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SAUL

Employer consultation:
proposed changes to the Superannuation Arrangements of the University of London (SAUL)

Consultation starts 13 July and closes 13 September 2015

Where applicable, this document summarises the provisions of SAUL at 13 July 2015. Full details are given in SAUL's Trust Deed & Rules which, if there are any differences, overrides this document.

Introduction

SAUL is a defined benefit pension scheme, which means the benefits promised to Members are based on their earnings (as set out in the Scheme Rules). The cost of paying these defined benefits has increased in recent years because, generally, people are living longer and expected investment returns have fallen.

Every three years, SAUL's Actuary conducts a financial 'health check' or valuation. The 2014 valuation shows SAUL is in deficit. This means the value of SAUL's investments and contributions received from Members and Employers is less than the funds needed to pay Members their pensions in the long term. To eliminate the deficit and make sure SAUL continues to be affordable and can continue for the long term, SAUL Employers and the Trade Unions UNISON and Unite have negotiated proposals to change SAUL from 1 April 2016.

This document gives important information to Members and those eligible for membership about:

- why changes have been proposed
- what is being proposed
- where you can find more information, and
- how you can give your opinion on the proposal.

The proposed changes will affect you if you are a SAUL Member on 1 April 2016, or if you are eligible to be a Member on or after that date.

Please read the whole document. But please give special attention to the changes that will affect you. This will depend on whether you are in the Final Salary Plan or the CARE Plan. If you are unsure which Plan you are in, please check your Benefits Estimate or speak to your Employer. If you have opted out of SAUL and are unsure which Plan you are eligible to join, please visit the SAUL website or speak to your Employer.

The proposed changes to the Final Salary Plan are shown in the **RED SECTION** on pages 7 to 9.

The proposed changes to the CARE Plan – which affect all Members – are shown in the **BLUE SECTION** on pages 12 to 13.

The proposed changes will not affect you if you have left SAUL and still have benefits in the Scheme or if you have already retired or will retire from SAUL before 1 April 2016. Some Members who joined SAUL before 10 May 1979 will be consulted separately.

Who is a Member for the purposes of this consultation?

You are a Member if you are working for a SAUL Employer and:

- you are contributing to SAUL from your pay or as part of a salary sacrifice arrangement, or
- you have stopped contributing because you are on temporary absence or you work irregular part-time hours, or
- you have chosen to stop contributing after reaching 40 years' service or Normal Pension Date.

If you have opted out of SAUL and are eligible to be a Member, you will be affected too.

SAUL's Vision Statement

We put our members at the heart of all that we do.

Why are changes to SAUL proposed?

The deficit

Many defined benefit schemes, like SAUL, are in deficit. SAUL's position is better than most, but there is still a gap between the money needed to pay the benefits promised and the money in the Scheme. The table below shows the change in SAUL's funding from 2011 to 2015. Although the money in SAUL has increased, the cost of benefits promised to Members has increased more.

	31 March 2011	**31 March 2014** (subject to agreement of the 2014 valuation)	**31 March 2015** (estimated)
Money in SAUL	**£1,506 million**	**£1,924 million**	**£2,370 million**
Cost of benefits promised to Members	**£1,581 million**	**£2,042 million**	**£2,680 million**
How far the money in SAUL covers the benefits promised	**95% funded**	**94% funded**	**88% funded**
Deficit	**£75 million**	**£118 million**	**£310 million**

Long-term funding pressures

As with all pension schemes, there are long-term pressures on SAUL:

People are generally living longer – this is good, but it means SAUL has to pay pensions for longer.

Financial market conditions – SAUL's income comes from the contributions it receives from Members and Employers and the returns it makes from investing these contributions. Although SAUL's investments have performed well in the past, future returns are expected to be lower.

There are also funding pressures on the Higher Education (HE) sector:

Higher Education funding changes – the sector faces a tough financial future, with uncertainty over government funding, more competition for students at home and overseas, and a continuing need for significant investment in buildings, equipment and student facilities.

