

Q&A on the second report of the Joint Expert Panel, December 2019

On 13 December 2019 the Joint Expert Panel (JEP) published its second report which establishes key principles to underpin the future joint approach of Universities UK (UUK) and the University and College Union (UCU) to the valuation of the Universities Superannuation Scheme (USS).

UUK will shortly be seeking employers' views on the issues and options suggested by the JEP, to inform our joint working with UCU and USS, through a consultation with employers, and a series of engagement events.

The following questions and answers address queries that may emerge from an initial reading of the report in relation to the UUK position, the consultation process, and how the recommendations are to be considered and implemented.

This Q&A is intended to assist with any enquiries from employers, but they are not exhaustive. For further information, or to discuss the report in more detail, please contact: pensions-update@universitiesuk.ac.uk.

1. What are the key recommendations of the Joint Expert Panel's (JEP) latest report?
2. How will UUK take the JEP's latest report forward?
3. Who will be responsible for taking the recommendations forward and how will this be managed?
4. What is UUK's response to the panel's recommendation that its own role as the USS employer representative body is reviewed?
5. Why did employers not do more to push the USS Trustee to implement JEP 1 in full?
6. Has the JEP commented on scheme benefits in its second report?
7. Is the mutuality of the scheme likely to be removed?
8. Does the JEP 2 report affect the 2017 or 2018 valuations?

1. What are the key recommendations of the Joint Expert Panel's (JEP) latest report?

The second report of the Joint Expert Panel (JEP) provides recommendations on the valuation of the Universities Superannuation Scheme (USS), and ultimately on supporting its long-term sustainability.

They focus on future valuations, from 2020 onwards, and offer proposals for improving scheme governance around the valuation; developing a shared understanding among all stakeholders of the approach to valuations; and reform of the valuation methodology which reflects the scheme's unique characteristics and the legal and fiduciary obligations of the regulator and the USS Trustee.

Underpinning these recommendations is the need for a set of Shared Valuation Principles that the JEP believes should be agreed by employer and member representatives and the USS Trustee.

2. How will UUK take the JEP's latest report forward?

UUK welcomes the panel's second report.

We will shortly seek employers' views on the issues and options suggested by the panel to inform our joint working with UCU and the USS Trustee on the 2020 valuation and governance reforms. We want to progress discussions with UCU and USS as quickly as possible to find common ground and ensure the JEP's report can inform the 2020 valuation.

UUK's consultation with employers will underpin all future discussions with UCU, and indeed with the USS Trustee, on these issues. We are currently preparing our engagement plan with employers, which recognises the considerable importance and scope of the issues under discussion. We will provide further details as soon as possible.

3. Who will be responsible for taking the recommendations forward and how will this be managed?

The report has been commissioned by UUK and UCU, as the scheme's principal stakeholders; they are responsible for receiving, and for considering, the report's recommendations. However early and detailed joint working with USS will be necessary to take forward the recommendations - we see the next stage as needing a tripartite effort. The JEP report suggests that some facilitation might be helpful in taking forward the recommendations. We agree that facilitation would be helpful to assist UUK, UCU and USS to find common ground and develop joint proposals for reform.

4. What is UUK's response to the panel's recommendation that its own role as the USS employer representative body is reviewed?

When presenting evidence to the panel, Universities UK suggested that the role of employer representative in USS should be reviewed. This is because both UUK members and staff believe that the responsibilities in relation to USS employers, at times, conflict with UUK's primary function as the representative body of the UK's universities, to lead cross-sector collaboration and to influence policy.

We currently have a task and finish group underway that is looking at the possible options for the future. This group needs time to consider options and seek advice and views before making recommendations.

UUK will continue its full duties as the USS employer representative body until this work is complete. If changes are recommended, then a full implementation plan and timeline will be developed with input from employers and other stakeholders.

5. Why did employers not do more to push the USS Trustee to implement JEP 1 in full?

On behalf of employers, UUK continuously questioned and challenged the USS Trustee on the adoption of the JEP's first set of recommendations. It is important to recognise that the trustee has the sole power to decide on the assumptions in relation to the valuation, and on contribution rates. UUK has no power to compel the trustee on any matter relating to the scheme (for good reason, the USS Trustee has separate legal responsibilities to act in the best interests of scheme beneficiaries).

UUK did invest considerable time and resource to develop a credible contingent contributions proposal (which would have secured contributions below 30%) that employers could support, and employers agreed to a series of covenant-strengthening measures.

Although ultimately the contingent contributions proposal was not in a form that the trustee could find acceptable, the trustee subsequently put forward Option 3, a contribution rate of 30.7% of salary which, according to the panel, delivered "broadly similar" contribution rates.

Employers should also note that The Pensions Regulator (TPR) has repeatedly made clear that the valuation approach (and contribution rate of 30.7%) 'remains at the limit of what [they] consider to be compliant with legislative requirements for prudence.'

6. Has the Joint Expert Panel commented on scheme benefits in its second report?

The panel has made clear that matters relating to benefit reform are out of scope, these being issues for the scheme's principal stakeholders. The 2018 valuation was concluded with higher contribution rates, but with no changes to scheme benefits.

7. Is the mutuality of the scheme likely to be removed?

The panel considers the scheme's mutuality to be 'one of its biggest strengths' and believes that 'moving away from the current mutual arrangement could damage the scheme and the [higher education] sector.'

It will be for UUK and UCU to consult with employers and members respectively about these views, noting the JEP's comment that 'any move away from this structure should be taken with extreme care and regard to the consequences for all sponsoring employers.'

8. Does the JEP 2 report affect the 2017 or 2018 valuations?

The 2017 and 2018 valuations have been concluded and filed with the Pensions Regulator. Additionally, the JEP has made clear that any recommendations in its second report address future valuations.

The Panel states that the report is not about "about unpicking the past or re-examining the 2017 and 2018 valuations, but rather is about looking ahead and resolving future issues."