University of Edinburgh Staff Benefits Scheme (the "Scheme") - Proposed Changes

Frequently Asked Questions

Full details of the proposed changes to the Scheme, including a summary, timeline and consultation process, can be found on the University's website www.ed.ac.uk/finance/pensions/news.

You will have opportunities to ask questions at roadshows throughout August and September, but here are answers to some questions which may help you to better understand the proposals.

Background

Why is the University proposing these changes?
We are sure that you will have heard or read about reports in the media on defined benefit pension schemes. Many employers have taken a wide range of actions to safeguard themselves from the risks of this type of scheme.

People are living longer. Long-term returns on investments are expected to be lower. This means that the cost of providing pensions is increasing.

The University recognises the value employees place on their Scheme benefits. However, the University is not immune to the exposure to these risks and the potential impact they may have.

The University is proposing these changes to avoid very substantial cost increases which would have serious implications for long-term sustainability. The over-riding aim of the proposed changes is to control the future cost of providing pensions.

What other options were considered?
The University undertook a comprehensive review of the options open for future pension provision, with the help of professional, expert advisers. These options included:

- reducing the rate at which pension is built up
- changing contribution rates
- moving to a defined contribution scheme for all future pension benefits

A defined contribution scheme (also known as money purchase) is where the pension you receive is based on the amount you have invested in your defined contribution scheme at the time you retire rather than on a guarantee of benefits to be paid on retirement.

After consideration it was decided that the proposed changes would best meet the objectives of:

- Reducing the unpredictable and rising costs of the Scheme
- Dealing with the significant funding issues of the Scheme, including funding the pension benefits already built up by the members to date
- Continuing to provide a pension on a defined benefit basis
- Ensuring that future pension costs for the University remain affordable.

Do the Trustees of the Scheme know about these proposals?
Although the Scheme is run by a Board of Trustees, the University is responsible for sponsoring the Scheme. The Trustees have a duty towards the members of the Scheme, including the protection of
benefits built up to date. The University has fully discussed the proposals with the Trustees and will continue to keep them up to date as the consultation process moves on.

**What is happening to other public sector and Higher Education pension schemes?**
There have been many changes in recent years to the benefits provided to and contributions paid by members of other university schemes, and other major employers in and around Edinburgh and the proposed changes to the Scheme continue to offer similar benefits to those provided by other universities.

The Universities Superannuation Scheme (the "USS") has now moved to a CARE basis for all staff (from April 2016) up to a salary limit, with a defined contribution scheme operating for earnings above that limit. Public sector pensions over the past 5 years have in general seen member contributions rise, retirement ages increase and the closure of most final salary schemes, to be replaced by defined contribution and/or Career Average Revalued Earnings (CARE) arrangements.

**What is a pension deficit?**
This is the estimated amount by which the value of the scheme's assets falls short of the value of its obligations to pay benefits to its members.

**Why is the deficit so large?**
The period between March 2012 and March 2015 has been particularly difficult for pension schemes. The financial crisis has driven down the returns available on fixed interest assets and increased the volatility of global equity markets. This means that the expected return on the investments that the Scheme holds has declined, whereas the cost of providing benefits has increased.

**Couldn't the University save money short-term by taking longer to pay off the deficit?**
The University has considered many different options for a recovery plan to achieve full funding. It was agreed that the proposed structure (which involves an initial lump sum and a recovery period of around 14 years) would be the best solution.

**Does the fact that people are living longer have an impact on the Scheme?**
Life expectancy has continuously risen in recent decades and this is expected to continue into the future. The pension market as a whole is reacting to people living longer in retirement, recognising the additional cost of paying pensions for longer. This is one of the reasons why these proposals have been made to ensure the Scheme remains affordable and sustainable.

**What happens if the current funding shortfall gets bigger?**
The University will continue to take financial responsibility for the shortfall in funding the benefits built up in the Scheme.

**What if financial markets improve?**
The assumptions used to value the Scheme take views as to future market conditions. The actual funding position will fluctuate over time. It may be better than projected, it may be worse. The priority for the University is to manage this uncertainty by reducing risk. Over the long-term, this will give members greater security and enable the University to support the Scheme with greater confidence in the future.
What are the Trustees doing to ensure that our pension fund investments are secure?
Worldwide expectations of investment returns have fallen. The cost of paying pensions (due to life expectancy) has risen. The Trustees are working with their appointed professional investment advisers to ensure that the investment strategy remains appropriate, and well-diversified.

Will people still be able to join the Scheme in the future?
Yes, the proposals do not include closing the Scheme to eligible members.

