USS Review Working Group
11.00am – 12.30pm, Friday 21 June 2019
Venue: Room 6, Wellington Square

Agenda

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Date of next meeting – 16th July 2019

Invitees:

Professor Richard Hobbs (Chair)
Dr Martine Abboud
Mr Charles Alexander
Professor Danny Dorling
Mr Julian Duxfield
Professor Fabian Essler
Mr Charles Harman
Professor Sam Howison
Professor Jane Humphries
Professor Tim Jenkinson
Mr Jaya John John
Professor Sophie Marnette
Mr Lindsay Pearson

In attendance:
Prof Anne Trefethen
Mr Russell Powles, Aon
Ms Judith Finch, Conference of Colleges
Ms Jan Killick, Mr Stephen Rouse, Mr Lucian Hudson, Mr James Colman

Apologies:
tbc

USS Review Working Group

Meeting room 6, Wellington Square, 11.00am – 12.30pm

Minutes of the meeting of 20th May 2019

Present: Professor Richard Hobbs (Chair), Mr Charles Alexander, Professor Danny Dorling, Mr Julian Duxfield, Professor Fabian Essler, Mr Charles Harman,Professor Sam Howison Professor Jane Humphries, Mr Jaya John John, Professor Sophie Marnette, Mr Lindsay Pearson.

In attendance: Prof Anne Trefethen, Mr Russell Powles (Aon), Ms Judith Finch,

1. **Apologies for absence and welcome**
Dr Martine Abboud, Professor Tim Jenkinson, Ms Jan Killick, Mr Lucian Hudson sent their apologies.

2. **Conflicts of interest**
There were no new conflicts of interest declared.

3. Minutes of the previous meeting
The minutes of the meeting on 25th April 2019 were agreed.
There were no matter arising not addressed by the main agenda items

4. Recap of initial feedback to UUK on USS trustee's options
It was noted that the quick turnaround required by UUK meant that the WG did not have as full an opportunity as they would have wished to consider their response. (the WG members received papers on the Friday and there was only an opportunity for a 30 minute conference call on the Monday.)

In addition for the first time the WG had needed to take a majority view rather than find consensus across the whole Group. It was agreed that on future occasions if full consensus could not be secured a majority of voting WG members, whether present or not, for future recommendations to Council on consultation responses would be required.

It was noted that Trinity College, Cambridge's apparent decision to exit the USS was not a substantial concern. Trinity are an outlier, their assets are huge compared to their exit costs. But it was agreed that the WG would need to keep a watching brief on this issue.
Action: Item to be taken at future WG meeting on the arrangements in place under USS rules for any participating employer to exit.

Anne Trefethen fed back from the EPF that all Russell Group members appear to have expressed a preference for option 3.

5. Agree formal response to UUK on the options
The working group debated whether the messages covered in its initial response to the 2018 valuation contribution options set out in Stuart McLean's email dated 9 May 2019 remained the view of the group and thus should formulate the formal consultation response to UUK.
The Group felt that the timeliness of the required response put undue pressure on employers to formulate a considered view on such a complex matter. In considering the contribution proposals

the view of the Group was that option 3 was the least worst outcome of the three options presented. The formal response to UUK should reflect:

- The view that more time should have been made available to consider an initial response on the three options proposed. Communications from USS requiring employer input should give sufficient time to make sure employers can formulate a considered view.
- The significance of JEP phase 2 and the continued support of both JEP phase 1 and 2.
- Option 3 being the least worst option of the three options proposed in Stuart McLean's email dated 9 May 2019.

Action: A draft response to UUK would be drafted and circulated to the WG members. A final version would then be sent to Council members, sent to UUK and placed on the wesite.

6. USS information on 2018 valuation

The WG noted this communication.

7. **USS information on 2018 valuation**

It was noted that the main area of contention appears to be that UUK & Aon feel the USS is being too short-term in their response to the valuation.

Action: A copy of the letter from Anne Trefethen to UUK about their summary of the previous employer consultation will be added to the papers for the next meeting as part of the minutes.

8. JEP call for evidence

The Group considered the USS Joint Expert Panel's second call for submissions in relation to its second phase of work on the USS valuation, with a 14th June dadline. The Group agreed to respond to the JEP with the following:

- Continued belief that the work being carried out by the JEP is of significant importance.
- A desire for the JEP to continue to their work as proposed and deliver their initial findings within the stated timescales such that there is ample time for it to be considered in the context of the next USS valuation and beyond.

It was considered that individuals within the Group could respond to JEP directly if they felt they had sufficient expertise to do so.

9. Communication update

In the absence of a representative from PAD Julian Duxfield provided a brief update on the communication plans, including the next webinar on 28th June.

The Junior Proctor made the point that she believed some scheme members have an expectation that Council's statement from April 2018 on 'pensions provision' refers to contributions not just benefits. It was agreed that future communications needs to remind staff about Council's decision that this statement refers to benefits not contributions.

10 UUK's structure and role

The Group noted this summary and asked that it be included in the website documentation with links added to the UUK website where appropriate.

Universities UK

Item 4

Mr B Galvin
Group CEO
USS Limited
Royal Liver Building
Liverpool
L3 1PY

6 June 2019

Dear Bill,

Conclusion of the 2018 valuation

Thank you for your letter dated 7 May 2019 which presented three options developed by the USS trustee for the conclusion of the 2018 valuation. UUK has undertaken a short consultation on these options with employers, which closed on 30 May 2019, and in the annex to this letter I set out the summary of the views which have been expressed.

