SPENCE

2024 DB Pensions Benchmarking Report for pre 1992 universities

Key findings

Welcome to the inaugural 2024 Spence Pre 1992 Universities DB pensions Benchmarking Report. Most pension provision in the university sector is through large multi-employer schemes like the Universities Superannuation Scheme (USS), the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). However, many of the pre 1992 universities also have their own DB schemes for non-academic staff, and it is these Self Administered Trusts (SATS) that we focus on here. With USS costs now under control, it is a sensible time for universities to be reviewing their SATS. We have analysed the 31 July 2023 accounts of 30 pre 92 universities with SATS. In aggregate, this covers £6.5bn of DB assets. Our key findings are:

Average funding level is 93% on an FRS102 basis and 75% on an insurance buy-out basis	Pre 92 university DB schemes on average are more poorly funded than other sectors...
DB buy-out deficits average 11% of unrestricted university reserves	but the DB schemes are not that material relative to university balance sheets.
DB contributions average 1% of total income	Contribution levels are a small proportion of university income, although overall pension costs are higher when including USS and other schemes.
Average deficit recovery plan runs to 2030	Recovery plans are longer than in other sectors.
70% remain open to future accrual, of which 27% remain open to new hires	Far more universities have kept schemes open than in other sectors.
Annual running costs average £700,000	Scope to reduce running costs in some cases.

What should universities be doing?

1) REVIEW LONG TERM OBJECTIVES

Funding levels for DB schemes have improved dramatically in the last two years with rising yields. This has also shrunk scheme liabilities, often by around 40%, meaning schemes are now less of a risk to university balance sheets. On top of this, the pensions regulatory environment is encouraging strategies other than insurance buy-out for DB schemes to better deploy the £1.4trn of assets in DB schemes for the UK economy. One option is run-on, which opens up the ability to generate surplus and share this with sponsoring employers or use it to subsidise future accrual costs.

With 70% of university SATS still open to future accrual, and therefore not as mature as most private sector DB schemes, the run-on opportunity is more significant for universities than many other employers. Universities should review their long-term objectives in light of this regulatory development.

Four of the better funded schemes in this analysis could all generate surplus distributions back to their sponsoring universities of over 20% of scheme assets over the next 10 years with a run-on strategy.

2) REVIEW SCHEDULES OF CONTRIBUTIONS OUTSIDE OF THE TRIENNIAL CYCLE

Rising yields have significantly reduced the cost of future pension accrual, typically by around 40%. A required employer contribution rate of 30% of salaries two years ago is now likely under 20%. Past service funding levels may also be ahead of plan, meaning the current amount of deficit contributions may no longer be necessary. Universities and scheme trustees should consider revising schedules of contributions to ensure contributions are not being paid at a higher level than is necessary. This does not have to happen as part of a triennial valuation – it is possible to revise schedules outside of the triennial valuation cycle.

3) REVIEW OPERATIONAL PROCESSES AND COSTS

Running costs for DB schemes can get very high if left unchecked, and we've seen that come through in the analysis with average running costs of £700,000 per annum. Whilst some of this is justified with data work such as the need to equalise GMPs, some of it can be removed by using the latest systems and a simplified governance model. Options to consider include:

- **Review service providers:** with continued consolidation and innovation in the provider market, review service providers to ensure you are getting the best value for money.
- **Shrink trustee boards:** consider shrinking boards to three trustees or use a sole trustee to drive efficiencies and quicker decision making.
- **Consider consolidation or packaged solutions:** many advisers and professional trustee firms now offer lower cost solutions, particularly for admin and actuarial services, which leverage economies of scale from a book of clients. Consolidating in to other larger sector DB schemes could also be considered.

We estimate the average running costs of £700,000 per annum in this analysis could be cut by 30% with these actions – that is an average saving of £200,000 per annum.

Get in touch

If you are involved in a DB scheme in the university sector and want to discuss ways to address deficits, access surpluses, reduce running costs or assess your scheme against this analysis, then please get in touch.

