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The University of Oxford Staff Pension Scheme ("the Scheme") Statement of Funding Principles ("SFP")

Introduction

This statement sets out the Trustee's policy for securing that the Statutory Funding Objective ("SFO") is met. It has been prepared by the Trustee to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Jay Harvey, the Actuary to the Scheme.

The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its technical provisions.

This statement replaces the statement dated 19 June 2020 and comes into effect from 27 June 2023.

Employer agreement

The Trustee has discussed and agreed this statement with the University of Oxford ("the University", the Principal Employer of the Scheme) on behalf of all participating employers (collectively referred to as “the Employers”).

Funding objectives in addition to the SFO

In addition to the SFO, the Trustee and the University have the objective of having sufficient assets for the proper maintenance of the Scheme and the benefits under the Scheme. However, future contributions will always be set at least at the level required to satisfy the SFO.

Regular reviews

This statement will be taken into account for the purpose of the actuarial valuation as at 31 March 2022 and will be reviewed, and if appropriate revised, within 15 months after the effective date of each subsequent formal actuarial valuation.

Technical provisions

The technical provisions are the amount that will be needed to pay the Scheme benefits that relate to service up to the valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the technical provisions are intended to provide a prudent estimate of the future experience of the Scheme. However, the Trustee acknowledges that the method and assumptions adopted do not remove the risk that the assets of the Scheme could be insufficient to cover the technical provisions in the future.

They include an allowance for the future potential out-performance (relative to investment in gilts) from continued investment in more risky asset sectors such as equities and property. There is an underlying assumption that the Scheme will continue, with benefits being met from the Scheme as they fall due.

The method and assumptions used to calculate the technical provisions are summarised in Appendices A and B.

Employer contribution rule

Under Clause 25.2 of the Scheme’s Trust Deed & Rules, the Actuary has the unilateral power to certify the contributions that must be paid to the Scheme (with a view to meeting the additional funding objective mentioned above).

The Trustee has received legal advice that the existence of the Actuary's power means that while they must agree the method and assumptions used to determine the employer contributions with the University (taking

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into account the recommendations of the Actuary), the Actuary must also certify that the resulting employer contributions are no lower than he would have provided for if he had remained responsible for determining contributions, taking into account all the matters which the Trustee should have taken into account under the regulations and the Regulator's Code of Practice on scheme funding.

Employer contributions

Employer contributions are assessed by calculating the cost of future benefit accrual (using the same assumptions as for the technical provisions) and, unless agreed otherwise by the Trustee, including an allowance for expenses (excluding investment-related expenses and the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator).

The resulting amount is reduced by the contributions made by members, and, if necessary, further adjusted by the amounts needed to eliminate any shortfall relative to the technical provisions.

The Employers will also meet directly the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator, unless otherwise agreed by the Trustee.

Dealing with shortfalls

Any shortfall in assets compared with technical provisions identified at an actuarial valuation will be eliminated over an appropriate period by the payment of additional contributions in accordance with the recovery plan agreed between the Trustee and the Employers. The additional contributions will normally be included within a single employer contribution rate (expressed as a percentage of active members' Pensionable Salaries) payable over the recovery period to cover both future benefit accrual and shortfall elimination.

In determining the recovery period at any particular valuation the following factors will be taken into account:

- The size of the funding shortfall;
- The business plans of the University and the Employers;
- The Trustee's assessment of the financial covenant of the University and the Employers; and
- Any contingent security offered by the University.

The Trustee normally expects the recovery period to be no longer than 15 years and is of the view that a recovery period of not meaningfully longer than 10 years would be desirable.

The assumptions to be used in the shortfall elimination calculations will be the same as those for calculating the technical provisions. In addition, to the extent agreed between the Trustee and the University, allowance will be made for the expected out-performance of the Scheme's assets relative to the discount rate.

Dealing with surpluses

The Trustee and the University agree that any surplus relative to the technical provisions revealed by the actuarial valuation as at 31 March 2022 will be carried forward to the next valuation as a margin against adverse experience. However, a proportion of any such surplus may be used to pay expenses and/or meet the cost of benefit improvements, subject to the advice of the Scheme Actuary.

