

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)

Taking into account the AON actuarial advice, we do not have any real concerns with the Statement of Funding Principles or Technical Provisions and underlying financial assumptions used within the valuation (subject to the scheme expenses allowance comment below). We welcome the change to previous levels of prudence and are in agreement with maintaining the existing covenant support measures that are in place to minimise the combined member and employer contribution rates.

As the valuation as at 31 March 2023 shows that the scheme is no longer in deficit and actually has a fairly healthy surplus, then there can be no justification for the scheme to continue to require participating employers to make deficit contributions and the requirement should be removed as soon as possible.

In respect of the reasoning behind the increase in the scheme expenses allowance from 0.4% to 0.5%, we would like to request further supporting evidence to provide justification for the increase and not just that the PPF Levy might increase. Due to the improvement in scheme funding, this represents a large increase in expenses when, given the financial environment, scheme stakeholders are cutting budgets.

We look forward to progression on the investment strategy, Conditional Indexation and stability.

Our responses to the eight specific questions are as follows:

1. We agree that the proposed discount rates are appropriate for the 2023 valuation.
2. We believe that the assumptions covering inflation, mortality and other demographic aspects are appropriate.
3. We have no additional comments regarding the assumptions and methodology underlying the Technical Provisions.
4. We are comfortable with the proposed changes in the Statement of Funding Principles.
5. We agree with the Trustee's overall assessment of the employer covenant.
6. We agree with the assumed Valuation Investment Strategy and note that further engagement with employers will take place later in the valuation process.
7. We support the balancing of investment risk, prudence and stability, both for the 2023 valuation and beyond, and would welcome a period of stability in contributions and benefits.
8. We would like to see further justification for the proposed significant increase in Scheme expenses.

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.]

No further comments to those above.

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 support the nine overall objectives and would welcome progress on this in the near future with as few delays as possible. Our priority level, from highest to lowest, and comments are below:

1) Stability

Following previous valuations where reductions in benefits and increasing contributions were implemented, we rate future stability as the number one priority going forward. The impact on financial planning and employee relations would be invaluable to employers and also for members. Each of the following objectives directly impact on the future stability and we believe a balanced view is the only sensible and prudent approach.

2) Reduction in contributions

In the current economic climate, a balanced view between improving benefits and reducing contributions is of greater importance and in our opinion a change in the contribution rate to an overall 20.6% should be implemented as soon as possible. Although this reduced contribution rate subsequently increases the probability of future increases to 25.2% or above in 2026, we would hope that positive progression on the nine objectives would limit the possibility of this action being required. Due to the removal of the deficit, the current overall 31.4% rate of contributions is significantly greater than required and an accelerated reduction in the contribution rate with effect from 1 January 2024 would appear to be achievable as there appears to be no justification to keep contributions above 25.2% beyond this date. Given the current financial and cost-of-living pressures being faced by many Higher Education Institutions and their staff, we would strongly encourage this. The University is happy to support the contribution split of 6.10% (employees) and 14.50% (employers).

3) Improvement to future benefits

We agree with the implementation of pre-April 2022 benefits with effect from 1 April 2024 given the improvements to the current funding position. Notwithstanding the risks of future contribution increases, mentioned above, our view is that this appears affordable and sustainable whilst also enabling members and employers to take advantage of a reduced contribution rate. This would also seem to align with the agreed direction of travel indicated jointly by UCU and UUK and would be a positive move that would help with ongoing industrial relations.

4) Utilisation of surplus

Our view is that the surplus should be retained within the scheme at this time to offset and mitigate against any future potential change in interest rates and financial market conditions which may lead to a reduction in the surplus. Retaining the surplus would help protect both member and employer benefits and contribution rates from being negatively impacted in future. The ongoing review of these nine objectives may allow for some of the surplus to be utilised however our number one priority for long term stability would be improved with the surplus retained.

5) Governance review

We are disappointed at the lack of progress in this area over the last few years, especially given the recommendations that had come out of the JEP review. In our view, transparent and robust governance is essential to the effective management of this scheme and is necessary if we are to avoid the incredibly difficult and unsatisfactory negotiations that have played out in previous valuations. We would strongly hope to see this rapidly progressed on the finalisation of this latest valuation.

6) Changes to long-term investment strategy

We believe this to be an integral part of ensuring the long-term stability of the scheme and we look forward to being consulted on changes in the near future.

7) Conditional Indexation

To provide some flexibility to deal with fluctuations in funding levels without the need to change the benefit structure or contribution rates and we look forward to consultation in the near future.

8) Lower cost/flexibility options

Maybe less critical now due to the proposed reductions in contribution rates however still an option that should be considered as a part of the exercise to maintain the future stability of the scheme.

9) Commitment to covenant support

The University is happy to support the continuation of the covenant support measures going forward.

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 support the approach set out to improve benefits to pre-April 2022 levels from April 2024.

Based on the available information, we believe that there is sufficient evidence of stability and affordability. Our preferred option would be for the surplus to be retained to protect the scheme and its stakeholders from any future negative effects on subsequent valuations and for progress to be made on the scheme governance, CI and investment strategy reviews to provide further stability going forward. We do not wish for stakeholders to be in an uncertain position following the 2026 and subsequent valuations with the potential for increased contributions and/or reduced future benefit accrual.

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 are content with the supportive mandate taking into account our comments above.

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

We can confirm that the decision-making body has been consulted

RESPONSE SUBMITTED BY:

NAME Alan Gazzard

POSITION Pensions Adviser

ON BEHALF OF:

INSTITUTION University of Kent

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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