Changes to the State pension – Members and Employers will pay more National Insurance contributions from 6 April 2016. You will hear more about what this means for you before the changes happen.

Despite these pressures, it is essential to ensure three things:

- SAUL stays attractive to Members
- Members and Employers can afford the contributions
- SAUL can protect the benefits already built up by Members and remain strong in the long term.

Tackling the deficit

The Pensions Regulator provides guidance to work-based pension schemes like SAUL. It aims to protect Members' benefits. The Regulator reviews the valuation every three years and can require any scheme in deficit to improve its funding position.

The Trustee is responsible for making sure SAUL can pay the pensions promised to Members and for returning SAUL to a 'fully funded' position within a reasonable time.

The Trustee asked the SAUL Negotiating Committee, which is made up of six SAUL Employers and six Trade Union representatives from UNISON and Unite, to look for ways of eliminating the deficit.

The Negotiating Committee spent several months looking at options before proposing changes to SAUL. The Trustee carefully considered their proposal and agreed to it.

The proposal is expected to deal with the deficit and long-term funding pressures without increasing Member contributions. If this does not work, more changes to SAUL may be needed. However, more changes cannot take place without agreement from SAUL's Employers and the Trade Unions.

Changes to SAUL were introduced in 2012 but the funding pressures have increased since then. This is why more changes are now needed to protect the Scheme.

Summary of the proposed changes

MEMBER CONTRIBUTIONS

No change to Member contributions

All Members will continue to contribute 6% of their salaries to SAUL.

EMPLOYER CONTRIBUTIONS

Increased Employer contributions

Until at least 2020, Employer contributions to SAUL will rise from 13% of Members' salaries to 16%.

→ 31 MARCH 2016

Benefits built up before the changes

The benefits you have built up in SAUL before the changes are introduced (1 April 2016) are protected by the Scheme Rules and by law.

FINAL SALARY PLAN CLOSES

Final Salary Plan Members

On 31 March 2016 the Final Salary Plan will close. Most Members will get an enhancement to their pension and move into the CARE Plan. The benefits built up before 1 April 2016 will increase up to the point of retirement or leaving the Scheme, as shown in the table on page 7.

IMPROVED CARE PLAN FOR ALL MEMBERS

Proposed future benefits for all Members

The rate pension benefits build up will improve to 1/75th of salary for each year of service from 1 April 2016. The lump sum you receive when you retire (three times the annual pension) will be based on this improved rate.

Comparison of current benefits with proposed changes

The table below compares the current benefits in the Final Salary Plan and CARE Plan with the proposed benefits for all Members from 1 April 2016.

