25th October 2019

Dear Stuart

USS Pensions dispute

Thank you for meeting with representatives of the University last week and for the full and frank exchange of views this meeting enabled. As you know, we are keen that we, and of course Universities UK (UUK), explore all avenues to find a resolution to the Universities Superannuation Scheme (USS) pensions dispute that is acceptable to all and avoids further disruption for our staff and students.

Our position is that we wish to see decent pension provision for our staff, with a strong element of ‘Defined Benefit’, within the limits of what is affordable for all. We are disappointed that the USS was not able to adopt the full recommendations of the first Joint Expert Panel (JEP) report and that the second report from the JEP is not yet available. The industrial unrest we are now facing, as we all know, is potentially hugely damaging for the sector, our students and staff. In this context it is vitally important that we explore every avenue that might bring stakeholders together with a view to resolving these on-going issues.

At our meeting we shared our view that it is the pension regulatory framework itself, and its lack of fit with a scheme like the USS, which is resulting in a valuation outcome that is unacceptable to members and employers. In particular, the trend towards increasing funding targets, lower risk investment strategies and increasing security of accrued benefits fails to recognise the nature of our sector. We proposed that an alternative approach should be considered.

As we discussed, a scheme like USS differs from other defined benefit schemes with commercial sponsors in two important ways:

1. **The focus on increasing deficit contributions and shorter recovery plans doesn’t take into account the long-term financial outlook of the university sector.**

   The Pensions Regulator focus on “increasing deficit contributions” and “reducing the length of recovery plans” might be appropriate for schemes with commercial
sponsors, where risk needs to be managed on a shorter term. However, this focus doesn’t take into account the much longer-term financial view that the university sector, with the backing of multiple employers, can take when it comes to risk-based investments.

2. **A scheme like USS will not mature in the same way commercial defined benefit schemes do and therefore a different approach to risk is needed.**

Most commercial defined benefit schemes are closed to new members, and many have no active members. That means they have to move to a low risk funding approach, “reduce the scheme’s dependence on the employer”\(^\text{ii}\) and seek self-sufficiency or buyout. This is different to the university sector, where new members and accrual into the USS scheme continues and the scheme will not mature to the extent that all members are pensioners. The low-risk funding approach, with the aim of protecting pensions that have already been built up, is therefore less appropriate for a scheme like USS, which will continue to accrue contributions.

In summary, the Pensions Regulator view of risk and investment in the USS scheme is based on commercial models that, it could be argued, are inappropriate to our sector. A revised model – potentially by the creation of a new category within the Pensions Regulator’s classification of schemes to better reflect our sector’s specific situation – could be one way of addressing these issues.

During our discussion we asked if UKK could engage with other member employers to ensure that there is an understanding of the role and impact of the regulatory framework, and to potentially seek a mandate to lobby relevant stakeholders for change. While we are aware that there may be reference to the regulatory framework in the second JEP report, given this is not likely to be published until later in the year, we feel action should be taken now given the urgency of the situation.

We would grateful if you could confirm receipt of our letter and would welcome your response to the proposals it contains.

Once again thank you very much for your time coming to see us and discussing these matters. We look forward to hearing from you soon.

Yours sincerely

Professor Karen Cox

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