University of Exeter

RETIREMENT BENEFITS SCHEME

Trustee Directors' Report to Members 2023

Chair's statement

Welcome to the annual review of your pension fund, which we hope you will find helpful in understanding how your Scheme is being managed.

I am pleased to introduce myself to you as the new Chair of the Trustee Board following the retirement of my colleague, Penny Green, at the end of June 2023. I join the Trustee Board with nearly 30 years' of pension trustee experience as well as 10 years' service on the Board of a Post-92 London University. I will be working with an established, capable and committed team of trustee colleagues and a skilled team of advisers. At the June trustee meeting colleagues thanked Penny for her dedicated service over the past six years.

In the year since the previous Members' Report, the economic environment for pension schemes has continued to be challenging with persistent inflationary pressure and fluctuating investment performance. At the time of writing, the funding position of the Scheme remains broadly the same as at the previous actuarial valuation in April 2021, with Scheme assets representing about 86% of the value of liabilities to pay benefits. This difference is being addressed by contributions from the University and from investment returns.

The Trustees have started planning for the next triennial actuarial valuation as at 5 April 2024 and aim to complete this by early 2025. This will form a basis for a review of Scheme funding and investment strategies. In the meantime, the Trustees continue to monitor the performance of the Scheme and the financial strength of the University.

I hope that you find the information in this report interesting and informative and that you will be reassured that your pension savings with ERBS are being looked after well. I would welcome any feedback you may have on this report. This can be sent by email or post to the Secretary to the Trustee Directors at the adjacent address.

Steve Balmont,
BESTrustees Limited,
Chair of the Trustee Board, December 2023.

Trustee board

For general queries about the Scheme or to obtain formal documents please contact:

Secretary to the Trustee Directors
Phil Farrell
Quantum Advisory, St Mary's Court,
The Broadway, Amersham,
Bucks, HP7 0UT

Email: exeterretirement@Qallp.co.uk
Telephone: 020 3008 7197

If you have any questions about your benefits or wish to notify change of personal details, please contact:

The ERBS Administration Team
Broadstone Consultants & Actuaries Ltd
Broadstone House
23-25 St George's Road
Bristol
BS1 5UU

Tel: 0117 937 8700
Email: ERBS@broadstone.co.uk

Spring Budget – changes to Lifetime Allowance (LTA)

The Lifetime Allowance ("LTA") limits the total amount of tax-relieved pension savings that an individual can build up over their lifetime across all their registered pension schemes without incurring an additional tax charge.

From 6 April 2023:

- the LTA charge has been removed;
- the maximum tax-free pension commencement lump sum is frozen at its current level of £268,275 (25% of the 2022/23 LTA). Individuals with LTA protections may be subject to specific limits;
- certain lump sums which can currently be subject to an LTA charge of 55% (for example serious ill-health lump sums, LTA excess lump sums) will be taxed at an individual's marginal rate.

With effect from **6 April 2024**, the LTA will then be abolished altogether. The detail of this will be set out in a future Finance Bill.

Pension scams

Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing.

Scammers design attractive offers to persuade you to transfer your pension to them or to release funds from it. It is then invested in unusual and high-risk investments like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

Four simple steps to protect yourself from pension scams:

1. **Reject unexpected offers** – If you're contacted out of the blue about your pension, chances are it's high risk or a scam. Be wary of free pension review offers. A free offer out of the blue from a company you have not dealt with before is probably a scam. Fortunately, research shows that 95% of unexpected pension offers are rejected
2. **Check who you're dealing with** – Check the Financial Services Register (**fca.org.uk/firms/financial-services-register**) to make sure that anyone offering you advice or other financial services is FCA-authorised.

   If you don't use an FCA-authorised firm, you also won't have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme. So you're unlikely to get your money back if things go wrong. If the firm is on the FCA Register, you should call the Consumer Helpline on 0800 111 6768 to check the firm is permitted to give pension advice.