	CURRENT FINAL SALARY BENEFITS	CURRENT CARE BENEFITS	PROPOSED BENEFITS FOR ALL MEMBERS FROM 1 APRIL 2016
ACCRUAL RATE (THE RATE PENSION BENEFITS BUILD UP IN SAUL FOR EACH YEAR OF SERVICE)	1/80	1/80	1/75
RETIREMENT LUMP SUM	3 x annual pension	3 x annual pension	3 x annual pension (based on improved accrual rate)
DEFINED BENEFIT BASIS	Final salary	CARE	CARE
MEMBER CONTRIBUTION RATE	6%	6%	6%
EMPLOYER CONTRIBUTION RATE	13%	13%	16%
SALARY FOR PENSION PURPOSES	Your salary including permanent allowances (such as London weighting or responsibility allowance). Bonuses and overtime are not included.	Your salary including permanent allowances (such as London weighting or responsibility allowance) and overtime. Bonuses are not included.	Your salary including permanent allowances (such as London weighting or responsibility allowance) and overtime. Bonuses are not included.
NORMAL PENSION DATE	The last day of the month before your 65th birthday.	The last day of the month before your 65th birthday (rising in line with State Pension Age).	The last day of the month before your 65th birthday (rising in line with State Pension Age).
EARLIEST AGE MEMBERS CAN RETIRE WITHOUT HAVING THEIR BENEFITS REDUCED	Age 60	Normal Pension Date	Normal Pension Date. Members moving into the CARE Plan on 1 April 2016 from the Final Salary Plan will be able to take benefits built up before 1 April 2016 from age 60 without reduction. (This is current practice and could change.)
INCREASES TO PENSIONS WHEN THEY ARE IN PAYMENT	Pension benefits built up before 1 July 2012 will increase in line with the Consumer Prices Index, which is a measure of inflation. Pension built up after 1 July 2012 receives capped increases if the change in the Consumer Prices Index is greater than 5%.	Increases in line with the Consumer Prices Index. Capped if the change in the Consumer Prices Index is more than 5%.	Pension built up from 1 April 2016 will increase in line with the Consumer Prices Index, but capped at 2.5%. The Trustee can give additional annual discretionary increases once SAUL's funding position is higher than 105%.
BENEFIT BASIS IF YOU LEAVE THEN RE-JOIN	Final Salary if you re-join within 30 months of leaving, otherwise CARE.	CARE	CARE
PENSION ON REDUNDANCY (AVAILABLE AFTER FIVE YEARS' QUALIFYING SERVICE)	Unreduced pension	Pension is reduced if paid before Normal Pension Date (the last day of the month before your 65th birthday currently).	Members moving into the CARE Plan on 1 April 2016 from the Final Salary Plan will receive an unreduced pension. For all other Members pension is reduced if paid before Normal Pension Date.
DEATH IN SERVICE LUMP SUM	4 x salary and a return of contributions	4 x salary and a return of contributions	4 x salary and a return of contributions

Proposed changes for Final Salary Members

The information below explains the proposed changes for Members in the SAUL Final Salary Plan at 31 March 2016.

All Members will move into the CARE Plan

On 31 March 2016 the Final Salary Plan will close. This means that:

- all Members will build up their future benefits in the CARE Plan, and
- the link between Members' final salary and their pension benefits, including transferred-in service, will be broken. This is shown in the example on page 9.

The benefits built up in the Final Salary Plan are protected by the Scheme Rules and by law. These benefits will be based on Members' final salary and service on 31 March 2016 and increased to give some protection against inflation until they are paid as pensions.

The table below shows how these benefits will increase until they are paid as pensions. The Final Salary Benefits Guide, which is available on the SAUL website or from your Employer, explains how your salary and service are used to calculate your pension.

Final Salary benefits built up to 1 July 2012 will increase by at least...
...the greater of: • increases required by law, and • increases granted at the Trustee's discretion.

Final Salary benefits built up from 1 July 2012 to 31 March 2016 will increase by at least...
...the greater of: • increases required by law, and • the Consumer Prices Index (CPI) subject to an overall cap. If the CPI is above 5% and up to 15%, the annual increase will be 5% plus half of the increase between 5% and 15%. If the CPI is above 15%, the maximum increase will be 10%.

New calculator

A new calculator is available on the SAUL website, at:

www.saul.org.uk/consultation/calculator

Enter details from your Benefits Estimate into the calculator. The calculator shows how the proposed changes may affect your SAUL benefits.

All benefits built up from 1 April 2016, including ill health and death benefits, will be based on the Rules of the CARE Plan. Changes to the CARE Plan are also proposed. You can find out about:

- the main differences between the Final Salary and CARE Plans on page 10
- proposed changes to the CARE Plan on page 12
- current details of the CARE Plan in the Benefits Guide, which is available on the publications page of the SAUL website or from your Employer.

One-off enhancement

Members under age 61 who move into the CARE Plan on 1 April 2016 will get a one-off enhancement of 5% to their service in the Final Salary Plan as a condition of breaking the link between their final salary and future pension benefits.

This enhancement also applies to any service transferred into SAUL from another pension.