You will appreciate that this has been an extremely challenging timeframe for employers to fully consider the options, to arrange discussions with governing bodies where appropriate (UUK encouraged employers to do so), and to formulate responses. The fact that we have had such a substantial response to the consultation reflects the importance in which employers see USS, but you should be aware – as I can assure you we are – that employers do not consider these timescales to be optimal to allow for detailed consideration. I would like to discuss further with you – whilst acknowledging the time constraints – how we can agree a sensible timeframe for deciding on the further steps which can be communicated to employers and for which they can prepare.

In headline terms, UUK has received a clear preference from employers that, of the options presented, they would wish to explore option 3 as a potential route to concluding the 2018 valuation. This preference is indicative – and indeed conditional – at this stage. In many cases it is characterised as the "least-worst" option of those presented. Employers want to ensure that they have sufficient time to fully consider and decide their position on a formal basis within their governance structures.

The voice of universities

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Alistair Jarvis

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Employers have also confirmed that they would need fuller information about option 3 – for example relating to the recovery plan, to the quantum of risk associated with this option, and to the requirements outlined by the USS trustee in relation to support for covenant – before being in a position to decide on their preferred outcome. It is also essential for employers that the Joint Expert Panel (JEP) is given the opportunity to progress, and conclude, its second phase of work and crucially that the USS trustee engages with the JEP's discussions, and indeed with its conclusions.

It would be remiss for me not to mention the letter from the Pensions Regulator dated 15 May 2019. From our engagement with employers it is clear that the content of this letter has raised concerns, and employers would welcome further details from the USS trustee, in due course, as to its reaction to the letter. There is a willingness amongst employers to work with you to address the regulator's concerns.

I look forward to the responses of the USS trustee board to the views expressed by employers. I am aware that meetings continue between our respective teams, with one of the priorities being to understand the requirements relating to covenant strength which are to be defined by the USS trustee, which we plan will be the subject of a further consultation by UUK with employers in the near future. Crucially, the JNC is actively engaged with the developing issues, and I understand that you are ensuring that the Pensions Regulator is updated on progress.

Please let me reassure you of the continued engagement and support from UUK as we progress over what is likely to be an important few weeks.

Yours sincerely,

Alistair Jarvis
Chief Executive

Response from scheme employers to a consultation which commenced on 9 May 2019 regarding three options presented by the USS trustee for the conclusion of the 2018 valuation

Universities UK (UUK) received 98 responses to the consultation from employers which, taken together, represent over 90% of the active membership of USS. It is clear to UUK that despite the difficulty and complexity of the consultation – and indeed its short timescale – employers continue to engage constructively with the issues, and the USS trustee's continued support in securing this is recognised.

In terms of headline responses on the three options, the vast majority of the responses (85 responses, representing nearly 85% of the active membership of USS) have expressed an indicative preference to the further exploration of option 3. This indicative support for option 3 is entirely conditional upon employers having further detail regarding certain key aspects of the option, and employers having the opportunity to fully consider those specifics before confirming their position.

Of the remaining responses there was indicative preference for option 1 (representing 0.1% of the active membership) and option 2 (representing 0.5% of the active membership) and other employers (representing 6% of the active membership) did not, or felt they could not, express an indicative preference or dismissed all three options.

Employers have raised the following as priority issues which would need to be satisfied before employers could be in a position to support option 3 compared with the other options.

- Employers seek further information and specification regarding the 'requirements' which the USS trustee has indicated it would seek should options 2 or 3 be implemented (and potentially also for option 1, although this is not entirely clear). This means that employers would have further details regarding, and have time to consider their position on, (i) any clarifications to the rules which the USS trustee believes are necessary in relation to the management of employer exits, (ii) the terms under which the USS trustee is seeking to ensure that it has *pari-passu* status with future employer borrowing, and (iii) further details regarding debt monitoring and what the USS trustee seeks in terms of involvement and reporting.

- There is a need for further information on risk in relation to option 3. Whilst employers understand that risk may be considered more fully by, and arising from, the Joint Expert Panel's (JEP's) second phase of work, employers want to be clear on the implications of option 3 as it applies to addressing the funding requirements for the 2018 valuation – for example in terms of the long-term reliance target, the planned gradual investment de-risking which is proposed, and the impact of economic developments over the short-term.

There are a number of specific comments which have been expressed by employers which have majority, and in some cases overwhelming, backing, which are as follows:

- There is considerable unease amongst employers about being invited to express support for specific options to reach an outcome to the valuation without deficit recovery contributions being defined by the USS trustee, and/or the terms more generally for a recovery plan to address a scheme deficit.

- Employers comment in their responses on what appears to be a continued resistance on the part of the USS trustee to the first report from the JEP, and for example to specific comments made by the JEP such as on the USS trustee's measure of reliance and its link to a self-sufficient level of scheme funding, and to the dominance of this model in the USS trustee's setting of assumptions.

- There appears to employers to be an addition of layer upon layer of complexity to the valuation issues, which is making it extremely difficult to achieve effective communication of the key elements, and in presenting the issues for consideration to the wider audiences including principally scheme members, but also (for example) members of governing bodies.

- Employers ask the USS trustee to make it clear, as far as it is able, its willingness to work with the JEP phase 2 – for example in terms of engagement with the panel, and openness to consider its recommendations. Employers would like to understand the USS trustee's position, as the acceptance of option 3 would be accompanied by an understanding that the JEP's phase 2 recommendations can be considered by the stakeholders as part of the conclusion to a 2020 valuation.

- Employers recognise that the contributions required under the 2018 valuation and the trustee's proposed option 3, including the higher contributions from October 2021 onwards, would be the trustee's response to addressing the current funding position of the scheme and meeting the statutory funding objective.

