

## **MRCPS - MRC section Statement of funding principles**

**Updated 19 November 2020**

### **Status**

1. This statement of funding principles was prepared by the Trustee on 19 November 2020 after obtaining the advice of the scheme actuary, Sue Vivian. It has been prepared in accordance with section 223 of the Pensions Act 2004 and associated regulations.

### **The statutory funding objective**

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

### **Funding objectives in addition to the statutory funding objective**

3. An alternative funding objective has been set for the Section. For the 2019 valuation this is intended only to form a benchmark against which to consider the Section's progress as it matures. It is possible that the alternative funding objective will be adopted as the Section's statutory funding objective at a future valuation. The alternative funding objective sets the discount rate by reference to gilt yields and the Trustee recognises that the funding position under this objective may be volatile whilst the Section remains invested predominantly in growth assets.

### **The technical provisions**

4. The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method. The same method has also been used to calculate the Standard Contribution Rate (SCR) payable in respect of members' accruing benefits.
5. Full details of the assumptions used to calculate the technical provisions and the SCR are shown in the Annexes attached. The employer<sup>1</sup> was consulted on these assumptions and has agreed to their adoption. The assumptions, when considered as a whole, have been set to be prudent.

### **Policy on discretionary increases and funding strategy**

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

### **Employer Covenant**

7. 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 a strong covenant, with a very low

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<sup>1</sup> Under the terms by which other employers participate in the Scheme, UKRI (the Principal Employer) is empowered to act on behalf of all participating employers in all regards under Part 3 of the Pensions Act 2004.

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**

8. The Trustee and the employer has 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**

9. 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)**

10. 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.
11. 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**

12. 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**

13. The Section's last actuarial valuation under Part 3 (Scheme Funding) of the Pensions Act 2004 was carried out as at the effective date of 31 December 2016. Valuations will in normal circumstances be carried out every three years. An actuarial report on developments affecting the Section's funding level will be obtained as at each intermediate anniversary of that date.
14. 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 employer would be sought if an accelerated valuation was being proposed.

**This statement has been agreed by the principal employer:**

Signed on behalf of UKRI to signify agreement

*Hugh Dunlop*

Signature:

Name: Hugh Dunlop

Position: Chief Operating and Finance Officer

Date: 16 December 2020

**This statement was agreed by the Trustee at their meeting on 19 November 2020:**

Signed on behalf of the Trustee of the MRC Pension Scheme:

Signature:

*J. D. Preston*

Name:

J. D. PRESTON.

Position:

DIRECTOR AND BOARD CHAIR.

Date:

16 December 2020.

Signature:

*James Clerk*

Name:

James Clerk

Position:

Corporate Secretary, MRC Pension Trust Ltd

Date:

16 December 2020

## Annex A to the Statement of Funding Principles for the MRCPS: MRC section

### Financial assumptions for determining the technical provisions

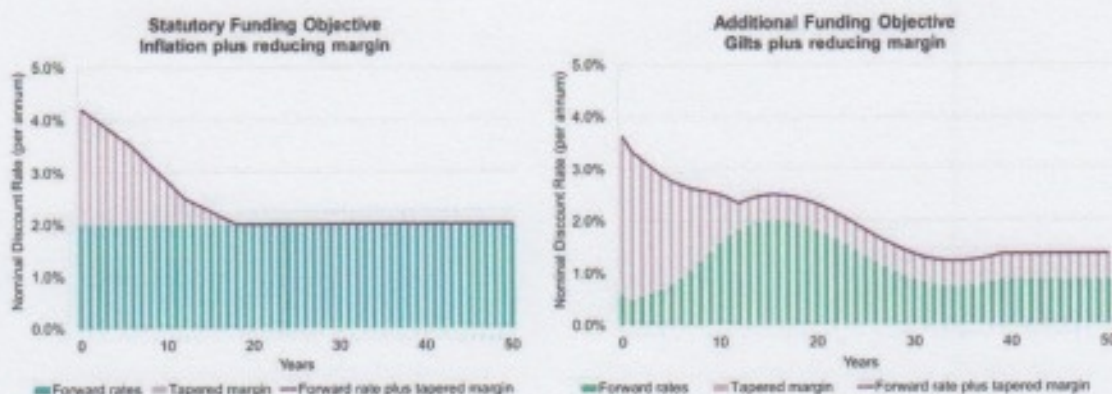
#### Discount rate (or, equivalently, the expected return on the assets)