Members closer to retirement will not be affected by the break with final salary as much as Members further away from retirement. So the enhancement will be reduced by 1% for every year you are over age 60, as follows:

AGE AT 1 APRIL 2016	ENHANCEMENT
60 and under	5%
61	4%
62	3%
63	2%
64	1%
65 and over	0%

Right to unreduced benefits on early retirement

Final Salary Members who move into the CARE Plan can still take benefits built up before 1 April 2016 from age 60 without any reduction for early payment (unless the Trustee decides otherwise, which it currently does not intend to do).

Final Salary Members keep the right to retire without reduction for early payment on any of their SAUL benefits if they are made redundant (subject to SAUL's Rules).

AVC contracts that buy service

If you are paying, or have paid, Additional Voluntary Contributions (AVCs) to buy service in the Final Salary Plan, these benefits will not be affected by the proposed changes. They will still be based on the service you have bought and your final salary when you leave SAUL or retire. If you are paying AVCs, you may continue to pay them.

Combining benefits

Currently, some Members with more than one period of SAUL service can combine their benefits so they are all calculated using the Final Salary from their current service. This will not be possible after 31 March 2016. **If you are eligible and would like to investigate combining your benefits, you should apply by 31 December 2015.** Please speak to your Employer, who will help you do this.

Re-joining SAUL after 31 March 2016

If you leave SAUL before 1 April 2016 and re-join from this date, you will join the CARE Plan.

On 31 March 2016, John will be 62 years old and will have 11 years' service in the Final Salary Plan. His salary is £38,000. He plans to retire one year later on 31 March 2017 when he hopes his salary will be £40,000.

If there were no changes to the Plan, he would receive the following pension from the SAUL service he built up before 31 March 2016:

£38,000 / 80 = £475 X 11 years = £5,225 a year.

If the Final Salary Plan closes, his pension will be calculated on 31 March 2016 based on his salary at that date. It would then receive an inflationary increase under the Rules of the Final Salary Plan.

His service will be enhanced by 3% as follows:

11 years X 103% = 11 years and 4 months.

His pension at 31 March 2016 will then be calculated as:

£38,000 / 80 = £475 X 11 years and 4 months
= £5,383 a year.

If inflation is **2%** then the pension above would increase to **£5,491** (£5,383 plus 2%) a year at 31 March 2017.

Under both scenarios, John would also build up another year's worth of pension from 31 March 2016 to 31 March 2017 when he retires. Before the change, this would have been on the Final Salary structure. After the change, it will be on the CARE structure.

He will also receive a lump sum of three times his annual pension.

The example above shows the impact of 'breaking the final salary link'.

What do I need to know about the CARE Plan?

Just like the Final Salary Plan, the CARE Plan provides Members with a defined benefit pension and a tax-free lump sum. The contribution rate for CARE Members is 6% – the same as the Final Salary Plan.

The main differences between the Final Salary Plan and CARE Plan are as follows:

- CARE stands for Career Average Revalued Earnings. This means your pension is based on your salary earned each year. At the moment CARE Members get a pension of 1/80th of their salary each year – although this is proposed to improve to 1/75th from 1 April 2016.

The pension you earn each year increases until you retire, as shown in 'How do CARE pensions increase?' on page 11. For example, if you contribute to the CARE Plan for four years (under the current Rules), you will build up pension like this:

YEAR	CARE SALARY PAID IN THE YEAR	PENSION EARNED IN YEAR (CARE BLOCK) (SALARY/80)	INCREASE (CONSUMER PRICES INDEX ASSUMED 2%)	CARE PENSION AT END OF YEAR
1	£20,000	£250.00	3 years at 2%	£265.30
2	£21,000	£262.50	2 years at 2%	£273.11
3	£22,000	£275.00	1 year at 2%	£280.50
4	£23,000	£287.50	0 years at 2%	£287.50
			Total annual pension at end of year 4 =	**£1,106.41**
			Total lump sum at end of year 4 =	**£3,319.23**

- SAUL uses your salary, plus any permanent allowances (for example, London weighting), to work out your pension. In the CARE Plan overtime is also taken into account. This means pension payments will be taken from any overtime pay and you build up more pension.
- The Normal Pension Date for the CARE Plan is the last day of the month before your 65th birthday. This will increase in line with State Pension Age in future. Pension built up in the CARE Plan will be reduced if you take it before your Normal Pension Date.

