

A FIRST CONSULTATION ON THE JOINT  
EXPERT PANEL'S REPORT AND ON RELATED  
MATTERS FOR THE 2020, AND FUTURE,  
ACTUARIAL VALUATIONS

February 2020

**USSEmployers**

# INTRODUCTION

This consultation from Universities UK, the representative body for employers in the USS pension, is part of a series of three. It intends to:

- Gather the views of employers on the recommendations in the JEP's second report published in December 2019
- Understand how these might be implemented in the context of the 2020 actuarial valuation and in supporting the longer-term sustainability of USS
- Seek initial views from employers to inform the development of options for the 2020 and future valuations

**THE JEP2 REPORT** focused on the process of the actuarial valuation of USS and its importance to the longer-term sustainability of USS.

**THE ACTUARIAL VALUATION** is the periodic assessment of the financial health of the scheme. The next valuation takes place as at 31 March 2020

# PHASES OF THE CONSULTATION

## **PHASE ONE | JAN – FEB 2020**

Building familiarity and understanding, being clear on the fundamentals, gaining reactions and comments to the JEP2 report – and its application to the 2020 valuation and long-term sustainability – without limiting scope of responses. Also to seek initial views from employers to inform the development of options for the 2020 and future valuations.

## **PHASE TWO | MAR – MAY 2020**

An examination of the options available, from the 2020 and future valuations, showing the interactions between various elements of the scheme and the nature of the trade-offs. To identify a broad direction of travel.

## **PHASE THREE | JUN – JUL 2020**

Seeing and being able to discuss the potential approaches with meaningful numbers (and with transparency regarding their underlying assumptions), to identify the employers' preferred approach for the 2020 valuation.

# THE ESSENTIAL FOUNDATIONS OF THE JEP2 RECOMMENDATIONS

The first five sections of the JEP2 report provide the essential foundations for the recommendations which appear in later sections. Including the following points:

- **RECENT CHANGES TO THE SCHEME** and the broader external pensions legal and regulatory landscape
- **FUTURE VALUATIONS** are the focus – this is not about unpicking past valuations
- **2018 VALUATION OUTCOME** is “broadly similar” to the JEP’s first report recommendations
- **BENEFIT REFORMS OUT OF SCOPE** as are collective defined contribution (CDC) arrangements
- **SUSTAINABILITY**: discussing the definition of sustainability which JEP has prepared

# FIVE KEY SEGMENTS OF THE JEP2 RECOMMENDATIONS

The following five segments are the focus in phase one of the consultation:

1. Principles to underpin the valuation
2. Valuation governance
3. Alternative paths to the valuation
4. Taking into account the needs of members
5. Scheme mutuality

# 1. PRINCIPLES TO UNDERPIN THE VALUATION

## SCHEME PURPOSE STATEMENT

- The proposed purpose statement is one for the scheme, and is separate to the mission statement recently updated and published by the USS trustee
- The JEP report provides a statement, but this has since been considered in ‘tripartite’ talks between UUK, UCU and USS
- The draft statement developed during these talks is:  
*“To provide a financially secure future and retirement for scheme members and their families, and support the long-term needs of the HE sector”*

# 1. PRINCIPLES TO UNDERPIN THE VALUATION (cont.)

## VALUATION PRINCIPLES:

- These aim to reach a “mutually agreed outcome that supports the long-term sustainability of the scheme”
- This focus on the long-term is considered helpful, avoiding short-term fluctuation in positions
- JEP2 included a draft of principles, and the tripartite group have prepared another draft:
  - [Link to draft principles](#)

# CONSULTATION QUESTIONS: PRINCIPLES TO UNDERPIN THE VALUATION

1. What are your views on the introduction of a scheme purpose statement, and do you agree that such a statement can be useful?
2. Do you believe it helpful to set out valuation principles, and what are your views on the principles as proposed?
3. Do you have any further comments on valuation principles or the JEP2 report's section 6?

