University of Oxford Staff Pension Scheme (OSPS)

OSPS

Summary Funding Statement

This statement updates you on the financial position of the Defined Benefit (DB) Section of the Scheme following:

- the latest valuation at 31 March 2022; and
- the most recent update, at 31 March 2023.

Background

The Scheme undergoes regular actuarial valuations – or financial health checks – every three years, with the Scheme actuary providing less formal updates in the years between valuations.

The valuation compares:

- the value of the Scheme's assets at the valuation date; with
- its funding target – that is, an estimate of the amount it will need to pay the benefits built up to that date (this is also called the 'technical provisions')

This estimate is worked out using certain assumptions about the future – for example, how the rate of inflation, or member life expectancies might change. The Trustee, after taking the advice of the Scheme's actuary, agrees these assumptions with the University. They also agree the level of contributions payable to the Scheme in the future, based on the valuation results.

By law, the Trustee must report the results of these valuations and updates to you, in a 'summary funding statement'. The last statement set out the results of the annual update at 31 March 2021.

Results snapshot

	Update at 31 March 2021	Valuation at 31 March 2022	Update at 31 March 2023
Value of the Scheme's assets (DB Section)	£910.7 million	£961.2 million	£893.5 million
Funding target (technical provisions)	£926.9 million	£914.3 million	£772.8 million
Surplus/(Shortfall)	(£16.2) million	£46.9 million	£120.7 million
Funding level	98%	105%	116%

Update for the year from 31 March 2021 to 31 March 2022

The results of the valuation showed that, at 31 March 2022, the Scheme's assets had grown to around 105% of the funding target. This means that the shortfall of £16.2 million at 31 March 2021 had become a surplus of around £46.9 million at 31 March 2022 – an improvement of around £63 million over the year.

The main reason for this was the increase in the value of the Scheme's assets, as markets continued to recover from the impacts of the global COVID-19 pandemic.

Update for the year from 31 March 2022 to 31 March 2023

The Scheme's estimated funding position has continued to improve over the following year. The results of the annual update showed that, at 31 March 2023, the Scheme's assets had grown to around 116% of the funding target. This means that the surplus of around £46.9 million at 31 March 2022 increased to around £120.7 million at 31 March 2023 – an improvement of around £74 million over the year.

The main reason for this was to the significant increase in long-term interest rates (as measured by gilt yields) since the valuation date. This has meant that the value of the Scheme's liabilities has fallen, and so the funding target is lower. At the same time, the Scheme's assets have also fallen in value, but to a much lesser extent.

Since the valuation date, the Trustee has taken action to protect the Scheme's funding position against difficult market conditions in future by investing more in index-linked gilts (gilt values are expected to change broadly in line with the funding target) and less in riskier assets such as equities.

Scheme improvements following the 2022 valuation

As the Scheme was in surplus at 31 March 2022, the 'recovery plan' agreed as part of the 2019 valuation is no longer needed.

Instead, the significant improvement in the Scheme's funding position (both at the valuation date in 2022 and since then) allowed the Trustee and University to agree a package of contribution and benefit improvements. These included:

- Reducing contribution rates for both members and employers to the DB Section of the Scheme;
- Raising the cap on increases to pensions (earned from 1 April 2018) going up in line with inflation (Consumer Prices Index) from 5% a year to 8% a year; and
- Increasing employer contributions payable to DC Section members' Retirement Accounts.

The cost of these improvements has been reflected as far as possible in the funding update at 31 March 2023 in this statement.

The 'winding up' position

As part of the valuation, we are required to consider the position if the Scheme was to 'wind up' – that is, close down completely. Please note that the University and other Scheme employers have no plans to do this.

If the Scheme had wound up on 31 March 2022, then the additional assets needed to meet all members' benefits in full were estimated at around £581 million – on this measure the Scheme was around 62% funded. Over the year to 31 March 2023, the Scheme's funding position is estimated to have improved significantly to a funding level of around 87%.

This figure assumes that an insurance company would take over all benefits. Insurance companies must take a very cautious view of the future as well as making a profit. For these reasons, it is common 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 ongoing support of the University and the other Scheme employers. The next formal valuation of the Scheme will be as at 31 March 2025, when the Trustee and the University will consider whether any changes to the contribution rates are needed.

In the meantime, the Trustee continues to closely monitor the Scheme's funding position. The Trustee will also commission the Scheme actuary to carry out the annual funding update as at 31 March 2024. The results of this update will be in next year's summary funding statement.

Climate change reporting

The Taskforce on Climate-related Financial Disclosure (TCFD) was set up to develop some best practice guidance for climate-risk reporting. The Trustees must meet new climate governance requirements and publish an annual TCFD report on their pension scheme's climate-related risks. The Scheme has produced its first TCFD for the year ending 31 March 2022. You can read this report online at **https://finance.web.ox.ac.uk/files/tcfdreportforyearend31march2022pdf**.

Compliance statement

By law, 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 Scheme 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 valuation or the contributions payable to the Scheme. We are pleased to confirm that, to date, the Regulator has never used any of these powers on OSPS.

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