Statement of Funding Principles

The University of York Pension Fund (the "Fund")

Status

This statement dated 30.10.2024 has been prepared by the Trustee Directors of the Fund for the purposes of the actuarial valuation as at 31 July 2023, after obtaining the advice of Kate Hulme-Vickerstaff FIA, the Scheme Actuary.

This statement replaces the Statement of Funding Principles dated 27 October 2021.

This statement has been agreed by the University of York (the "University").

The Statutory Funding Objective

This statement sets out the Trustee's policy for ensuring that the Statutory Funding Objective (SFO)[1] is met.

The Trustee Directors do not have any additional funding objectives.

The technical provisions

The method and assumptions to be used in the calculation of the technical provisions are set out in the Appendix.

The general principles adopted by the Trustee Directors are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid and to reflect the commitments which will arise from members' accrued pension rights.

The basis will include appropriate margins to allow for the possibility of events turning out worse than expected and will only be adopted after considering how it compares with the assumptions used to assess the Fund's solvency position.

In particular, a prudent margin will be included in the discount rate. Other assumptions, including the demographic assumptions may be based on best estimates of future experience, within the constraints of the basis being prudent overall.

However, the Trustee Directors do not intend for the method and assumptions to remove completely the risk that the technical provisions could be insufficient to provide benefits in future.

In determining what is "prudent", the Trustee Directors will take into account their objective assessment of the University's covenant.

Policy on discretionary increases and funding strategy

The Fund must provide guaranteed increases to pensions in payment for service from 6 April 1997 in line with CPI inflation limited to 5% pa (or 2.5% pa for service from 6 April 2005) each year. However, the Fund Rules allow additional discretionary increases to be given.

[1] The Statutory Funding Objective is defined in section 222 of the Pensions Act 2004. Every scheme must have sufficient and appropriate assets to cover its technical provisions.

For valuation purposes, for benefits accrued in the Final Salary section of the Fund, full allowance is made in the funding strategy for increases in line with uncapped CPI inflation on all pension in payment in excess of the GMP, for all Final Salary section service. This is consistent with historic practice in the Fund.

There is no allowance for any other discretionary benefit.

Period within which and manner in which a failure to meet the Statutory Funding Objective is to be rectified

If the assets of the Fund are less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place which requires additional contributions from the University to meet the shortfall. The Trustee Directors and the University have agreed that any such funding shortfalls should be eliminated as quickly as the University can reasonably afford.

Additional contributions will be expressed as level monetary amounts.

In determining the contributions payable and the actual recovery period at any particular valuation, the Trustee Directors will take into account the following factors:

- the size of the funding shortfall and the Fund's assets and liability structure;
- the business plans of the University;
- the Trustee's objective assessment of the financial covenant of the University;
- any contingent security offered by the University; and
- contributions paid to the Fund in excess of those in respect of the future accrual of benefits after the valuation date.

When determining any additional contributions required, the assumptions used will, with the exception of the assumed investment return over the recovery period, be the same as those used in calculating the Technical Provisions. When determining the investment return assumption for the recovery period, the Trustee Directors may allow for an investment return assumption that is higher than the prudent return on assets underlying the discount rate used when calculating the Technical Provisions.

Arrangements by a person other than the Employer or a Fund member to contribute to the Fund

There are no arrangements in place for any person other than a participating employer to meet a shortfall in technical provisions in the event of that participating employer becoming insolvent.

Policy on reduction of Cash Equivalent Transfer Values (CETVs)

The Trustee Directors will ask the Scheme Actuary to advise them at each valuation of the extent to which assets are sufficient to provide CETVs for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100% and the University is unable or unwilling to provide additional funds, the Trustee Directors will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent of the reduction.

If, at any other time, after obtaining advice from the Scheme Actuary, the Trustee Directors are of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee Directors will commission a report from the Scheme Actuary and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

Payments to the University

Unless the Fund is being fully wound up, no part of the assets of the Fund can be paid to the University or other participating employers. If the Fund is being fully wound up, and the relevant part of the assets exceeds the costs of securing members' benefits with an insurance company, the Trustee Directors and University may use their discretion to secure additional benefits. Any remaining assets may be paid to the University or one of the other participating employers in such proportions as the Trustee Directors decide.

Frequency of valuations and circumstances for extra valuations

The Fund's actuarial valuation under Part 3[2] was carried out as at the effective date of 31 July 2023 and subsequent valuations will in normal circumstances be carried out every three years thereafter. An actuarial report on developments affecting the Fund's funding level will be obtained as at each intermediate anniversary of that date.