1. The discount rate for the SFO is set as a reducing margin over the assumed future rate of CPI. The rate is intended to represent a prudent measure of the return expected from the assets held now and in the future. The reducing margin is intended to reflect lower return expectations as investments are reallocated to lower yielding assets as the Section matures. A different discount rate is therefore applied to discount benefits payable in each future year. The discount rate under the AFO has been set by reference to gilt yields, again with a reducing margin over future years.
2. The initial discount rate in each case has been derived from the expected rates of return on the assets currently held by the scheme. The weightings applied to each of the different asset classes are as shown in Table 1 and are consistent with the benchmark allocation of assets held by the scheme as at 31 December 2019. The margins for prudence used to determine the initial discount rate are the same as those adopted for the 2016 valuation (when a single discount rate was adopted), with a deduction of 0.5% applied to growth assets and 0.1% to bonds. Overall the initial discount rate is 2.2% per annum in excess of consumer price inflation, the same addition as for the 2016 valuation.

| Table 1                             | Benchmark allocation<br>31 December 2019 |
|-------------------------------------|--|
| <b>Growth assets</b>                |  |
| • Equities (including alternatives) | 65%                                      |
| • Property                          | 25%                                      |
| <b>Bonds</b>                        | 10%                                      |
| <b>Total</b>                        | 100%                                     |

3. The discount rates underpinning the statutory and alternative funding objectives are illustrated below with year 0 being the valuation date. The Trustee's intention is to reconsider the appropriate progression of the discount rate at each future valuation.

## Statutory and Additional Funding Objectives – MRC Section



*Discount rate is set to CPI plus a margin of 2.2% in the first year with a tapered reduction to +1.5% after 6 years, +0.5% after 12 years, with no margin from 18 years and thereafter.*

*Discount rate is set in relation to the gilt yield curve plus a margin of +3.05% in the first year with a tapered reduction to +1.8% after 6 years and +0.5% from 12 years and thereafter*

4. For the purposes of determining the cost of future accrual, the discount rate has been set similarly as for the SFO but with a longer period of reduction in margin over CPI (reducing linearly from 2.2% to nil over 30 years).

### Pension increases

5. Increases to pensions in payment in the Scheme are (except for some increases to Guaranteed Minimum Pension benefits) in line with those announced by Government under the Pensions Increase Acts, and currently based on the Consumer Prices Index (CPI). The assumption for CPI has been taken as the Bank of England long term inflation expectation, 2% per annum. For the 2016 valuation the CPI assumption was derived from the published Bank of England implied future RPI inflation figure. An alternative approach has been adopted for the current valuation since government are consulting on abolishing the RPI measure.

### Pay Increases

6. The benefits accruing during service are linked to increases in members' pay, and it is therefore necessary to consider what increases in future pay levels might reasonably be anticipated. Salary inflation has been assumed to be 1.5% pa in excess of consumer price inflation i.e. 3.5% pa. This assumption is for general pay inflation only and is exclusive of any allowance for promotional increases.
7. In addition to general increases in pay, the scheme experience indicates some increase in pay levels by age and/seniority. Accordingly, age-related salary scales, illustrated in Table 2, have also been incorporated into members' projected salaries. These scales are the same as adopted for the 2016 valuation.

**Table 2 : Promotional salary scale in year after age stated**

| Age | Male members | Female members |
|-----|--------------|----------------|
| 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 2019**

8. A summary of the financial assumptions for the actuarial valuation of the MRC Section of the MRCPS as at 31 December 2019 is given in Table 3 below. The corresponding assumptions made for the previous valuation at 31 December 2016 are also shown for comparison.

