Questions and Answers

General

When will the proposed changes happen?
The proposed changes are due to be implemented, subject to the consultation process, from 1 January 2013.

Why are changes to PAS needed?
The main reason that the University feels that changes to PAS are necessary is to reduce the significant risk for both the University and scheme members in providing final salary benefits.

The changes that are proposed will also bring PAS benefits broadly into line with those now provided to members of the University Superannuation Scheme (USS). This will mean that the benefits built up by academic staff and support staff remain consistent, as they were prior to the recent changes made to the USS.

Further details have been provided in the consultation booklet sent to all affected members of staff at the beginning of August.

Are final salary benefits being retained for existing members?
Yes. Under the proposed changes final salary benefits are being retained for existing PAS members.

What scheme will new employees be able to join?
New employees joining the University from 1 January 2013 will join a new defined contribution (DC) plan. However, they will also have the option to choose to join the career average revalued earnings (“CARE”) section of PAS instead of this DC plan.

Will there be more changes to the pension scheme in the future?
Clearly the University cannot guarantee what will happen in the future but the intention is that these changes are sufficient at the present time.

When will a decision on the proposal be made?
The consultation period will end on 31 October 2012. After that date, the University will consider the comments made and prepare a paper for the University Council to consider in November. The Council will make a final decision. This decision will be communicated to affected members of staff in December.
Proposed changes for existing members

Change to pension increases in payment and revaluation to pension upon leaving

How will the cap on inflation affect me in practice?
There will be a limit on the amount by which your pension is increased each year after you have retired and in the period between you leaving PAS and when you retire. The limit will begin to have an effect if the Consumer Prices Index (CPI) inflation is over 5% in any year.

Is all of my pension affected by this proposed change?
No. This change will only affect benefits earned on or after 1 January 2013.

Member contributions

I see that the proposals involve an increase to the member contribution rate to 7.5% - what is the current rate of contribution?
The current member contribution rate is 6.25% of salary.

What will be the real cost from my take-home pay of the increase in contributions?
If you are a taxpayer, because of the tax relief you receive, the impact on your take home pay will be less than the 1.25% difference between 7.5% and 6.25%. The actual impact will depend on the rate of tax you pay and also whether you pay contributions through Pensions+.

For example, someone currently earning £20,000 and paying basic rate tax will be contributing £21 per month more under the increased contributions. However, because of tax relief, the actual reduction in take home pay would be £17 per month (or £15 per month if contributions are paid through Pensions+).

Will the member contributions remain at 7.5% and 6.5% in the future?
It is likely that the new member contribution rate of 7.5% to the final salary section and 6.5% to the CARE section of PAS will remain for a few years. However, it is also proposed that new cost-sharing arrangements are introduced. This will mean that if the contribution rate to the Scheme increases above 23.5%, the increase would be shared on the basis of 35% of being paid by members and 65% by the University.

It is proposed that any payments required to meet any deficit in PAS will be borne wholly by the University. This is different to the USS changes where deficit recovery payments are also potentially shared between the Universities and USS members. Taking this approach is more generous and means that cost sharing is less likely to be triggered in PAS.
How will the cost-sharing work in practice?

a. At each actuarial valuation, the scheme actuary (working with the Trustees) will establish the ongoing contributions required to fund new benefits and suggest a deficit recovery plan if required.

b. If required, a deficit recovery plan will be agreed and the cost will be borne wholly by the University.

c. If the ongoing contribution rate is greater than 23.5%, the University will first consider whether the increase in contributions should be subject to cost sharing or addressed in a different way. If subject to cost sharing, the increase will be shared by the employers and members in the ratio 65:35. The same approach is taken for any reduction in the total contribution rate towards the 23.5% if it has previously been increased.

d. The ongoing contribution rate to be considered in cost sharing is the combined rate of the final salary and CARE sections of the PAS.

e. The employee contribution rate will not fall below 7.5% for the Final Salary section and 6.5% for the CARE section.

What is the probability that cost-sharing will be required?
The estimated total contribution rate to provide the proposed final salary benefits is circa 21% and circa 17% to provide the proposed CARE benefits. As a result there is significant headroom for costs to increase before any need to cost share.

It is proposed that any payments required to meet any deficit in PAS will be borne wholly by the University. This is different to the USS changes where deficit recovery payments are also potentially shared between the Universities and USS members. Taking this approach is more generous and means that cost sharing is less likely to be triggered in PAS.

What effect would cost-sharing have on members?
It is likely that the new member contribution rate of 7.5% to the final salary section and 6.5% to the CARE section of PAS will remain for a few years. However, if the contribution rate to the Scheme increases above 23.5%, the increase would be shared on the basis of 35% of being paid by members and 65% by the University.

If the cost of benefits increased to (say) 25% following a valuation the increase of 1.5% would be shared 65%/35% so member contributions may be increased by c 0.5%.
The employee contribution rate will not fall below 7.5% for the Final Salary section and 6.5% for the CARE section.