In the event that a material surplus relative to the technical provisions is revealed at a subsequent actuarial valuation, the Trustee and the University acknowledge that this surplus will have resulted, at least in part, from the change in indexation for accrued rights agreed following the

actuarial valuation as at 31 March 2016. Accordingly any such surplus shall be used towards improvements to benefits accrued in the Scheme at 31 March 2018 before any reduction to employer contributions. The extent to which it is appropriate to use a surplus towards improvements to benefits shall be determined by the Trustee and the University according to the circumstances at the time, save that the Trustee shall retain its sole discretion to determine the way in which the definition of “Index” is applied in accordance with the Scheme's Trust Deed & Rules.

Post-valuation experience

When dealing with shortfalls and surpluses, the Trustee and the University may agree that approximate allowance should be made for the impact of experience between the valuation date and an agreed subsequent date before the Schedule of Contributions is signed. The funding position will be adjusted by the Scheme Actuary's estimate of the effect of such post-valuation experience, including a suitable margin for prudence. Details of any such allowance will be set out in any recovery plan.

Policy on discretionary increases and funding strategy

Rule 17 of Appendix 3 (General Rules) to the Scheme’s Trust Deed & Rules allows the Trustee (either with the consent of the University or at the request of the Employers) to provide or increase benefits for, or in respect of, all or any of the members of the Scheme. If discretionary increases to benefits are made, the Rules require the Employers to pay such additional contributions as the Trustee, on the advice of the Actuary, decides.

No allowance has been included in the assumptions for paying such discretionary benefits or making increases that are not guaranteed under the Scheme's Trust Deed and Rules. The Trustee will not provide discretionary benefits unless the Employers agree to pay the additional contributions that the Trustee decides (on the advice of the Actuary) are required (if any).

For the avoidance of doubt, the assumptions used to calculate the technical provisions will include an allowance for a proportion of active members who joined the Scheme prior to 1 August 2004 to retire from age 60 on unreduced benefits. Details of this allowance are set out in Appendix B.

Interaction with investment strategy

The assets that most closely match the Scheme’s liabilities are a portfolio of predominantly index-linked gilts or swaps of appropriate term compared to the liabilities. However, the Scheme is invested, in part, in other assets such as equities, property and credit that are expected, although not guaranteed, to produce a higher return than gilts or swaps. The Trustee understands that investing in such assets reduces the expected contributions required from the Employers in the long-run.

An allowance for the extra return expected from such investments has been taken into account in setting the Scheme’s technical provisions. If the expected returns are not achieved over the long term, any resulting funding shortfalls will ultimately need to be met by increased contributions from the Employers. Both the University and the Trustee appreciate that the contributions required can be volatile.

The Trustee regularly reviews the Scheme’s investment strategy taking into account the funding position and liability profile. The Trustee will consult with the University before any changes are made to the investment strategy.

Risks

The Trustee and the University recognise that there are a number of risks inherent in the funding plan and that additional funding may be required at

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future valuations if the experience of the Scheme is not in line with the assumptions made. In addition to the investment risk detailed above, other key risks include longevity risk and discontinuance risk (see below).

Longevity risk

Future improvements in life expectancy may be greater than anticipated. In setting the Scheme's funding target, mortality assumptions are made based on the Scheme's experience and information inferred from members' postcodes and then adjusted to make some allowance for future improvements in longevity. The mortality assumptions are reviewed following formal triennial actuarial valuations.

Discontinuance risk

The Trustee and the Employers recognise that the Scheme could be discontinued in certain circumstances in accordance with Clause 34 of the Scheme's Trust Deed & Rules.

If the Scheme is discontinued then the technical provisions may need to be revised to reflect the change in the Scheme's circumstances. There is a risk that the assets in the Scheme at that time may be insufficient to cover these revised technical provisions. In addition, there is a risk that the Employers may at that time be unable to meet their obligation to contribute to the Scheme. Furthermore, the capacity of the insurance market may be insufficient at that time to secure the liabilities externally, if the Trustee wished to do so.

