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Our pension, your chance to comment

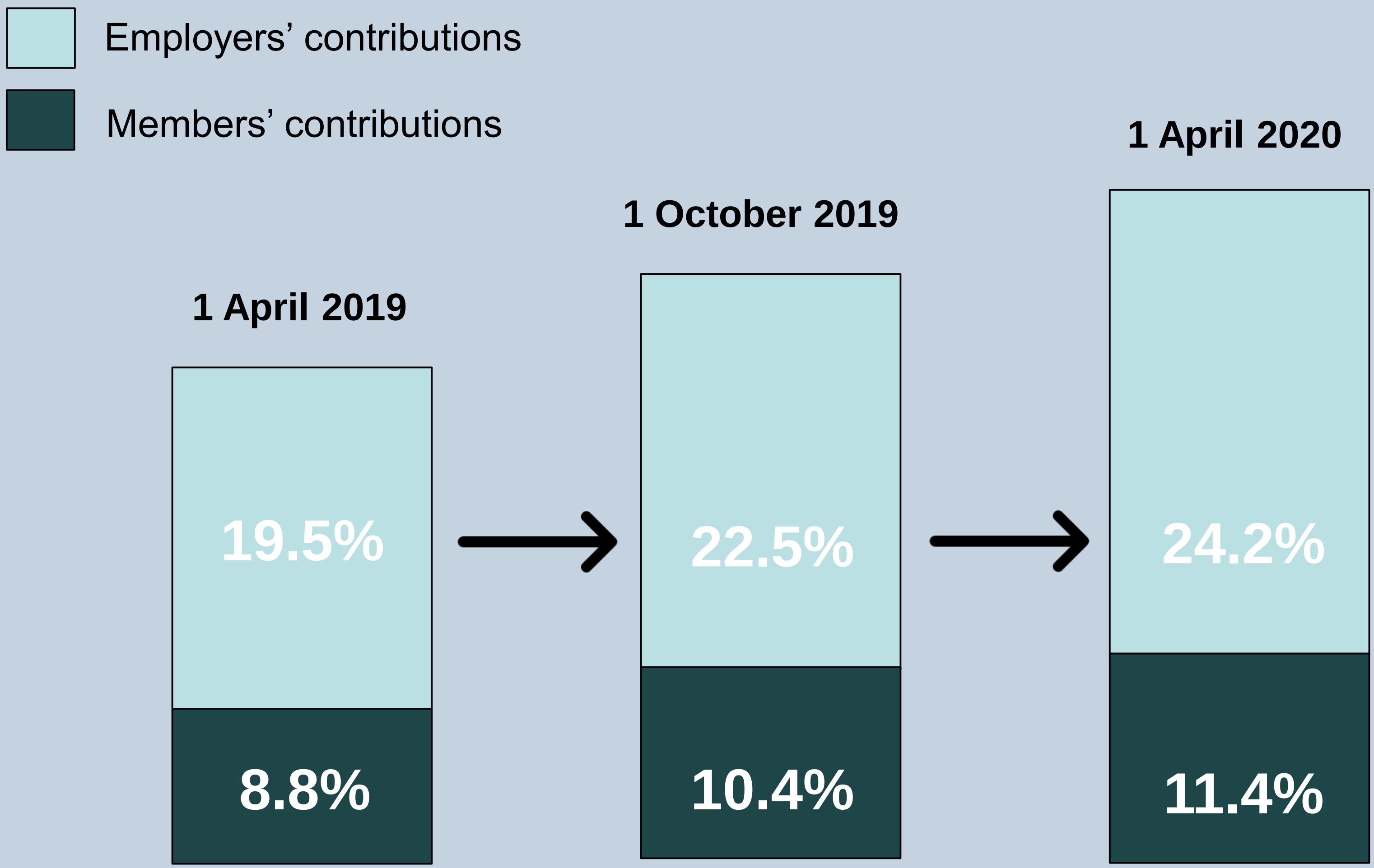
USS Webinar - 8 April 2019

Areas for discussion and comment

- Recap on current position and the 2018 valuation
- 2018 valuation – contingent support
- 2018 valuation – latest consultation and next steps
- Appendix – information from previous forum

Recap on current position and the 2018 valuation

Recap 2017 valuation - contribution increases



Recap - Joint Expert Panel's findings

- A re-evaluation of the employers' attitude to risk
- Adopting a greater consistency of approach between the 2014 and 2017 valuations in setting in deficit contributions
- Ensuring fairness and equality between generations of scheme members
- Ensuring the valuation uses the most recently available information