Change to early retirement practice

What is the change to early retirement practice?
The Normal Retirement Age of PAS is 65. However, the University has the discretion to allow members to retire from age 60 without a reduction to their benefits. For those retiring before age 60, the University also has discretion to apply a reduction only for the period prior to 60.
For current members of PAS who are aged 55 or over at 1 January 2013, the University plans to continue to exercise discretion to allow retirement as an active member of PAS from age 60 without a reduction to their pension. For such members retiring prior to age 60 the University also plans to exercise discretion to apply a reduction only from age 60.

For current members of PAS who are aged under 55 at 1 January 2013, the University will no longer exercise discretion to allow members to retire before age 65 without a reduction.

Is all of my pension affected by this proposed change?
Yes, if you are under age 55 on 1 January 2013, all of your benefits from the Scheme will be affected if you wish to retire before age 65.

I am under 55 at the moment, does this change mean that I will have to work until I’m age 65?
No. With the consent of the University, you will still be able to retire on or after your 55th birthday. However, any benefits taken before age 65 will be reduced to take account of the fact that they are being taken earlier than age 65.

What if I want to retire on (or after) reaching age 60?
If you are a member of PAS and are aged 55 or over on 1 January 2013, then you would be able to take your benefits if you are an active member of PAS, at the discretion of the University, without reduction at or after age 60.

If you are under 55 on 1 January 2013, then if you retire before age 65 your benefits would be reduced to reflect the fact that they will be paid for longer. For example, if you were to retire at 60, based on current reduction factors, which may be reviewed from time to time, your pension would be reduced by 24% to allow for the fact that it will be paid for 5 more years than if you retired at the Normal Retirement Age of 65.

I currently pay added years AVCs to retire at age 60 – what happens to my existing added years contract?
These would be unaffected by the proposed changes. If you currently pay into an added years contract to retire at 60, then you would still be able do so and receive the full pension from your added years if you retire at age 60. However, please remember that if you are under age 55 at 1 January 2013, there would still be an early retirement reduction applied to the main part of your PAS benefits if you were to retire before age 65.

Future changes to Normal Retirement Age in line with changes to State Pension Age

What impact will this have on PAS benefits?
The proposals link the Normal Retirement Age in PAS to changes in the State Pension Age. This means that if the Government increases the highest State Pension Age by one year, the Normal Retirement Age in PAS would also increase by one year.

Any new Normal Retirement Age would only apply to pension built up after the date of any change in State Pension Age.
For example, if the maximum SPA changes from 68 to 69 on 1 April 2020. The NRA in PAS would then also change on or after that date by 1 year from 65 to 66. Members could still retire at 65 and benefits built up:

- before 1 April 2020 would be unaffected by the change in NRA
- after 1 April 2020 would be reduced to reflect retirement before 66

Alternatives to the final salary section of PAS

Can I join the new arrangement?
All new employees on or after 1 January 2013 will have the option to join either the CARE section of PAS or the new DC plan. Existing members of PAS can choose to leave the final salary section and join either the CARE section of PAS or the DC plan. If you did this, as you will no longer pay into the final salary section of PAS, the Pensions Team will calculate the benefits you have built up in the final salary section of PAS and will send you a statement of deferred benefits. This will show the pension and lump sum you have built up in the final salary section of PAS.

If you are currently eligible to join PAS but have not yet joined then you have another opportunity to join the final salary section of PAS prior to the proposed changes happening on 1 January 2013. After 1 January 2013 you will only be eligible to join the DC plan.

As an existing member of PAS, if I leave will I be able to re-join?
If you leave PAS, you will not be entitled to re-join the final salary or CARE sections of PAS. You will, however, be able to join the DC plan.

I am currently a member of the final salary section. In the future, if I leave and then join the DC plan, what will happen to my final salary section benefits?
They will be treated as deferred benefits, which will be increased each year in line with CPI inflation, with a cap applied in respect of benefits built up after 1 January 2013.

New Career Average Revalued Earning (CARE) section

How does the new CARE section work?
For members in the final salary section, for each year worked, a member builds up a pension of 1/80th and a lump sum of 3/80th of pensionable salary earned in the 12 months prior to retirement or leaving.

With CARE, rather than building up a pension based on your pensionable salary on retirement or leaving, each year you will build up a pension of 1/80th and a lump sum of 3/80th of your salary in that year. The benefits built up in each year are then increased in line with CPI inflation, with a cap, until retirement (more details below). At retirement, your total
pension benefits will be the sum of all of these revalued individual blocks of pension and lump sum you have built up.

The consultation booklet sets out an example of how this will work in practice.

**How are benefits inflation-proofed from year to year?**
It is proposed that benefits will increase in line with CPI inflation, up to a 5% per year threshold. If the CPI inflationary increase is more than 5% in any year, then one half of the excess over 5% will also be applied up to an overall maximum annual increase in that year of 10%.

