

USSEmployers

RESPONSE FORM

**A CONSULTATION
ON THE USS TRUSTEE'S
PROPOSED ASSUMPTIONS FOR
THE SCHEME'S TECHNICAL
PROVISIONS IN RELATION TO THE
2023 VALUATION**

CLOSING DATE: 22 SEPTEMBER 2023

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

MAKING YOUR RESPONSE TO THE CONSULTATION ON THE USS TRUSTEE'S PROPOSED ASSUMPTIONS FOR THE SCHEME'S TECHNICAL PROVISIONS

The USS Trustee is undertaking a valuation of USS as at 31 March 2023, and on 19 July 2023 the Trustee published its consultation on the scheme's technical provisions and on the draft Statement of Funding Principles (SFP).

Firstly, USS sponsoring employers are invited to give feedback on the technical provisions and the underlying assumptions which are proposed to be adopted by the USS Trustee, and the SFP.

As a reminder, the USS trustee has invited feedback on its eight core consultation elements:

1. Proposed discount rates, both for the purposes of valuing Technical Provisions and determining future service contributions.
2. Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions).
3. Any other aspect of the assumptions and methodology underlying the Technical Provisions.
4. Any other matter included in the Statement of Funding Principles. Whether employers are willing to agree to debt monitoring and *pari passu* arrangements and the long-term rule change required to support a strong covenant.

In addition, comments are welcomed on:

5. The Trustee's overall assessment of employer covenant, including assumptions made about the level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity.
6. The assumed Valuation Investment Strategy (VIS) and strategic mix of return-seeking assets and matching assets.
(Note that more extensive engagement with employers on the investment strategy will take place in the later stages of the valuation process.)
7. The balance and trade-offs between investment risk, the degree of prudence and stability (of benefits, contributions, and funding levels), both at this valuation and looking ahead.
8. Any other aspect of this consultation.

Secondly, Universities UK (UUK) has set out a broader plan for the development, and reform, of USS and invites USS sponsoring employers' views on the plan.

The consultation questions for USS sponsoring employers are shown below.

- A. Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

[It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found above (and are taken from page six of the USS consultation document).]

- B. On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

[The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

- C. Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?

- D. More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

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

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

This template form is optional and can be used for the response from your institution (or alternatively please use the above structure in forming your responses where possible).

Please send the response from your institution to pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on Friday 22 September 2023.

THE USS TRUSTEE'S EIGHT QUESTIONS

Please set out your comments and views on the USS Trustee's eight questions as set out on page two (and on page six of the USS consultation document)

We have no specific comments on the Trustees eight questions.

We look forward to further information on the investment strategy later in the process.

ASSUMPTIONS FOR THE TECHNICAL PROVISIONS

- A.** Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

[It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found on page six of the USS consultation document.]

The assumptions proposed by the Trustee appear to be reasonable.

We welcome the clarity around timelines for decision-making that have appeared in the more recent guidance on the application of the USS debt monitoring framework, but would appreciate some further refinements. For example, we would like to be able to engage with USS on longer-term planning to get support for our plans over a 5-10 year horizon rather than engaging on a transaction by transaction basis.

2023 VALUATION OBJECTIVES

- B.** On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

[The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

We do support the overall objectives set out in the briefing.

Stability, both for the scheme and employers, seems to be the priority and whilst we are pleased to see a more positive outcome at this valuation the fluctuations we have witnessed in funding levels in recent years really needs to be addressed to build confidence in the scheme amongst stakeholders.

We would wish to see further exploration of how a Conditional Indexation model would work in USS. We see this as a fairer trade-off between risk and performance: while it transfers more investment risk, and potential gains, to members and employers, it keeps the longevity risk within the scheme and potentially provides for better navigation through difficult periods.

Achieving a balance between creating stability by retaining the surplus to create a buffer against future downturns and at the same time reducing contributions and improving benefits now seems a sensible way forward. Reducing members contributions to the lowest level members have ever experienced, and improving future benefits seem affordable now, but looking to the future it remains a priority to smooth out some of the swings in rates and benefits we have seen which is why we would not advocate using the surplus at this time. Instead, we would be looking for some additional prudence in the assumptions and/or the investment strategy to mitigate the risk of higher contributions or benefit changes being needed at the next valuation.

Although it appears that reducing contributions at this valuation may have lessened the call for lower cost options greater flexibility in the scheme is still needed. Its clear that one size does not fit all, especially for some of our early career researchers. Having more choice can only be a good thing and we would support further exploration of this by the Low-cost/flexible Working Group.

It seems logical to pick up the work started on the governance review as a priority once the valuation has been completed.

APPROACH SET OUT IN THE JOINT STATEMENTS

- C.** Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?

We do support the approach set out in the joint statement to improve benefits from April 2024. It's clearly important to our community that we provide a pension offering that provides value for money as part of our total remuneration package.

It appears from the Technical Provisions document that returning benefits to the pre April 2022 levels is affordable based on the Trustees assumptions of a future service cost of 20.6%.

As the deficit has been eliminated and we are currently paying excess contributions under the current schedule of contributions we would also support UUK asking the Trustee to revise the current schedule so that the rate of contributions payable is reduced earlier than April 2024. The possible reduction in member contributions from 9.8% to 6.1% will be very welcome due to the current cost-of-living crisis.

UUK MANDATE

- D.** More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

We confirm we will provide a supportive mandate to UUK's negotiators

PLEASE CONFIRM IF YOUR ORGANISATION'S DECISION-MAKING BODY HAS BEEN CONSULTED:

Yes

RESPONSE SUBMITTED BY:

NAME

Carey
Southward

POSITION

Head of
Pensions &
Benefits

ON BEHALF OF:

INSTITUTION Imperial College London

Please send your completed form to:

pensions@universitiesuk.ac.uk as soon as possible and
no later than 5pm on 22 September 2023

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

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