

University of Oxford Staff Pension Scheme ('OSPS' or 'the Scheme')

Scheme facts and figures

This document contains key figures illustrating the development of our Scheme over the year that ended on 31 March 2020.

Defined Benefit (DB) section – Summary Funding Statement

This statement gives you 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 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 the Scheme actuary providing approximate updates in the intervening years. The valuation involves comparing the market value of the assets held by the Scheme at the valuation date with the estimated amount it will need to pay the benefits built up to that date, worked out using assumptions about future unknown events (the 'technical provisions'). In practice, the Trustee, after taking the advice of the Scheme's actuary, comes to an agreement with the University on both the assumptions to use to work out the Scheme's technical provisions and the level of contributions to be paid to the Scheme in the future as a result.

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

As part of the summary funding statement we must 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 for their role as the Scheme's administrator. We must also tell you whether the Pensions Regulator has used its powers to change the Scheme's benefits or direct 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.

Results snapshot

	Valuation at 31 March 2019	Update at 31 March 2020
Value of OSPS's assets	£735.3 million	£727.3 million
Funding target	£848.1 million	£893.9 million
Shortfall	£112.8 million	£166.6 million
		
Funding level	87%	81%

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 £191.8 million). The improvement in the funding position over the year to 31 March 2019 was mainly due to 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.

2020 annual update

The actuary's update at 31 March 2020 showed 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 £166.6 million over the year to March 2020 – an increase of around £50M. This update used assumptions in line with those used for the 31 March 2019 valuation, but it does not take into account any changes that may be agreed if a full valuation was taking place.

The main reason that the funding position worsened over the year to 31 March 2020 has been the fall in long-term interest rates (which has led to an increase in the value of the Scheme's liabilities) combined with falls in the value of the Scheme's assets in the first quarter of this year, as markets reacted to the global COVID-19 pandemic.

Please note that the markets have recovered to some extent since March and, in turn, the schemes finances have, too. At the time of writing, the Scheme's assets have risen in value to above the level they were before the outbreak.

Recovery plan

As a result of the shortfall revealed by the 31 March 2019 valuation, 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 (across both DB and DC members). This should be enough to make up the shortfall 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.

Winding up

As part of the valuation we are required to consider the position if the Scheme was to wind up (that is, 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 from 42% at the last actuarial valuation.

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 the amount needed to secure all benefits with an insurance company.

Future 'health checks'

The Trustee's aim 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, when the Trustee and the University will consider whether any changes to the contribution rate are needed. In the meantime, the Scheme's actuary will produce a further update as at 31 March 2021. We will include the results of this next year's report 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. We will provide more information in the next summary funding statement.

From the accounts

This section includes a summary of the Scheme accounts for the year ending on 31 March 2020, taken from our Annual Report & Financial Statements for the same year. Our auditors, Grant Thornton UK LLP, have approved the full version of the accounts.

If you would like to see the full Annual Report & Financial Statements, please visit the 'Documents' section of the OSPS website at: <https://finance.admin.ox.ac.uk/osps-documents>

	DB section	Investment Builder section	Total
	£000s	£000s	£000s
Income			
Employers' contributions (including salary sacrifice)	25,405	4,666	30,071
Members' ordinary contributions	2,690	577	3,267
Members' additional voluntary contributions	169	65	234
Transfers in	-	651	651
Investment income	5,661	1	5,662
Total income	33,925	5,960	39,885
Expenditure			
Pensions	16,313	7	16,320
Cash sums paid when members retired or died	3,694	146	3,840
Payments for members leaving OSPS	1,613	97	1,710
Administration and investment management fees	1,657	303	1,960
Total expenditure	23,277	553	23,830
Value of the Scheme's assets at 31 March 2019	737,790	3,051	740,841
The difference between income and expenditure	10,648	5,407	16,055
The change in the market value of the Scheme's investments	-18,774	-735	-19,509
Value of the Scheme's assets at 31 March 2020	729,664	7,723	737,387

Member numbers

	CARE section	Investment Builder section	Total 2020	Total 2019
Active members – currently contributing and building up benefits	3,570	2,526	6,096	5,757
Deferred members – no longer contributing, but with benefits in the Section to take at retirement	6,602	949	7,551	6,807
Pensioners (including dependants of members who have died) – now receiving their benefits	4,203	-	4,203	4,073
Total	14,375	3,475	17,850	16,637

Investment update

DB (CARE) section

At the time of writing, we are carrying out an ongoing review of our investment strategy. In the DB section, we want to give the assets enough chance for growth to pay members' benefits, while keeping the overall risk as low as possible.