Withdrawal of participating employers

When a participating employer ceases to participate in the Scheme, a debt may become payable from that employer. The Secretary to the Trustee will continually review the participating membership of the Scheme to identify such cessation events and will then liaise with the withdrawing employer accordingly.

Monitoring employer covenant

The University will present information to the Trustee at least once a year on the profitability, prospects and net assets of the Employers. In addition, the Employers will send copies of their annual accounts to the Trustee as soon as they become available and inform the Trustee as soon as possible of developments which have or could have a material adverse impact on the strength of the employer covenant.

The Trustee will review the need for further information on employer covenant such as an independent assessment at least once a year, and following any valuation or funding report which shows a shortfall against the technical provisions.

The Trustee has adopted a policy on how they will monitor the employer covenant which explains the above in more detail.

Frequency of valuations

The Scheme's first actuarial valuation to which this statement applies is being carried out as at 31 March 2022. Subsequent valuations will normally be carried out every three years.

The Trustee will also obtain an actuarial report on developments affecting the Scheme's funding level as at each intermediate anniversary of the valuation date. The actuarial reports will not normally lead to changes in the Employers' contribution rate unless the Trustee and the University agree upon such changes.

The Trustee may call for a full actuarial valuation when, after considering the Actuary's advice, it becomes of the opinion that it is unsafe to rely on the results of the previous full valuation as a basis for future employer contributions. However, the Trustee will consult the University before doing so.

Signatures

This statement has been agreed by the University.

Signed on behalf of the University of Oxford

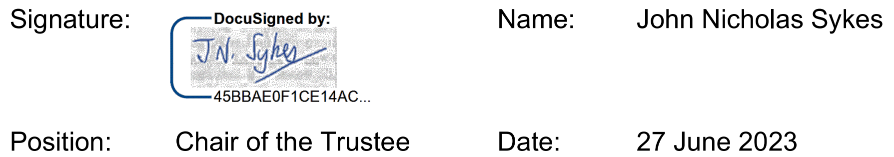
Signature: Name: Simon Boddie

Position: Chief Financial Officer Date: 27 June 2023

Note: The University was nominated by the Employers as their representative for this purpose.

This statement was agreed by the Trustee by email and is effective from the date of signing below.

Signed on behalf of the Directors of OSPS Trustee Limited



Signature: Name: John Nicholas Sykes

Position: Chair of the Trustee Date: 27 June 2023

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Appendix A: Method and financial assumptions

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method with a three-year Control Period (or the length of any Recovery Plan if longer).

Financial assumptions – approach

The financial assumptions shall be determined using a 'yield curve approach', with different assumptions applying at different points in time, reflecting the term structure of financial instruments. The particular approach to be used in determining each of the financial assumptions for calculating the technical provisions and employer contributions is set out below. For avoidance of doubt, gilt curves refer to UK government bond curves provided by the Scheme Actuary for this purpose, using data provided by Aon's investment department.

RPI inflation

The assumption is derived from the geometric difference between the UK nominal gilt curve and the UK index-linked curve at the valuation date.

For calculations with effective dates up to and including 30 March 2023 only, the resulting figure will be reduced by the following amounts:

- 0.5% p.a. up to February 2030; and
- 1.0% p.a. thereafter.

CPI inflation

The assumption is derived from the RPI inflation assumption, less the Scheme Actuary's best estimate of the long-term difference between RPI and CPI inflation as applies from time to time (1.0% p.a. up to February 2030 and 0.1% p.a. thereafter as at 31 March 2022).

Discount rate

Pre-retirement

Equal to the UK nominal gilt curve at the valuation date plus the following amounts at each term:

- 2.25% p.a. for calculations with effective dates up to and including 30 March 2023; and
- 1.75% p.a. for calculations with effective dates on or after 31 March 2023.

Post-retirement

Equal to the UK nominal gilt curve at the valuation date plus 0.5% p.a. at each term.

Pay increases

Each member’s Pensionable Salary is assumed to increase in line with the assumed rate of RPI inflation at all terms.

