Annual Actuarial Report at 31 March 2023

The University of Oxford Staff Pension Scheme

Prepared for: OSPS Trustee Limited

Prepared by: Jay Harvey FIA

Date: 26 July 2023

Introduction

Why bring you this report?

This is the Annual Actuarial Report required by legislation. Its purpose is to provide an approximate update of the assets and technical provisions of the DB Section of the Scheme on the anniversary of the last valuation.

This report is also intended to be used as the basis of the Summary Funding Statement which needs to be provided to members.

Next steps

A copy of this report must be made available to the sponsor **within seven days** of receiving it and to members **within two months** of request.

J.M. Harvey.

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Funding position at 31 March 2023

Funding level

116%

31 Mar 2023

▲ **11%**
vs 31 Mar 2022

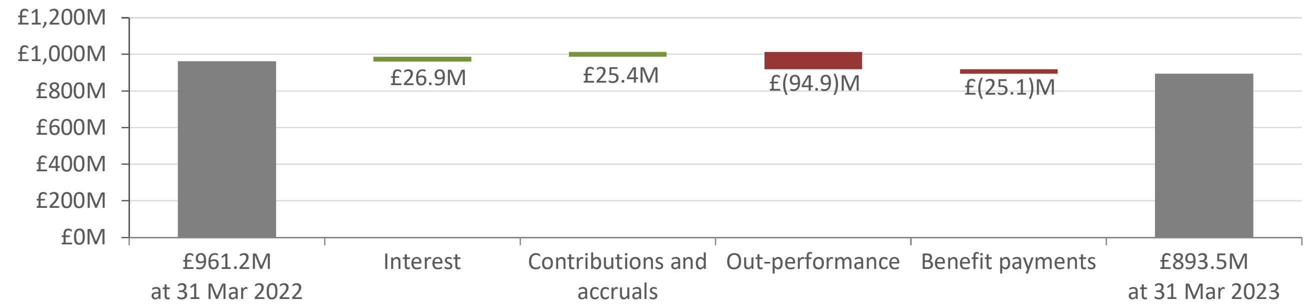
Surplus

£120.7M

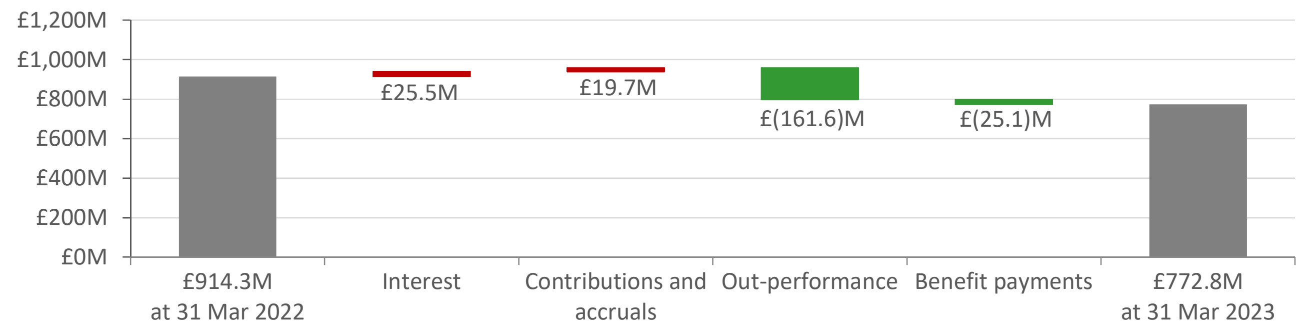
31 Mar 2023

▲ **£73.8M**
vs 31 Mar 2022

Change in asset value since 31 March 2022



Change in liability value since 31 March 2022



Basis	Technical Provisions
Effective date	31 March 2023

Comments

The Scheme’s funding position is estimated to have improved over the year to 31 March 2023. The Scheme's assets have grown to around 116% of the estimated value of the technical provisions. In pound terms, this means that the surplus is estimated to have increased to around £120.7 million at 31 March 2023 – an improvement of around £74 million over the year.

The main reason that the funding position improved over the year to 31 March 2023 was due to the significant increase in long-term interest rates (as measured by gilt yields) since the valuation date. This has acted to decrease significantly the value placed on the technical provisions. At the same time, the Scheme’s assets have also fallen in value, but to a much lesser extent.

Solvency estimate

This looks at the estimated cost of purchasing annuities from an insurance company to meet the Scheme's benefits (together with an estimated allowance for the cost of winding-up the Scheme). It is a requirement to consider this position as part of the Scheme’s full valuation even though the University and the other participating employers have no intention to wind-up the Scheme.