## 2. VALUATION GOVERNANCE

In this area, the JEP2 report makes the following points:

- Recommendations on valuation governance are likely to have implications for other aspects of governance.
- Lines of responsibility which apply within the existing scheme can be unhelpful and appear unconnected:
  - **THE TRUSTEE** is responsible for matters relating to governance, administration and investment – and importantly the pricing of scheme benefits.
  - **THE JNC** is responsible for deciding on the level and formulation of the scheme's benefits, and on the sharing of changes in contribution levels.

## 2. VALUATION GOVERNANCE (cont.)

THE JEP2 report makes these further points:

- Trust in the trustee board is considered low
- The JNC is said not to work well
- There is a potential conflict for UUK as employer representative
- UCU could consider its role as the member representative body for all USS members.
- Visibility of the directors on the USS trustee board could be improved.
- Funding and the actuarial valuation could be given even greater prominence and focus through the trustee board
- Removal of the casting vote of the JNC Chair could be considered

# PROGRESS ON VALUATION GOVERNANCE

Since the JEP2 report was published, progress has been made on the following aspects of valuation governance

## ROLE OF UUK AS EMPLOYER REPRESENTATIVE

- A task and finish group is currently 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

## ROLE OF THE JNC

- During the tripartite talks between UUK, UCU and UCU, there has been a shared desire to review the effectiveness of the JNC with joint work on options analysis to commence during February

# CONSULTATION QUESTIONS: VALUATION GOVERNANCE

4. Do you believe that the scope of the areas of governance considered has been appropriate, and if not which additional areas do you believe would be helpful to be reviewed?
5. What are your views on the specific recommendations as they apply to the trustee board, to the JNC, to UUK and to UCU?
6. Do you have any additional comments on valuation governance or the JEP2 report's section 7?

### 3. ALTERNATIVE PATHS TO THE VALUATION

In this area, the JEP2 report makes the following points:

- That USS is an open, ongoing scheme should be a central belief and theme of any new path to the valuation
- Defining and expressing risk in a mutually agreed way is considered essential to successfully unlock a new approach to the valuation
- Alternative paths to the valuation are suggested, specifically a dual discount rate:
  - The dual discount rate could be part of a funding approach which could better reflect the status and characteristics of the scheme
  - The adoption of a dual discount rate approach may be preferable in terms of adding stability to contribution rates, and better reflecting the scheme's ongoing open status
  - The implications of such an approach, in terms of risk, need to be understood
- Self-sufficiency should not be dropped entirely as a reference point but should continue to be used as one of the measures of funding health

## 3. ALTERNATIVE PATHS TO THE VALUATION (cont.)

Progress has been made on seeking alternative paths to the valuation in recent talks between UUK, USS and UCU:

- The tripartite talks have led to a commitment from USS to fully explore a dual discount rate as part of the development of the 2020 valuation methodology
- The Valuation Methodology Discussion Forum has been established by the Trustee to support and inform the development of the 2020 valuation.

# CONSULTATION QUESTIONS: ALTERNATIVE PATHS TO THE VALUATION

7. What are your views on the outlook for the scheme being that it is an ongoing scheme, and also the various references by the JEP to it staying open?
8. In relation to risk appetite, what would employers find helpful in order for them to better understand the risk and reward trade-offs in USS?
9. Do you agree that the JEP's proposals regarding a dual discount rate approach warrants further analysis and examination?
10. Do you have any additional comments on potential approaches to the 2020 and future valuations or the JEP2 report's section 8?

## 4. TAKING ACCOUNT OF THE NEEDS OF MEMBERS

In some ways, understanding the needs of members is the most fundamental issue considered by the JEP, given how important mutuality is to the scheme's structure and design.

