

# USSEmployers

## MAKING YOUR RESPONSE TO THE FIRST CONSULTATION ON THE JOINT EXPERT PANEL'S REPORT AND THE 2020 AND FUTURE ACTUARIAL VALUATION

We welcome responses to this consultation from each and every one of the scheme's participating employers.

We are keen to have the widest possible range of views and perspectives ahead of what are set to be crucial discussions, and eventual decision-making, regarding the valuation and about the long-term sustainability of USS.

Where possible, we welcome from Employers any feedback or analysis from your own exchanges on workplace pensions, for example from data on take up of USS membership, and in terms of member views and perceptions from previous consultations.

We plan a series of specific engagement events with employers during the three phases of consultations, and we will be in contact with employers with the details of our engagement schedule.

We encourage employers to consult with their own governing, decision-making bodies so that the responses provided can be considered to be the view of the employer. We ask that employers confirm whether the organisation's governing body has been consulted.

This template form is optional and can be used for the response from your institution.

**Please send the response from your institution to [pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk) by Friday 28 February 2020**

## PRINCIPLES TO UNDERPIN THE VALUATION

1. What are your views on the introduction of a scheme purpose statement, and do you agree that such a statement can be useful?

We are supportive of the introduction of a scheme purpose statement in order to establish a common understanding in this area, and would support the proposed statement included on page 35 of the JEP report.

2. Do you believe it helpful to set out valuation principles, and what are your views on the principles as proposed by the JEP?

We are supportive of setting out clear valuation principles. We agree with those proposed by the JEP, but note that further consideration is required in order to establish the detail around those principles. In particular, more work on the methodology is required to achieve the clarity and stakeholder confidence envisaged by principle 5 on page 36 of the JEP report.

3. Do you have any further comments on valuation principles or the JEP2 report's section 6

In addition to our responses to questions 1 and 2, we also agree with the JEP's view that the valuation should be seen proportionately and as such should not drive short-term decisions/outcomes that could impact the longer-term sustainability of the scheme.

We believe that the scheme's ongoing open status and 'last man standing' security are fundamental to the way USS should be funded and make it very different from the majority of funded DB pension schemes in the UK. We have provided further comments on this in our response to question 10.

## VALUATION GOVERNANCE

4. Do you believe that the scope of the areas of governance considered has been appropriate, and if not which additional areas do you believe would be helpful to be reviewed?

We are satisfied that the scope of the JEP's review of governance covered all of the relevant areas.

5. What are your views on the specific recommendations as they apply to the trustee board, to the JNC, to UUK and to UCU?

We agree with the conclusion that the involvement of each of the above stakeholders requires long-term reform. We would like to see a path to real change set out as soon as possible, with any shorter-term risks identified and managed within the context of the long-term plan. For example, we would be concerned if the role of UUK was changed too quickly, and do not think this will be possible within the timetable for the 2020 valuation.

The JEP report refers to "more radical reform", and we are supportive of exploring such options in parallel with the other reforms suggested. The creation of a senior steering committee may be a good idea, but alternatives should also be considered.

We agree that the casting vote of the JNC Chair should be removed for the 2020 valuation, and that some form of arbitration should be used in its place.

6. Do you have any additional comments on valuation governance or the JEP2 report's section 7

We have expressed concerns previously about the timescales of consultations, some of which have been very short, and too short to provide a response that has been approved by our governing body. We welcome the fact that the timetable for the 2020 valuation includes time for more meaningful consultation.

## ALTERNATIVE PATHS TO THE VALUATION

7. What are your views on the outlook for the scheme being that it is an ongoing scheme, and also the various references by the JEP to it staying open?

We fully support the scheme staying open, and believe that its ongoing open status and 'last man standing' security are fundamental to the way USS should be funded and make it very different from the majority of funded DB pension schemes in the UK. We believe that the open and ongoing nature of the scheme is an important factor in arriving at an appropriate valuation methodology.



8. In relation to risk appetite, what would employers find helpful in order for them to better understand the risk and reward trade-offs in USS?

In order to understand the risks in the scheme, we need a better way of thinking about long-term and short-term risks in the context of USS being an open, growing, cash-flow-positive scheme. Stochastic modeling would be a better way of analysing long-term risks.