- There is a significant level of concern regarding the proposed 21.1% level of contribution for employers, and indeed the 9.6% contribution requirement for members. This level of contribution for employers is beyond the levels considered sustainable over the longer term given competing priorities – and whilst it is acknowledged that under the 2018 valuation the aggregate contribution requirement would rise from 30.7% after two years to 34.7% of salary, a specific of which employers are fully aware – contributions at this level could only potentially be acceptable to employers on the condition that there is an early opportunity for stakeholders to address issues relating to the longer-term sustainability of the scheme following the JEP's second report, and through the outcome of the 2020 valuation.

- In reviewing the options presented, employers have stated their view that the underlying approach, and assumptions, for the determination of the upper bookend presented in option 1 remains unjustified. Whilst employers are grateful for the additional explanations provided by the USS trustee, they still consider elements of the proposed upper bookend contribution value to be unacceptable, or at the very least falling short in terms of full reasoning and clarification.

Jan Killick

From: Stuart McLean <Stuart.McLean@universitiesuk.ac.uk>
Sent: 07 June 2019 15:10
Subject: UUK comments on the consultation with employers on the options presented by the USS Trustee to conclude the 2018 valuation
Attachments: 2018 Valuation Letter from A Jarvis to B Galvin June 2019.pdf; employer-position-q&a-jun-19.pdf

To Vice-Chancellors, Principals and Chief Executive contacts

Dear Colleague,

UUK comments on the consultation with employers on the options presented by the USS Trustee to conclude the 2018 valuation

Thank you to all USS employers who were able to respond to the consultation on the options presented by the USS Trustee to conclude the 2018 actuarial valuation. I am extremely grateful to employers, once again, for giving careful and thorough analysis of the issues in such a short space of time.

UUK received responses from USS institutions which covered over 90% of the active membership of the scheme. The comments from UUK to the USS trustee, a copy of which is attached, have been compiled taking into account the details contained within those individual responses, and represent what UUK believes is, on balance, the representative view on the part of the scheme's employers.

The headline observations from the consultation responses are as follows:

- Universities UK (UUK) received 98 responses to the consultation from employers which, taken together, represent over 90% of the active membership of USS.

- The vast majority of the responses (85 responses, representing nearly 85% of the active membership of USS) have expressed an indicative preference to the further exploration of option 3.

- The indicative support for option 3 is entirely conditional upon employers having further details regarding, and have time to consider their position on, (i) any clarifications to the rules which the USS trustee believes are necessary in relation to the management of employer exits, (ii) the terms under which the USS trustee is seeking to ensure that it has *pari-passu* status with future employer borrowing, and (iii) further details regarding debt monitoring and what the USS trustee seeks in terms of involvement and reporting.

We understand that the USS trustee will consider the UUK response to the consultation at its Board meeting on 20 June 2019. We expect the USS trustee will communicate its views to UUK and USS employers as soon as practicable after that meeting.

A version of the response will be made available shortly on our USS Employers website https://www.ussemployers.org.uk/ together with other supporting material, including Q&As (a version of which is attached), designed to assist employers communicating this update and to help explain the status of the valuation.

We understand that UCU has today written to institutions with a UCU branch to threaten a trade dispute based upon its policy position of "no detriment". We are engaging with UCU to understand why UCU believe there are grounds for a dispute when we are both aiming to deliver an outcome for the 2018 valuation aligned with JEP 1 and thus create time for JEP 2 to report this autumn to then be used to inform the 2020 valuation. The attached Q&As (also published on the USS Employers website) should help employers to address this letter, and we will look to provide further support to employers as developments unfold.

Planned further consultation with USS employers during June 2019

In the very near future we expect to receive further details from the USS Trustee on any conditions that need to be met in order to reach a valuation outcome.

We will then consult again with USS employers, to gain the views which UUK will take into stakeholder discussions on the conclusion of the 2018 valuation within the Joint Negotiating Committee (planned for July 2019).

Unfortunately, at this stage, we are unable to provide more certain dates for USS to provide the further details to allow this consultation to take place. We will of course keep you updated and fully appreciate that these tight timeframes are far from ideal – a point we have raised once again with USS in response to this consultation.

Joint Expert Panel – Phase 2 call for evidence reminder

The Panel has advised that it would like to reiterate its latest call for evidence, and reassure all stakeholders that the Panel is on track to publish its second report in September 2019.

UUK would strongly encourage employers to express their views on the valuation process and how to secure the long-term sustainability of the Scheme to the Panel, and to share them with UUK, ahead of the 14 June 2019 deadline for submissions.

We appreciate your continued engagement. If in the meantime you require any further information, please contact me at pensions@universitiesuk.ac.uk.

Best wishes,

Stuart

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University and College Union

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Item 5

7 June 2019

RECEIVED
11 JUN 2019

Professor Louise Richardson
Head of Institution
The University of Oxford
Wellington Square
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Our ref: USS HE7/2

Dear Professor Richardson,

USS Trade Dispute

You will be aware that early last year UCU members took part in 14 days of industrial action, which resulted in UUK withdrawing proposals to change USS from a hybrid defined benefit pension scheme into a defined contribution pension scheme.

UCU members later voted to suspend the action and set up the Joint Expert Panel (JEP) in response to an offer from UUK.

The JEP reported in September 2018 and made a number of recommendations for the conclusion of the 2017 valuation. If implemented, these recommendations would also replace the Rule 76 contribution increases relating to the 2017 valuation which were triggered by USS while the JEP was still producing its report. The Rule 76 increases are being implemented in three instalments, from April 2019 until April 2020, when combined contributions would rise to 35.6%. The Rule 76 changes are based on the retention of the current levels of pension benefits, minus the 1% match, which has already been removed.

Both UCU and UUK welcomed the JEP report as the basis for negotiations. Initially, if applied to the 2017 valuation, the JEP's proposals would have entailed a combined contribution level of 29.2% with no changes to pension benefits. However subsequent modelling by USS, based on changed market circumstances, showed that implementing the JEP in full would actually result in combined contributions no higher than 26%, or 8% for members.