NB – Previously accrued final salary benefits will be assumed to be based on salary at 31 March 2018 and revalued in line with other CARE benefits in the Scheme thereafter.

Increases to pensions in payment

For pension increases linked to inflation, a pension increase curve is constructed based on either the RPI, CPI or the average of the RPI and CPI inflation curves described above, adjusted to allow for the different maximum and minimum annual increases that apply, and the Scheme Actuary's best estimate of inflation volatility as applies from time to time. The inflation curves used depend on the period over which the benefits were accrued, as follows:

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- For all benefits accrued up to 31 March 2018 – the average of the RPI and CPI inflation curves.
- For all benefits accrued from 1 April 2018 – the CPI inflation curve.

Revaluation of deferred pensions

Equal to the relevant inflation curve (allowing for the different maximum and minimum increases that apply) depending on the period over which the benefits were accrued, as follows:

- For all benefits accrued up to 31 December 2012 – the average of the RPI and CPI inflation assumptions.
- For benefits accrued between 1 January 2013 and 31 March 2018 – the RPI inflation assumption for members who joined the Scheme before 1 February 2013 and the average of the RPI and CPI inflation assumptions for members who joined the Scheme on or after that date.
- For all benefits accrued from 1 April 2018 – the CPI inflation assumption.

CARE revaluation

A revaluation curve is constructed based on either the RPI, CPI or the average of the RPI and CPI inflation curves described above, adjusted to allow for the maximum and minimum annual increases that apply, and the Scheme Actuary's best estimate of inflation volatility as applies from time to time. The inflation curves used depend on the period over which the benefits were accrued, as follows:

- For all benefits accrued up to 31 December 2012 – the average of the RPI and CPI inflation curves.
- For benefits accrued between 1 January 2013 and 31 March 2018 – the RPI inflation curve for members who joined the Scheme before 1 February 2013 and the average of the RPI and CPI inflation curves for members who joined the Scheme on or after that date.
- For all benefits accrued from 1 April 2018 – the CPI inflation curve.

Financial assumptions – summary

The table below shows the main financial assumptions that applied as at 31 March 2022, determined in line with the above approach. The figures shown are the annual forward rates that apply from time t-1 to time t in each case, where t = 0 at 31 March 2022.

Term	Pre-ret discount rate	Post-ret discount rate	RPI inflation	CPI inflation
1	3.52%	1.77%	7.49%	5.99%
2	3.73%	1.98%	5.71%	4.63%
3	3.86%	2.11%	4.01%	3.01%
4	3.46%	1.71%	3.17%	2.17%
5	3.89%	2.14%	3.51%	2.51%
6	3.73%	1.98%	3.45%	2.45%
7	4.19%	2.44%	3.49%	2.49%
8	3.76%	2.01%	3.27%	2.32%
9	4.22%	2.47%	3.18%	2.81%
10	4.72%	2.97%	3.15%	3.05%
11	4.56%	2.81%	3.09%	2.99%

12	4.70%	2.95%	3.08%	2.98%
13	4.50%	2.75%	3.00%	2.90%
14	4.40%	2.65%	3.11%	3.01%
15	4.32%	2.57%	3.02%	2.92%
16	4.06%	2.31%	2.59%	2.49%
17	4.30%	2.55%	2.48%	2.38%
18	4.05%	2.30%	2.29%	2.19%
19	4.22%	2.47%	2.63%	2.53%
20	4.14%	2.39%	2.56%	2.46%
21	4.23%	2.48%	2.17%	2.07%
22	3.90%	2.15%	1.95%	1.85%
23	3.98%	2.23%	2.10%	2.00%
24	3.83%	2.08%	2.19%	2.09%
25	4.26%	2.51%	1.91%	1.81%
26	3.25%	1.50%	1.98%	1.88%
27	3.83%	2.08%	2.35%	2.25%
28	3.86%	2.11%	2.39%	2.29%
29	3.25%	1.50%	1.66%	1.56%
30	3.95%	2.20%	2.01%	1.91%
31	3.52%	1.77%	1.61%	1.51%
32	3.58%	1.83%	1.24%	1.14%
33	3.20%	1.45%	1.23%	1.13%
34	3.09%	1.34%	1.57%	1.47%
35	3.89%	2.14%	2.25%	2.15%
36	3.03%	1.28%	2.14%	2.04%
37	2.65%	0.90%	1.73%	1.63%
38	2.99%	1.24%	1.62%	1.52%
39	4.44%	2.69%	1.62%	1.52%
40	3.92%	2.17%	1.62%	1.52%
41	3.25%	1.50%	1.94%	1.84%
42	3.26%	1.51%	2.10%	2.00%
43	3.25%	1.50%	2.11%	2.01%
44	3.55%	1.80%	2.40%	2.30%
45	3.69%	1.94%	3.12%	3.02%
46	3.69%	1.94%	3.42%	3.32%
47	3.39%	1.64%	2.78%	2.68%
48	3.25%	1.50%	2.46%	2.36%
49	3.25%	1.50%	2.46%	2.36%
50+	3.01%	1.26%	2.46%	2.36%