The Trustee Directors may call for a full actuarial valuation instead of an actuarial report if, after considering the Scheme Actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. The circumstances in which the Trustee Directors will consider calling a valuation instead of an actuarial report include:

- a significant deterioration in the University covenant;
- a significant change in investment strategy;
- a significant movement in the level to which the technical provisions are funded;
- a significant change in outlook for the Fund's investments; or
- a bulk transfer in or out of a significant proportion of the active members.

The Trustee Directors will consult the University before carrying out an early valuation. Commissioning a valuation will not be necessary if agreement can be reached with the University to revise the Schedule of Contributions and/or the Recovery Plan in a way satisfactory to the Trustee Directors having taken the advice of the Scheme Actuary.

[2] Part 3 of the Pensions Act 2004 covering Scheme Funding.

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The University of York Pension Fund (the "Fund")

This statement has been agreed by the Trustee:

Signed on behalf of the Trustee of The University of York Pension Fund

Signed: Signed by: APRigby D690ADDE9CB5409...

Name: Ann Rigby

Position: Trustee Director

Date: 30.10.2024

This statement has been agreed by the University:

Signed on behalf of the University of York

Signed: Signed by: Nigel Alcock 8709F2C323B846B...

Name: Nigel Alcock

Position: Chief Financial & Operating Officer

Date: 30.10.2024

This statement has been agreed by the Trustee after obtaining actuarial advice from the Scheme Actuary:

Signed: Signed by: KHulme-Vickerstaff 4DD7E3EDB9BC414...

Name: Kate Hulme-Vickerstaff

Position: Scheme Actuary to The University of York Pension Fund

Date: 30.10.2024

Statement of Funding Principles

The University of York Pension Fund (the "Fund")

Method and assumptions adopted for the actuarial valuation as at 31 July 2023

Summary of the decisions made as to the method and key assumptions used for calculating the technical provisions

The actuarial method used was the projected unit method.

Principal actuarial assumptions	
Discount rate	4.90% pa
Retail Prices Index (RPI) inflation	3.10% pa
Consumer Prices Index (CPI) inflation	2.85% pa
Salary increases	3.75% pa
Career Revaluing Benefits (CRB) section revaluation in service	2.40% pa
Revaluation in deferment (non-GMP – Final Salary section pension and CRB section pension)	2.85% pa
Increases to pensions in payment: **- Post 88 GMP** **- Final Salary section pension in excess of GMP** **- CRB section pension**	 2.40% pa 2.85% pa 2.40% pa
Mortality – base table	S3NA (YOB) adjusted by plus 1 year to reflect the membership profile of the Fund
Mortality – future improvements	CMI 2022 with a long-term improvement rate of 1.50% pa

The derivation of these key assumptions and an explanation of the other assumptions to be used in the calculation of the technical provisions is set out below.

Discount rate

The discount rate has been set equal to the unadjusted gilt yield plus 0.5% pa.

The unadjusted gilt yield was derived from the Bank of England nominal yield curve, taking into account the duration of the Fund's liabilities and implied approximate shape of future cash flows.

RPI inflation

The RPI inflation assumption was derived from the Bank of England implied inflation yield curve, taking into account the duration of the Fund's liabilities and implied approximate shape of future cash flows, less 0.3% pa to reflect market distortions. The RPI inflation assumption adopted was therefore 3.1% pa.

CPI inflation

The CPI inflation assumption was set as the RPI inflation assumption with a deduction of 0.25% pa. The CPI inflation assumption was therefore 2.85% pa.

Salary increases

The rate of salary increases is derived in line with the CPI inflation assumption plus 0.9% pa. The salary increase assumption was therefore 3.75% pa.

CRB section – revaluation in service

The benefits accrued in the CRB section increase whilst a member is accruing benefits as an active member in line with CPI inflation, subject to the relevant caps in place.

For the first increase due on 1 April 2023, a cap of 5% pa applies. For the increase due on 1 April 2024, an overall cap for the year is calculated based on a cap of 5% pa for the period from 1 April 2023 to 31 July 2023 and 3% pa for the period from 1 August 2023 to 31 March 2024. All future increases due from 1 April 2025 are capped at 3% pa.

The assumed revaluation in service rate has been derived using the Black-Scholes model with volatility 1.3%. CRB section pensions are assumed to revalue in service by 2.40% pa.

