

Dame Kate Barker
Chair
USS Trustee
Royal Liver Building
Liverpool
L3 1PY
Sent by email

16 June 2021

Dear Dame Kate,

Thank you for your letter dated 9 June 2021 regarding the outcome to the 2020 valuation. In my letter to you dated 3 June 2021 I explained just how difficult the position is regarding the development of a potential collective position of employers, and I urged the USS Trustee to take the fullest account of the considerable commitments which employers have, conditionally, indicated they might be willing to make to secure a new, adjusted outcome at this valuation with contributions at 30.7% of salary.

We are pleased to see that the USS Trustee has moved its position on some of the key issues, and it is welcome that key elements of UUK's proposed package – for example the principle of an enhanced covenant support package and specifically a very substantial moratorium along with significant pari-passu provisions – have helped the USS Trustee to reflect (amongst other things) positive post-valuation experience, a longer recovery plan period, and the potential effect of lower Defined Benefit (DB) rights building up in the future. These are helpful developments.

The path to a potential settlement is however still difficult, and we will need some further information and clarification from the USS Trustee – and indeed we raise one particular request – which we hope might (when available) supplement the short consultation which we will shortly undertake with institutions to invite their further views on these latest developments.

We think that employers will question the apparent decimal point accuracy which it appears is being attributed to the USS covenant overall and the support measures

The voice of universities

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which are proposed, especially when so many of the details are yet to be finalised – and we continue to be disappointed at the use of the references to the Pensions Regulator, and to matters of compliance with the Pensions Act 2004 as though that provided a single, definable point of limit for Trustees within the UK DB scheme funding regime and the Pensions Regulator's (tPR's) codes of practice. We know that a very minor adjustment, for example to the recovery plan terms – something which could be backed and justified more than adequately by the covenant support which is proposed – would enable the outcome to be delivered at current contribution levels.

Whilst some parts of the USS Trustee's assessments will of course be welcome, it is important that you understand the potential reaction from employers to the continued headline pricing, and indeed this disappointment was expressed by the UUK Board when it considered your letter at its meeting earlier this week. We are committed to our continued engagement in trying to secure the best indicative outcome possible to take forward into the JNC, and as a next step it would be helpful for the USS Trustee to respond to the following headline points:

- Why is the 0.5% difference considered so material to long-term USS funding, and what is the objective reason why the USS Trustee, and/or the Pensions Regulator, considers that it is so essential (especially given the other favourable movements at this valuation, notably on covenant and on future DB risk)?
- In your letter you explain that the price “with UUK's benefit proposals with the covenant support details in your [UUK's] consultation would still be materially higher than your target contribution rate of 30.7%”. What would the price be on this basis, which effectively reflects the difference between pari-passu arrangements with a trigger at 10% or 15% of assets? If there is a value being placed on there being no gap between the short and long-term moratoria, what is the value being attributed to this?
- Can you explain how you believe the difference in contribution requirements of 0.5% might be bridged?
- In your letter dated 9 June 2021 you state that you will continue to monitor and consider the effect of post-valuation experience until the 2020 valuation is signed; how would any changes be reflected?
- Would the USS Trustee be willing to take a second opinion on the value which it proposes to attribute to the covenant support measures, and the importance (and precision) of this difference in the levels of threshold within the proposed pari-passu arrangements?
- You reference in your letter the delay in implementing any benefit modifications as one factor in deciding on the proposed pricing. You will be aware that there was a delay of approximately three months after Christmas 2020 during which the USS Trustee was in close engagement with tPR; can

you say how this has been taken into account in your assessment of the effect, on your pricing, of the commencement date of any benefit modifications?

As mentioned, UUK will as soon as possible undertake a short consultation with employers on the updated position which is reported in your letter – and I hope that you might be in a position to respond to this letter and the questions (and request) above so that it can be forwarded to employers as quickly as possible (we envisage, at this stage, running this short consultation from Friday 18 June to Monday 5 July).

I look forward to your response, and hope that there is still time, and I believe there is full justification, for the USS Trustee to make an adjustment to its pricing so that we can all move on to the important next phases. Please let me know if a call or meeting would be helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Jarvis', with a long horizontal flourish extending to the right.

Alistair Jarvis
Chief Executive