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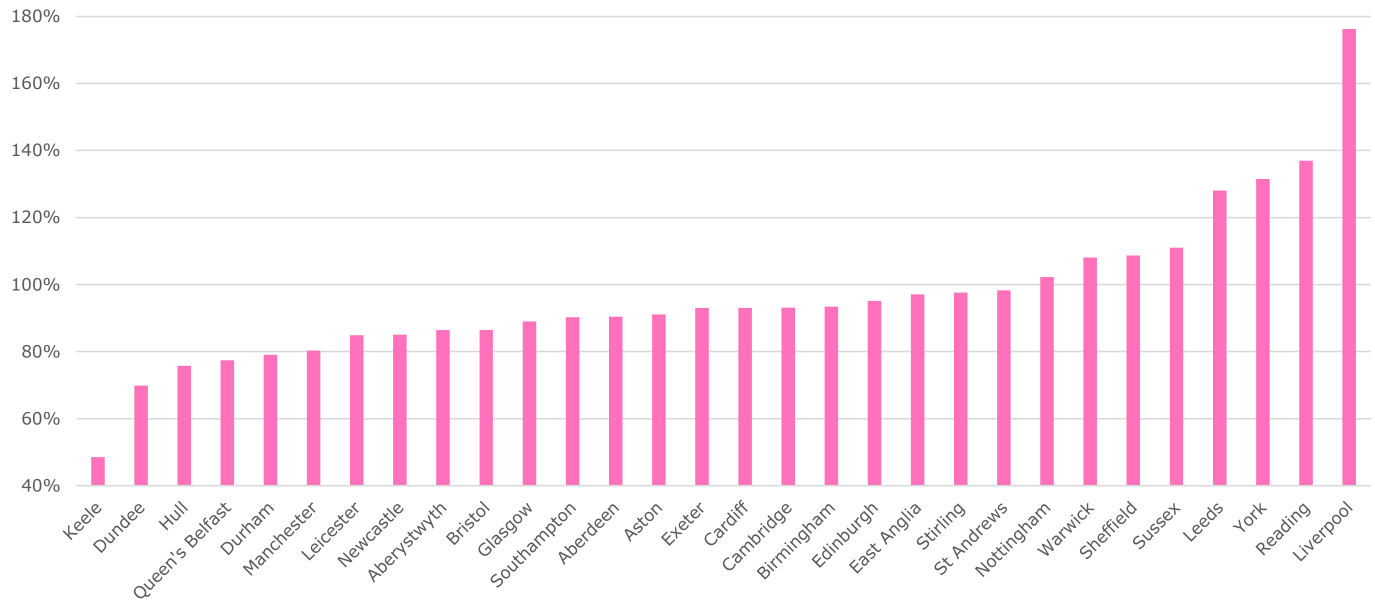
The results in more detail

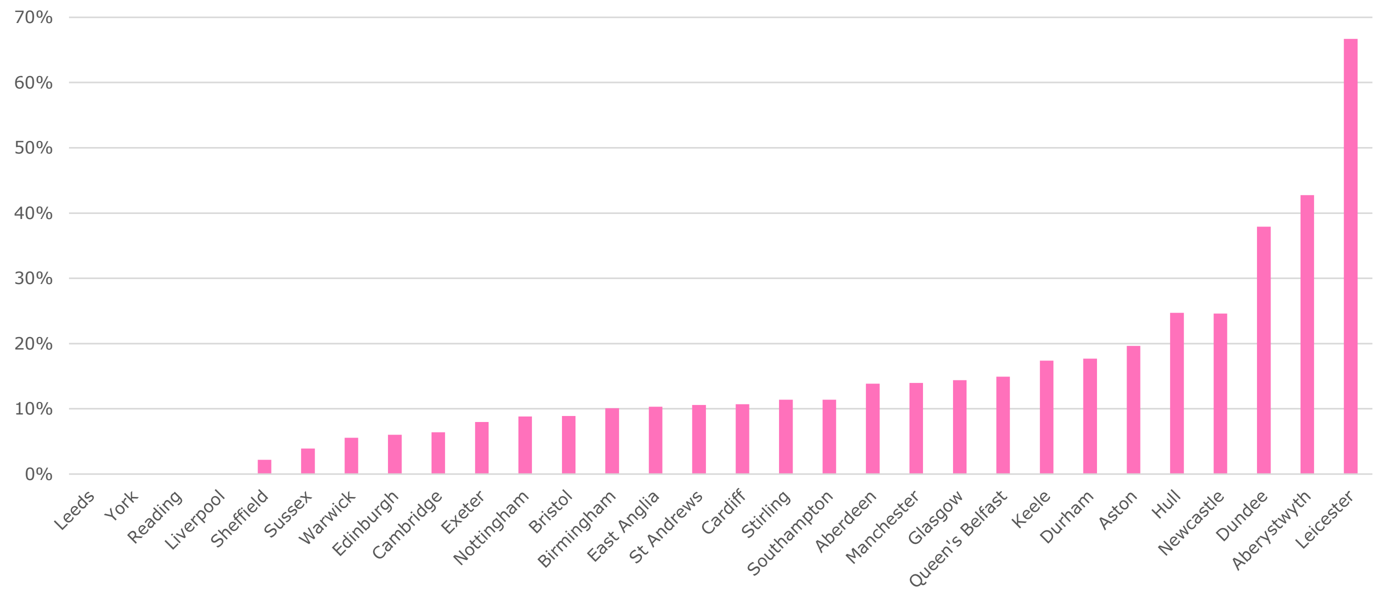
The charts below show the spread of outcomes for the different university schemes included in this analysis.