Possible impact – total contributions (minus the 1% match) 29.2%, rather than the agreed 35.6% contributions from April 2020, based on its 2017 valuation

- JEP recommendations are being considered as part of 2018 valuation

2018 valuation - what has happened so far

2 January 2019
USS 2018 consultation on valuation assumptions begins, setting out details of the valuation basis and initial results on an upper and lower bookend

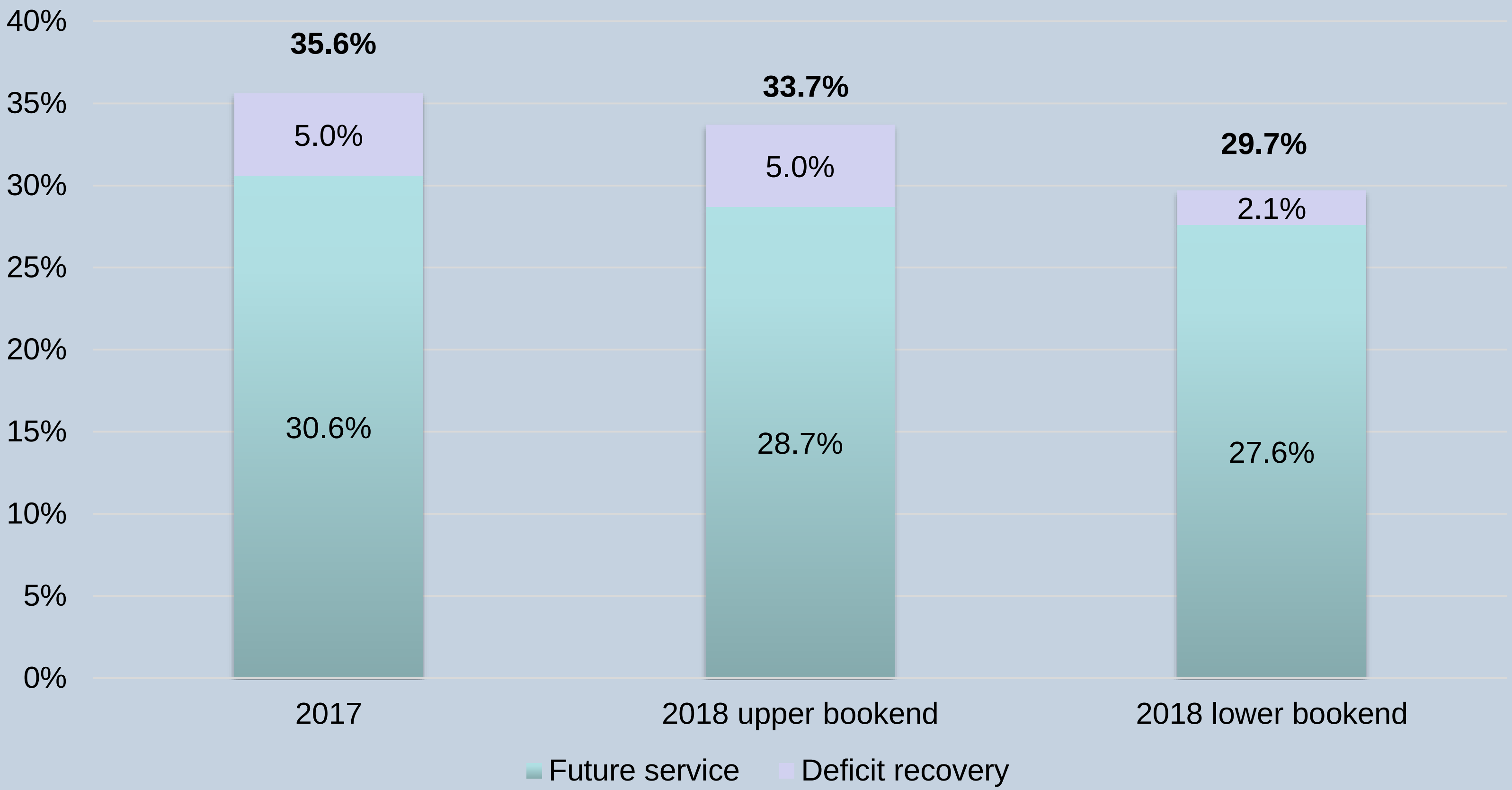
8 February 2019
USS provide further information on contingent contribution arrangements and extend the consultation period to from 28 Feb to 15 March 2019