   Beware of fraudsters pretending to be from a firm authorised by the FCA, as it could be what we call a 'clone firm'. Use the contact details provided on the FCA Register, not the details they give you.
3. **Don't be rushed or pressured** – Take your time to make all the checks you need – even if this means turning down an 'amazing deal'. Be wary of promised returns that sound too good to be true and don't be rushed or pressured into making a decision.
4. **Get impartial information and advice – MoneyHelper** (**moneyhelper.org.uk**) – Provides free independent and impartial information and guidance.

   Pension Wise – Is a service from MoneyHelper, backed by government (**moneyhelper.org.uk/en/pensions-and-retirement/pension-wise**). If you're over 50 and have a defined contribution (DC) pension, Pension Wise offers pre-booked appointments to talk through your retirement options.

   Financial advisers – It's important you make the best decision for your own personal circumstances, so you should seriously consider using the services of a financial adviser. If you do opt for an adviser, be sure to use one that is regulated by the FCA and never take investment advice from the company that contacted you or an adviser they suggest, as this may be part of the scam.

Learn how to protect yourself from pension scams by visiting **fca.org.uk/scamsmart/how-avoid-pension-scams**. If you think you have been scammed or are being targeted by a pension scam, you should contact Broadstone (contact details on page 1) and Action Fraud on 0300 123 2040.

MoneyHelper – pension information service

MoneyHelper is an easy way to get free, trusted help for your money and pension choices.

The services previously provided by the Money Advice Service, the Pensions Advisory Service and Pension Wise all come under MoneyHelper, bringing everything together in one place.

Offering free, impartial help that's quick to find and easy to use, MoneyHelper is available online or over the phone, providing clear money and pensions guidance, as well as pointers to trusted services, if you need more support. It helps people to clear their debts, reduce spending and make the most of their income to build up savings and pensions and know their options. Visit **moneyhelper.org.uk**.

High inflation

In light of the current economic issues being experienced in the UK, specifically the high rate of inflation which is expected to continue during 2023, we strongly recommend that you seek independent, impartial financial advice to determine whether it is in your best interests to take your benefits now or defer your retirement to a later date.

DWP mid-life MOT

The Department for Work and Pensions (DWP) has launched its mid-life MOT website aimed at providing workers with guidance and financial planning ahead of retirement.

The Mid-life MOT is a review for workers in their 40s and 50s that helps them take stock of their finances, skills and health, and enables them to better prepare for their retirement and build financial resilience.

Mid-life MOTs will be delivered online, in the private sector and through the Department for Work and Pensions (DWP's) national network of jobcentres.

These initiatives will help more people, both in and out of work, to assess their options and opportunities to ultimately enjoy a more financially secure retirement. You can access the DWPs mid-life MOT site here: **jobhelp.campaign.gov.uk/midlifemot**

State Pension Age ('SPA') date changes

The Government has shelved plans to bring forward an increase in the State Pension Age (SPA) to 68.

Under current legislation, the SPA is expected to increase to 68 between 2044 and 2046. The Government had proposed bringing this forward to 2039 (with the media reporting that it could even happen as early as 2033). However, earlier this year the Government confirmed that the SPA timetable would remain unchanged for the time being.

Cyber security

Following the recent the data breach reported in the press in relation to another pension administrator, the Pensions Regulator has said, "This incident shows the importance of having a robust cyber security and business continuity plan in place. Make sure you have read the cyber security guidance and check that your own plans are up to date. We may engage with you further to understand the steps you have taken and what progress you have made."

Please be assured that the Scheme administrator, Broadstone, has confirmed that they have reviewed their cyber security controls in line with the recommended guidance. Broadstone is both ISO 27001 and Cyber Security Essentials Plus accredited, and the firm takes a risk-based approach to managing information security. This approach is audited externally several times a year and the Trustee continues to review this on a regular basis. Broadstone continues to develop its cyber security defences to meet the ever-evolving threat landscape.

Guaranteed Minimum Pension (GMP) equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes.

The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits.