Your Pension

How will my pension be made up?
If the proposed changes are made, your pension will be made up of the following elements:

- For service up to 31 December 2010 - Pension based on your Pensionable Service to 31 December 2010 and your Final Pensionable Salary when you eventually retire (or leave). This will be based on your existing Normal Retirement Age (NRA).
- For service between 1 January 2011 and 31 December 2016 - Pension based on 1/60th of each year’s Pensionable Salary from 1 January 2011 to 31 December 2016, which is then revalued each year while you remain in pensionable service in line with the rise in Retail Prices Index (RPI) until you retire or leave. This will be based on an NRA of 65.
- For service from 1 January 2017 - Pension based on 1/75th of each year’s Pensionable Salary from 1 January 2017, which would then be revalued each year while you remain in pensionable service in line with the rise in Consumer Prices Index (CPI) (capped at 5%) until you retire or leave. There would also be an additional cash sum at retirement based on 3/75ths of each year’s Pensionable Salary from 1 January 2017, which is then revalued each year while you remain in pensionable service in line with the rise in CPI (capped at 5%) until you retire or leave. This will be based on an NRA in line with your State Pension Age (which may change in future).
- State Pension (providing that you have paid sufficient National Insurance contributions).
- Individual arrangements you may have in place such as Additional Voluntary Contributions (AVC).

Is the change in accrual rates from 60ths to 75ths detrimental to members?
Worked examples of “before” and “after” scenarios are included in Appendix C of the consultation pack to help you to understand the changes in more detail. Whilst the accrual rate is less, the addition of an automatic lump sum would go some way to offsetting the reduction in the accrual rate. The changes only affect future benefits, so there is no detriment to the benefits you have already built up in the Scheme.

What does it mean to retain a link to final salary for service prior to 1 January 2011?
This is significantly beneficial for those with service prior to 1 January 2011. That portion of your pension will be calculated by reference to your final salary when you choose to retire. Pension service earned after 1 January 2011 has been accrued on a CARE basis and is not directly linked to your final salary.

Will this proposal affect the benefits I earned in the Scheme prior to 1 January 2017?
The final salary benefits you built up prior to 1 January 2011, and the CARE benefits you built up between 1 January 2011 and 31 December 2016, would be protected by law.
How will my pension be increased once I start to receive it?
Pension earned since 1 January 2011 is increased by the annual increase in RPI to the previous September, capped at 5%. Pension to be earned from 1 January 2017 would be increased by the annual increase in CPI at the previous September. The cap will remain unchanged at 5%.

Under the proposals what is my Normal Retirement Age?
The current NRA for benefits accruing under the Scheme is 65. The proposals mean that retirement ages will be aligned with your State Pension Age for service from 1 January 2017.

To make it easier to administer the Scheme, your new retirement age would be a whole number. For example, if your State Pension Age is 66 years and 7 months, your new retirement age would be 66.

You can find out your current State Pension Age at https://www.gov.uk/state-pension-age/y/age. If the Government decides to raise State Pension Age again in future, your normal retirement age under the Scheme would also go up automatically for service from 1 January 2017.

More information is included in Appendix B of the consultation pack.

What is the effect of these proposals on early retirements?
You would still be able to retire early and start to draw your Scheme pension from age 55, with the consent of the University. Your pension would be reduced by an appropriate early retirement factor (which is reviewed and amended from time to time) to take account of the fact that it will be paid earlier and for longer than if you had retired at your Normal Retirement Age.

Some special categories of members can take part of their benefits from age 60, without reduction and this will not be affected by the proposals.

Will my pension be big enough for me to live on in retirement?
Your pension will vary depending on the time you spend in the Scheme and the amount you earn. Every year we will send you a statement showing you the amount of pension you have built up in the Scheme and in the State scheme. Your statement will also include a projection of the pension you may receive from your State Pension Age. Everyone is different, so it will be for you to decide whether your pension is sufficient or if you need to save more.

Will there be any changes to the way my pension is converted into cash at retirement?
For service up to 31 December 2016 there would be no change to the Rules regarding annual pension needed to be given up to generate a cash sum. The factors to be applied when making such a conversion are reviewed regularly by the Scheme Actuary.

For service after 1 January 2017 a cash sum of 3/75\textsuperscript{th} of pensionable salary would be provided automatically. If you wish to take a greater lump sum up to the maximum tax-free amount, you will be able to commute some of your pension in addition to the automatic cash sum.

What happens if I retire part way through a Scheme year?
There is no change to the current practice; you would earn a part year benefit pro-rata for the final part year.

**What is the effect of these proposals on ill health early retirement?**
The terms for payment of ill-health pensions would not change. The amount of the pension would reflect the revised CARE structure proposed from 1 January 2017.

**What is the effect of these proposals on death benefits?**
There would be no change to the lump sum benefit payable in the event of death.

