

Mr A Jarvis
Chief Executive
Universities UK
Woburn House
20 Tavistock Square
London WC1H 9HQ

26 June 2019

Dear Alistair

2018 valuation – employer covenant

Thank you for your letter of 6 June, confirming the clear preference of employers to pursue Option 3 as the route to concluding the 2018 valuation, and for your subsequent letter of 19 June in relation to the rule changes and other requirements associated with the completion of the 2018 valuation. The Trustee Board, at its meeting on 20 June, considered your without-prejudice proposal for a moratorium on employers exiting USS without the trustee's consent whilst steps are taken to build consensus for a permanent rule change and its views are summarised below.

The board considered UUK's view that allowing an interim approach to employer exits would enable UUK, with the support of the trustee, to better communicate the proposals (both in respect to the rule change, *pari passu* status on new secured debt, and debt monitoring). Further, the interim approach provides more time for employers to build understanding and consensus within their senior staff and governance committees and would allow employers to develop more informed views. This in turn will allow UUK to build consensus on support for the introduction of the required rule changes.

The trustee board recognised the challenging timeframes under which employers are being asked to consider proposals and acknowledged the good faith with which this alternative proposal was being put forward by UUK, and the commitment to work with the employers to secure commitment to the longer-term rule amendments.

After consideration, the trustee board agreed in principle that it would be prepared to accept an interim proposal along the lines put forward in your letter if UUK made it formally, through the JNC. Such acceptance, however, would be on the basis that the proposed 'moratorium' would apply until the 2020 actuarial valuation is completed (through the signing of the Schedule of Contributions), unless the permanent rule amendment is completed and executed by some earlier date. For the avoidance of doubt the trustee expects the rule change to be implemented in advance of the valuation being completed so that it can be reflected in the consideration of a 2020 valuation.

The board also considered the recovery plan for the 2018 valuation at the meeting, and is writing to you separately regarding this matter.

The board will meet to reach its final position in relation to the 2018 valuation, including finalising its views on the recovery plan, at its meeting on 17 July, and ahead of the JNC on 24 July. It will therefore require a formal proposal in relation to a 'moratorium' approach, reflecting the timescale above, alongside a firm commitment to meet the trustee's requirements around debt-monitoring and *pari passu* arrangements, to be received prior to that meeting. As part of that proposal the board would also expect to see formal confirmation that UUK will immediately commence work with employers in relation to the permanent rule change.

To support UUK's engagement with employers on these matters, the trustee is providing an accompanying explanatory note "Protecting the employer covenant", which provides more context on the rationale for the proposals for supporting and protecting the covenant.

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The USS team and I will continue to provide support and assistance to you and your team in the coming weeks as you contact employers to seek agreement to the proposal. Thank you also for the positive feedback on the discussions between the executive, PWC and the representatives of the Employers Pensions Forum. We are of course very happy to continue to facilitate such discussions to assist employers in forming their views.

Finally, it would be useful if UUK would confirm as soon as possible how they would prefer to see the provisions around such a moratorium to be structured in the Rules i.e. does UUK envisage that the moratorium is documented as a separate standalone clause with its own sunset mechanic or as amendments to the existing employer exit provisions (as USS had initially envisaged)? It would perhaps be most expedient if your officials could speak directly with the executive on this so that the drafting can be progressed as soon as possible.

Yours sincerely

Bill Galvin

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