How do CARE pensions increase?

Before they start being paid, your pension benefits built up in CARE increase in line with the Consumer Prices Index (CPI), subject to an overall cap. If the CPI is above 5% and up to 15%, the annual increase will be 5% plus half of the increase between 5% and 15%. If the CPI is above 15%, the maximum increase will be 10%.

Changes to the CARE Plan are also proposed – details are on the next page. There's more about the current CARE Plan in the Benefits Guide, which is available on the publications page of the SAUL website or from your Employer.

Proposed changes to the CARE Plan for all Members

The information below explains the proposed changes to the CARE Plan for:

- **current Members of the CARE Plan**
- **current Members of the Final Salary Plan, and**
- **future Members joining SAUL from 1 April 2016.**

Amount of pension built up

The rate at which you build up benefits in the CARE Plan will change from 1 April 2016. The current rate of 1/80th of salary for each year of service in SAUL will improve to 1/75th. This means you will build up more pension each year. The table below gives an example of how this change will affect how benefits build up. To find out how your own benefits will be affected, please see 'Need more information?' on the back page.

YEAR	CARE SALARY PAID IN THE YEAR	PENSION EARNED IN YEAR (CARE BLOCK) (SALARY/75)	INCREASE (CONSUMER PRICES INDEX ASSUMED 2%)	CARE PENSION AT END OF YEAR (UNDER PROPOSED CHANGES)	CARE PENSION AT END OF YEAR (UNDER CURRENT RULES – FOR COMPARISON)
1	£20,000	£266.67	3 years at 2%	£282.99	£265.30
2	£21,000	£280.00	2 years at 2%	£291.31	£273.11
3	£22,000	£293.33	1 year at 2%	£299.20	£280.50
4	£23,000	£306.67	0 years at 2%	£306.67	£287.50
			Total annual pension at end of year 4 =	**£1,180.17**	**£1,106.41**
			Total lump sum at end of year 4 =	**£3,540.51**	**£3,319.23**

Employers to pay more

Employers will contribute 16% of salary from 1 April 2016, an increase of three percentage points. This will continue until at least 2020. All Members will continue to contribute 6% of salary.

Pension increases capped

When they start being paid, pensions built up on or after 1 April 2016 will increase annually in line with the Consumer Prices Index (CPI), up to a cap of 2.5%. If the CPI is higher than this, the Trustee may give discretionary annual increases of more than 2.5% once SAUL's funding level is higher than 105%.

Changes to pensions transferred into SAUL

Currently, pensions transferred into the SAUL CARE Plan are based on Members' final salary when they leave or retire. The link between Members' final salary and their pension benefits will be broken. This means benefits transferred into SAUL from other pensions on or before 31 March 2016 will be based on Members' final salary and service at that date. These benefits will be increased to give some protection against inflation until they are paid as pensions. (For more on this, see 'How do CARE pensions increase?' on page 11.)

Members under age 61 who have transferred a pension from a public-sector scheme into SAUL will get a one-off enhancement of 5% to their service in the CARE Plan. The enhancement is being given to all SAUL Members with final salary benefits. It is a condition of breaking the final salary link with future pension benefits.

Members closer to retirement will not be affected by the break with final salary as much as Members further away from retirement. So the enhancement will be reduced by 1% for every year a Member is over age 60, as follows:

AGE AT 1 APRIL 2016	ENHANCEMENT
60 and under	5%
61	4%
62	3%
63	2%
64	1%
65 and over	0%

New calculator

A new calculator is available on the SAUL website, at:

www.saul.org.uk/consultation/calculator

Enter details from your Benefits Estimate into the calculator. The calculator shows how the proposed changes may affect your SAUL benefits.