However USS has not accepted some of the key recommendations in the JEP report. Instead, it has proposed replacing the 2017 Rule 76 increases with a new 2018 valuation that still involves contribution rates far above 26%.

USS's insistence on higher contributions is partly based on external pressure from The Pensions Regulator (TPR). TPR has expressed views on the levels of risk and the strength of the employers' covenant, and USS has accepted these views rather than seeking to challenge them. This is despite the fact that both UCU and UUK's professional actuarial advisers consider a valuation based on the JEP to be compliant with regulations, and despite the fact that the JEP has heavily criticised TPR's role in the valuation process. However, USS has not worked to put the case for the JEP to TPR.

Instead, after months of drawn-out negotiations and unexplained delays, USS has given employers three options for finalising the 2018 valuation. The three options do not involve changes to pension benefits. However, all involve higher rates than would be the case if USS adopted the JEP's recommendations.

The three options are now subject to a further UUK consultation and I consider each in turn:

Option 1: contributions of 33.7% (23% for employers and 10.7% for employees), to apply from April 2020;

Option 2: contributions of 29.7% – but with a mechanism for contingent contributions of three 2% increases (an additional 6%), split 65:35 between employers and members, to be added to starting contributions of 20.4% and 9.3% respectively; and

Option 3: contributions of 30.7% (21.1% for employers and 9.6% for employees) to apply from October 2019, with another valuation in 2020. Should no agreement on the contribution rate from the 2020 valuation be implemented before October 2021, the contribution rate would rise to 34.7% in October 2021.

UCU has a clear policy position of 'No Detriment' established by the union's conferences. This policy means no increases in contributions and no cuts to pension benefits. Unlike a 2018 valuation informed by the JEP's recommendations, all three of USS's proposed options fail the test of 'No Detriment'.

Members waited for the JEP report to be issued and implemented, while USS went ahead and scheduled massive contribution increases based on its controversial 2017 valuation. The JEP report called that valuation's integrity into question. Other developments have made USS's position even more questionable. These include Sam Marsh and First Actuarial' s demonstrations that USS has not properly justified its 'de-risking' strategy; USS's misrepresentation of the Regulator's methods for evaluating risk; and the extraordinary recent accusation by statistician and USS Trustee board member, Professor Jane Hutton, that she has been denied access to important information and that the deficit may have been 'substantially over-estimated'.

Members have trusted employers to work to replace the 2017 increases with a fair outcome, but it has become clear that they will not do so. Employers have a lot of influence over the valuation process, but they have allowed USS to dismiss the JEP's most important recommendations, they have not pressed USS to engage properly with the Regulator, and, when other developments have called USS's position into question, they have taken USS's side.

UCU is running out of patience. At the UCU HE Sector Conference on 26 May 2019, delegates voted overwhelmingly to commence a dispute with USS employers and to move to a statutory ballot for industrial action in September.

I am now writing to seek your confirmation on behalf of your Institution that you will not impose any benefit cuts and/or contribution increases, including contingent contributions and default contribution rates for future valuations, on members from October 2019 onwards. This includes any and all increases over the rate of 26% (8% for members) which was established prior to the 2017 valuation. You must instruct your representatives on the Employers' Pension Forum (EPF) and the UUK nominees on the JNC not to introduce, comply with, or vote for any proposals that would involve such cuts and/or increases for members; and, failing that, you must cover any scheduled increases in full until USS's governance and valuation methods and assumptions have been overhauled.

If I do not have your affirmative response by 19 June 2019, UCU will consider a trade dispute to exist between your Institution and your employees/our members regarding this matter.

It is possible to avoid a damaging dispute and strike action in the autumn of 2019, and potentially thereafter in 2020. All you need to do is commit to uphold the level of contributions no higher than 26% (8% for members). You also agree to instruct your representatives on the Employers' Pension Forum (EPF) and the UUK nominees on the JNC not to introduce, comply with, or vote for any proposals that would involve such cuts and/or increases for members; and, failing that, you must cover any increases in full that are needed to maintain current benefits until USS's governance and valuation methods and assumptions have been overhauled.

I look forward to hearing from you no later than 19 June 2019 with your affirmative response as set out above.

Yours sincerely

Paul Bridge
UCU Head of Higher Education

USSEmployers

Q&A: The views of employers on the USS Trustee's three options – June 2019

On 7 June 2019, Universities UK (UUK) confirmed the consensus view of employers on the three options presented by the USS Trustee for the conclusion of the 2018 valuation. Following a consultation, a majority of employers – representing 85% of the scheme's active membership – expressed an indicative preference to further explore Option 3 as a potential solution to the 2018 valuation.

The following questions and answers address this position, and other issues relating to the finalisation of the 2018 valuation.

They are intended to be drawn from to assist with any enquiries received locally by employers.

They are not exhaustive. For further assistance in answering questions about the 2018 valuation process, please contact pensions@universitiesuk.ac.uk

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1. Why did many employers back Option 3?
2. What more is needed to take Option 3 forward?
3. What about The Pensions Regulator's letter which was critical of Option 3?
4. Why can't employers refuse to pay additional contributions and join with UCU to push for a 'No detriment' solution?
5. Will employers be forced to pay the full cost of any future contributions increases?
6. Why should contributions increases arising from the 2018 valuation be cost shared?
7. What will happen if the Joint Negotiating Committee cannot decide on a way forward?
8. What were the employers' grounds for supporting a 2018 valuation?

