Universities UK

Dr Jo Grady
General Secretary
University and College Union
Carlow Street
London
NW1 7LH

By email

31 March 2022

Dear Jo,

UCU request to UUK re Universities Superannuation Scheme (USS)

I am writing in response to your letter of 31 March 2022, in which you request that UUK undertake a number of actions.

The Universities UK (UUK) JNC team received an almost identical request yesterday from UCU JNC negotiators, which they were asked to consider as a formal UCU request. A copy of the response is enclosed. Such formal requests and decisions on USS must properly go through the JNC.

I must reiterate that UUK has no mandate to revoke the reforms and, as you and UCU JNC negotiators will already know, if the reforms had not been made then the USS Trustee would require by law the contributions set-out in the backstop arrangements in the contributions schedule under the 2020 valuation. The USS Trustee has a legal duty to conclude the 2020 valuation, and has determined the contributions payable by both employers and members under the 2020 valuation. These contributions are set out in the schedule of contributions and are legally payable until superseded at a future valuation.

You state that the reforms have now been proven to be completely unnecessary and suggest that previous benefits can be provided for current contribution rates based upon the USS Trustee's latest monitoring update. You must know this is not true, given that UCU JNC negotiators heard the same update as UUK JNC representatives did at the JNC earlier this week, in that the required rate for previous benefits would still likely be well in excess of 40% of salary (even when assuming the same covenant support package were to be available as has been pledged under the package of reforms) based upon the most recent FMP report that you refer to. It is therefore clear that without the reforms we would not have seen such an improvement in the latest monthly monitoring position.

I would of course wish that your interpretation of the latest update was true, and that no contribution increases or benefit reforms were necessary in response to the 2020 valuation. This is regrettably not the case, and scheme reforms are therefore necessary to help secure the future sustainability of the scheme and keep it affordable for members and employers.

Despite claims to the contrary, UCU's own proposal does not provide a route to avoiding payment of deficit recovery contributions (DRCs) as per the deficit position of the scheme on 31 March 2020 – the legal date for the current valuation. Under the UCU proposals, much higher employer contributions would be payable (at 23.7% now and then at 25.2% from October 2022, and potentially higher) and these contributions would still include the DRCs (as per the 31 March 2020 valuation figures) until at least the next valuation is completed. UCU's proposal does not provide a route to avoiding payment of DRCs for the 2020 valuation period.

It is good news to see an indicative improvement in the funding position, but this is monthly monitoring and not a full actuarial valuation which requires a full process including revised covenant assessment, and statutory consultations to be concluded amongst other processes - and we know this takes considerable time for the USS Trustee conduct. Should the conditions seen in the February 2022 monitoring prevail when the next valuation is undertaken, there may be circumstances where it may be possible to increase benefits or reduce contributions or some combination of both. For example, a further deferral of the CPI cap might be something we would both wish to do if the funding position allowed, and if that was the preference of members at that time.

The optimal time to hold the next valuation of USS remains an important question, and we hope that following the recent reforms and with improving market conditions, we may see the scheme in a more sustainable position. We have asked the USS Trustee to provide a fuller update on the funding position as of 31 March 2022. We will keep this situation under review and as we remain open-minded as to the most beneficial route for members and employers, and look forward to seeing the more in-depth analysis of the position as at 31 March 2022.

Employers have asked us to prioritise three important workstreams – developing low-cost options for members, considering alternative scheme designs (including conditional indexation), and a major governance review of USS with independent, external expertise. We would welcome UCU working in partnership with us in these areas to enhance the scheme for the future.

Yours sincerely,

Alistair Jarvis CBE
Chief Executive, Universities UK

Enc: UUK JNC response, 31 March 2022

UUK JNC response, 31 March 2022:

In your email you appear to be requesting that the JNC revisits the decision made on 22 February 2022, which has since been ratified by the USS Trustee.

As we heard from the USS Trustee at the JNC on Tuesday, the required rate for previous benefits would still likely be in excess of 40% of salary (even when assuming the same covenant support package were to be available as has been pledged under the package of reforms) based upon the most recent FMP report you refer to. It is therefore clear that without the reforms we would not have seen such an improvement in the latest monthly monitoring position.

You will recall that UUK received a very clear mandate from USS employers to conclude the 2020 valuation with the package of reforms which have since been decided on at the JNC. You will be aware that we have already exceeded the employers mandate on contributions, with an additional 0.2% being temporarily payable by employers (together with an adjustment to the deficit recovery plan) to delay the CPI 2.5% cap until at least the increase due in 2026, which has temporarily increased the employer rate to 21.6%. We do not have a mandate to go beyond this rate, and therefore no grounds to revoke the agreed reforms and ask the JNC or USS Trustee to reopen the 2020 valuation decision. In simple terms, the UCU request is for employers to pay significantly beyond the mandate provided, and almost certainly be committing to a 25.2% contribution for the future.

Turning to a new valuation, we are pleased to see the improved monitoring position which is reflective of the reforms needed to place the scheme on a more sustainable footing. The optimal time to hold the next valuation of USS remains an important question, with the hope that following the recent reforms and with improving market conditions, we may see the scheme in a more sustainable position. We have asked the USS Trustee to provide a fuller update on the funding position as of the 31 March 2022, including confirming the impact of the reforms on the funding position at that date. As we discussed at the JNC on Tuesday, we will keep this situation under review and I think both UUK and UCU are keen to see the results of the USS Trustee's analysis on the position as at 31 March 2022, which we believe will be ready in early May. We remain open-minded about the most beneficial route for members and employers and look forward to seeing the more in-depth analysis of the position as at 31 March 2022. Should the conditions seen this month in the monitoring prevail at the next valuation, there may be circumstances where it may be possible to reduce contributions or increase benefits or some combination of both. For example, a further deferral of the CPI cap might be something we would both wish to do if the funding position allowed, and if that was the preference of members at that time.

In the meantime, employers have asked that we look to the future of the scheme and prioritise three important workstreams – developing low-cost options for members, considering alternative scheme designs (including conditional indexation), and a major governance review of USS with independent, external expertise. We would welcome UCU working in partnership with us in these areas to enhance the scheme.