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Appendix B: Demographic Assumptions

Post-retirement mortality

Base mortality table

Standard tables S3PMA medium and S3PFA medium adjusted by means of a scaling factor of 105% for all members.

Allowance for future improvements in longevity

Improvements from 2013 are assumed to be in line with the CMI 2021 projections with Sk=7.0, A=0.5% and an assumed long-term rate of improvement of 1.5% p.a.

Pre-retirement mortality

Standard tables AMC00 and AFC00.

Early retirements

Active members who joined the Scheme before 1 August 2004 are assumed to retire in line with the rates shown in the table below.

Age	Rate
< 55	0%
55 – 59	5%
60-64	15%

The remainder of members (including all deferred members) are assumed to retire at age 65.

In addition, allowance is made for a proportion of active members to retire due to ill-health (see sample rates below).

Withdrawals

Allowance is made for withdrawals from service (see sample rates below).

Family Details

A male member is assumed to be three years older than his wife and a female member is assumed to be one year younger than her husband.

80% of male non-pensioners and 75% of female non-pensioners are assumed to be married at retirement or earlier death.

85% of male pensioners and 70% of female pensioners are assumed to be married at retirement.

These assumptions include allowance for pensions payable to other dependants (including civil partners).

Commutation

70% of members are assumed to commute 10% of their pension at retirement.

Sample rates

The tables below illustrate the allowances made for withdrawals from service and ill-health retirements at various ages.

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	Percentage of males leaving the scheme in the next year as a result of	
Current age	Withdrawal from service	Ill-health retirement
20	16	0.06
30	11	0.04
40	8	0.08
50	2	0.21
60	-	0.66

	Percentage of females leaving the scheme in the next year as a result of	
Current age	Withdrawal from service	Ill-health retirement
20	21	0.015
30	15	0.020
40	9	0.045
50	3	0.110
60	-	0.290

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Appendix C: Further information to meet requirements of the Scheme Funding Regulations

Policy on reduction of cash equivalent transfer values

The Trustee will ask the Scheme Actuary to advise it at each valuation of the extent to which assets are sufficient to provide Cash Equivalent Transfer Values (CETVs) for all non-pensioner members without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage is less than 100%, the Trustee will take advice from the Scheme Actuary regarding whether to reduce CETVs and, if appropriate, the extent of such reduction.

If at any other time, after obtaining advice from the Scheme Actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee may commission a report from the Scheme Actuary regarding whether and, if appropriate, the extent to which CETVs should be reduced.

Payments to the Employers

Payments can only be made to the Employers from the Scheme in specified circumstances.

As at the date of this statement, the Trustee is continuing to pay the University an administration fee for the administration services provided by the University to the Trustee under a formal administration agreement between the University and the Trustee for those services. In addition, from time to time the Trustee reimburses the University in respect of pensions paid through the University's payroll on behalf of the Trustee and agreed expenses settled by the University on behalf of the Trustee.

Contributions to the scheme

There are no arrangements currently in place for persons other than the Employers or members of the scheme to contribute to the Scheme.