1. Why did many employers back Option 3?

When consulted by Universities UK, a majority of employers – representing 85% of the scheme's active membership – expressed an indicative preference to further explore Option 3 as a potential solution to the 2018 valuation. Among the other responses there was indicative preference for Option 1 (representing 0.1% of the active membership) and Option 2 (representing 0.5% of the active membership) and other employers (representing 6% of the active membership) did not, or felt they could not, express an indicative preference or dismissed all three options.

For employers, Option 3 allows time for the Joint Expert Panel (JEP) to develop recommendations on the long-term sustainability of the scheme and for necessary governance reforms, and for those recommendations to be considered by members, employers and the USS Trustee as part of a new valuation in 2020. Employers are hopeful that if the Panel's recommendations are incorporated, a solution to the long-term future of the scheme can be found, providing much-needed clarity for both members and employers.

Concluding the valuation under Option 3 is also favoured by employers as the 'least-worst' option, as it involves contributions at a more affordable level for members and employers (in the short-term) than proposed under the Trustee's other options, and also those currently scheduled under the 2017 valuation. If all of the Trustee's options are rejected, we understand that the default path would result in significantly higher contributions: either a combined rate of 35.6% if the 2018 valuation is not concluded, or more likely, a solution in line with Option 1, with a combined rate of 33.7% split 35:65 between scheme members (10.7%) and employers (23%).

2. What more is needed to take Option 3 forward?

Employers now require further detail on Option 3 from the USS Trustee, in order to understand more about the conditions that are attached (relating to the taking on of new debt, the monitoring and reporting of existing debt, and the ability of employers to exit the scheme) and to establish whether the valuation could be concluded under these terms. A significant number of employers have also indicated that they want further details on the quantum of risk involved, and on the recovery plan.

Employers will be consulted again once the USS Trustee has provided these details, to inform discussions at the next meeting of the Joint Negotiating Committee in July.

3. What about The Pensions Regulator's letter which was critical of Option 3?

Any conclusion to the 2018 valuation must take into account the views of employers, members, the USS Trustee and The Pensions Regulator.

The USS Trustee is currently engaging with The Pensions Regulator to address the concerns raised in their letter. Employers will also continue to make representation to the Regulator.

4. Why can't employers refuse to pay additional contributions increases, and join with UCU to push for a 'No detriment' solution?

Refusing to pay contributions increases scheduled under the 2017 valuation would be unlawful. The 2017 valuation documentation, including the rates of contributions, has been filed with The Pensions Regulator, and as such employers are legally obliged to pay additional contributions under the terms of that schedule.

Refusing to pay increases would undoubtedly provoke a legal intervention from the USS Trustee and The Pensions Regulator, and this is something that employers are unwilling to risk.

Employers recognise that the process of concluding the 2018 valuation must take the views of all stakeholders into account. However, it is clear that a 'No detriment' solution where employers and members refuse to pay additional contributions will not be acceptable to the USS Trustee or The Pensions Regulator. It is therefore reasonable and pragmatic to instead consider the options the USS Trustee has put forward (notwithstanding the criticisms made of Option 3 by The Pensions Regulator, which we understand are being addressed by the Trustee).

5. Will employers be forced to pick up the full cost of any future contributions increases?

Motions passed at UCU's recent annual congress call on employers to pay the full cost of any future contributions increases, including those arising from the 2017 valuation. As previously mentioned, the rates of contributions due under the 2017 schedule have been confirmed and filed with The Pensions Regulator and are therefore required by law, and it is not possible to modify the rates set.

Members and employers should note that it is ultimately for the Joint Negotiating Committee (JNC) to decide how any increases in costs arising from future valuations should be met. Under the scheme rules, if there is no decision at the JNC, the default position is that any increased costs (or savings) are shared in the ratio 35:65 between scheme members and employers.

The JNC is made up of five representatives from UCU, five representatives from UUK, and an independent chair. The JNC's options are to increase contributions or change future benefits, or a combination of both.

Under Rule 76.4–8 of the scheme, if the JNC is unable to decide on a solution the USS Trustee can opt to conclude the valuation with the required contributions increases split 35:65 between and scheme members and employers.

6. Why should contributions increases arising from the 2018 valuation be cost shared?

It is an important principle of the scheme that contribution increases are split 35:65 between and scheme members and employers, and this principle should be maintained for any contributions increases arising from the 2018 valuation.

It is possible that at future valuations the level of contributions required to fund future benefits could be lower than those arising from the 2018 valuation; having a set cost sharing formula is therefore vital for ensuring that both members and employers benefit from lower contributions, should they come to pass.

7. What will happen if the Joint Negotiating Committee cannot decide on a way forward?

If employer and member representatives at the Joint Negotiating Committee are unable to decide on a way forward with Option 3, the USS Trustee may ultimately choose to conclude the valuation in a manner that it determines appropriate – which may involve contributions in line with those proposed under Option 1 (33.7%). Under the scheme's cost-sharing arrangements, this would mean contributions of 23% for employers and 10.7% for employees.

Employers and members should note that if the Joint Negotiating Committee's discussions aren't concluded quickly, it will be very difficult to conclude the 2018 valuation before further contributions increases due in October 2019 come into effect, under the 2017 valuation schedule of contributions.

8. What were the employers' grounds for supporting a 2018 valuation?

Employers were supportive of the idea of a 2018 valuation as they believed it would provide further time for the USS Trustee to consider the JEP's recommendations, and to allow discussions on risk appetite to be reopened. Holding a 2018 valuation also allowed the latest data and market experience to be properly incorporated.

Employers and members should note that the JEP's report maintained 'there are a number of different paths the USS Trustee could adopt to reduce the contribution rate to below 30%', and that its recommendations were illustrative of one such path. The 2018 valuation proposed by the USS Trustee should be viewed as an alternative path, but one that nonetheless has reduced the contribution rate to within a fraction of a percent of what the JEP deemed possible.

