MRC PENSION SCHEME - University section

Statement of Funding Principles

Updated: 30 November 2017

Status

1. This Statement of Funding Principles was prepared by the Trustee on 30 November 2017 for the purposes of the actuarial valuation as at 31 December 2016, after obtaining the advice of the Scheme Actuary. It has been prepared in accordance with Section 223 of the Pensions Act 2004 and associated Regulations.

The statutory funding objective

2. 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. This statement sets out the Trustee's policy for securing that the statutory funding objective is met.

3. The intention is that contributions should be at least sufficient to finance the benefits earned under the scheme calculated at subsequent valuation dates on the assumptions used to measure the technical provisions at that date, provided that future experience up to each valuation date is in accordance with the actuarial assumptions made and service is assumed to end at that date. Depending on actual experience, contribution rates may need to be temporarily higher or lower to meet this funding objective

Funding objectives in addition to the statutory funding objective

4. An additional objective is that as far as possible the Trustee will seek to maintain sufficient assets in the scheme to avoid section 75 debts arising in the future. Whilst the sponsor recognises it is not able to pay contributions at a level which would support an investment strategy to minimise the risk of such debts ever occurring the trustee has set an objective to support the aim. Under the additional objective liabilities will be assessed on a buy-out basis (including allowance for 5 years future pay growth) and compared to existing assets before any consideration is given to offsetting future accrual costs in light of any surplus of assets against Technical Provisions.

The technical provisions

5. The actuarial method to be used in the calculation of the technical provisions is the Defined Accrued Benefit Method. The same method has also been used to calculate the Standard Contribution Rate (SCR) payable in respect of members' accruing benefits. In each case the method has been slightly adapted to include allowance for pay increases for a period of up to 5 years after the valuation date.

6. Full details of the assumptions used to calculate the technical provisions and the SCR are shown in the Annexes A and B attached. The employers[1] were consulted on the method and assumptions and have agreed to their adoption. The assumptions, when considered as a whole, have been set to include a margin for prudence.

---

[1] Under the terms by which other employers participate in the Scheme, MRC (the Principal Employer) is empowered to act on behalf of the Participating Employers in all regards under Part 3 of the Pensions Act 2004.

Policy on discretionary increases and funding strategy

7. The Trustee has no powers to award discretionary benefits, except by the approval by the employer. No allowance for discretionary increases is included in the calculation of the technical provisions.

Employer Covenant

8. It is a requirement of the legislation and of the guidance issued by the Pensions Regulator that the Trustee should take into account the strength of the employers' covenant when determining appropriate financing for the scheme. The Trustee is satisfied that collectively the employers have an extremely strong covenant, with a very low probability that the employers would be unable or unwilling to pay reasonable contributions.

Period within which and manner in which a failure to meet the statutory funding objective is to be rectified

9. The Trustee and the employers have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the employers can reasonably afford by the payment of additional contributions, which would normally be expressed as a percentage of total Salary. In determining the actual recovery period for any particular recovery plan, the Trustee's principles are to take into account the following factors:

   > the size of the funding shortfall;
   > the business plans of the employers;
   > the Trustee's assessment of the financial covenant of the employers; and
   > any contingent security offered by the employers.

Arrangements by a person other than an employer or a scheme member to contribute to the scheme

10. There are no arrangements for a person other than the employers or members to contribute to the scheme.

Policy on reduction of cash equivalent transfer values (CETVs)

11. The Trustee will ask the actuary to advise them at each valuation of the extent to which the assets are sufficient to provide CETVs for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

12. The Trustee is aware that, if coverage were to be less than 100%, they could reduce CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent. However, as the scheme is fully funded on the CETV basis, there is no policy on the reduction of CETVs currently in place.

Payments to employers

13. The Trust Deed of the scheme does not contain any provision for the payment of surplus monies to an employer, except on the winding up of the scheme.

Frequency of valuations and circumstances for extra valuations

14. This section of the MRC Pension Scheme was established on 1 January 2014. An initial valuation in accordance with Part 3 (Scheme Funding) of the Pensions Act 2004 was carried out as at that date. This is the second valuation of the University section. Subsequent valuations will in normal circumstances be carried out every three years thereafter. An actuarial report on developments affecting the scheme's funding level will be obtained as at each intermediate anniversary of that date.

15. The Trustee may call for a full actuarial valuation instead of an interim actuarial report when, after considering the 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 consent of the employers would be sought if an accelerated valuation was being proposed by the trustees. The rules of the section are also intended to enable the employer to instigate an early valuation.

This statement has been agreed by the principal employer:

Signed on behalf of Medical Research Council to signify agreement

Signature: Hugh Dunlop

Name: HUGH DUNLOP

Position: Chief Operating & Finance Officer

Date: 7th December 2017

This statement was agreed by the Trustee at their meeting on 30 November 2017:
Signed on behalf of the Trustee of the MRC Pension Scheme:

Signature: R Leigh

Name: REBECCA LEIGH.

