufficient money into the Scheme to enable members' benefits to be secured by an insurance company.

If the Scheme were to wind up and the University could not afford to pay the full amount, you might not receive your full benefit entitlement, even if the Scheme is fully funded on the approach set out in the Statement of Funding Principles.

If the University became insolvent, the Pension Protection Fund ("PPF") might be able to take over the Scheme and pay compensation to members.

Further information and guidance can be obtained from the PPF's website at www.pensionprotectionfund.org.uk. You can also write to the PPF at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes that the University will continue in business and continue to support the Scheme.

Payment from the Scheme

The Trustee is required to confirm to you whether there have been any payments to the University out of the Scheme's assets in the previous 12 months. There have been no such payments.

Changes to the Scheme

The Trustee is also required to confirm to you that the Pensions Regulator has not given any directions in relation to the funding of the Scheme or imposed a Schedule of Contributions on the Scheme. There have been no such impositions.

Following a consultation process with affected members, the University has decided to close the Scheme to new entrants with effect from 31st December 2022. New recruits will be invited to join a new "defined contribution" pension plan.

GMP Equalisation

You may be aware that a significant legal judgement was published which confirmed the legal requirement for pension schemes to "equalise" Guaranteed Minimum Pensions ("GMPs") built up after 17 May 1990 (in the same way that other Scheme benefits are also treated equally). This means that the Scheme will need to revisit benefit calculations and some members may receive a slightly larger benefit. The Trustee is working on this complex project and we will write to you when we have further information.

Increase in the Minimum Pension Age

The Minimum Pension Age is the earliest age at which you can draw your pension benefits from the Scheme, unless you are in ill health in which case you may be able to access your pension earlier. The Government has confirmed plans to increase the statutory minimum pension age from 55 to 57 from 2028, alongside planned increases in the State Pension Age (SPA) to 67. From then on, the current government's intention is that minimum pension age will remain ten years below SPA. The SPA has been increasing since December 2018. Anyone born between 6 October 1954 and 5 April 1960 will reach their SPA on their 66th birthday. Anyone born after 5 April 1960 will have an SPA of 66 and one month or higher. The Government has already increased the SPA to 68 from 2046 but is planning to bring the date at which the SPA reaches 68 forward. You can confirm your State Pension Age at https://www.gov.uk/state-pension-age and obtain a forecast of your State Pension at: https://www.gov.uk/check-state-pension.

Internal Dispute Resolution Procedure

In the event that you have a complaint, you should first raise this with the Trustee through the Scheme's Internal Dispute Resolution Procedure ("IDRP"). A copy of the IDRP can be obtained by contacting the Trustee.

Market Conditions

There has been significant volatility in investment markets over a number of years. As the Scheme provides members with a promised level of benefits irrespective of investment returns, the benefits that you are due to receive will be unaffected.

The Trustee and the University take their responsibilities extremely seriously and continue to monitor the Scheme, as well as take advice from their advisers. The Trustee is in regular communication with the University to monitor any business developments that would impact the Scheme – to date there are none to report and the University continues to pay the agreed contributions into the Scheme.

Pension Scams

It is worth highlighting that there remain individuals who would seek to take advantage of members of defined benefit schemes such as this one. Notably, the Pensions Regulator has flagged an increase in pension scams where members are encouraged to transfer their benefits elsewhere through promises of high returns and low risk but, in reality, members are being scammed and can be left with nothing.

There are 4 simple steps to help protect yourself from pension scams:

1. Reject unexpected offers like a free pension reviews or cold calls about pensions.
2. Check who you are dealing with by checking the Financial Services Register and beware of companies that are pretending to be regulated companies by adopting a similar sounding name. You can find the register at: https://register.fca.org.uk/s/.
3. Don't be rushed or pressured, this is a common tactic used by scammers.
4. Get impartial information or advice. Money Helper provides free impartial information and guidance - https://www.moneyhelper.org.uk/en Information about how to find an independent financial adviser is also on the Money Helper website.

For more information on how to avoid scams and useful resources, visit www.fca.org.uk/scamsmart. From 30 November 2021, new regulations were introduced to help combat pension scams. The Scheme's transfer procedures have been updated to comply with the changes.

Additional Documents Available on Request

A list of more detailed documents which provide further information is included below. If you would like to view any of these documents, please let us know.

The ***Statement of Funding Principles***. This sets out the Scheme's funding plan.

The ***Recovery Plan***. This explains how the funding shortfall is being made up.

The ***Schedule of Contributions***. This shows how much money is being paid into the Scheme.

The ***Statement of Investment Principles***. This explains how the Trustee invest the Scheme's assets.

The ***Annual Report and Accounts of the Scheme***. This shows the Scheme's income and expenditure and is prepared for each Scheme year ending 31 July. The most recent is for the year ending 31 July 2022.

The ***Actuarial Valuation Report*** following the Scheme Actuary's review of the Scheme's funding position as at 31 July 2020.

The ***Actuarial Report.*** These are the annual updates on the Scheme's funding position as at 31 July each year, the most recent being at 31 July 2022.

The ***Scheme Booklet.*** You should have been given a copy when you joined the Scheme.

Where can I get more information?

If you want to find more information about your benefits please call the administration team on 0141 331 9974

If you have any other questions or would like any further information about the Scheme, please contact:

Michelle Coghill
Spence & Partners Limited
The Culzean Building
36 Renfield Street
Glasgow
G2 1LU

Please help us to keep in touch with you by telling us if you change your address.

IMPORTANT: If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial adviser ("IFA"), before taking action.