The Trustee has completed the GMP equalisation project for pensioners of the Scheme and expects to complete the project for deferred members of the Scheme by the end of 2023. You would have been or will be contacted if your benefits are affected. Any benefits in payment, or quotations you request following the completion of the exercise will take account of the requirement to equalise GMPs.

Summary Funding Statement

Every three years the Scheme Actuary (a financial expert who specialises in estimating how pension funds might develop) carries out a formal check on the Scheme's finances, called a 'valuation' and produces less formal 'updates' in the years between formal valuations.

The Trustee reports the results of these financial checks to you in a 'Summary Funding Statement'. This year we are reporting the results of the latest formal actuarial valuation as at 5 April 2021 and the annual funding update as at 5 April 2023.

Understanding scheme funding

The ERBS is set up as a shared fund of money to which contributions are paid by the University (and – prior to closure – by you, the members). Your benefits are paid out of this fund. There is no separate account for you. The Trustee is responsible for agreeing a 'funding plan' with the University, with a view to making sure that there is enough money in the Scheme to pay for pensions now and in future. This amount is known as the 'funding target' (the official name for it in the Regulations is the 'technical provisions').

To work out the funding target, the Scheme Actuary looks at the benefits the Scheme is currently paying and estimates how the cost of the benefits might change in the future. The Scheme Actuary uses assumptions (which have been agreed by the Trustee in consultation with the University) in respect of various factors; for example, how long people will live after they retire and how much the cost of living will rise in future.

Then the Scheme Actuary looks at the Scheme's assets which are represented by the money the Scheme has built up to date from contribution income and investment returns and compares the value of those assets at the valuation date with the funding target. If the assets of the Scheme are worth more than 100% of the funding target, the Scheme has a surplus. If the assets are worth less than 100% of the funding target, the Scheme has a shortfall (or deficit).

How well funded is the Scheme?

The table below shows the results of the latest formal actuarial valuation as at 5 April 2021 and the annual funding update as at 5 April 2023:

	Formal actuarial valuation 5 April 2021	Approximate annual update 5 April 2023
Funding target	£173.5 million	£121.0 million
Value of Scheme assets	£148.3 million	£104.1 million
Shortfall	£25.2 million	£16.9 million
Funding level	85%	86%

Since the formal actuarial valuation at 5 April 2021, the Scheme's funding position has improved, with the funding level estimated to have increased from 85% to 86% over the 2 years to 5 April 2023 with the shortfall estimated to have decreased from £25.2 million to £16.9 million.

Since the last Annual Actuarial Report as at 5 April 2022 the Scheme's technical provisions funding level is estimated to have fallen slightly in percentage terms but the deficit is estimated to have reduced by around £3.6 million.

Over the year gilt yields rose significantly which acted to reduce both the technical provisions and the value of the Scheme's assets. The assets fell by slightly less than the technical provisions, which, together with the deficit contributions paid, reduced the deficit.

Removing the shortfall

As part of the formal actuarial valuation as at 5 April 2021, the Trustee agreed a Recovery Plan with the University that was designed to bring the Scheme to a fully funded position.

The University agreed to pay contributions at the level of around £2.4 million a year, with additional contributions of around £1 million from 1 January 2025. These contributions are increased each year in line with inflation plus 0.5%. In addition, the University continues to meet the expenses of running the Scheme, and an allowance of around £480,000 a year (also increasing as described above) was agreed with the Trustee.

These contributions, together with anticipated investment returns on the Scheme's assets, were expected to remove the shortfall of £25.2 million at the valuation date by 31 December 2027. The Trustee will consider whether any changes to the current funding plan (including the underlying assumptions used) are required as part of the next formal Actuarial Valuation due as at 5 April 2024.

If the Scheme came to an end

The Scheme's funding level is worked out in two ways.

- On an 'ongoing' basis (as shown in this funding statement), which assumes that the Scheme will continue into the future.
- On a 'full solvency' basis, which shows the position if the Scheme had started to 'wind up' at the date of the valuation. If this happened, all members' benefits would have to be secured by buying insurance policies. This would be more expensive than paying the benefits gradually over time so the full solvency position is generally lower than the ongoing position, even for fully funded pension schemes.

