

# Employer Consultation: proposed changes to SAUL

**The consultation starts 10 January 2012 and closes 9 March 2012**

You will be aware from press coverage that the cost of providing defined benefit pension schemes has been rising in recent years. This increase has been due to a combination of improving life expectancy and lower expected investment returns. SAUL is no different. Also, the preliminary results of the 2011 [Actuarial Valuation](#) show that SAUL has a funding shortfall.

To resolve this, and to ensure that SAUL continues to offer high quality, affordable and sustainable benefits, the SAUL Employers and Trade Unions, UNISON and Unite, have negotiated proposed changes to SAUL from 1 July 2012.

This document gives information to [Active Members](#) of SAUL and those eligible for membership about:

- why the changes have been proposed;
- what the exact proposals are;
- where you can find out more; and
- how you can give your views.

**Terms highlighted in blue are defined on page 10.**

You should read the whole document, but:

- if you're an [Active Member](#) of SAUL (or intend to join or rejoin before 1 July 2012), we explain the changes that would affect you on pages 3 to 5;
- if you're not an [Active Member](#) of SAUL on 1 July 2012, we explain the changes to available pension benefits on pages 6 to 8.

The proposed changes will not affect the benefits of members who have left [Pensionable Service](#) or started taking their SAUL pension before 1 July 2012.

The SAUL Employers remain strongly committed to maintaining quality pension provision. The proposals are supported by the Trade Unions. They aim to ensure that SAUL remains affordable, sustainable and an attractive [Defined Benefits](#) scheme for current members and future generations. So a key feature of the proposals is that members' contributions will remain unchanged at 6% of Salary.

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Where applicable, this document summarises the current provisions of SAUL and outlines the benefits for members contributing to SAUL at 1 January 2012. Full details are given in SAUL's Trust Deed & Rules, which, if there is any discrepancy, overrides this document.

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**Give your views at: [www.saul.org.uk/changes.html](http://www.saul.org.uk/changes.html)**

## Why are changes to SAUL proposed?

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Preliminary results of the 2011 [Actuarial Valuation](#) show that the value of SAUL's [Liabilities](#) (the value of benefits promised to SAUL members) is £1,587 million. The value of SAUL's assets was £1,506 million, so there is a funding shortfall of £81 million.

The preliminary results also show that the cost of funding the benefits is equal to 26.6% of [Active Member's Salaries](#). SAUL receives contributions of 19% of members' Salaries (6% from members – directly or as part of a [Salary Sacrifice](#) arrangement – and 13% from Employers).

The SAUL Employers and Trade Unions must decide how to:

- address the shortfall in the funding level; and
- make up the difference between the contributions SAUL receives and the cost of providing members' benefits.

The Trustee asked the SAUL Negotiating Committee – which has an equal number of representatives from the Employers and the recognised Trade Unions – to discuss options and form a plan. The Negotiating Committee has recently reached agreement in principle and given the Trustee a proposal for change.

### Long-term funding pressures

As well as the funding shortfall, there are long-term funding pressures on SAUL. These include the following:

- **Longer lives** – since SAUL was set up in 1976, life expectancy has increased by several years and members' benefits have improved. This means SAUL has to pay better benefits for longer than expected. Lifespan is expected to continue rising.
- **Financial market conditions** – the continued uncertainty since the financial crisis means that SAUL cannot rely on future investment returns to bridge the shortfall between the cost of building up pension benefits and the contributions SAUL receives as well as eliminating the funding shortfall.
- **Reductions in higher education funding** – increased pressure on Employers' resources means the cost of pensions cannot rise without affecting the services Employers provide, and possibly their staff numbers.

The SAUL Employers and Trade Unions have agreed, in principle, to support changes that are expected to tackle the funding shortfall and long-term funding pressures without increasing contributions for members and Employers.

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## What are the proposed changes for Active Members?

This section explains the limited changes proposed to benefits you build up from 1 July 2012 if you're an Active Member before that date.