27 February 2019
UUK and their advisers provide thoughts on the 2018 valuation, the lower and upper bookends and contingent contribution arrangements and consult with employers

19 March 2019
UUK provides a summary of the responses received from employers and formally responds to the consultation issued by the USS Trustees

8 April 2019
Awaiting response from USS Trustees

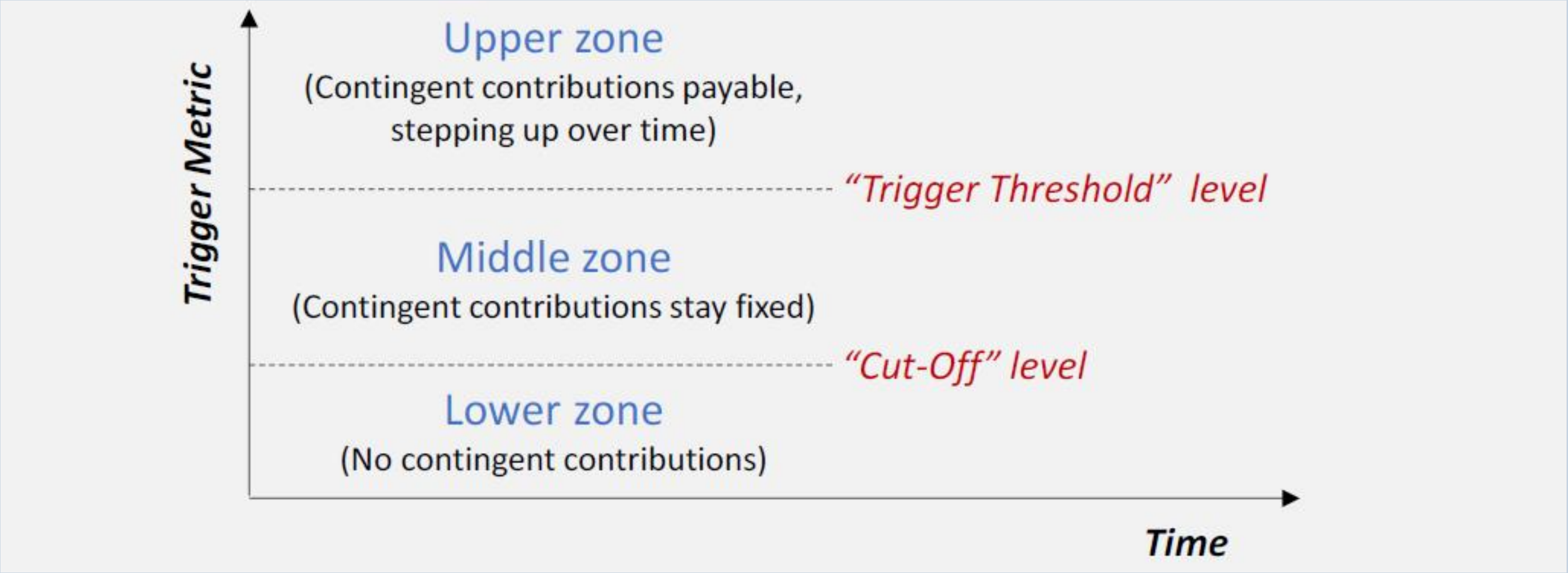
2018 valuation: USS contribution proposals



2018 valuation – contingent support

Contingent contributions – Framework

- Proposal sets a core contribution level to start at lower bookend
- Contingent contributions would be payable if required
- Any increase would be controlled automatically through a "trigger metric"



Are CCs really needed?