FRS102 FUNDING LEVEL



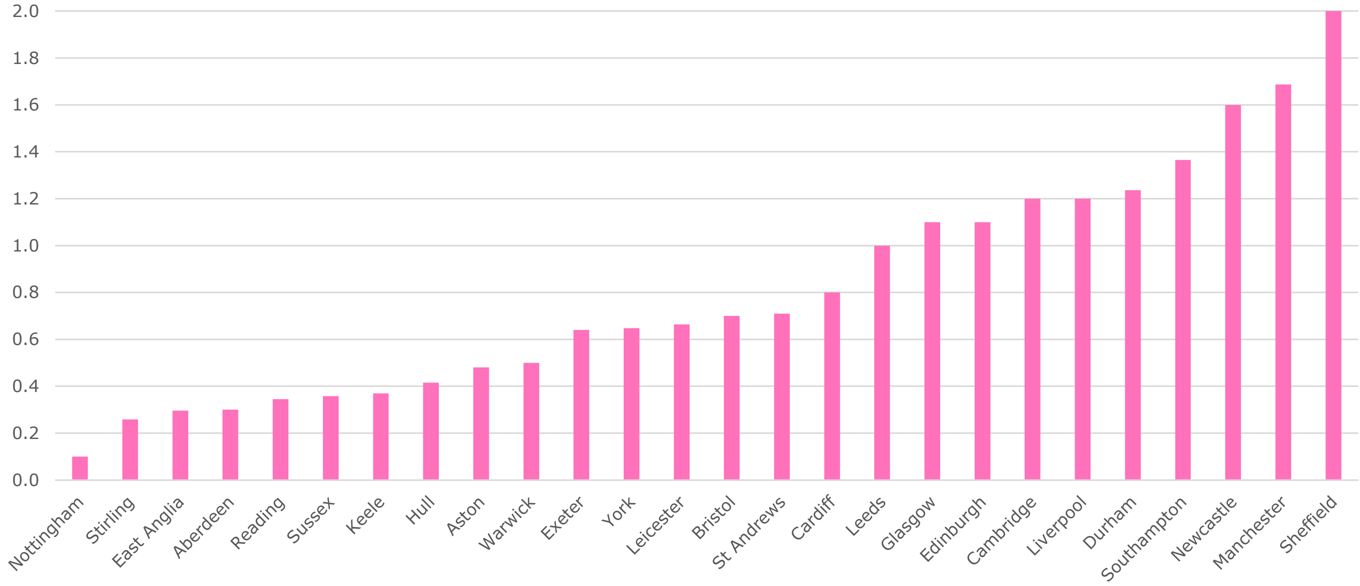
- Wide range of funding levels from 49% to 176%, but on average more poorly funded than other sectors.
- 50% of the universities in surplus recognise the surplus in full on the balance sheet, in some cases offsetting this DB asset against the USS deficit. The remaining 50% restrict the DB asset recognised on the balance sheet.