Revaluation of pensions in deferment (Final Salary pension and CRB pension)

The non GMP elements of deferred pensions which increase in line with statutory requirements over the period from leaving active service to retirement are assumed to increase in line with historic actual statutory revaluation over the period to the valuation date and assumed CPI inflation thereafter, subject to the relevant caps in place.

A cap of 5% pa applies in respect of service prior to 6 April 2009 and a cap of 2.5% pa in respect of service after this date.

Final Salary section pensions and CRB section pensions are assumed to revalue in deferment in line with the CPI assumption of 2.85% pa

Pension increases in payment – Final Salary section

Pensions in payment in excess of GMP in respect of benefits accrued in the Final Salary section are assumed to increase in line with the CPI inflation assumption of 2.85% pa.

GMP accrued after 5 April 1988 increases in line with CPI inflation with a cap of 3% pa. The assumed pension increase rate has been derived using the Black-Scholes model with volatility 1.3%. GMP accrued after 5 April is assumed to increase in payment by 2.40% pa.

Pension increases in payment – CRB section

Pensions in payment in respect of benefits accrued in the CRB section are assumed to increase in line with the CPI inflation with a cap of 3% pa. The assumed pension increase rate has been derived using the Black-Scholes model with volatility 1.3%. CRB section pensions are assumed to increase in payment by 2.40% pa.

Mortality

When setting the mortality assumptions, the Trustee Directors will have regard to the latest available published mortality tables and the latest available evidence concerning future mortality improvements.

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For this valuation, the Trustee Directors adopted the S3NA (year of birth) base table, rated up by 1 year, with future mortality improvements based on the CMI 2022 projections with a long-term rate of improvement of 1.5% pa.

Illustrative death rates

The rates shown in the table below represent the probability of death within one year. They are based on the mortality tables set out above.

	Effective date		20 years after effective date	
Age x	**Male death rate qx**	**Female death rate qx**	**Male death rate qx**	**Female death rate qx**
60	0.0043	0.0027	0.0035	0.0022
65	0.0070	0.0046	0.0061	0.0037
70	0.0123	0.0078	0.0110	0.0064
75	0.0225	0.0145	0.0206	0.0122
80	0.0439	0.0298	0.0391	0.0249
85	0.0858	0.0643	0.0730	0.0527
90	0.1680	0.1378	0.1416	0.1134
95	0.3047	0.2611	0.2609	0.2223
100	0.4397	0.4002	0.4088	0.3706
105	0.4930	0.4732	0.4802	0.4600

Retirement

Unless members retire on grounds of ill-health, each tranche of benefits is assumed to come into payment at the earliest date the tranche is payable without reduction and without the need for Trustee/University consent.

For Final Salary section benefits:

- Pension accrued before 1 January 2004 is payable unreduced from age 60;
- Pension accrued after 31 December 2003 and before 1 October 2009 is payable unreduced from age 63.5; and
- Pension accrued after 30 September 2009 and before 1 April 2022 is payable unreduced from age 65.

Pension accrued in the CRB section is payable unreduced from age 66.

Ill health retirement

Examples of the rates assumed are set out below:

Age	Male	Female
20	0.0000	0.0000
30	0.0001	0.0002
40	0.0008	0.0020
50	0.0037	0.0093
55	0.0066	0.0186

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Withdrawal

No allowance is made for members accruing CRB section benefits to withdraw from service.

Cash commutation

An allowance is made for members to take 25% of the value of their pension as a cash lump sum at retirement, using cash commutation factors 8% higher than those in force at the valuation date.

GMP equalisation

An allowance equal to 1% of the total value of the liabilities calculated on the above assumptions has been included in the technical provisions.

Age difference of spouse

Husbands are assumed to be three years older than their wives.

Percentage with spouse benefits at retirement or earlier death

70% of males and females are assumed to be married at date of retirement or earlier death.

Civil partners and same-sex marriages

No explicit allowance is made for civil partners and same-sex marriages. An implicit allowance has been included within the spouse percentage above.

Expenses

All expenses of running the Fund and the cost of levies (including the PPF levy) will be payable by the Trustee Directors from the Fund's assets.

The University will pay a regular amount into the Fund each month as a percentage of pensionable salaries to broadly meet these expenses, and this will be reviewed at each valuation.

An approximate allowance for investment related expenses has been made in determining the discount rate.