Position: TRUSTEE

Date: 7th December 2017

Signature:

Name: CAROLE WALKER

Position: TRUSTEE

Date: 7th December 2017

Annex A to the Statement of Funding Principles for the MRCPS – University section

Financial assumptions for determining the technical provisions

Actuarial valuation as at 31 December 2016

Value of Assets

1. The valuation of the scheme's assets is governed by Regulation 4 of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 No 3377. This requires that the assets of the scheme held at the valuation date must be taken into account at the value shown in the annual accounts of the scheme. This is generally the market value (or fair value) of the assets.

2. The accumulated value of any Additional Voluntary Contributions (AVCs) made by members on a money-purchase basis is excluded from the value of the assets taken into account for the purposes of this valuation.

Discount rate (or, equivalently, the expected return on the assets)

3. The overall discount rate assumed for the valuation is derived from the expected rates of return on the assets assumed to be held by the scheme (and incorporating the Trustee's agreed change in investment strategy as discussed with the scheme sponsor during consultation on the valuation). The weightings applied to each of the different asset classes are as shown below and are consistent with the benchmark allocation of assets held by the scheme as at 31 December 2016.

	Benchmark allocation 31 December 2016
Gilts	55%
Bonds	25%
Equities	20%
Total	100%

4. Consistent with the MRC section the discount rate will be based on the scheme's investment adviser's (Conduent) best estimate expectation of return from the assets held less the same margins for prudence as adopted for the MRC section. The margins and the derived discount rate are shown in the table below.

	Benchmark allocation	**Best estimate return assumption**	**Prudent return assumption**
Gilts	55%	1.7%	1.6%
Bonds	25%	2.6%	2.5%
Equities	20%	5.95%	5.45%
Total	100%	2.8%	**2.6%**

5. The additional funding objective seeks to add an explicit reserve to the scheme's technical provisions to recognise the Trustee's aim of minimising section 75 debts arising in future. For the purposes of the additional funding objective, which applies only for accrued liabilities the discount rate will be set by reference to anticipated buy out pricing. This is consistent with how the discount rate was set for the initial valuation. For this purpose the discount rate will be set as the average yield on British Government index-linked gilts at the valuation date for terms over 15 years at the 0% and 5% inflation assumptions, 1.9% for the 2016 valuation.

Price inflation

6. The Trustee has adopted the same method to derive the expected rate of price inflation as for the MRC section. This method uses the published Bank of England expectations of future RPI inflation for a suitable term. The rate of price inflation assumed for the long term has been set at 3.5% a year.

Pension increases

7. For this valuation the Trustee has adopted the same method to derive the assumption for future increases to pensions in payment as for the MRC section. Future increase are in line with those announced by Government under the Pensions Increase Acts, and currently based on the Consumer Prices Index (CPI). An estimate of CPI is obtained by allowing for the expected difference in RPI and CPI measures of inflation. Based on the scheme actuary's advice the best estimate of the rate of CPI inflation is that over the long term it will be on average 1.15% a year lower than RPI inflation. Taking the same margin for prudence (0.25%) as for the MRC section gives a prudent assumed differential of 0.9% for this valuation. The assumed rate of pension increases adopted for the 2016 valuation is therefore 2.6%.

8. For the initial valuation future pension increases were assumed to mirror RPI inflation expectations as this was in line with then buy-out pricing. For the purposes of the additional funding objective which continues to consider buy-out pricing future increases will be assumed to be in line with RPI inflation less a margin of 0.5% in line with the currently advised expectation of buy-out pricing ie 3.0% pa.

Pay Increases

9. For the initial valuation some allowance was made for benefits to continue to growth in line with pay inflation. An allowance equal to expected RPI increases plus 1.5% per annum was included in the additional funding objective. For the current valuation the trustee will include some allowance for a future 5 years of pay increases in both the assessment of Technical Provisions and for the additional funding objective. For Technical Provisions the Trustee will use the same assumption as adopted for the MRC section. This sets the allowance for future pay inflation as 1.5% per annum in excess of expected CPI inflation ie 4.1% pa. For the purposes of the additional funding objective the previous assumption of 1.5% per annum in excess of RPI inflation will be retained ie 5.0% pa. This assumption is for general pay inflation only and is exclusive of any allowance for promotional increases.

10. In addition to general increases in pay, the scheme experience indicates some increase in pay levels by age and/seniority. Accordingly, the age-related salary scales illustrated in the table below have also been incorporated into members' projected salaries. These scales are the same as adopted for the initial valuation.

Assumed rates of promotional pay progression of active members
(based on an index of 100 at age 20.)

Age Nearest	Men	Women
20	100	100
25	128	136
30	157	169
35	185	198
40	207	221
45	228	244
50	247	258
55	263	267

Summary of financial assumptions for the actuarial valuation as at 31 December 2016

11. A summary of the financial assumptions for the actuarial valuation of the University section of the MRCPS as at 31 December 2016 is given in the table below. The corresponding assumptions made for the initial valuation are also shown for comparison.