UCU DISPUTE LETTER DATED 7 JUNE 2019

FURTHER RESPONSE POINTS FOR USS EMPLOYERS

Background

- Employers fully recognise the importance of providing a secure, retirement income for staff. The hybrid nature of USS enables this, but like other schemes that offer defined benefits it has faced funding challenges. The legal requirements on USS require a balanced funding solution for members and employers, that must be acceptable to the USS Trustee and The Pensions Regulator.

- Employers have pushed the USS Trustee to accept the Joint Expert Panel (JEP's) recommendations. Although the Trustee has conveyed its reasons for not doing so in full, its proposed Option 3 – with an aggregate contribution rate of 30.7% of salary – is 'largely in line' with what the JEP recommended.[1] When compared to the 35.6% of salary required under the 2017 valuation, it is evidence of the positive impact the JEP has had so far.

- Employers are working with UCU and USS on JEP 2, and will seek a commitment from the Trustee to engage with its next recommendations in the hope of finding a long-term solution in the interest of employers and members.

The emerging employer position on Option 3

- Employers consider, indicatively at this stage, that Option 3 represents the best available option for the conclusion of the 2018 valuation. The contribution rates that would apply under Option 3 are 21.1% of salary for employers and 9.6% of salary for members. Importantly, there would be no changes at all in the level of benefits.

- These rates should be considered against the higher increases that would be due in October 2019 and April 2020 under the 2017 valuation. Unless an alternative conclusion is reached, employers are legally required to implement these contributions, meaning that the employer contribution will rise to 22.5% of salary from 1 October 2019, and the member contribution will rise to 10.4% of salary.

- Employers hope that Option 3 can form the basis for the conclusion of the 2018 valuation, as it provides specifically for a valuation as at 31 March 2020 – which will allow the JEP's phase 2 report to be published and for its recommendations to be taken into account.

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1. *Completion of 31 March 2018 Actuarial Valuation*, Aon (2019), p. 1

- The two other options proposed by the Trustee received little or no support from employers, with employers instead wishing to focus at this stage on a conclusion to the valuation in line with Option 3.

- Although indicatively supported, employer contributions of 21.1% of salary is beyond the levels considered sustainable in the long term given competing priorities. Contributions at this level could only potentially be acceptable to employers on the condition that there is an early opportunity for stakeholders to address issues relating to the longer-term sustainability of the scheme following the JEP phase 2 report, and through the outcome of the 2020 valuation. Paying contributions over the short term at this level is the commitment employers are prepared to make in this valuation cycle to maintain the current level of pension benefits for their staff.

- Employers have confirmed they are willing to further explore Option 3, but need fuller details, including on the assumptions that would underpin the approach, and also the nature (and detail) of the requirements sought by the Trustee relating to covenant.

- Employers are mindful that Option 3 provides for lower contributions for this valuation period, and from 1 October 2021 the overall contribution will rise from 30.7% of salary to 34.7% of salary. This emphasises the need for discussions regarding the longer-term sustainability of USS, which will be enabled by the JEP's phase 2 recommendations.

The impact of Option 3 on members and employers

If the 2018 valuation is concluded under Option 3, the 2017 valuation increases will be superseded. This means that:

- *The average scheme member will pay £362 less in contributions per year for the same level of benefits if Option 3 is implemented instead of the planned 1 October 2019 increases, and £815 less per year than the planned 1 April 2020 increases.*

  Contributions of 9.6% of salary would supersede the 10.4% due at 1 October 2019, and 11.4% due at April 2020.

- *Employers will be committing to pay an extra £250 million per annum into the scheme (a 3.1% of salary increase in the employer contribution).*

  This is equivalent to approximately 5,500 average-full time roles[2], and compares to the c. £500 million extra employers would collectively need to pay per year as of April 2020 under the 2017 valuation increases.

- *Every extra 1% of salary employers pay into USS costs c. £80 million.*

  This is equivalent to 1,760 average full-time roles.

2. The average salary of a USS member as at 31 March 2017 was £42,659, which updated by an increase of 3% per annum equates to £45,256 as at 31 March 2019 – this was used in the calculation of the salary for an 'average full-time role'.

Why employers cannot meet the demands made in UCU's letter

- If employers were to reject all the options proposed by the USS Trustee, there would be delays to the completion of the 2018 valuation. As a result, the October and April increases under the 2017 valuation would be virtually guaranteed due to time pressures.

- In the absence of a decision on the 2018 valuation outcome, it is likely that the USS Trustee will conclude the valuation in a manner that it deems appropriate, which could be in line with Option 1 – contributions of an aggregate of 33.7% of salary with increases split 35:65 between members and employers. This would result in rates of 10.7% of salary for members, and 23% for employers. This risks derailing the progress the JEP has made so far, and its planning regarding JEP phase 2.

- The Pensions Regulator (TPR) has made it clear that it would have concerns and likely questions regarding a outcome in line with Option 3 which provides for contributions of 30.7% of salary – and while the USS Trustee has yet to respond to the TPR letter – it is clear that Option 3 would lie at (or perhaps beyond, based on TPR's initial comments) the very limit of acceptability. It is therefore completely unrealistic to expect the USS Trustee to contemplate going further and submitting a valuation that delivers combined contributions of 26% with no changes to benefits.

- It is also completely unrealistic to expect employers to 'commit to uphold the level of contributions no higher than 26%'. As the 2017 valuation has been filed with the Regulator, refusing to pay additional contributions would be unlawful and would provoke legal action, and indeed more broadly the power to decide the contribution rate within USS rests with the USS Trustee, subject to consultation. In short, there would be no legal basis upon which employers could make such a commitment.