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### Leaving SAUL and rejoining later

If you leave Pensionable Service on or after 1 July 2012 and rejoin SAUL within 30 months, you'll continue to build up benefits in the same way as on the date you leave. If you rejoin SAUL after 30 months, you'll build up benefits on a Career Average Revalued Earnings (CARE) basis. CARE is explained in "What are the proposed changes for new members?" on page 6.

If you leave Pensionable Service before 1 July 2012, your right to rejoin SAUL on a Final Salary basis will last until 31 December 2014.

**Why is this proposed?** ► This safeguards the right of members who might want a career break or leave the higher education sector temporarily to rejoin SAUL within 30 months and build up benefits in the same way as on the date they leave.

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### Early retirement after leaving SAUL

If you leave Pensionable Service on or after 1 July 2012 and keep (or "defer") your benefits in the Scheme until you retire, then **benefits you build up from 1 July 2012** will be reduced if you retire before age 65. Currently, deferred pensions are reduced if you retire before age 60 – **this will continue for benefits you build up before 1 July 2012.**

If you remain an active member of SAUL, you will still be able to retire from age 60 without having your pension reduced – unless the Trustee decides otherwise, which it currently does not intend to do.

**Why is this proposed?** ► This lessens the funding pressure on SAUL because the earlier people retire, the more it costs to provide a pension.

#### What's staying the same?

- You'll still build up benefits on a Final Salary basis.
- Contributions are not being increased – you'll continue to contribute 6% of Salary (as defined in the SAUL Rules).
- Your Normal Pension Date remains age 65.
- If you stay in SAUL service, you can still retire from age 60 without a reduction to your pension for early retirement.
- Pension and lump sum benefits available on death will not change.

## Pension increases on benefits built up after 1 July 2012

While a SAUL pension is being paid, it is linked to increases in the Consumer Prices Index (CPI).

Benefits built up **before 1 July 2012** will continue to increase in line with the CPI once they start being paid as a pension. Benefits built up **from 1 July 2012** will receive capped increases – see the table below. The SAUL Trustee will retain the right to provide discretionary increases above these levels.

Changes to how pensions are increased in payment			
Increase in CPI	Increase paid by SAUL on service built up before 1 July 2012	Increase paid by SAUL on service built up from 1 July 2012	Example
Up to 5%	The same as CPI	The same as CPI	<p>If CPI is 3%...</p> <ul style="list-style-type: none"> <li>• Benefits built up before 1 July 2012 increase by 3%</li> <li>• Benefits built up from 1 July 2012 increase by 3%</li> </ul>
More than 5% and up to 15%	The same as CPI	5% plus half of the increase between 5% and 15%	<p>If CPI is 11%...</p> <ul style="list-style-type: none"> <li>• Benefits built up before 1 July 2012 increase by 11%</li> <li>• Benefits built up from 1 July 2012 increase by 8% (5% plus half of the increase between 5% and 11%)</li> </ul>
More than 15%	The same as CPI	10% maximum	<p>If CPI is 17%...</p> <ul style="list-style-type: none"> <li>• Benefits built up before 1 July 2012 increase by 17%</li> <li>• Benefits built up from 1 July 2012 increase by 10%</li> </ul>

If a member leaves [Pensionable Service](#) and keeps (or “defers”) benefits in SAUL, these increase until retirement. Currently, deferred benefits increase by the greater of increases required by law and increases granted at the Trustee’s discretion.

Under the proposals, benefits built up **from 1 July 2012** will increase by the greater of:

- the increases required by law; and
- the increases shown in the table above.

The Trustee will retain the right to provide discretionary increases above these levels.

**Why is this proposed?** ► This reduces the risk of high inflation increasing SAUL’s [Liabilities](#).

## Comparison of current benefits with proposed changes for Active Members

The table shows the limited changes to benefits for **Active Members** – and what’s staying the same.

