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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)

The proposed post-retirement and pre-retirement discount rates of Gilts + 0.9% and Gilts + 2.5% respectively are acceptable to UCL. We recognise that the levels of prudence are more aligned with the percentiles used for the 2017/18 valuations than the 2020 valuation and acknowledge that consequently, this has increased both the surplus and lowered the cost of benefits. It is acknowledged that the self-sufficiency discount rate has reduced to Gilts+0.5% but that this has been offset by the removal of the 50 basis points addition to the CPI assumption that was applied in 2020.

It is noted that USS have applied a long term inflation assumption of 3% and that this may result in losses if inflation exceeds this in the shorter term. UCL is supportive of the retention of the surplus as a buffer against any potential losses and would be interested to see how effective the surplus would be in a short term scenario, where CPI is 4% and 5% respectively.

UCL is agreeable with the demographic assumptions that USS have employed for its Technical Provisions although we note, based on Aon's advice, that there is potentially greater scope to lessen the prudency USS applied to its assumption on longevity.

UCL is satisfied with the overall assessment of employer covenant, the collective level of financial support employers can provide and their affordable risk capacity. We also recognise the value of the covenant support measures and their meaningful impact on contribution rates and are supportive of maintaining them in their current form.

We would welcome the opportunity to revisit the VIS and its continuing effectiveness in light of market changes since 2020 and the more favourable funding position under the 2023 valuation. UCL supports focus on the investment strategy as a key component of the Journey Plan's stability workstream and encourages early prioritisation to ensure that material opportunities are realised quickly.

UCL is assured that the balance and trade-offs between investment risk, prudence and stability has been met by the scheme for this valuation. Looking ahead, UCL is less optimistic that the scheme can retain a fully funded position if interest rates markedly decrease (we are mindful that a decrease of 1.4% in interest rates as at 31 March 2023, would have removed the £7 billion surplus). We are therefore committed to exploring equitable options for stakeholders to generate increased stability for the scheme in the long term. We agree that a full exploration of the available mechanisms to deliver that aim is appropriate and a proposal centred around investment strategy, contribution corridors and conditional indexation appears reasonable. We would approach conditional indexation with a degree of caution however and would need to be convinced that the trade-offs involved remain appropriate and result in an equitable outcome that protects member benefits.

We would also ask that a clear plan for the stability workstream is circulated to employers as soon as possible and that opportunities to expedite the process are considered.

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.]

Overall UCL is satisfied with the assumptions and methodology that underpin the valuation, but we would like to make some specific comments:

Covenant – We are supportive of the renewal of the employer covenant measures (20 year moratorium on employer exits from the scheme and debt-monitoring) as these measures have proven contributory towards generating a 'strong' covenant position outcome, a reduction in overall contributions for stakeholders and increased funding stability.

Stability – The stability of the schemes funding levels and the resilience of the scheme, particularly when exposed to adverse financial environments, is of primary importance to UCL. We are therefore supportive of the remit of the JNCs Stability Working Group to explore options which would equitably foster greater stability in the long term for stakeholders.

Valuation Investment Strategy – We would like to see the Trustee promote and prioritise responsible investment in alignment with the aspirations of UCL and the greater HE Sector and for this to be a key component of the discussions on the Valuation Investment Strategy.

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.]

In order of importance:

The restoration of USS benefits for scheme members is of the utmost importance to UCL. We aim to provide a valuable, affordable and sustainable pension scheme benefit for all of our qualifying staff. The reported funding position for the 2023 valuation is positive and UCL is supportive of reducing contributions to an affordable level coupled with the restoration of pre-April 2022 benefits with effect from 1 April 2024 or ideally sooner (1 January 2024).

Stability is another key factor for UCL. As a responsible employer, we support the retention of the schemes surplus as a buffer against any increase in the liabilities vs. assets over the course of the next two valuations. In the longer term, we welcome further exploration of options which will provide greater stability for stakeholders.

We believe that the employers commitment to a 20 year moratorium on scheme exits and the debt monitoring framework (including the pari passu arrangement) introduced from the last valuation have been instrumental in retaining a ‘strong’ covenant outcome for the current valuation and have had a significant impact on the contribution levels for this valuation (3.2% reduction). UCL supports the continuation of these arrangements.

UCL supports focus on the investment strategy as a key component of the Journey Plan’s stability workstream and encourages early prioritisation to ensure that material opportunities are realised quickly. In particular, we would welcome the opportunity to revisit the VIS and its continuing effectiveness in light of market changes since 2020 and the more favourable funding position under the 2023 valuation.

UCL remains committed to a full review of the governance of USS but recognises that the priority at this stage is in formalising the 2023 valuation within a very tight timeline.