- The default position in the agreed scheme rules in the absence of an alternative decision is to share contribution increases 35:65 between members and employers, and this is both reasonable and justifiable (see below). Contribution rates are set in the 2017 valuation schedule of contributions and cannot now be altered.

It is unreasonable to expect employers to pay the full cost of any additional contributions increases

- The 35:65 cost sharing formula was decided on by the Joint Negotiating Committee in 2011 and is embedded in the scheme as the default basis on which increased costs should be shared.

- The JEP's first report recommendations – supported by UCU – were designed around any increases being shared 35:65 between members and employers. Scheme members should note that the JEP based their recommended solution on estimates of USS' numbers, suggesting it was just one example of 'a number of different paths the Trustee could take to reduce the contribution rate to below 30%'.[3]

- Employers are already saying they would commit a further £250 million per annum over the next two years to maintain the current level of benefits while the JEP 2 completes it work and allows stakeholder to jointly address the future of the scheme. For many employers this level of contribution is already beyond what is considered sustainable, and to expect employers to pay the employee share too is simply not realistic.

3. *Report of the Joint Expert Panel* (2018), p. 63

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Item 7

Letter

Let a select committee investigate the concerns about the Universities Superannuation Scheme

From Prof Danny Dorling and others

17 HOURS AGO

We believe there are issues of concern over the governance of the UK's largest private pension, the Universities Superannuation Scheme (USS). The trustees have a fiduciary duty to act in the interests of scheme members. A board member, with expertise in statistics, raised serious concerns about the quality of the evidence and analysis being presented to the board. How were these concerns addressed and investigated by the board of trustees? Did the rest of the trustees investigate these claims adequately and act in the interests of scheme members?

If the trustees or the USS executive are unable to act in the interests of scheme members, then they should resign. If the employer and union-appointed trustees are failing to act in the interests of scheme members, then it is the responsibility of Universities UK (via the Employers Pensions Forum) and of the University and College Union to replace the trustees.

We believe the conduct of USS valuation over the past two years has brought the scheme into disrepute. An inquiry is urgently needed to obtain the necessary information to assess the USS's claims, review the conduct of the USS executive, trustees and the Pensions Regulator, and ultimately to rebuild members' and employers' trust and confidence in the scheme. It would be appropriate for a select committee of parliament to investigate.

Finally, we would like to thank Professor Jane Hutton for her exceptional work as trustee.

Prof Danny Dorling
University of Oxford

Prof Bianca De Stavola
University College London

Prof Sir David Spiegelhalter
University of Cambridge

Dr Alison Cameron
Bangor University

Dr Natasha Howard
London School of Hygiene and Tropical Medicine

Dr Neil Davies
University of Bristol

Signed on behalf of 1,012 of our colleagues

The complete list of signatories is here

USS

Item 8

To: Heads of Institutions, Finance Directors
CC: Official contacts

Our ref: I.886/MD/ELS
5 June 2019

Dear Colleague

<u>Matters relating to 2017 Valuation</u>
Contribution rate changes
Contribution rate changes for the Enhanced Opt-Out option
Other matters arising from the 2017 valuation
Current DB investment strategy
Closure of the 2017 valuation

This I-Letter provides further clarification to employers in relation to the 2017 valuation contribution rates that currently apply for members and employers during the 2019/20 scheme year. These contributions have been effective from 1 April 2019 onwards and have been formalised in the Schedule of Contributions signed on 28 January 2019. In addition, it provides an update for employers on the trustee's plans to review (and consult upon) the Statement of Investment Principles (SIP) and on decisions around the USS Retirement Income Builder investment strategy, following the completion of the 2017 valuation. Finally, it confirms the closure of the 2017 valuation by the Pensions Regulator (TPR).

Contribution rate changes
Under the cost-sharing provisions within the scheme rules (Rules 76.4-8), it was determined that the increases in the aggregate contribution rate payable to fund the costs of the current scheme benefits (having extinguished the employer match under Rule 76.5) required a total contribution of 35.6% of salary.

The required increases will be introduced in three phases such that the contribution rates to apply under the default cost-sharing provisions from the 2017 valuation would be:

- 8.8 % for members and 19.5% for employers from 1 April 2019;
- 10.4% for members and 22.5% for employers from 1 October 2019;
- 11.4% for members and 24.2% for employers from 1 April 2020.

The rationale for the phasing approach approved by the trustee board was to provide members and employers time to plan and prepare for the contribution increases. The 2019/20 increases ensure that the costs of future benefits accruing are met. There is no deficit recovery contribution component in the aggregate contribution rates (28.3% and 32.9%) which apply for the period from 1 April 2019 to 31 March 2020.

The deficit recovery contributions required from 1 April 2020 to 30 June 2034 were confirmed as 5.0% of salary. Unless the 2018 Valuation is finalised prior to individual employer's financial year ends, recognition and disclosure of the liability associated with the deficit recovery contributions set out above will be required under FRS 102. The increase in deficit contribution rate (from 2.1% in the 2014 valuation) and revised

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duration of recovery period (ending 31 March 2031 in 2014 valuation), is expected to result in a circa threefold increase to existing pension deficit provisions. A deficit modeller, pre-populated with the 2017 Valuation contributions, is available on the BUFDG website within the pensions resources section, and more detailed information regarding FRS 102 disclosures will be provided by USS in July when our Scheme Accounts are finalised.

Contribution rate changes for the Enhanced Opt-Out (EOO) option

In respect of the rates that apply for members who select the Enhanced Opt-Out (EOO) option, under this option members do not accrue any new retirement benefits, but they do remain eligible for incapacity and death benefits within the scheme. As a result members selecting the EOO option do not pay the ordinary members' contribution rate but a lower rate related to the costs of incapacity and death benefits, and this is currently set at 2.5% of salary. As with all scheme factors and special contribution rates, these are reviewed periodically.