	Current benefits	Benefits for existing members from 1 July 2012
Accrual Rate	1/80	1/80
Lump Sum	3 x Annual Pension	3 x Annual Pension
Defined Benefit basis	Final Salary	Final Salary
Member contribution rate	6%	6%
Employer contribution rate	13%	13%
Salary for pension purposes	Basic (as described in the SAUL Rules)	Basic (as described in the SAUL Rules)
Normal Pension Date	Age 65	Age 65
Earliest retirement age without a reduction	Age 60	Age 60 (but age 65 for benefits built up after 1 July 2012 if you leave Pensionable Service and defer your pension)
Pension increases	CPI	CPI (but capped for benefits built up after 1 July 2012)
Defined Benefit basis if you leave then rejoin	Final Salary	Final Salary (if within 30 months) CARE (after 30 months)
Pension on redundancy (available after 5 years qualifying service)	Unreduced pension	Unreduced pension
Death in service lump sum	4 x Salary (as defined in the SAUL Rules) and a return of contributions	4 x Salary (as defined in the SAUL Rules) and a return of contributions

The initial pension payable on a member’s death will be the same.

## What are the proposed changes for new members?

This section explains the proposed changes to benefits if you join (or rejoin) SAUL from 1 July 2012.

### Career Average Revalued Earnings (CARE)

Members who join SAUL from 1 July 2012 will build up benefits in a new section of SAUL. The pension, lump sum and death benefits available in this section will be calculated using CARE rather than **Final Salary**. The CARE section will continue to provide **Defined Benefits**, which provide a pension of 1/80 of Salary for each year of service and a lump sum at retirement of three times annual pension. Benefits on death will stay the same and a lump sum of 4 x Salary plus a return of contributions will still be paid on death in service.

Under the current basis a member receives a pension of **1/80 of Final Salary** for each year of service. Under CARE a member receives a pension of **1/80 of the Salary paid in each year**. Each year's benefit is then increased to retirement in line with the Consumer Prices Index, which is capped as described on page 4.

Put simply:

- in **Final Salary** schemes pension is based on salary **at or near the time a member retires**, but
- in CARE schemes pension is based on salary earned each year **increased to retirement**, and is not related to salary increases. Page 7 explains the Salary used to calculate CARE benefits in SAUL.

**Why is this proposed?** ► The CARE section will still provide members with **Defined Benefits** that increase in value. CARE reduces the risk of higher than expected Salary awards increasing the Scheme's **Liabilities**.

#### Have you previously opted out of SAUL?

If you previously opted out of SAUL membership, you can apply to rejoin SAUL, subject to being in good health. If you rejoin before 1 July 2012, you will build up benefits on the existing **Final Salary** basis.

If you would like to apply to rejoin SAUL on the **Final Salary** basis, please contact your employer's Pensions Officer. You should apply before 31 May 2012.

If you have deferred benefits in SAUL, you have 30 months from 1 July 2012 to rejoin SAUL on a **Final Salary** basis.

### How does CARE work?

The example below shows how CARE works for a member of SAUL over four years. It shows:

- the benefit earned each year using the member's Salary and the Scheme's **Accrual Rate**;
- how each year's benefit is increased to the end of the four-year period (assuming that CPI is 3% a year); and
- the total pension and lump sum earned at the end of the four-year period.

Year	Salary paid in the year	Salary paid/Accrual Rate	Benefit earned in year	Increase (assuming CPI of 3% each year)	CARE pension at the end of year 4
1	£20,000	20,000/80 =	£250.00	3 years at 3% =	£273.18
2	£21,000	21,000/80 =	£262.50	2 years at 3% =	£278.49
3	£22,000	22,000/80 =	£275.00	1 year at 3% =	£283.25
4	£23,000	23,000/80 =	£287.50	0 years at 3% =	£287.50
<b>Total annual pension at the end of year 4 =</b>					<b>£1,122.42</b>
<b>Total lump sum at the end of year 4 =</b>					<b>£3,367.26</b>

## Salary used for calculating CARE pension

SAUL pensions are currently calculated using normal Salary which includes permanent allowances, contractual overtime and shift allowances, but excludes bonuses and non-regular overtime. The Employers and recognised Trade Unions are discussing how non-regular overtime will be pensionable under CARE.

**Why is this proposed?** ► Under CARE, benefits are calculated each year, which means benefits reflect pay that has varied over time. So the proposals permit allowances above basic pay to be taken into account when calculating benefits. **Final Salary** benefits are based on salary at or near the time a member retires. So it's difficult for benefits to fairly reflect pay that may have varied over many years as a result of overtime and allowances paid above normal salary.

