



Date: 07 January 2020  
Our Ref: SAF/  
Your Ref:

**Pension Services  
4640 Kingsgate  
Cascade Way  
Oxford Business Park South  
Oxford  
OX4 2SU**

**Sally Fox  
Pensions Services Manager**

Dear

### **2019 Valuation – Draft Results Schedule / Funding Strategy Statement Consultation**

I am pleased to attach your draft 2019 valuation results schedules and proposed contribution rate from 1 April 2020. The attached results schedule provides you with details about your pension obligations in the Oxfordshire Pension Fund and is intended to help employers better understand their funding position. It also includes your proposed employer rates for the following three years from 1 April 2020.

Please also find attached the Fund's revised draft Funding Strategy Statement ("FSS") to be read alongside your valuation results. As part of the valuation results process and review of the FSS, we are inviting input or comment on the FSS from employers alongside your valuation results. This consultation is being ran until 31 January 2020 and includes the employer forum on 17<sup>th</sup> January.

We have provided some commentary on the results and the changes in your funding position and contribution rates.

#### **Funding overview**

The Oxfordshire Pension Fund's overall Funding Level has improved to 99% (from 91%). Many Fund employers will have experienced similar improvements in funding. However, results and contribution changes will vary by employer, depending on your own experience and circumstances.

The improved funding position is mainly due to strong investment returns over the period (c.35%). However, we would note that this level of investment performance is unlikely to be sustainable over the longer term. Indeed, the economic outlook and expected future investment returns from the Fund's assets, are more pessimistic (than 3 years ago) and this is reflected by the Fund adopting a lower future investment return assumption of 4.3% p.a.

#### **Employer contribution rate approach**

The Fund now adopts a three-step process to setting employer contribution rates (as detailed in [section 2.1](#) of the FSS) as follows:

- 1 Calculate the **funding target** for each employer (i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits)
- 2 Determine the **time horizon** over which the employer should aim to achieve that funding target.
- 3 Calculate the employer contribution rate such that it has at least a given **likelihood of achieving** that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon.

By using the above approach, the Fund is able to treat every employer individually and fund them relative to their own circumstances and risk. Further detail of how this three-step approach has been applied for each employer type is detailed in [section 3.3](#) of the FSS.

As required by the LGPS Regulations, employer contributions are made up of two elements (as per [section 2.2](#) of FSS):

- *Primary Rate* - the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses.
- *Secondary Rate* - an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay (as calculated by the three-step process).

### **Employer contribution overview**

Where possible the Fund tries to keep contribution rates stable for all employers to ensure affordability and to aid longer term budgeting. For the majority of employers, contribution rates are set using a long-term view which helps reduce contribution fluctuations resulting from the uncertainty in the financial markets (which directly impact on the Fund's investments and the expected cost of members pensions).

Overall, for the average employer, the more pessimistic future expected investment returns have increased Primary rates, whereas the improved funding positions, may have broadly offset this increase through a reduced Secondary rate.

However, total contribution rates payable (i.e. Primary plus Secondary rates) will vary across employers and will be dependent on a number of factors such as your circumstances as a LGPS employer and individual membership experience.

### **McCloud implications**

In addition, the impact of the recent McCloud/Sergeant judicial review will likely lead to (as yet unknown) future benefit improves for some or all members, which in turn will increase the cost to employers. As required by the LGPS Scheme Advisory Board, the Fund has therefore taken into account this risk and uncertainty when reviewing employer contribution rates.

The contribution rates shown on your schedule includes an allowance to cover this potential impact. Further detail on this allowance is noted in [section 2.7](#) of the FSS.

### **Stabilised employer**

As a long term secure employer, the Fund now allows contribution rate increases and decreases to be limited per annum to increase stability and aid longer term budgeting. This "stabilisation mechanism" also aims to keep employer rates stable and affordable over the long term.

As discussion in various meeting with the Fund in the last year modelling has been carried out to ensure that the proposed employer rates are sufficient to meet the long term funding objectives. The contribution rates proposed are those discussed as part of the advice issued from this modelling. Details of the Fund's stabilisation policy is noted in section **3.3 note (b)** of the FSS.

### **Pass-through contracts**

The proposed contribution rates and funding position within the results schedule include any contractors which have been awarded a "pass-through" agreement for members outsourced from the Employer. The contribution rate payable by the pass-through employer should be detailed within the terms of the pass-through agreement. If you are unsure then please refer to the Fund for further guidance.

If you expect future changes to your membership as a result of transfers or service outsourcings, please highlight this to the Fund at the earliest occasion.

### **Employer forum / AGM**

The Fund's Employer forum take place at Unipart House on 17 January 2020. All employers are invited, and the Fund Actuary is attending to talk in general terms about the valuation results. If you have any specific questions, please feel free to raise these with the Actuary at the employer forum. Time is also available for individual questions with the Actuary after the employer forums if you require this. If you would like to arrange a meeting, please get in touch with the Fund.

Yours sincerely

*Sally*

Sally Fox  
Pension Services Manager

Direct line: 01865 323854

Email: [pension.services@oxfordshire.gov.uk](mailto:pension.services@oxfordshire.gov.uk)

[www.oxfordshire.gov.uk/pensions](http://www.oxfordshire.gov.uk/pensions)