As you can see from the table below, we aim to place separate proportions of the assets in a range of funds. This is a technique for managing investment risk called 'diversification'. Spreading the assets across different types of investment, regions and managers means that if one fund performs poorly, it need not affect the rest of the assets.

	Asset type	% range of overall assets
Growth investments – funds which are expected to receive relatively high returns, but also carry a higher risk.	Equities (or company shares).	40% to 60%
	Property	8% to 15%
	Other 'illiquid' investments (such as infrastructure)	Zero to 10%
Protection investments – funds which are expected to be more stable than growth investments, and change value broadly in line with the cost of providing pensions.	Credit (including corporate bonds)	15% to 25%
	Matching assets (currently gilts, which are bonds issued by the Government)	10% to 15%
	Cash	0% to 5%

'Illiquid' refers to investments that may take some time to buy and sell, such as property and infrastructure. However, as pension scheme investment takes place over long time-frames, this potential disadvantage is outweighed by the good returns and useful diversification these types of investment are expected to provide.

As you can see, the actual investment spread at 31 March 2020 was very close to our target ranges.

Type of investment	At 31 March 2020
Growth investments	
Global equities (shares in companies worldwide, including the UK and emerging markets)	47.0%
Commercial property (offices and retail)	8.4%
Infrastructure (transport and information networks, and utilities)	4.8%
Diversified growth funds (mixed funds that can change investments quickly to target similar growth to equities at a lower risk)	3.6%
Protection investments	
Index-linked gilts (loans to the Government with returns linked to inflation)	12.9%
Corporate bonds (loans to companies, paying interest) and inflation opportunities (investments that generate income linked to inflation)	16.3%
Cash and other investments (including cash held by the fund managers and amounts to be re-invested)	7.0%
Total	100%

The table below shows the current spread of investment managers and the investments they hold. Since the last newsletter we have appointed Baillie Gifford as a new global equity manager.

Manager	Type of investment held
Acadian Asset Management	Global equities
Baillie Gifford	Global equities
BlackRock Advisors (UK) Limited	Corporate bonds and diversified growth
Capital International	Emerging market multi-asset
Columbia Threadneedle Portfolio Services Limited	Property
DIF Management BV	Infrastructure
Generation Investment Management LLP	Global equities
M&G Investment Management	Inflation opportunities
Macquarie Investment Management (UK) Limited	Infrastructure
Sands Capital Funds	Emerging market equities
State Street Global Advisors	Passively-managed equities and bonds

Investment performance

We monitor the performance of both the individual managers and the Fund overall performance using 'benchmarks'. Benchmarks are 'target' returns to some extent, but they also take market movements into account and the level of performance might be achievable as a result. This is why benchmarks might sometimes seem very low and can even, as below, be negative. At 31 March 2020, the figure and benchmark will be largely reflecting the impact of the downturn following the onset of COVID-19. The table below shows the whole DB section's investment performance, compared to its benchmark, over one, three and five years ending on 31 March 2020.

At 31 March 2020	Scheme	Benchmark
Over one year	-3.3%	-2.7%
Yearly average over three years	2.8% a year	2.5% a year
Yearly average over five years	5.8% a year	4.8% a year

Investment Builder section

Over the year to 31 March 2020 all the Pathway funds' returns were between -1.0% and -7.4%. Again, the timing means that the funds will have felt the impact of stock markets falling as a result of the outbreak.

You can see more up-to-date investment returns for all the Pathway funds by logging into 'Manage your account' on the pension website.