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## Normal Pension Date

The proposals say that **Normal Pension Date** for members joining from 1 July 2012 will be 65. Afterwards it will be linked to increases in state pension age. The government has proposed that state pension age will increase to 66 from April 2020. So SAUL's **Normal Pension Date** will be 66 for benefits built up after April 2020.

If state pension age increases again, SAUL's **Normal Pension Date** will also increase. The revised **Normal Pension Date** will apply only to benefits built up after the date that state pension age changes.

Members will still be able to retire before **Normal Pension Date**, but with a reduced pension.

**Why is this proposed?** ► This reflects changes to state pension age and that many people are expected to work for longer.

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## Early retirement

Members who join SAUL from 1 July 2012 will receive a reduced pension if they retire before **Normal Pension Date**.

**Why is this proposed?** ► This lessens the funding pressure on SAUL by reducing the number of unreduced pensions being paid. Currently, SAUL members can retire and receive unreduced pensions from age 60.

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## Benefits upon redundancy

Members of the CARE section of SAUL who retire before age 65 because of redundancy will receive a reduced pension due to early payment.

**Why is this proposed?** ► This lessens the funding pressure on Employers who must currently fund an unreduced pension if a member retires due to redundancy. Full pensions may still be negotiated as part of local agreements.

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## Pension increases

The benefits of members in the CARE section will receive increases as described on page 4. The Trustee will keep the right to provide discretionary increases above these levels.

**Why is this proposed?** ► This reduces the risk of high inflation increasing SAUL's **Liabilities**.

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## Qualification for ill-health retirement

The proposals say members of the CARE section must contribute to the Scheme for two years before qualifying for an ill-health pension.

**Why is this proposed?** ► This lessens the funding pressure on SAUL by reducing claims from members who have contributed little to SAUL but might otherwise be entitled to a comparatively high pension.

## Comparison of current benefits with proposed changes for new members

	Current SAUL benefits	Benefits for new members from 1 July 2012
Accrual Rate	1/80	1/80
Lump Sum	3 x Pension	3 x Pension
Defined Benefits basis	Final Salary	CARE
Contribution Rate	6%	6%
Salary for pension purposes	Basic (as described in the SAUL Rules)	Basic (as described in the SAUL Rules). The Employers and recognised Trade Unions are discussing how non-regular overtime will be pensionable under CARE.
Normal Pension Date	Age 65	Age 65 – linked to increase in state pension age
Earliest retirement age without a reduction	Age 60	Age 65 – linked to increase in state pension age
Pension Increases	CPI	CPI capped – please see “Pension increases on benefits built up from 1 July 2012” on page 4 for more information
Benefits upon redundancy (available after 5 years’ qualifying service)	Unreduced pension	Reduced pension
Qualification for ill-health retirement	Two years’ qualifying service	Two years’ contributory service

## Giving your views – the consultation process

**The law requires that Employers consult SAUL’s Active Members and those eligible for membership for at least 60 days.**

The Employers know how important SAUL is to its members and the value of providing an occupational pension for employees. So your views are welcomed as part of the consultation.

The consultation runs from 10 January 2012 to 9 March 2012. By law, the Employers must genuinely consider all responses before making a final recommendation to the Trustee. Under the Rules of SAUL, the Negotiating Committee, which has an equal number of representatives from the Employers and the recognised Trade Unions, is the body with the power to propose changes to the Rules to the Trustee. So the SAUL Negotiating Committee will consider all the individual Employers’ responses and make a final recommendation to the Trustee. SAUL is a multi-employer scheme with a standard benefit structure: individual Employers will not be able to opt-out of the changes.