Changes to future transfers into SAUL

SAUL will leave the public-sector transfer club on 31 March 2016. The club allows Members to transfer pensions between public-sector schemes and get similar benefits in their new scheme. When SAUL leaves the club, pension transfers into SAUL will not be available. Transfers of pensions out of SAUL will be allowed but not under club rules.

If you wish to transfer a pension from a public-sector scheme into SAUL, we will let you know the deadline by which to apply.

Emma joined the CARE Plan on 1 April 2014.

Her salary when she started was £30,000.

In the first year she earned a CARE pension block of $1/80^{th}$ of her salary

£30,000 / 80 = £375.

On 1 April 2015, Emma's salary increased to £30,500 and in the year to 31 March 2016 she earned a CARE block of:

£30,500 / 80 = £381.25.

If the CARE Plan changes on 1 April 2016 and Emma's salary stays the same, she will earn $1/75^{th}$ of her salary each year from 2016. Her CARE block in 2016/17 will be:

£30,500 / 75 = £406.67.

Each CARE block will increase between the date it is calculated and the date Emma retires from SAUL. For more on this, see 'How do CARE pensions increase?' on page 11.

How the consultation will work

Employers must consult Members, those eligible to join and employee representatives, for at least 60 days.

The Employers know how important SAUL is to its Members and the value of providing a high quality workplace pension. They value your opinions and welcome your feedback as part of the consultation.

Employers are consulting 7,400 Members of the Final Salary Plan, 7,700 Members of the CARE Plan and eligible Members who are not currently contributing.

The consultation will run from **13 July to 13 September 2015**. By law, Employers must consider all the views gathered during the consultation. During and after the consultation the Negotiating Committee will carefully consider all responses before making a final recommendation to the Trustee.

If the Trustee agrees their final proposal, we will let Members know about the changes to SAUL. Individual Employers will not be able to opt out of the changes.

Timeline

1. **Consultation begins** 13 July 2015
2. **Consultation ends** 13 September 2015
3. **SAUL Negotiating Committee meets to consider the response to the consultation** Expected to be late September 2015
4. **SAUL Trustee to meet Negotiating Committee** The meeting will occur within 10 days of the Negotiating Committee considering the response to the consultation.
5. **Formal notification of agreed changes to Members** Expected to be October 2015
6. **Proposed date of changes to SAUL** 1 April 2016

How to give your opinion

- Visit the SAUL website and follow the instructions to complete the questionnaire.

  You will need the following password: myviews

  Please note: you can complete the questionnaire only once.

- You can also contact your Trade Union representative or your Employer's Pensions Officer. Written responses must be clearly marked 'SAUL Consultation'. You should contact your Employer who will tell you where to send them.

Need more information?

1 Read SAUL's Q&As and Benefits Guides

Please visit the consultation section of the SAUL website at **www.saul.org.uk/consultation** where you can find Employers' answers to questions asked by Members. This is a great place to start, and to find out what other SAUL Members are asking about the proposed changes.

The publication section of the website gives detailed information about the current benefits SAUL provides, including the Benefits Guides for the Final Salary and CARE Plans.

2 Use the SAUL calculator

You can get an estimate of how the proposed changes may affect your pension by using the calculator on the SAUL website.

IMPORTANT: You will need your annual Benefits Estimate for 2015 to use the calculator – your Employer will send this to you separately.

3 Ask questions

If you have questions about the proposals but cannot find the answers on the SAUL website, please contact your Employer's Pensions Officer.

The consultation is between you and your Employer, so SAUL Trustee Company cannot respond to you. Questions submitted as part of the consultation will be published on the SAUL website – so you can see what other Members are saying.

The consultation section of the SAUL website will publish all questions raised and all responses given.

4 Register for email updates

Keep in touch with the latest news and updates to the SAUL website by registering for email updates.

A large-print version of this document is available on request from: consultation@saul.org.uk

SAUL

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