Statement of Funding Principles

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

Status

This statement has been prepared by the Trustee Directors of the Fund on 27 October 2021, for the purpose of the actuarial valuation as at 31 July 2020, after obtaining the advice of David Joy FFA, the Scheme Actuary.

This statement replaces the Statement of Funding Principles dated 19 July 2018.

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.

Calculation of 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 will 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.

[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.

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. For valuation purposes, full allowance will be made for increases in line with uncapped CPI inflation on all pension in payment in excess of the GMP, for all 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 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 a participating employer or a Fund member to contribute to the Fund

There are no arrangements 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 at each valuation on 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 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 2020 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.

Statement of Funding Principles

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:

Name: ANN RIGBY

Position: Trustee Director

Date: 27.10.2021

This statement has been agreed by the University

Signed on behalf of the University of York

Signed:

Name: Jeremy Lindley

Position: Finance Director

Date: 28.10.2021

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

Signed:

Name: David Joy

Position: Scheme Actuary to The University of York Pension Fund

Date: 28 October 2021

Appendix to the Statement of Funding Principles

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

Method and assumptions adopted for the actuarial valuation as at 31 July 2020

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	2.50% pa
Retail Prices Index (RPI) inflation	2.80% pa
Consumer Prices Index (CPI) inflation	2.10% pa
Salary increases	3.00% pa
Revaluation in deferment (non-GMP)	2.10% pa
Increases to pensions in payment: **- Post 88 GMP** **- Pension in excess of GMP**	 1.95% pa 2.10% pa
Mortality – base table	S3NA (YOB) adjusted by plus 1 year to reflect the membership profile of the Fund
Mortality – future improvements	CMI 2020 with a long-term improvement rate of 1.25% 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.

Asset returns

The expected future prudent investment returns were derived as follows:

Asset class	Method	Return as at 31 July 2020
Gilts	Bank of England nominal yield curve, taking into account the duration of the Fund's liabilities and implied approximate shape of future cash flows, less 0.1% pa for investment expenses.	**0.4% pa**
Corporate bonds	Yield on the iBoxx Sterling AA rated over 15 years Corporate Bond Index taking into account the duration of the Fund's liabilities and implied approximate shape of future cash flows, less 0.2% pa for investment expenses.	**1.1% pa**

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Asset class	Method	Return as at 31 July 2020
Equities and private equity	The expected return on gilts (before expenses) of 0.5% pa plus a prudent equity risk premium (ERP) of 2.4% pa, less 0.2% pa for investment expenses. The prudent ERP of 2.4% pa is set by taking 44% of the best estimate ERP of 5.4% pa to reflect the Trustee's view of the strength of the University's covenant. The best estimate ERP of 5.4% pa is derived by adding: • FTSE All World net dividend yield of 2.4% pa • Best estimate RPI inflation assumption of 2.8% pa • Real dividend growth assumption of 1% pa Less • An allowance to reflect the anticipated loss of dividends and potential distortion of the net dividend yield resulting from COVID-19 (0.3% pa as at the valuation date) • The expected return on gilts (before expenses) of 0.5% pa	**2.7% pa**
Property and ground rent	Derived by adding: • 50% of the return on corporate bonds (after expenses) • 50% of the return on equites (after expenses).	**1.9% pa**
Direct lending	The return on equities (after expenses) less 1% pa.	**1.7% pa**
Infrastructure	The return on equities (after expenses) plus 1.5% pa.	**4.2% pa**

Discount rate

The discount rate has been set based on a long-term asset allocation of 58% equities and private equity, 10% corporate bonds, 16% property and ground rent, 8% direct lending and 8% infrastructure.

The discount rate as at 31 July 2020 was 2.5% pa (58% x 2.7% pa + 10% x 1.1% pa + 16% x 1.9% pa + 8% x 1.7% pa + 8% x 4.2% pa). This is equivalent to the expected return on gilts (after expenses) of 0.4% pa plus 2.1% pa.

RPI inflation

The RPI inflation assumption was set in line with 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 2.8% pa. The same assumption was adopted for best estimate purposes.

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CPI inflation

The CPI inflation assumption was set as the RPI inflation assumption with a deduction of 0.7% pa. The CPI inflation assumption as was therefore 2.1% pa.

Pension increases in payment

Pensions in payment in excess of GMP are assumed to increase in line with the CPI inflation assumption.

Revaluation of pensions in deferment

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.