The special member rate for EOO elections is reflective of the benefits being provided, and as such employers do not pay a future service contribution rate in respect of such members but instead have, since 2016, paid the relevant deficit contribution rate, currently 2.1% of salary. This is in order to ensure that the scheme gets the deficit recovery contributions expected regardless of take-up of the EOO option.

The scheme rules do not explicitly state the contributions payable in relation to EOO but state that members shall contribute "such amounts, or at such rate, based on the *member's salary,* as shall be determined by the *trustee company* on *actuarial advice."* In addition, the rules state that an employer shall (in respect of a member who has made an EOO election) "at any time when a recovery plan is in place" contribute such amounts as the trustee considers appropriate having taken actuarial advice.

The trustee has determined that employers will continue to pay 2.1% of an EOO member's salary between 1 April 2019 and 31 March 2020, notwithstanding that there are no deficit recovery contributions being paid for the 2019/20 scheme year. This is because the trustee considers that whilst the deficit recovery contributions are effectively zero for the year to 31 March 2020 because of the phasing-in of higher rates, a recovery plan is for these purposes in force (and as mentioned above recovery plan contributions will increase to 5% of salary with effect from 1 April 2020 as an active part of the overall contribution rate). We believe this strikes a balance between an increase to the full 5% DRC rate and the decrease in employer contributions if none were charged. The trustee also determined that the rate payable by employers from 1 April 2020 would increase to 5% of an EOO member's salary to reflect the deficit contributions payable from that date, although these rates will be revisited should decisions be reached on future member and employer contribution rates required under the 2018 valuation.

Where members have opted for a Voluntary Salary Cap, the above approach will be applied to salary above this level (noting that the retention of incapacity and death benefits, and hence the member contribution, is optional).

A full review of the member and employer EOO rates is expected to be carried out after the 2018 valuation as part of a wider review of actuarial factors and special contribution rates.

Other matters arising from the 2017 valuation

Following the completion of the 2017 valuation, in March 2019 the trustee completed a review of its Statement of Investment Principles ('SIP') which is applicable to both USS Retirement Income Builder and USS Investment Builder and was last updated in April 2016. The review concluded that a number of updates to the SIP were required, and should be consulted upon. However, with the March 2018 valuation likely to lead to further changes in investment strategy in 2019 and a number of matters yet to be finalised, the trustee plans to update and consult directly with employers (in conjunction with Universities UK) on amendments to the SIP during July-August 2019.

As well as general updates to the SIP to bring it up to date with the latest circumstances of the scheme, the review will ensure that the SIP is compliant with recent disclosure regulations[1] regarding the extent to which Environmental, Social and Governance ('ESG') factors are taken into account in pension schemes' investment strategies. The timing of the consultation exercise over the summer is designed to ensure that the SIP is updated in time for when these disclosure regulations come into force (1 October 2019), whilst allowing time for the progression of the 2018 valuation, and any investment strategy implications of the 2018 valuation to be taken into account. We will provide further information in due course.

Current DB investment strategy
In March each year, the trustee sets its investment strategy for the year (to take effect from 1 April), in line with the Journey Plan according to the scheme's latest actuarial valuation. When the trustee came to consider its investment strategy in March 2019, it was conscious that whilst the March 2017 valuation had been finalised (in February 2019), the trustee is due to complete another valuation (the March 2018 valuation) midway through 2019 which may result in modification to the de-risking strategy. With this in mind, based on investment factors and advice from its investment adviser USS Investment Management Limited ('USSIM'), the trustee board has approved an investment strategy for 2019 which, whilst being in line with the 2017 valuation de-risking plan, is unlikely to be very inconsistent with any de-risking plan for the 2018 valuation. The trustee will keep the 2019 investment strategy under review and make amendments as necessary as more details of the 2018 valuation are finalised.

The 2019 investment strategy involves transitioning from the asset allocation in place as at 31 March 2019 (as shown in the '2018 DB Reference Portfolio' column in the table below) to the asset allocation shown in the '2019 DB Reference Portfolio' column in the table below by 1 September 2019.

	2018 DB Reference Portfolio	**2019 DB Reference Portfolio**	**Benchmark**
Equities	60.00%	58.50%	25% FTSE All-Share 60% MSCI World ex-UK 15% MSCI Emerging Markets
Other Fixed Income	15.00%	17.00%	40% iBoxx UK Corporate All Maturities 20% Barclays Global Aggregate Corporate Index 15% BoAML 15yr+ US Treasury Inflation Protected Securities bond index 10% Barclays Global High Yield 15% 50/50 JP Morgan EMBI/GBI-EM (Global Diversified)
Property	7.50%	7.00%	UK IPD LLPF
Gilts Liability proxy	17.50%	17.50%	LDI Benchmark
Liability Driven Investments ('LDI')	10.00%	11.50%	LDI Benchmark (including funding cost)

Note: the asset allocation percentages do not sum to 100% as the investment strategy includes leverage (the LDI allocation).

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

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As at January 2019, according to USSIM’s Fundamental Building Blocks approach to forecasting expected investment returns, the central expected return for the 2019 DB Reference Portfolio is CPI +1.80% over the initial 10 year period, with returns over the subsequent 20 years of CPI + 4.00%.

Closure of the 2017 valuation

The Pensions Regulator wrote to the trustee on 11 April 2019 to confirm that it had closed its file on the 2017 valuation.

I hope this further information is helpful for employers. We will provide further communications in relation to the planned SIP consultation in due course.

Yours faithfully

Bill Galvin
Group Chief Executive

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