The University of Nottingham

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Dear Colleague

Consultation over proposed changes to employee contribution rates – University of Nottingham Contributory Pension and Assurance Scheme (CPAS)

Please read -This letter contains important information about changes proposed to your pension.

A change is proposed that will affect all members currently contributing to the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). Members with deferred pensions and those in receipt of a pension from CPAS are not affected.

This letter provides a summary of the proposed change and relevant background, along with details of the consultation period that commences on Monday 16 November 2015.

Background to the change

Over recent years you are likely to have seen television and newspaper reports concerning the financial challenges that pension schemes such as CPAS now face.

This is because the cost of providing pensions related to pensionable service and salary and the uncertainty surrounding it has risen significantly over the last few years. The most significant factors behind the increased costs are:

- Increased life expectancy – which means that pensions are on average paid out for a longer period of time now than they were planned to be based on historical life expectancy rates: the same level of pension therefore costs more to provide.

  For example: In 2000 a man retiring at 65 years of age could reasonably expect to live for a further 17 years, whereas research now indicates that a man retiring today at 65 years of age could expect to live for 23 years beyond retirement. For a 65-year-old woman these projections have also changed from 21 years to 26 years.

- Lower interest rates – lower long-term interest rates mean that more money is required to provide for each £1 of pension in retirement. In 1990 a yearly pension of £1,000 for a single person aged 65 needed a fund of £9,500 to finance it: today that fund would have to be over £20,000 to provide exactly the same pension.

- Volatile stock market values – to pay for pensions as people retire pension funds invest in stock markets. These have previously offered good long-term growth, however since 2000 there have been a number of years of low stock market performance.

Despite some recovery in the last few years, this has not been sufficient to improve CPAS's funding position due to the significant increase in liabilities, which has exceeded the increase in value of CPAS assets.

How this affects CPAS

The University and the Trustees regularly monitor the funding position of the Scheme. When necessary to ensure the future affordability of the scheme contribution rates are increased. The table below shows the increases since 2000 and the proposed increase under the consultation from April 2016:

	2000	2005	2011	From 1 April 2016
Employee contributions	5.0%	5.0%	6.0%	7.5%
Employer contributions	10.3%	13.3%	16.9%	18.6%
Total contributions	15.3%	18.3%	22.9%	26.1%

The most recent actuarial valuation of CPAS (as at 31 August 2014) has shown a deficit in its funding in respect of benefits earned up to the valuation date of approximately £95.4m, equivalent to a funding level of 61%. A deficit occurs when the expected cost of providing future pension benefits is greater than the value of the assets which have been set aside to pay for those pensions.

The University is now in the process of agreeing revised contributions with the CPAS Trustees to pay for the increased cost of accrual and to address the higher past service deficit. The University also participates in the USS and NHS pension schemes which are exposed to similar pressures on costs.

To maintain the benefits that CPAS provides currently, the University believes that these additional costs should be shared between contributing members and the University, with the University still paying the larger share. This will enable the Scheme to:

- be able to afford to protect and maintain the valuable past service pension benefits for members to date;
- continue to offer the opportunity to earn further benefits for future service.

The proposed change

Subject to consultation the proposed change is to increase members' contributions from 6.0% of Pensionable Salary (4.8% net for a basic rate tax payer) to 7.5% of Pensionable Salary (6.0% net for a basic rate tax payer) with effect from 1 April 2016.

If this change were to go ahead, for a typical member with a pensionable salary of £20,000, who is taxed on earnings at the rate of 20%, the impact on annual take home pay would be:

	Current contribution at 6%	Proposed contribution at 7.5%
Gross annual contribution	£1,200	£1,500
20% tax relief	£240	£300
Impact on take home pay	£960	£1,200

The proposed contribution increase would therefore see this member's take home pay reduce by £240 per annum, or £20 per month.

To continue to provide the same benefits that the scheme currently offers it is necessary to increase both employee and employer contribution rates. The proposal is that the employees' contribution will increase by 1.5% and the employer's by 1.7%. The University also has to pay additional contributions to eliminate the increased deficit.

Consultation

A period of consultation over the proposed increase to employee contribution rates begins on Monday 16 November 2015. The consultation period will run for 60 days ending on 24 January 2016 (the 10-day Christmas break has been excluded). During this period you are invited to respond to the proposal. Any responses must be received by the end of the consultation period in writing either by email to CPASconsultquery@nottingham.ac.uk or by letter to Pension and Benefits Services, University of Nottingham, King's Meadow Campus, Lenton Lane, Nottingham NG7 2NR, to allow them to be considered.

The University will take into account all of the feedback received and plans to announce its final decision on the proposed change in February 2016. Please remember that we are seeking responses to the specific change being proposed and any alternative ideas or proposals. Whilst you are free to express a general view on the impact of the contribution increase, it will be impossible to factor this into any final amendment if it is not specific.

Yours sincerely

Jaspal Kaur
Director of Human Resources