In addition, we would find it helpful to have answers to the following:

- What is the target best estimate return based on the current investment strategy?
- How have actual returns compared with target?
- What is the expected volatility of returns based on the current investment strategy?
- How has actual volatility compared with expected?
- What is the 2020 valuation allowance for prudence relative to the best estimate return?
- What is the probability of achieving the 2020 valuation assumed level of return and how does this compare with previous valuations?

9. Do you agree that the JEP's proposals regarding a dual discount rate approach warrants further analysis and examination?

We are fully supportive of further analysis of this approach.

10. Do you have any additional comments on potential approaches to the 2020 and future valuations or the JEP2 report's section 8?

We believe that the scheme's ongoing open status makes it very different from the majority of funded DB pension schemes in the UK. Contributions exceed pension payments, so the scheme is better able to withstand a reduction in asset values followed by a period of recovery. In contrast, many other DB schemes have pension payments exceeding contributions and would be continuing to liquidate assets during this sort of downturn.

We would like to see a stochastic stress test analysis of the scheme's assets and cash flows to understand the resilience of the scheme to adverse economic conditions.

We also continue to have concerns with 'Test 1' and question its appropriateness for use in deriving the funding of the scheme, particularly given the ongoing open nature of the scheme.

## TAKING ACCOUNT OF THE NEEDS OF MEMBERS

11. Are you concerned with the level of opting-out of USS, and if so what do you believe the principal reasons for it are?

Yes, we are concerned about the level of USS opt-outs. Given the small sample size used in the JEP's analysis we think further work on understanding the reasons for opting out should be done. Our own recent data (which of course only applies to the University of Oxford) suggests that the main reasons for opting out are (i) not intending to stay in the UK and being concerned about accessing USS benefits overseas (30%); (ii) being on a fixed term contract (20%), and (iii) not being able to afford the required contributions at this point in time (19%). Some of these answers suggest that providing employees on fixed term contracts with more detailed information on how the scheme works could have an appreciable effect on the opt-out rate.

We believe it is important for USS to understand the different factors driving the opt-out rate.

12. Do you support the recommendation that further analysis is undertaken on the option of tiered member contributions?

We are supportive of this further analysis in parallel with looking at possible ways of lowering the opt-out rate within the current framework (e.g. by providing more information to new joiners).

13. Do you support the recommendation that further analysis is undertaken on flexible options for members, for example lower cost saving options?

We are supportive of this further analysis in parallel with looking at possible ways of lowering the opt-out rate within the current framework (e.g. by providing more information to new joiners).

14. Do you have any additional comments on the needs of USS members or the JEP2 report's section 9?

Although we support the further analysis referred to in questions 12 and 13, we note that contributions is not the only reason for colleagues opting out of USS (see answer to question 11). We believe it is important for USS to understand the different factors driving the opt-out rate.

## MUTUALITY

15. Do you support the view expressed by the JEP on the issue of mutuality within USS?

We agree that the mutuality of USS should be maintained.



16. Do you have any additional comments on mutuality within the scheme or the JEP2 report's section 10?

No further comments.

ANY OTHER COMMENTS?

17. Are there any other issues that you would like to see considered to inform the approach to the 2020 and future valuations?

We remain committed to supporting USS into the future, and we welcome the JEP2 report. In light of this, we would be disappointed to see the 2020 valuation concluded using the existing methodology if consensus is beginning to emerge on an alternative approach.

In particular, we continue to have concerns with 'Test 1' and question its appropriateness given the ongoing open nature of the scheme. We believe that alternative approaches should be considered for the 2020 valuation and support the undertaking of additional analysis to consider a suitable alternative.

Please confirm if your organisation's governing body has been consulted:

Yes. This response was prepared by a working group set up by University Council to consider USS matters, and the response has been approved by Council. A draft of this response was also shared with the University's USS members for comments prior to being finalised.

RESPONSE SUBMITTED BY:

Name:

Lee Spithray

Position:

Head of Pensions

ON BEHALF OF:

Institution:

University of Oxford

Please send your completed form to:

[pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk) by **28 February 2020**.

Thank you for taking the time to respond to this consultation.