The amount of pension payable to a spouse/dependant on the death of an active member would still be calculated with reference to prospective service to Normal Retirement Age (which may be higher than 65). However, this would be based on the proposed 1/75\(^{th}\) accrual rate for service from 1 January 2017.

**How can I nominate someone to receive my Lump Sum Death Benefit?**
A lump sum equal to three times pensionable salary is paid to your named beneficiary or other qualifying beneficiary upon death and is paid tax free at the discretion of the Trustees.

To nominate someone to receive this payment, please complete the Expression of Wish form available at [http://www.ed.ac.uk/finance/pensions/scheme-details/sbs/forms](http://www.ed.ac.uk/finance/pensions/scheme-details/sbs/forms) and return to the Pensions Office at the Finance Department, Charles Stewart House, 9-16 Chambers Street, Edinburgh, EH1 1HT.

**What if I decide to leave the Scheme?**
We would advise you to take independent financial advice before doing this. The pension being offered by the University still represents a substantial benefit and for this, if the proposals are implemented, the University will contribute 16.2\% of your salary while you are a member of the Scheme. This would not be the case if you were to leave and you would no longer build up any further benefits in the Scheme.

As well as providing you with an easy way to help you save for your retirement, your pension scheme also provides benefit for others on your death and may provide you with an income if you have to retire early because of ill health.

**Where can I get independent financial advice?**
The University, the Trustees and their advisers are not allowed by law to give you individual advice about how you should respond to our consultation. If, after receiving all of the information we are providing, you remain in any doubt about how you would be affected should the proposals be put into effect, you should consult a suitably qualified independent financial adviser. You can find an adviser near to you at [www.unbiased.co.uk](http://www.unbiased.co.uk) (you normally have to pay for this service).

**If I have a question on these changes who should I contact?**
You can email your question to the dedicated email box at [SBSConsultation@ed.ac.uk](mailto:SBSConsultation@ed.ac.uk), or you can ask questions at one of the roadshows being held across the University during August and September.
If you do not have access to email and want to put your question in writing you should write to the Pensions Manager, University of Edinburgh, Charles Stewart House, 9-16 Chambers Street, Edinburgh, EH1 1HT no later than 29 September 2016.

Additional Q&As

How can I model the difference in my benefits between the current and proposed benefit structure?

There is no modelling tool available at present however there is a table in the consultation documentation which compares the current benefits versus the proposed benefits for certain ages and salaries. There will be a further comparison table on the consultation website shortly.

Do I need to take the lump sum or can I convert this into additional pension at retirement?

Under the proposal the lump sum is paid automatically and cannot be converted into additional pension. Members who want to take a higher lump sum than the standard 3/75th by giving up some pension will continue to have this option at retirement.

Can I pay more into my pension?

Members will continue to have the option to pay more to boost their retirement benefit. There are currently two ways in which to do this:

1. Purchase additional pension benefit (with attaching cash) in the scheme
2. Pay into the Money Purchase arrangement with Standard Life

Will I receive an annual statement of my benefits at the date of change?

The Trustees will work with the Scheme administrators to produce a comprehensive statement of benefits built up to the date of change, should the proposals go ahead.

Can the University guarantee the Scheme will not change again in the future?

The University can give no guarantee of this. We would hope these changes will allow the Scheme to become fully funded by the end of the recovery plan (2029) however the future is unpredictable and the University must ensure the reward package offered to staff is both affordable as well as attractive.

What impact does the vote to leave the European Union have on the Scheme?

We are unclear as to what impact leaving the European Union will have on UK pension schemes such as SBS. The Scheme has investments in both UK and overseas companies and the full effects of the vote to leave will not be known for at least another two years, which is the timeframe the UK has to leave the Union.

Did people moving out of SBS and into USS at pay harmonisation in 2006 have a detrimental effect on the Scheme?

No, anyone moving out of SBS into another pension arrangement such as USS tend to transfer their SBS benefit into the new Scheme so there is no continuing liability in SBS.
Can’t we all just join the Universities Superannuation Scheme (USS)?

Until very recently the rules of USS did not permit membership of its scheme to non-academic and academic related staff. USS has now relaxed its rules to a certain degree, however legislation dictates that if a scheme is wound up (as would be the case if all current and new members moved to USS) the Scheme must be fully funded at the time of closure. As the Scheme is in a deficit position this would not be a sensible way forward for the University.

**Does the Lump Sum get reduced on early retirement, like the pension?**

Yes, the Lump Sum will be reduced on early retirement to reflect it being paid earlier than expected.

**What happens to the AVCs I am already paying?**

If you have a current AVC contract to buy additional pensionable service at retirement this will continue on your current terms and will not be affected should the proposed changes go ahead.