Main financial assumptions	SFO 31 Dec 2016 % pa	AFO 31 Dec 2016 % pa	1 Jan 2014 % pa
Discount rate	2.6%	1.9%	3.6%
Earnings increases (long term) For up to 5 year future period	4.1% + promotional scale	5.0% + promotional scale	5.0% + promotional scale
RPI	3.5%	3.5%	3.5%
CPI	2.6%	3.0%	3.5%
Pension increases	2.6%	3.0%	3.5%
Discount rate net earnings increase	**-1.5%**	**-3.1%**	**-1.4%**
Discount rate net pension increases	**0.0%**	**-1.1%**	**0.1%**

Annex B to the Statement of Funding Principles for the MRCPS: University section

Demographic assumptions for determining the technical provisions

Actuarial valuation as at 31 December 2016

Mortality in retirement

1. **Base tables** Mortality assumptions are to be based on the Actuarial Profession's Continuous Mortality Investigation 'S2 series' mortality tables: i.e. S2NXA on a year of use basis. Consistent with recent scheme experience, a minus one year age rating is applied, or in other words members are assumed to experience the mortality of someone one year younger than they actually are. The same tables, with a minus one year age adjustment, have been adopted for both normal and ill-health retirements. The initial valuation used the 'S1 series' mortality tables with no age rating adjustment.

2. The S2 dependant tables are used for current and future dependants of male members. The S2 member tables are used for male dependants as there are no corresponding dependant tables.

3. **Future mortality improvements** Future improvements in mortality are assumed to be in line with the improvements underlying the projections of future mortality rates in the 2014-based national population projections for the United Kingdom. These projections are carried out by the Office for National Statistics (ONS), usually every second year. The 2012 ONS projection basis was used for the initial valuation. Further details of these projections are available on the ONS website[2].

4. Illustrative life expectancies of current and future pensioners are summarised in the tables below. This demonstrates that the change in basis represents a strengthening of the mortality basis relative to the assumption made for the initial valuation.

Remaining expectation of life - Current Pensioners

	31 December 2016	1 January 2014
Male 60	29.7 years	28.2 years
Male 65	24.7 years	23.3 years
Female 60	31.4 years	30.7 years
Female 65	26.4 years	25.8 years

Remaining expectation of life - Future Pensioners

	31 December 2016		1 January 2014
	(current age 51*)	(current age 40)	(current age 40)
Male 60	30.7 years	31.9 years	30.6 years
Male 65	26.2 years	27.3 years	26.2 years
Female 60	32.3 years	33.5 years	33.1 years
Female 65	27.8 years	28.9 years	28.6 years

*liability weighted age of current active members

[2] https://www.gov.uk/government/statistics/announcements

New entrants

5. No allowance has been made for new entrants for the calculation of technical provisions.

Age Retirement

6. The Normal Retirement Age (NRA) is 65 for all Scientific Staff, for all new entrants since 1997, and for those Non-Scientific Staff in post at that date who opted to switch from an NRA of 60.

7. All members are assumed to retire at their Normal Retirement Age.

Commutation

8. The benefits provided by the Scheme include an explicit lump sum, equal to three times the initial pension. No allowance has been made for the possibility of commuting some pension for an additional cash lump sum at retirement.

Leaving service

9. Members may leave service by voluntary withdrawal, on death in service, by ill-health retirement, as well as by normal retirement (see paragraphs 6 and 7 above). The assumed proportions of male and female members who leave service by the first three routes at different ages are illustrated in Tables 1 and 2 below. These assumptions are based on the experience of the MRCPS and similar larger schemes. The following rates are assumed for the 5 year period following the valuation date after which members still in service are assumed to leave with entitlement to deferred benefits.

Table 1. Assumed number of exits of active members per 10,000 members - Males

Age Nearest	Withdrawal	Death in service	Ill-health retirement
20	975	3	2
25	810	3	2
30	705	4	2
35	540	5	3
40	360	8	4
45	210	13	6
50	105	24	13
55	30	37	31

Table 2. Assumed number of exits of active members per 10,000 members - Females

Age Nearest	Withdrawal	Death in service	Ill-health retirement
20	4949	2	2
25	4599	2	3
30	2969	3	4
35	1394	4	6
40	629	6	7
45	338	9	9
50	225	14	20
55	113	19	40

Age difference of dependants

10. It is assumed that male members are three years older than their dependants at all ages, whilst female members are two years younger than their dependants at all ages. These are broadly similar to the age specific rates used for the 2014 valuation.

Percentage with dependants' benefits at death

11. Contingent benefits, payable on members' deaths, are payable to spouses, civil partners, and some other dependants. For valuation purposes, it is assumed that a proportion of scheme members who die will have a spouse of the opposite sex. Benefits payable to other groups are allowed for implicitly. The following table gives illustrative figures for the proportions of members who are assumed to give rise to a dependant's pension on their death. These rates are the same as assumed for the 2014 valuation.

Exact Age	Male	Female
20	10%	22%
30	70%	82%
40	90%	89%
50	99%	89%
60	100%	83%
70	94%	70%
80	71%	42%

Expenses

12. An explicit allowance of 1.6% of Salary has been added to the contribution rate to allow for the administrative expenses of running the scheme and to cover the PPF levy.