Consultation begins	10 January 2012
Consultation ends	9 March 2012
SAUL Negotiating Committee meets to consider the response to the consultation	Week starting 19 March 2012
SAUL Trustee to meet Negotiating Committee	Within 10 days of the SAUL Negotiating Committee considering the response to the consultation
Formal notification of agreed changes to members	Expected to be 23 April 2012
Proposed date of changes to SAUL	1 July 2012

## How to give your views

- Visit [www.saul.org.uk/changes.html](http://www.saul.org.uk/changes.html) and follow the instructions to complete the questionnaire. The password to access the questionnaire is: **myviews**. The questionnaire is anonymous unless you give your name, which you do not have to do. You can only complete the questionnaire once.
- You can also contact your Trade Union representative or your Employer’s Pensions Officer. Written responses should be clearly marked “SAUL consultation”.

## Need more information?

- Visit the Consultation section of the SAUL website at: [www.saul.org.uk/changes.html](http://www.saul.org.uk/changes.html) where you can access the Employers’ answers to frequently asked questions (FAQs).
- Visit the SAUL website at [www.saul.org.uk](http://www.saul.org.uk) where you can find out more about the Scheme. You can also stay in touch with the latest developments and news from SAUL by registering for email updates.
- If you need an explanation of pension terms, visit our comprehensive glossary at: [www.saul.org.uk/3/glossary.html](http://www.saul.org.uk/3/glossary.html).

If you have any questions about the proposals which our website doesn’t answer, please contact your Employer’s Pensions Officer or put your question on the Consultation section of the website. **The consultation is between you and your employer so SAUL Trustee Company cannot enter into individual correspondence.** The website will publish all questions put through the online consultation, and the responses.

**The consultation starts on 10 January 2012 and closes 9 March 2012**

**Give your views at: [www.saul.org.uk/changes.html](http://www.saul.org.uk/changes.html) The password: **myviews****

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## Pension basics and jargon buster

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### What's a pension?

It's an income paid to you when you retire. While you're working and earning money, you put some aside to live on when you stop working.

### How does a **Defined Benefits** pension work?

A **Defined Benefits** pension scheme provides a pension and other benefits based on a formula set out in the scheme rules. The formula is usually expressed as a fraction – in SAUL, members earn 1/80th of Salary for each year of **Pensionable Service** in the Scheme.

### How do my contributions provide me with a pension?

The contributions from all members and employers are put into one large fund. This is invested in assets such as shares, government bonds and property. Members' benefits – as set out in the rules – are paid from this fund.

SAUL members contribute 6% of Salary and Employers contribute 13%.

### How does SAUL make sure there is enough in the fund to pay my benefits?

Every three years SAUL's **Actuary** conducts a financial health check called an **Actuarial Valuation**. This compares the value of the assets held in the fund with the value of benefits promised to members (or **Liabilities**). If the **Liabilities** are greater than the assets (i.e. there is a funding shortfall) action needs to be taken to deal with the shortfall.

**A large-print version of this document is available from [www.saul.org.uk/changes.html](http://www.saul.org.uk/changes.html)**

## Jargon buster

### Accrual Rate

The rate benefits are built up – usually expressed as a fraction. In SAUL the accrual rate is 1/80<sup>th</sup>.

### Active Member

A member who is currently building up benefits in the Scheme. Active members are employed by a SAUL employer and contributing to the Scheme directly from pay or as part of a **Salary Sacrifice** arrangement. This includes members on temporary absence or who have stopped contributing to SAUL on reaching 40 years' **Pensionable Service** or reaching Normal Pension Date.

### Actuary

A pensions expert who calculates the funding required for pension benefits.

### Actuarial Valuation

A financial health check that compares the value of the assets held in the fund with the value of benefits promised to members.

### Defined Benefits

Pension benefits based on a formula set out in the scheme rules.

### Final Salary

Pension benefits based on Salary at or near the time a member retires or leaves **Pensionable Service**.

### Liabilities

The value of benefits promised to members.

### Normal Pension Date

The date you would usually retire – it is the reference date for calculating pension benefits. Currently, this is the last day of the month before a SAUL member's 65<sup>th</sup> birthday.

### Pensionable Service

The period a member has been in a scheme and built up pension benefits.

### Salary Sacrifice

In SAUL this is where a member gives up the part of pay that represents their SAUL contributions. This is paid by the Employer on the member's behalf.