

The University of Oxford Staff Pension Scheme

Summary Funding Statement as at 31 March 2019 and 31 March 2020

As a member of the Defined Benefit (DB) Section of the University of Oxford Staff Pension Scheme ('OSPS' or the Scheme'), we are writing to provide you with an update of the financial position of the Scheme following the completion of the actuarial valuation as at 31 March 2019. We have also included an update of the financial position at 31 March 2020.

Background

The Trustee obtains regular actuarial valuations – or financial health checks – of the Scheme. These take place every three years, with approximate updates provided by the Scheme's actuary in the intervening years. The process involves a comparison of the market value of the assets held by the Scheme at the valuation date with the amount estimated to be needed to pay the benefits built up to that date, determined using assumptions regarding future unknown events (the 'technical provisions'). In practice, the Trustee, having taken the advice of the Scheme's actuary, comes to an agreement with the University on both the assumptions to use to determine the Scheme's technical provisions and the level of contributions to be paid to the Scheme in the future as a result.

The Trustee is required by law to report the results of these valuations, and the approximate annual updates, in the form of a 'summary funding statement'. The last summary funding statement set out the results of the annual update as at 31 March 2018 and was included in the annual report to members issued in Autumn 2018.

As part of the summary funding statement we are required to tell you whether any payments have been made from the Scheme's assets to the University or the other participating employers since the last summary funding statement. There have been no such payments other than the fees paid to the University's Pensions Office in respect of their role as the Scheme's administrator. We are also required to tell you whether the Pensions Regulator has exercised its statutory powers to modify the Scheme's benefits or to determine the outcome of the actuarial valuation or the contributions to be paid to the Scheme. We are pleased to confirm that, to date, the Regulator has never used any of these powers on OSPS.

2019 actuarial valuation

Since the last summary funding statement, a new actuarial valuation as at 31 March 2019 has been completed. This revealed that the Scheme's assets were around 87% of its technical provisions as at that date, which was equivalent to a shortfall of £112.8M. As at 31 March 2018, the date of the last summary funding statement, the Scheme's assets were estimated to be around 78% of its technical provisions (equivalent to an estimated shortfall of £191.8M). The improvement in the funding position over the year to 31 March 2019 was primarily as a result of strong investment returns on the Scheme's assets and the new assumptions used to calculate the technical provisions that were agreed between the Trustee and the University.

As a result of the shortfall revealed by the valuation of £112.8M as at 31 March 2019, it was agreed that the University and the other participating employers would continue to pay contributions at the rate of 19% of members' pensionable salaries. This contribution rate is payable in respect of both DB and DC members of the Scheme. It is expected to be sufficient to eliminate the shortfall relative to the technical provisions by 31 January 2028, as well as meeting the cost of the future accrual of benefits and the expenses of administering the Scheme, taking into account anticipated future investment returns.

2020 annual update

Legislation requires the Scheme's actuary to report on the progress of the Scheme's funding position on an approximate basis in years when there is no formal valuation. The actuary's calculations as at

31 March 2020 indicated that, at that date, the Scheme's assets were around 81% of the estimated value of the liabilities. In pound terms, this means that the shortfall is estimated to have grown from £112.8 million to around £167 million over the year to March 2020 – an increase of around £50M. This assessment used assumptions consistent with those used for the 31 March 2019 valuation, however it does not take into account any changes to the assumptions that may be agreed if a full valuation was being carried out at the current date.

The main reason for the deterioration in the funding position over the year to 31 March 2019 has been the fall in long-term interest rates (which has acted to increase the value placed on the Scheme's liabilities) combined with falls in the value of the Scheme's assets in the first quarter of this year as markets responded to the global COVID-19 pandemic.

Winding up

As part of the valuation we are required to consider the position if the Scheme was to wind up (i.e. close down completely) even though the University and the other participating employers have no intention to do this.

Had the Scheme been wound up on 31 March 2019, then the additional assets required to meet all members' benefits in full were estimated to be around £499 million – on this basis the Scheme was around 60% funded. This represents a significant improvement relative to the position at the last actuarial valuation when the Scheme was estimated to be 42% funded on this basis.

This calculation assumes that all benefits would be secured with an insurance company, and insurance companies are obliged to take a very cautious view of the future as well as making a profit. For these reasons it is common practice for pension schemes such as OSPS to target a lower level of funding than that required to secure all benefits with an insurance company.

Future “health checks”

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of the Scheme relies on the continuing support of the University and the other participating employers. The next formal actuarial valuation of the Scheme will be as at 31 March 2022, at which point the Trustee and the University will consider whether any changes to the contribution rate are required. In the meantime, the Scheme's actuary will produce a further approximate annual update as at 31 March 2021 and we will communicate the results of this to you in next year's annual report to members in the usual way.

Since the annual update as at 31 March 2020 the Scheme's assets have rebounded significantly, however the funding position remains volatile as the impact of the current COVID-19 pandemic continues to be felt by global investment markets. Further information will be provided in the next summary funding statement.

Further information

The Scheme website provides a range of information including news, guides, forms and documents[, as well as the actuary's full report of the actuarial valuation as at 31 March 2019]. You can find it at:

<https://finance.admin.ox.ac.uk/osps>

Contact us

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