At the valuation date of 31 March 2022, the Scheme had a funding level on this measure of around 62%. At 31 March 2023 it is estimated that this position has improved materially to around 87%.

Method

Technical provisions liabilities

This Annual Actuarial Report is consistent with the technical provisions calculations for the formal actuarial valuation at 31 March 2022. The assumptions used have been modified only insofar as is necessary to maintain consistency with the Statement of Funding Principles (SFP) dated 27 June 2023, reflecting the change in the effective date and in relevant market conditions. In accordance with the SFP, the liabilities at 31 March 2023 reflect the reduction to the pre-retirement discount rate (from 2.25% pa in excess of gilt yields to 1.75% pa in excess of gilt yields) and the removal of the assumed inflation risk premium when deriving the RPI assumption.

The liabilities are projected from the results of the formal actuarial valuation at 31 March 2022 and are therefore approximate. Since the liabilities are not based on up-to-date membership data, they become more approximate the longer the period of time that has elapsed since the last actuarial valuation.

The liabilities take account of the following over the period since the last formal actuarial valuation:

- The benefit improvements agreed as part of the valuation package that the Trustee agreed with the University:
  - Benefits earned since 1 April 2018 attract increases linked to CPI inflation capped at 5% pa (both before and after retirement). It was agreed that a discretionary increase of 3% would be applied to these benefits with effect from April 2023. As such, these benefits were increased by 8% with effect from April 2023.
  - It was also agreed to amend the Rules relating to these post April 2018 benefits going forward such that the cap on increases will be permanently increased from 5% pa to 8% pa.
- Cashflows into and out of the Scheme; and
- Actual price inflation and its impact on benefit increases.

Demographic experience since the last formal actuarial valuation has been assumed to be in line with the SFP.

This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation, but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the covenant of the sponsoring employer, investment strategy or economic outlook.

Solvency liabilities

The solvency liabilities have been rolled forward from 31 March 2022 in a similar manner to the technical provisions liabilities. In addition, the solvency liabilities also take into account my views on any general changes we have seen in respect of pricing in the insurance market.

Please note the resulting liabilities are only an estimate and the true position can only be established by conducting a competitive buy-out auction and fully defining the scope and likely cost of a wind-up process for the Scheme.

Assets

For the purpose of this report, I have used the unaudited value of the invested assets at 31 March 2023 provided to us by the Scheme’s investment advisers on 28 June 2023 plus the balance in the Trustee bank account at 31 March 2023 provided to us by the Scheme’s administrator on 26 June 2023. As such, the final audited asset value at 31 March 2023 may differ from the value shown in this report.

TAS compliance

This report has been prepared in accordance with the framework below.

This report has been requested by OSPS Trustee Limited. It has been prepared under the terms of the Scheme Actuary Agreement between the Trustee and me on the understanding that it is solely for the benefit of the addressee.

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: General Actuarial Standards' ('TAS 100') (updated July 2023) and ‘Technical Actuarial Standard 300: Pensions’ (‘TAS 300’).

The compliance is on the basis that OSPS Trustee Limited is the addressee and the only user and that the document is only to be used to form the basis of the Summary Funding Statement for members and to help the Trustee decide whether an out-of-cycle actuarial valuation needs further consideration.

This report should be read in conjunction with:

- My report on the most recent actuarial valuation of the Scheme, dated 27 June 2023; and
- The Statement of Funding Principles, dated 27 June 2023.

If you require further copies of any of these documents, please let me know.

Glossary

General terms

Funding level / ratio

The ratio of the value of assets to the value of liabilities.

Surplus / Deficit

The value of assets less the value of liabilities. If the value of the liabilities is greater than the value of the assets, then the difference is called a deficit. If the value of the assets is greater than the value of the liabilities, then the difference is called a surplus.

Technical provisions

The funding target for a scheme, agreed as part of the actuarial valuation.

Solvency estimate

The estimated cost of purchasing annuities from an insurance company to meet a scheme's benefits (together with an estimated allowance for the cost of winding-up a scheme).

Chart labels

Interest

The asset and liability values are assumed to increase at the discount rate used to value the liabilities.

Contributions & accrual

The expected increase in assets and liabilities due to contributions and new benefit accruals.

Outperformance

Actual returns achieved on assets over and above the assumed discount rate and the impact on liabilities of a change in market conditions.

Benefit payments

The expected decrease in assets and liabilities due to benefit payments (including transfers out) during the period.

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