**Table 3 : Summary of financial assumptions**

| Main financial assumptions                 | 31 December 2019<br>%pa                     |  | 31 December 2016<br>%pa  |      |
|--|---|--|--------------------------|------|
|  | SFO   | AFO  | SFO                      | AFO  |
| <b>Discount rate</b>                       | 4.2% initially reducing to 2% over 18 years | Gilt yield curve + 3.05% initially, reducing to + 0.5% over 12 years | 4.8%                     | 4.3% |
| <b>Earnings increases (long-term)</b>      | 3.5% + promotional scale                    |  | 4.1% + promotional scale |      |
| <b>CPI (pension increases)</b>             | 2.0%  |  | 2.6%                     |      |
| <b>Discount rate net earnings increase</b> | 0.7% reducing to -1.5% over 18 years        | See comment below <sup>1</sup>                                       | 0.7%                     | 0.2% |
| <b>Discount rate net pension increases</b> | 2.2% reducing to nil over 18 years          | See comment below <sup>2</sup>                                       | 2.2%                     | 1.7% |

<sup>1</sup> initially 0.7% reducing over 12 years

<sup>2</sup> initially 2.2% reducing over 12 years

**Annex B to the Statement of Funding Principles for the MRCPS: MRC Section**

## Demographic assumptions for determining the technical provisions

### Mortality in retirement

**Table 4 : Summary of mortality assumptions**

|                     | 31 December 2019   | 31 December 2016                    |
|---------------------|--|-------------------------------------|
| <b>Baseline</b>     | S3NXA table (U=2019), -1 age rating for men, no rating for women | S2NXA table (U=2016), -1 age rating |
| <b>Improvements</b> | ONS 2018 population projections                                  | ONS 2014 population projections     |

1. 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 in 2016.

**Table 5 : Remaining expectation of life - Current Pensioners**

|                  | 31 December 2019 | 31 December 2016 |
|------------------|------------------|------------------|
| <b>Male 60</b>   | 28.2 years       | 29.7 years       |
| <b>Male 65</b>   | 23.3 years       | 24.7 years       |
| <b>Female 60</b> | 29.3 years       | 31.4 years       |
| <b>Female 65</b> | 24.4 years       | 26.4 years       |

**Table 6 : Remaining expectation of life – Future Pensioners aged 40**

|                  | 31 December 2019 | 31 December 2016 |
|------------------|------------------|------------------|
| <b>Male 60</b>   | 29.9 years       | 31.9 years       |
| <b>Male 65</b>   | 25.3 years       | 27.3 years       |
| <b>Female 60</b> | 30.9 years       | 33.5 years       |
| <b>Female 65</b> | 26.2 years       | 28.9 years       |

2. There have been no other changes to the demographic assumptions since the 2016 valuation.

### New entrants

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

### Age Retirement

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

### Commutation

5. 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

6. 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 Table 7. These assumptions are based on the experience of the MRCPS and similar larger schemes.

**Table 7 : Assumed number of exits per 10,000 members in year following the age stated**

| Males<br>Exact Age   | Deaths | Ill-Health Retirement | Voluntary Resignations |
|----------------------|--------|-----------------------|------------------------|
| 20                   | 3      | 2                     | 975                    |
| 25                   | 3      | 2                     | 810                    |
| 30                   | 4      | 2                     | 705                    |
| 35                   | 5      | 3                     | 540                    |
| 40                   | 8      | 4                     | 360                    |
| 45                   | 13     | 6                     | 210                    |
| 50                   | 24     | 13                    | 105                    |
| 55                   | 37     | 31                    | 30                     |
| Females<br>Exact Age | Deaths | Ill-Health Retirement | Voluntary Resignations |
| 20                   | 2      | 2                     | 4,949                  |
| 25                   | 2      | 3                     | 4,599                  |
| 30                   | 3      | 4                     | 2,969                  |
| 35                   | 4      | 6                     | 1,394                  |
| 40                   | 6      | 7                     | 629                    |
| 45                   | 9      | 9                     | 338                    |
| 50                   | 14     | 20                    | 225                    |
| 55                   | 19     | 40                    | 113                    |

#### Age difference of dependants

7. 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.

### Percentage with dependants' benefits at death

8. 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. Table 8 gives illustrative figures for the proportions of members who are assumed to give rise to a dependant's pension on their death.

**Table 8 : Proportions partnered at death**

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

### Remarriage rate

9. No allowance.

### Expenses

10. No explicit allowance included. The discount rates adopted for the valuation are considered to be net of investment management expenses. The costs of other expenses will be met by the Scheme.