**Can I switch between the final salary section, the new CARE section and the new defined contribution (DC) plan?** For example, if I am a member of the new CARE section in the future, can I switch back to the final salary section?
As a member of the final salary section of PAS, you can choose to leave the final salary section and join either the CARE section of PAS or the DC plan. Please remember however that you will not be able to rejoin the final salary section.

Members of the CARE section of PAS will also be able to choose to leave the CARE section and join the DC plan. CARE section members will not be able to join the final salary section of PAS.

Members of the DC plan cannot join PAS (either the final salary section or the CARE section).

**Summary of Choices**

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**What death benefits are payable in the CARE section?**
The death-in-service lump sum payment for the CARE section of PAS will be the same as for the final salary section, which is three times your annual salary as at the date of death. The spouse’s/adult dependant’s pension will be based on 50% of the pension that would have been payable had you worked to age 65 but based on your pensionable salary at the date of death.

**How will ill-health benefits work under the proposed new CARE section?**
This will be the same as is currently available under the final salary section, but calculated on a CARE basis.
New Defined Contribution (DC) plan

How does the DC plan work?
As set out in the consultation booklet, a defined contribution arrangement is a very different type of pension arrangement to a defined benefit (final salary or CARE) arrangement.

In a defined benefit arrangement, the amount of benefit that is paid to members is known but the amount of money required to provide these benefits is not. The employer therefore meets any cost above what has been paid by members, the amount of which is uncertain.

In a defined contribution arrangement, both the employer and the member pay set levels of contributions. These contributions are invested until retirement and whatever this fund is worth on retirement is used to provide retirement benefits. The fund at retirement can be used to provide a lump sum (currently tax-free) along with a pension purchased from an insurance company. The key difference to the defined benefit arrangement is that the benefits from a defined contribution arrangement are unknown until the member actually retires, whereas the contributions paid are known.

What is the contribution rate for the DC plan?
Details on contributions are set out in the consultation booklet. The scheme is flexible so it is possible to increase and decrease your DC contributions. There would also be a corresponding increase or decrease to the employer contributions paid by the University. The employer contribution rates are double those for employees, up to a maximum of 10%.

Can I join the DC plan and be an active member of PAS?
If you are an active member of PAS, you can still join the DC plan as well, but the University will not pay contributions to the DC plan on your behalf.

What will happen to my PAS benefits if I leave the final salary section and join the DC plan?
You will be treated as a PAS scheme leaver and deferred benefits will be calculated based on your final pensionable salary and pensionable service at your date of leaving PAS. These benefits will increase in value each year between you leaving the final salary section of PAS and retiring. Further details are set out in the consultation booklet.

What happens to my take-home pay if I join the DC plan?
The impact on your take home pay depends on the level of contributions that you choose to pay to the DC plan. However, under the proposed DC plan, you would no longer be contracted out of the State Second Pension. This means that the amount you pay in National Insurance Contributions (NICs) would increase. However, you would also begin to build up State Second Pension.

Will I still get death-in-service benefits if I choose to join the DC plan?
Yes. An increased lump sum payment of five times your salary would be payable. In addition, the fund that you have built up in the DC plan will be used to provide benefits for your spouse. This can be in the form of a tax-free lump sum or a pension.
Upon retirement how does the DC plan work?
When you retire you can take up to 25% of your fund as a tax-free lump sum. The balance is available to buy a pension. You do not need to buy the pension from the same insurance company that provides the DC plan. You may get better value if you shop around to see if you can buy a larger pension with your fund from another insurance company. You should seek independent financial advice at that time to help you decide.

Do I have a choice as to the form of the pension I buy at retirement?
Yes. For example, you can choose whether or not to buy a pension that continues to your spouse following your death. You can also choose whether or not to purchase a pension that increases with inflation. The DC plan therefore offers greater flexibility as to the form of your benefits.

Can we get our own personal forecast of benefits from the DC plan?
Personal forecasts of benefits from all sources will not be provided by the University. However the insurance company providing the DC plan will help you to understand the impact of different level of contributions on estimated retirement benefits. This will help you make decisions regarding the contributions you choose to make and the investment approach that you follow. You will also get an annual statement confirming your current fund value and the projected fund and pension at retirement under different assumed returns. You will also be shown the impact of making higher contributions.

Can I transfer the funds from the DC plan to invest in other places?
Subject to the rules of the DC plan, you can transfer to any other approved pension arrangement. However, the University will only pay employer contributions while you are an active contributing member of the University DC scheme.

Other

I’m not currently a member of PAS as I chose not to join. Can I join the final salary section of PAS before 1 January 2013?
Yes you can. We would encourage anyone in this situation to consider their options very carefully. You will not get another chance to join the final salary or CARE section of PAS after 1 January 2013. If you do wish to join before 1 January 2013, please contact the Pensions team to make arrangements for pension deductions to start before then.

What about my state pension benefits?
Details of your state benefit entitlement can be found using the government website www.direct.gov.uk