It is foreseeable that future valuations may not be as favourable as 2023 and we should therefore be prepared for a potential return to increased contribution levels to sustain the schemes funding position. UCL recommends that we continue to explore alternate, low-cost scheme arrangements to retain and attract staff currently out priced by the scheme and that this should be undertaken prior to the next valuation in 2026. Whether anything new should be implemented should be dependent on wider stakeholder views. The low cost scheme would be optional, giving staff a choice to join the existing scheme or a more affordable option. For this valuation we anticipate that the reduced costs combined with a restoration of benefits from April 2023 or sooner could counter the higher opt out rates that we have witnessed over the last 15 years.

UCL is still to be convinced that Conditional Indexation (CI) offers an equitable solution to the stabilisation of the schemes future funding position, as there is a potential risk of devaluing member benefits if investment returns cannot match the Consumer Price Index (CPI). We have asked for USS to model a conditional indexation scenario in extremis (compared against a 10% ceiling increase with CPI greater than 15%) and will be interested to see the results before forming our view.

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)?

UCL is supportive of the UUK/UCU joint statement and is satisfied that there is sufficient evidence of stability and affordability to restore benefits to pre-April 2022 levels from 1 April 2024 or sooner. Furthermore, Aon have estimated a cost of circa £1bn to augment/restore benefits from April 2022 to March 2024 and UCL is supportive of further exploration of this option. In the longer term, and given the current valuation methodology, UCL recognise the potential for the USS funding position to be less favourable in the future and would therefore advocate the exploration of other scheme design options which support the sustainability of the scheme and provide best value for stakeholders. With the same risk in mind, UCL would also advocate an urgent acceleration of the stability workstream to help ensure that the opportunity to act is not lost.

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?

UCL Mandate on the USS March 2023 Technical Provisions

We are fully supportive of the joint UUK/UCU statement and a recommencement of pre-April 2022 benefits from 1 April 2024 and ideally earlier (January 2024) in tandem with lower, more affordable contribution levels. This should make the scheme more attractive to early career academics and we welcome the opportunity to achieve that outcome as soon as possible under the valuation's accelerated timetable. We remain concerned with the volatility between valuations and, as indicated elsewhere, we are also strongly supportive of the urgent exploration of other options to provide more stability for the scheme which we see as essential - both in terms of protecting benefits and reducing volatility in contributions. Notwithstanding these developments UCL also remains committed to an exploration of a low-cost and optional alternate schemes for those employees who currently find themselves priced out.

We support the retention of the scheme surplus and continuation of the covenant support measures as two key ways we can meaningfully contribute to stability now. We note that the continuance of the employer covenant measures has resulted in an overall contribution reduction of 3.2% for pre-April 2022 benefits under this valuation and we believe that it is worth retaining even in a surplus position.

UCL fully supports utilising the current overspend in contributions (circa £125 million per month from 1 April 2023) to provide a compensation package for members with reduced benefits between 1 April 2022 to 31 March 2024 (Aon estimate a cost of £1 billion to augment benefits for the period). Any residue could be contributory to an earlier (than April 2024) reduction of the overall contribution to the scheme.

Following excessive market volatility over recent valuations UCL is mindful that, without the structural reform that we are urging, the valuation methodology that has resulted in a surplus for the 2023 valuation, could equally, in a different financial climate, result in a deficit outcome in the future. As a result, we will use UUK's prudent assumptions to inform our long-term financial planning and ensure that sufficient provision is built into future budgets.

We are strongly supportive of the exploration of alternate scheme designs which could offer greater and more systematic funding stability in the long term which is a key concern for UCL. This should focus on USS's investment strategy, contribution corridors and potentially conditional indexation. We see this work as vital to the future sustainability of the scheme when coupled with the retention of the covenant support measures. At this early stage we are not entirely convinced that conditional indexation (CI) is an acceptable curative, given that there is the potential risk of devaluing member benefits if investment returns do not match the consumer price index and have asked for further scenarios to be modelled by USS to allow us to make a more informed determination. However, we would encourage UUK and USS to accelerate these explorations well in advance of the next valuation.

UCL supports focus on the investment strategy as a key component of the Journey Plan's stability workstream and encourages early prioritisation to ensure that material opportunities are realised quickly. In particular, we would welcome the opportunity to revisit the VIS and its continuing effectiveness in light of market changes since 2020 and the more favourable funding position under the 2023 valuation.

UCL supports the governance review of USS which is crucial in terms of future accountability. UCL would like to see the Trustee promote responsible investment in alignment with the aspirations of UCL and the greater HE sector and for this to be a key component of the discussions on the Valuation Investment Strategy.

UCL supports a streamlined valuation as a means of securing benefit enhancement and a reduction of contributions at the earliest opportunity.

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

RESPONSE SUBMITTED BY:

NAME

POSITION

ON BEHALF OF:

INSTITUTION

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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