ESTIMATED INSURANCE BUY-OUT DEFICIT AS A PROPORTION OF UNIVERSITY UNRESTRICTED RESERVES



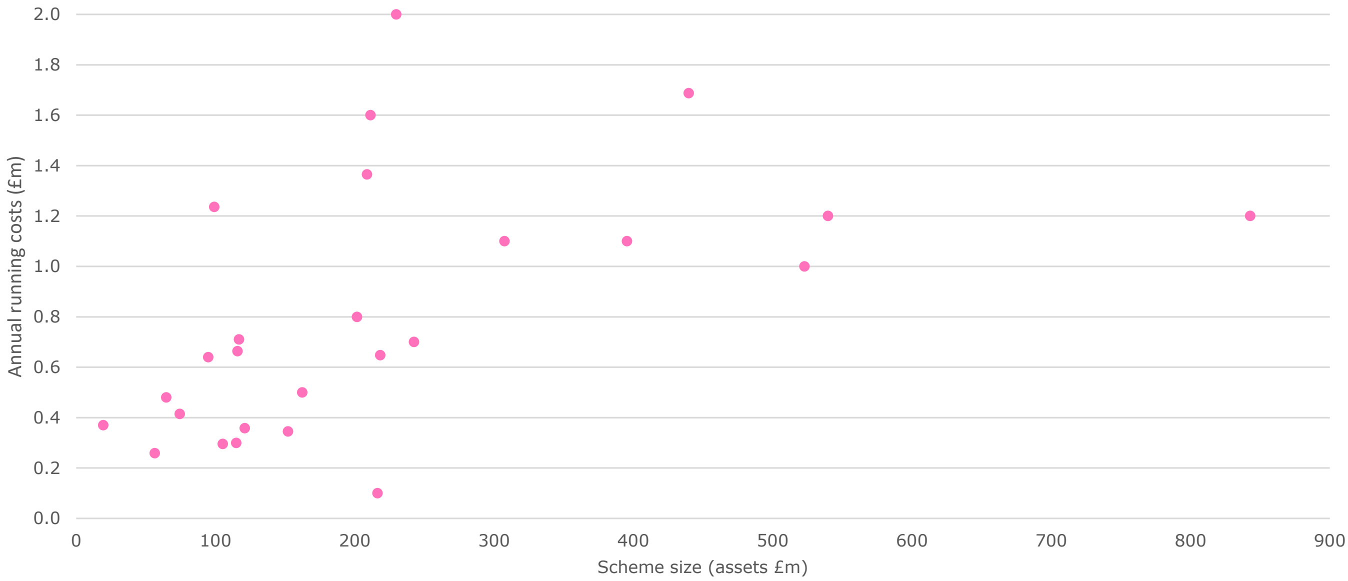
- Pension deficit is generally manageable relative to the university balance sheet, although three universities have an estimated buy-out deficit of more than 30% of Unrestricted Reserves.
- Universities with better funded schemes, that are small relative to their balance sheets, may be able to support a run-on strategy.

RUNNING COSTS (£M PER ANNUM) – RANKED BY MAGNITUDE



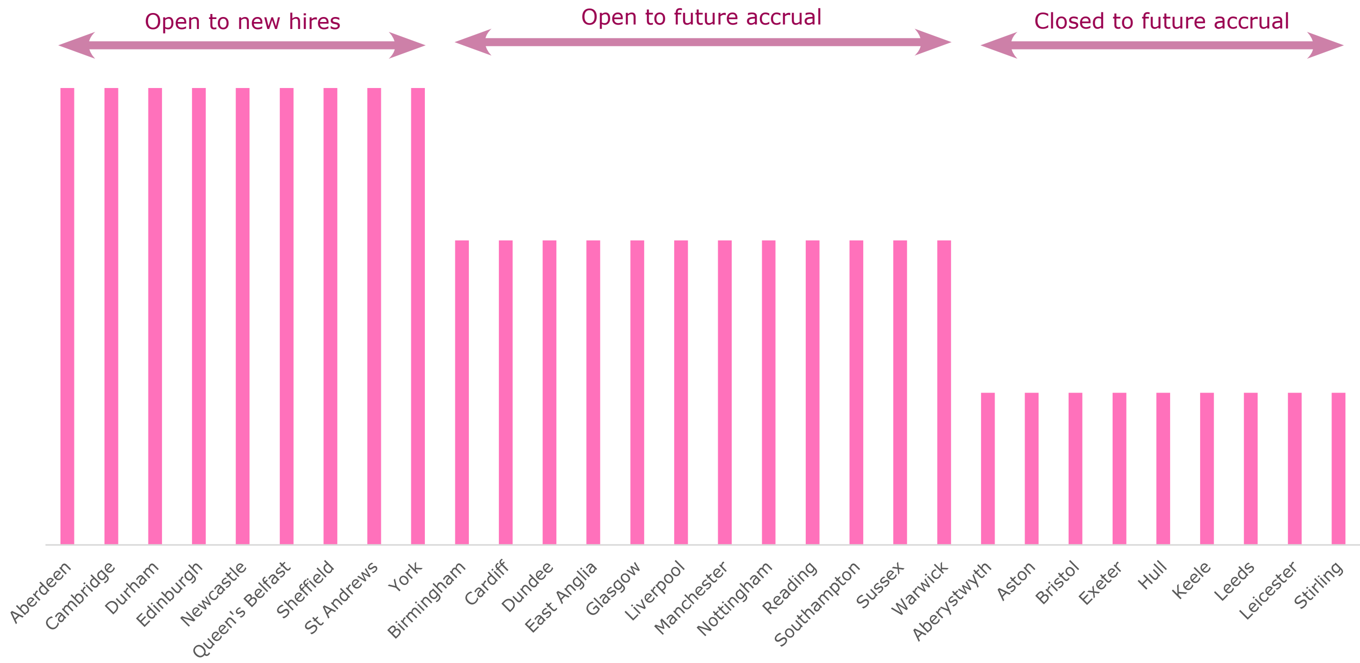
- Running costs vary from £100,000 a year to £2m a year with a median level of £700,000.
- Running costs are correlated to some extent to scheme size (see next chart). Another factor driving running costs is project work (e.g. GMP equalisation or changes to pension benefits).