UUK believes the JEP proposals would be reasonable for the USS Trustees to accept without a CCs arrangement due to:

- The sectors strong covenant rating including a 30 year horizon for covenant visibility
- The last man standing rule (which provides a form a contingent security protecting against potential individual defaults)
- The USS Trustee's ability to set contributions following consultation (but not necessarily employer agreement); and
- The default-cost sharing provisions contained in Rule 76

Despite this both USS and (it seems) the Pensions Regulator have made it clear that contingent support is required if employer's wish to move to the lower bookend

UUK have therefore considered CCs as a potential way to bridge the different perspectives of the various stakeholders including tPR

UUKs Contingent Contribution proposal (3)

- Any deterioration should endure for a reasonable period, and there should be some smoothing
- A notice period of at least six months between the trigger being breached and increased contributions applying
- The approach should be proportionate, and not overly complex given that JEP Phase 2 will provide a broader review

2018 valuation – latest consultation

Oxford's response to UUK

University believes all JEP proposals should be acceptable without CC support and does not believe CCs are necessary to support the Lower Bookend

University expected significant reduction in deficit reduction contributions following significant reduction to the deficit (so does not support the Upper Bookend)

If USS Trustee insists on Upper Bookend assumptions then UUK should negotiate lower deficit reduction contributions

If a CC arrangement is imposed then:

- Should only be applicable until next contribution schedule is signed
- A Technical Provisions trigger metric should be used, not self-sufficiency
- Full review undertaken as part of JEP phase 2

UUKs response to USS consultation

Having collected the views of employers UUK responded to the USS consultation on behalf of employers:

- Not convinced upper bookend (of 33.7%) is correct price of benefits
- Questions why two JEP recommendations are not used
- Deficit Recovery Contributions are unreasonable and not justified
- Most employers prefer JEP recommendations without CCs and many question why CC arrangement is necessary given legal and structural basis of USS
- But significant majority support CCs and the CC proposal put forward by UUK as a 'least worst option' to help reduce contributions provided:
  - arrangements are temporary and deliver lower bookend
  - CCs are cost shared with employees
  - JEP phase 2 is used to find sustainable longer-term solution

Key dates

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More information

- Dedicated webpage – USS and Oxford

https://www.ox.ac.uk/staff/working-at-oxford/pensions-comms

- Pensions Discussion Forum

- USS website: www.uss.co.uk
- Online information from My USS – USS number, NI number, email address needed to register
- **Tel: 0333 300 1043**

- University members' USS benefit queries:
- **Email:** uss@admin.ox.ac.uk
- **Address:** Pensions Office, 6 Worcester Street OX1 2BX
- **Tel:** 01865 (6)16067

Appendix

USS scale

University has c9,300 members, contributing over £80m p.a.

Active members	199,000
Deferred (left employment, not taken pension)	151,000
Pensioners	69,000
Total	**419,000**
Assets under management (as at 31 March 2018)	£64.5 billion

A hybrid scheme since 2016

Over 350 participating employers

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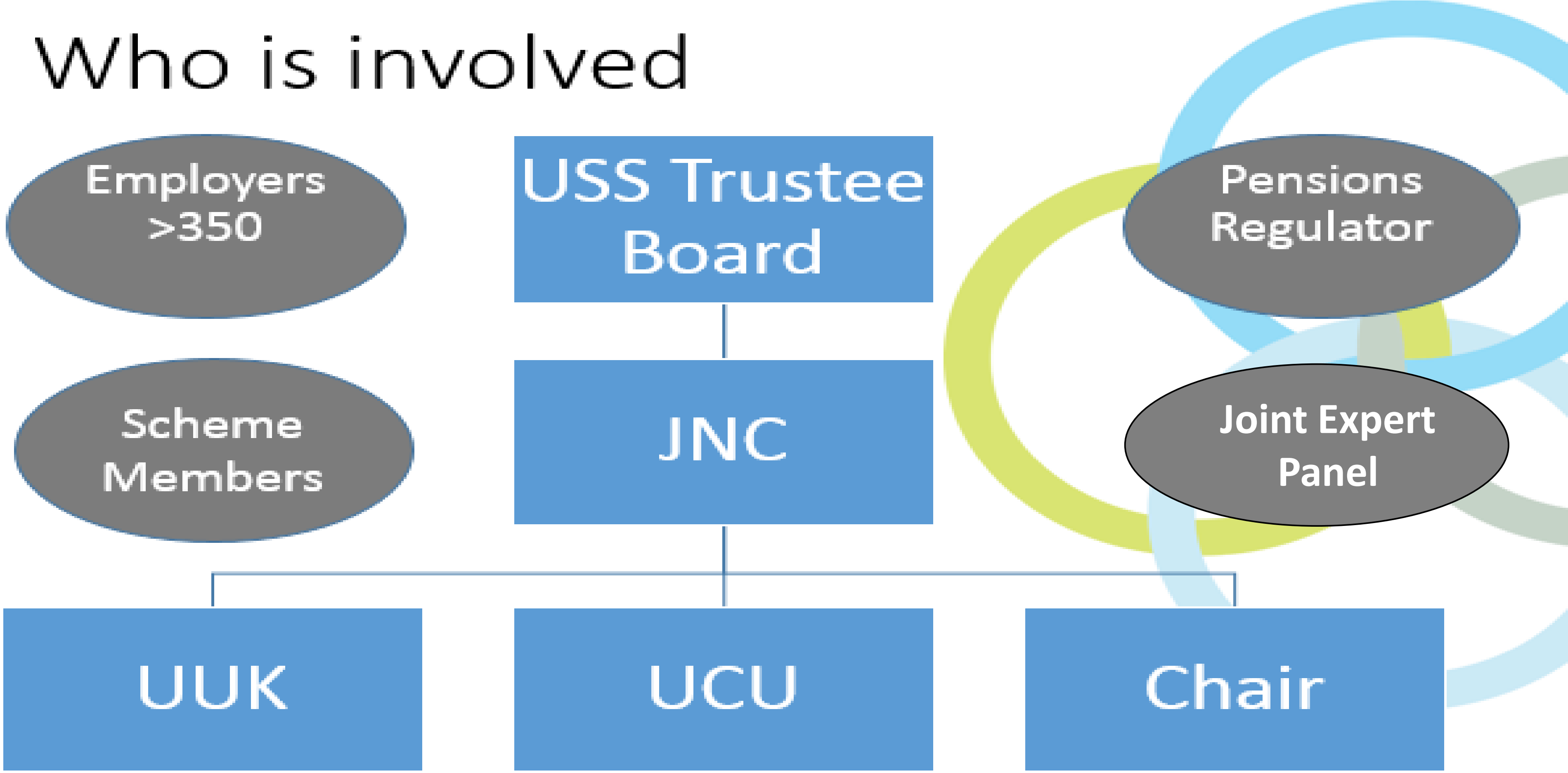
USS governance