At 5 April 2021, the Scheme's full solvency funding level was 68% with an estimated shortfall of £68.7 million.

Please note that we are legally required to report the full solvency position as part of this funding statement. However, the University has no current plans to end the Scheme.

The Pensions Regulator

The Pensions Regulator is the UK watchdog of workplace pension schemes. It has the authority to change the way occupational pension schemes are run through imposing a schedule of contributions or instructing trustees on how to calculate the technical provisions. It has not needed to use its powers in this way for our Scheme. You can find out more about the Regulator online at **thepensionsregulator.gov.uk**

We must also tell you if there have been any payments to the University out of Scheme funds in the last 12 months. There have not been any such payments to the University over that period.

Annual Report and Accounts

It is the responsibility of the Trustee to keep accurate financial records for the Scheme and to produce an Annual Report and Accounts.

The financial information below is an extract from the full statutory accounts for the Scheme year to 5 April 2023 which have been audited by Assure UK. The auditors have issued an unqualified audit opinion and an unqualified audit statement about contributions. The full Annual Report is available on the ERBS website: **exeter.ac.uk/pensions/erbsscheme**

Financial summary

The table below summarises the movements in the value of the Scheme's assets over the year to 5 April 2023. Whilst the value of the Scheme's assets fell significantly over the year, the value placed on the Scheme's liabilities also fell in value due to the hedging strategy in place. The net impact was a slight deterioration to the funding level with a reduction in the estimated deficit in monetary terms over the year. For further details, see the sections headed "Investment matters" on page 6 and "How well funded is the Scheme?" on page 4.

Assets at the start of the year	£148.6m
Liabilities at the start of the year	£169.1m
Funding level	**88%**

	£'000
Assets at the start of the year	**148,213**
Income for the year	
Contributions received	3,006
Other income	–
Total income	**3,006**
Expenditure for the year	
Benefits payable	(5,165)
Payments for leavers	(144)
Administrative expenses	(574)
Total expenditure	**(5,883)**
Net withdrawals from dealings with members (income less expenditure)	(2,877)
Returns of investments	
Investment income	57
Change in market value of investments	(41,284)
Investment management fees	(159)
Net returns on investments	**(41,386)**
Net decrease in the Fund during the year	(44,263)
Fund at the end of the year	**103,950**

Assets at the end of the year	£104.1m
Liabilities at the end of the year	£121.0m
Funding level	**86%**

Note that the accounts as summarised opposite cover the year to 5 April 2023 but investment performance is measured on a quarterly basis and therefore the review against performance targets on the next page covers the 12 months to 31 March 2023.

Membership

During the Scheme year to 5 April 2023, the number of members in the Scheme **decreased** by 41 from **3,196** to **3,155**. Membership at the end of the year was split as follows:

2,157
Deferred members

998
Pensioner members

Advisers to the board

- **Scheme Actuary and Consultant**
  Jay Harvey (Aon)
- **Legal Advisers**
  Burges Salmon LLP
- **Investment Adviser**
  Aon
- **Investment Managers**
  BlackRock Investment Management (UK) Ltd
- **Investment Custodians**
  Bank of New York Mellon (International) Ltd
- **Auditor**
  Assure UK
- **Scheme Administrator**
  Broadstone Consultants & Actuaries Limited
- **Covenant Advisers**
  Aon
- **Scheme Secretary**
  Phil Farrell (Quantum Advisory)

Investment matters

The Trustee is responsible for determining the Scheme's investment strategy (in consultation with the University).