**A core question regarding mutuality is: does the one size fits all model work for the scheme's membership?**

In this area, the JEP2 report makes the following points:

- Reasons for opting out of the scheme differ across the age group of the respondents, and pensions tax or 'noise' from the recent valuation cycles have had an effect on opt outs
- A factor in the relatively high (15%) opt-out rate is the uniform, high member contribution rate of (currently) 9.6% of salary
- Tiered contributions would need to be carefully considered. These include an examination of any impact on the scheme's funding level, unintended consequences and any adverse intergenerational impacts
- A 50:50, or similar low cost option, to provide some flexibility to members can be particularly helpful for those in the early stage of their career, and for other life events

# CONSULTATION QUESTIONS: TAKING ACCOUNT OF THE NEEDS OF MEMBERS

11. Are you concerned with the level of opting-out of USS, and if so what do you believe the principal reasons for it are?
12. Do you support the recommendation that further analysis is undertaken on the option of tiered member contributions?
13. Do you support the recommendation that further analysis is undertaken on flexible options for members, for example lower cost saving options?
14. Do you have any additional comments on the needs of USS members or JEP2 report's section 9?

## 5. MUTUALITY

In this area, the JEP2 report makes the following points:

- If the scheme were not founded upon mutuality with the last-man standing provisions in place, it is unlikely it would be considered as 'strong'
- Greater divergence amongst employers has made it more difficult to justify the scheme cross-subsidies
- Small employers have been increasingly unable to support higher pension costs, given they may not have flexibility in income streams
- The JEP would have serious concerns were sectionalisation to be pursued

# CONSULTATION QUESTIONS: MUTUALITY

15. Do you support the view expressed by the JEP on the issue of mutuality within USS?
16. Do you have any additional comments on mutuality within the scheme or the JEP2 report's section 10?

## ANY OTHER COMMENTS?

17. Are there any other issues that you would like to see considered to inform the approach to the 2020 and future valuations?

# USS 2020 VALUATION AND UUK CONSULTATIONS

<b>Dec 19 – Feb 2020</b>	USS to start to engage with UUK, UCU and tPR on methodology
<b>Jan – Feb 2020</b>	UUK’s Consultation #1 on the JEP2 report and its application to the 2020 valuation and long-term sustainability [building familiarity and understanding, being clear on the fundamentals, gaining high level reactions and comments to the JEP2 report without limiting scope of responses]
<b>Feb 2020</b>	USS to identify a proposed approach to methodology for wider discussion
<b>Mar 2020</b>	USS to publish a formal discussion document to seek employers’ views on the proposed approach and the ability and willingness to back the potential costs of the pensions being promised – keeping the JNC and other key stakeholders informed throughout
<b>Mar 2020 – May 2020</b>	UUK’s Consultation #2 on the JEP2 report and its application to the 2020 valuation and long-term sustainability [an examination of the options available, showing the interactions between various elements of the scheme and the nature of the trade-offs. To identify a broad direction of travel]
<b>May 2020</b>	Informed by discussions to this point, the Trustee Board will agree the financial and demographic assumptions and methodology it proposes to formally consult on for the valuation

# USS 2020 VALUATION AND UUK CONSULTATIONS (cont.)

<b>Jun – July 2020</b>	UUK’s Consultation #3 on the JEP2 report and its application to the 2020 valuation and long-term sustainability [seeing and being able to discuss the potential approaches with meaningful numbers (and with transparency regarding their underlying assumptions), and identifying the preferred approach.]
<b>July 2020</b>	USS to consult UUK over four to six weeks on these proposals to finalise our view of the scheme’s funding position and identify the overall contribution rate we need; USS to support UUK in its engagement with employers as required, and will also engage with the JNC, UCU, members and tPR
<b>Mid-August 2020</b>	USS will inform the JNC of the overall contribution rate needed
<b>November 2020</b>	This is when the JNC needs to have decided how to address the contribution rate
<b>Dec 20-Feb 2021</b>	If the JNC decides to make any changes, or cannot reach a decision, this is when employers might need to prepare for a consultation with affected employees
<b>30 June 2021</b>	This is the statutory deadline for filing the valuation with tPR
<b>October 2021</b>	This is when contributions are scheduled to increase under the 2018 valuation

# RESPONDING TO THIS CONSULTATION

- We encourage responses to this consultation from all of the scheme's participating employers
- We welcome any feedback or analysis using data on take up of USS membership, and member views and perceptions
- We encourage employers to consult with governing, decision-making bodies
- An optional response form as well as the full consultation paper can be found on the [USS Employers website](#)

Please send your response to:

[pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk)

by **Friday 28 February 2020.**