RUNNING COSTS (£M PER ANNUM) – RANKED BY SCHEME SIZE



- Whilst there is a correlation between scheme size and running costs, there is also a wide dispersion of costs at particular scheme sizes, particularly around the £200m scheme size level.

SCHEME STATUS – OPEN TO NEW HIRES, OPEN TO ACCRUAL, CLOSED TO ACCRUAL



- 70% of schemes remain open to future accrual, of which 27% are also open to new hires.
- Most that are still open to accrual have initiated benefit reform in recent years, often moving from a final salary to career average structure.
- A few have DC sections in the Trust, but most that offer DC for newer hires and have set up separate DC arrangements outside of the DB trust.

FULL LIST OF UNIVERSITIES INCLUDED IN THE ANALYSIS

University	Year end	DB assets (£m)	FRS102 liabilities (£m)
Aberdeen	31/07/2023	114.8	127.0
Aberystwyth	31/07/2023	72.3	83.6
Aston	31/07/2023	64.6	70.9
Birmingham	31/07/2023	292.3	312.9
Bristol	31/07/2023	242.5	280.4
Cambridge	31/07/2023	842.8	905.4
Cardiff	31/07/2023	201.6	216.7
Dundee	31/07/2023	94.6	135.5
Durham	31/07/2023	99.0	125.3
East Anglia	31/07/2023	105.1	108.3
Edinburgh	31/07/2023	395.4	415.6
Exeter	31/07/2023	94.7	101.8
Glasgow	31/07/2023	307.5	345.4
Hull	31/07/2023	74.3	98.1
Keele	31/07/2023	19.3	39.8
Leeds	31/07/2023	522.7	408.2
Leicester	31/07/2023	115.8	136.4
Liverpool	31/07/2023	539.7	306.3
Manchester	31/07/2023	439.7	547.5
Newcastle	31/07/2023	211.2	248.4
Nottingham	31/07/2023	216.3	211.6
Queen's Belfast	31/07/2023	164.2	212.1
Reading	31/07/2023	152.0	111.0
Sheffield	31/07/2023	229.8	211.5
Southampton	31/07/2023	208.8	231.3
St Andrews	31/07/2023	116.8	118.9
Stirling	31/07/2023	56.4	57.8
Sussex	31/07/2023	121.0	109.0
Warwick	31/07/2023	162.3	150.2
York	31/07/2023	218.3	166.0

Oxford University also has a DB scheme, but it is accounted for on a DC basis as it is a multi-employer scheme across the colleges and is therefore excluded from this analysis.

Methodology

We have analysed the latest published accounts of 30 pre 1992 universities with SATS. The schemes range in size from £20m to £800m of assets.

The vast majority of the data is taken directly from the university accounts, without making any further judgements, but further detail on the approach used includes:

- Unrestricted reserves of the universities are considered when assessing the size of the university relative to the size of the pension scheme. This is on the basis that restricted funds and endowments are generally not available to support the pension schemes.
- The unrestricted reserves considered are prior to the deduction of any DB deficit or addition of a DB asset for the SATS in this analysis. Any reserves adjustments for other pension schemes (e.g. USS) are retained.
- Insurance buy-out liabilities are estimated by applying a 25% uplift to the disclosed FRS102 liabilities. This is intended to give a broad proxy for the cost of buy-out but does not reflect scheme specific circumstances and maturity.
- Some universities are excluded from some of the metrics because the data was not disclosed (for example with scheme running costs).

About Spence & Partners

The charity and not-for-profit practice at Spence & Partners has a 20-year track record of delivering pensions advice and is recognised as one of the pre-eminent pensions advisers in the sector. We have advised 100s of charities and not-for-profit organisations on pensions, including universities, colleges and trustees of SATS.

Spence & Partners uses the proprietary pensions software Mantle for advising and administering DB schemes. This integrated actuarial, administration and investment system fully automates processes and removes the need to transfer data from one system to another, significantly reducing running costs for schemes.

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