The Trustee Directors have agreed a Statement of Investment Principles ("SIP") that governs decisions about the Scheme's investments. The SIP is reviewed on a regular basis and the latest version approved in June 2023 is available on the ERBS website **exeter.ac.uk/pensions/erbsscheme**

In deciding on the investment strategy, the Trustee Directors consider the level of investment returns they need to ensure benefits can be paid and the amount of risk they believe to be acceptable. As a result, a significant proportion of the Scheme's assets are held in government bonds ('gilts'). The value of these assets is expected to move broadly in line with the value of the Scheme's liabilities, protecting the Scheme's funding position. Importantly, the Scheme was not directly impacted by the negative news stories regarding Liability Driven Investment (LDI) assets held by pension schemes towards the end of 2022 because the Scheme's approach to liability matching involves the use of physical gilts only and does not involve any leverage or borrowing.

The Trustee reviewed the Scheme's investment strategy over the Scheme the year and given the improvement in funding shortfall since the April 2021 valuation, made the decision to further de-risk the investment strategy. As a result, 5% of Scheme assets were re-allocated from equities to a short-term cash fund in January 2023. The Trustees will continue to monitor the position of the Scheme and instruct changes as appropriate.

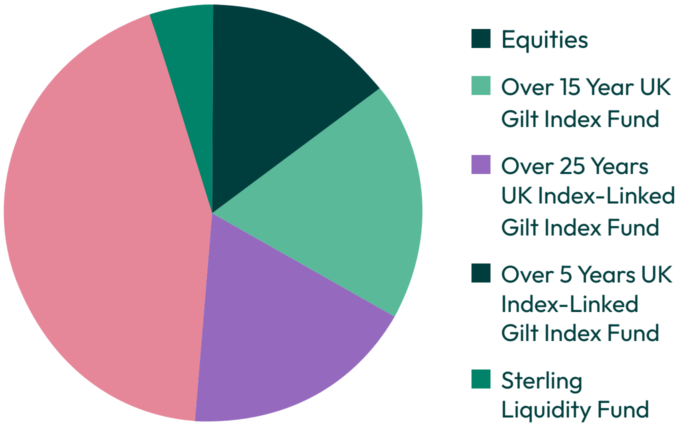
Social, environmental or ethical considerations

The Trustee Directors recognise that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. BlackRock have produced a statement setting out its policy in this regard and they have been delegated by the Trustee to act accordingly. Further detail is set out in the SIP.

The Scheme's target asset allocation has been adjusted over the year from 20% equities and 80% bonds to 15% equities, 80% bonds and 5% cash.

At 5 April 2023, £15 million was held in equities and £88 million in the bond and cash portfolio, broadly in line with the target.

Investment portfolio 5 April 2023



Investment performance

At the end of the financial year to 5 April 2023, the Scheme's investment asset portfolio stood at a total of £104 million compared with £148 million at the same date last year. A total of £1.5 million was withdrawn during the year to supplement cash flow for funding future benefit payments, of which £0.95 million was held on deposit at 5 April 2023.

Over the year, global interest rates rose as central banks tried to combat persistent inflation. Higher long-term interest rates caused the value of both the Scheme's liabilities and its bond portfolio (which is intended to move broadly in line with the liabilities) to fall significantly. However, as can be seen in the section "How well funded is the Scheme?" on page 4, despite this significant fall in the value of the assets, the Scheme's funding position improved by around £3.6 million over the year as a result.

The target investment return for the Scheme following this de-risking is 0.8% per annum above the return on a portfolio of fixed and index-linked gilts which broadly match the Scheme's liabilities.

The table below shows how the different parts of the Scheme's investment portfolio performed:

Return period	Equities per annum	Bonds/gifts per annnum
Over the last 12 months	-5.0%	-34.3%
Over the last 3 years	+15.9%	-11.9%

Keep your details up to date

It is important to let the Trustees and the Scheme administrator, Broadstone, know of any major changes to your circumstances, such as changing your address. You should also make sure that your Expression of Wish Form is up to date as this lets the Trustee know who you would like to receive any benefits that become available should you die. Whilst the Trustee is not legally bound to follow your wishes, they will always be taken into account.

An Expression of Wish Form can be requested from Broadstone (contact details on page 1).