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Joint Expert Panel

- The purpose of the Panel:
  - make an assessment of the 2017 valuation of the USS fund
  - focus in particular on reviewing the basis of the scheme valuation, assumptions and associated tests
  - agree key principles to underpin the future joint approach of UUK and UCU to the valuation of the USS fund
- Chair, 3 UUK nominees, 3 UCU nominees
- Reported in September 2018 on the valuation

USS Working Group

- Previous forums covered remit of USS Review Working Group
- University's response to the consultations so far:
  - Continued acceptance of JEP findings
  - Focus on long-term rather than short-term risk
  - Review consistency of deficit recovery contribution proposals to 2014 valuation
  - Quantification of risks (Brexit, Augar report)
  - Preference for contingent contributions rather than negative pledges

2018 valuation

- USS issued consultation to UUK on 2 January 2019 on proposed assumptions for the 2018 valuation
- Consultation to run until 28 February 2019
- The consultation primarily covers:

What's changed since 31 March 2017

Managing risk in the Scheme

Impact of incorporating JEP recommend-ations

1. What's changed since 2017 valuation

Market conditions improve

- Market conditions improve between 2017 and 2018 valuation dates
- Reduces value placed on liabilities

Assets increase

- Asset returns higher than expected
- Assets increased by £1.2bn

Latest mortality data used

- Reflect latest experience data
- Reduces value placed on liabilities

2. Managing risk

- Key areas of risk are

Covenant strength	Financial assumptions	Demographic changes (e.g. life expectancy)
Ability of employers to provide adequate support to the Scheme	**Changes materially affecting both assets and liabilities**	**People living longer than expected**

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2. Managing risk – Regulator views

- The Pensions Regulator concluded they would accept the 2017 valuation but it was at the limit of what they would deem as acceptable

- The Regulator understands that USS Trustee is exploring JEP recommendations for 2018 valuation

……but expects risk analysis to be carried out and appropriately quantified

- USS and UUK should implement appropriate *contingency support* to underpin any additional risk taken

Contributions

	Member	Employer
1/4/75 to 31/3/80	6.25%*	12%*
1/4/80 to 31/3/82	6.25%*	14%*
1/4/82 to 31/3/83	6.35%*	14%*
1/4/83 to 31/3/95	6.35%*	18.55%*
1/4/95 to 31/12/96	6.35%	18.55%
1/1/97 to 30/9/09	6.35%	14%
1/10/09 to 30/9/11 *(post-Global Financial Crisis)*	6.35%	16%
1/10/11 to 31/3/16	7.5% (FS) 6.5% (CRB)	16%
1/4/16 to current	8%	18%

*First £100 of salary exempt

Upper and lower bookends

Upper bookend

Includes:

1. Updated assets
2. Updated financials
3. Updated mortality data

Contingent support required?