Salary increases

The rate of salary increases, inclusive of promotion, is derived in line with the CPI inflation assumption plus 0.9% pa. The salary increase assumption was therefore 3.0% 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 .

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 2020 projections with a long-term rate of improvement of 1.25% 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.

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Age	Valuation date		20 years after valuation date	
	Male death rate q_x	Female death rate q_x	Male death rate q_x	Female death rate q_x
60	0.0042	0.0027	0.0035	0.0022
65	0.0069	0.0046	0.0061	0.0037
70	0.0119	0.0076	0.0107	0.0063
75	0.0220	0.0142	0.0195	0.0117
80	0.0433	0.0294	0.0371	0.0239
85	0.0836	0.0637	0.0706	0.0517
90	0.1650	0.1377	0.1384	0.1130
95	0.2961	0.2548	0.2591	0.2230
100	0.4231	0.3848	0.4009	0.3634
105	0.4862	0.4664	0.4768	0.4566

Retirement

Tier 1 and Tier 2: Members who do not withdraw or retire on ill-health grounds are assumed to retire at age 62. Members who withdraw are assumed to retire at age 60.

Tier 3: Members are assumed to retire at age 65.

Ill-health retirement

Examples of the rates assumed are set out below:

Age	Ill-health Male	Ill-health 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

Withdrawal

Examples of the rates assumed are set out below:

Age	Withdrawal Male and Female
20	10%
30	10%
40	5%
50	3%
55	0%

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Cash commutation

An allowance is made for 25% of pension to be commuted for 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.

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

Return on assets over the Recovery Plan

When setting the Recovery Plan contributions to meet the shortfall as at 31 July 2020, the Trustee Directors have allowed for asset returns of 15.5% pa over the period 1 August 2020 to 31 March 2021. This return makes allowance for broadly 2/3rds of the improvement in the funding position between the valuation date and 31 March 2021.

From 1 April 2021 onwards, the return on assets used in the Recovery Plan has been set as 1% pa above the discount rate used to calculate the technical provisions.

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

Background

This document is a second appendix to the Statement of Funding Principles (SFP), dated 27 October 2021, for the University of York Pension Fund, and should therefore be read alongside the SFP.

With effect from 1 April 2022, the benefit structure of the Fund was amended, as set out in the Deed of Amendment dated 30 March 2022. The key changes were to:

- close the final salary section of the Fund to future accrual with effect from 31 March 2022;
- introduce a new Career Revalued Benefit (CRB) section for future accrual with effect from 1 April 2022;
- increase the Fund's Normal Retirement Age in respect of the CRB section to align with the current State Pension Age (66), with future increases also expected.

Other miscellaneous alterations were also made. Please refer to the Deed of Amendment for full details.

Given these changes to the benefit structure, in line with the Memorandum of Understanding (MoU) signed on 28 October 2021, the University's contribution requirements from 1 April 2022 are to be revisited.

To put in place the required documentation (a revised Schedule of Contributions and Recovery Plan), the funding position of the Fund must be re-assessed to reflect the new benefit structure. Some additional assumptions are required in order to value the benefits due under the CRB section.

These additional assumptions are set out below. As set out in the MoU, these assumptions have all been derived consistently with the assumptions used for the actuarial valuation (of the final salary benefits) as at 31 July 2020, as set out in the first appendix to the SFP.

All other assumptions used for valuing the CRB section of the Fund are in line with those set out in the SFP.

Method and assumptions adopted for the actuarial valuation as at 31 July 2020

CPI inflation

The CPI inflation assumption used for the CRB section was 2.1% pa, in line with that used for the final salary section.

CRB section – pension increases in payment

The pensions in payment in respect of benefits accrued in the CRB section increase in line with the CPI inflation assumption, with a cap of 5% pa for the first increase effective as at 1 April 2023 and with a cap of 3% pa on each 1 April thereafter.

CRB section pensions are assumed to increase in payment by 1.95% pa.

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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.

CRB section pensions are assumed to revalue in service by 2.1% pa.

CRB section – revaluation in deferment

The benefits accrued in the CRB section which increase over the period from leaving active service to retirement will increase in line with CPI inflation, subject to a cap of 2.5% pa.

CRB section pensions are assumed to revalue in deferment by 2.1% pa.

Retirement

CRB Tier 1 and CRB Tier 2 members are assumed to retire at age 66.

20 April 2022