No

Lower bookend

Includes:

Upper bookend changes
plus
Some of the higher risk JEP recommendations

Contingent support required?

Yes

2018 valuation – initial results from USS

*Table 3: Comparison of the 31 March 2017 valuation and 31 March 2018 if **no** contingent support is provided.*

	Rule 76.1 Valuation at 31 March 2017	**Valuation at 31 March 2018 with no contingent support**
Prudence percentile level:	**67th**	**67th**
Reliance in 20 years:	**£10bn**	**£10bn**
Technical Provisions (TP)	£67.5bn	£67.3bn
Self-sufficiency (SS)	£82.4bn	£84.5bn
Assets	£60.0bn	£63.7bn
Deficit on TP basis	£7.5bn	£3.6bn
SS basis	£22.4bn	£20.8bn

Framework for CCs: 11 principles

1. Efficacy
2. Objective metric
3. Alignment
4. Robustness
5. Safety valve
6. Materiality
7. Quantum
8. Durability
9. Covenant
10. Legally binding
11. Payment certainty

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Contingent support

USS Trustee believes contingent arrangement required for increased risk in lower bookend

A Contingent Contribution (CC) arrangement is where additional contributions are payable under adverse outcomes

- This is the preferred type of continent support from USS Trustees and the Pensions Regulator

USS Trustees **did not** set out a CC proposal in their 8 February paper (as was expected)

- Instead put responsibility on UUK to formulate a CC proposal

USS Trustees **did** set out 11 principles and a framework to consider when formulating CC arrangement (set out on next slides)

UUK initial views on CCs

Unlikely lower bookend could be agreed without CCs

Any CC arrangement would need careful consideration prior to introduction

If no CCs agreed likely to lead to upper bookend contributions

- UUK and employers would then respond on assumptions underlying upper bookend
- Noting such contributions would be unsustainable and provide threat to future investment and to jobs

UUK believes cost sharing of any arrangement is essential (65 employers:35 members)

Any CC arrangement should cease once new contribution schedule is signed

UUKs Contingent Contribution proposal (1)

- Amendments to the base upper and lower contributions were proposed by UUK before moving forward with CC arrangement

Aon Table 1: Bookends adopted for Proposal

	Future Service Contribution	Deficit Recovery Contribution	Total Contribution
Upper Bookend	28.7%†	3.5%	**32.2%**
Lower Bookend	27.1%*	2.1%	**29.2%**
Difference			3.0%

(†) Note: The future service contribution figure is consistent with the USS Trustee's 2 January 2019 consultation.

(*) This is 0.5% lower than the figure of 27.6% used in the USS Trustee's first proposal for the Lower Bookend. We assume that a modest amount of smoothing of the future service contribution rate has been applied (less than the 6-year smoothing recommended by the JEP).

UUKs Contingent Contribution proposal (2)

- Any proposal is conditional on the USS Trustee accepting the Lower Bookend as the initial contribution rate
- Additional contributions are only triggered in extreme conditions (not by normal market movements)
- Phased contribution increases with three potential step-ups (each set equal to 1/3 of the difference between Upper and Lower Bookend
- Lower bookend of 29.2% (not 29.7% as proposed by USS)
- The trigger metric should be Technical Provisions (not self-sufficiency)

UUK consultation to employers

UUK asked employers 3 specific questions to help UUK formulate a response to USS on their consultation and their request for UUK to put forward a CC proposal.

1. Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed Upper Bookend and Lower Bookend?

2. Do you support UUK putting forward a proposal for a Contingent Contributions (CCs) arrangement to the USS trustee as it requested? If not, would you prefer to pay at the upper bookend level or what would your preferred response be?

3. Do you find the proposal for a CCs arrangement…acceptable, taking all factors into account? If not, what aspects would you wish to change?

What's next

- USS Trustee considers UUK's response to 2018 contingent contribution consultation
- Upcoming consultation on 2018 valuation Recovery Plan and Schedule of Contributions
- The work of the Joint Expert Panel on phase 2 continues
- The University's Working Group continues to monitor developments and respond on the University's behalf to any consultations