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Your Ref  
Our Ref      BG/JMR  
Date            5 December 2018

**By email only**

Dear Alistair

**Draft Schedule of Contributions and Recovery Plan consultation with UUK**

Please find attached a draft of the Schedule of Contributions and Recovery Plan, which outlines the proposed rate of member and employer contributions which are to be payable to USS from 1 April 2019 onwards. It includes details of the share of the employer contribution that is attributable to the planned deficit recovery plan.

The Schedule of Contributions and Recovery Plan is the only remaining consultation arising from the actuarial valuation as at 31 March 2017 and, as for previous consultations, is a consultation between the USS Trustee and Universities UK as the employer representative body for these purposes. This consultation satisfies the requirement to consult under the Pensions Act 2004 (as amended in paragraph 9 of Schedule 2 to the Occupational Pension Schemes (Scheme Funding) Regulations 2005).

As you will be aware, in the absence of an alternative proposed solution arising from the Joint Negotiating Committee that responds to the findings of the 2017 valuation, this schedule has been prepared in accordance with the cost-sharing provisions under the Scheme Rules (76.4-8) and the phasing of contribution increases agreed by the Trustee (on which affected employees and their representatives have recently been consulted).

The Trustee acknowledges UUK's recent consultation with sponsoring employers on the proposals made by the stakeholders' Joint Expert Panel (JEP), which suggests there may be a material change in the views offered to the Trustee to date on such fundamental issues as market risks, investment strategies and contribution levels since the technical provisions consultation with UUK in September 2017. The Trustee recently confirmed that it would proceed with a valuation as at 31 March 2018 to address these more fundamental issues and expects to issue a Technical Provisions consultation to UUK in the coming weeks.

However, the Schedule of Contributions and Recovery Plan are the only matters left to resolve with UUK in the current valuation and there is very little scope to accommodate any significant changes in these final steps. More importantly, the statutory deadline for completing the 2017 valuation passed several months ago and the Trustee has been in breach of the law ever since.

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Re-opening discussions on such fundamental issues in relation to the 2017 valuation – to the extent that they could affect any material change at this late stage in any event – would introduce further delays in increasing the contributions to the scheme and meeting the costs of the benefits currently accruing. It is also clear at this stage of the process that the consequences of any such delay could include the very real risk of regulatory sanction, with the Pensions Regulator (tPR) ultimately having powers to direct the Trustee on how to calculate the technical provisions; change the benefits and/or set the contribution rates for members and employers.

In presenting these matters for your consideration, I would like to make clear that the Trustee has considered the post-valuation experience to consider if any material developments could be incorporated in concluding the 2017 valuation, particularly with regard to the level of deficit recovery contributions required, and the allowance for any investment out-performance therein, and the duration of the associated recovery period.

We recognise that, between 31 March 2017 and 31 March 2018, there was an improvement in the funding position of the scheme. Experience since then, however, has not been as good – particularly since October this year. The monitoring of the distance from the benchmark ‘self-sufficiency’ funding position demonstrates that, at the end of October (which was the most recent analysis available to the Board when it considered these issues), the position of the scheme on this measure has not markedly improved from the March 2017 position.

Furthermore, gilt yields are somewhat lower (and TP liabilities are somewhat higher) than the reversion projections in 2017.

Therefore, the Trustee did not feel it would be appropriate to revise the proposed deficit recovery contributions of 6%. However, the Trustee will review the position again in January 2019 following this consultation, and in advance of submitting the completed valuation to tPR.

The Trustee has also considered the degree to which any investment outperformance over the assumed technical provisions discount rate could be considered in the construction of the Recovery Plan. It is important to note that the discount rate already reflects a substantial amount of outperformance over low risk securities, particularly in the early years of the Recovery Plan. This assumption is at (or beyond) the limit at which tPR believes appropriate for the scheme. Given these considerations, the Trustee concluded that, without contingency arrangements in place to support the risk of any assumed outperformance not materialising, there was not an appetite at the current time to increase the reliance on investment outperformance in scheme funding.

Given the extensive consultations to date on all of these issues, and our recent discussions via the Joint Negotiating Committee (JNC) and the Employers Pension Forum (EPF), I trust that UUK has sufficient insight and information on which to coordinate an employer view on these issues. Please let me know if we can help further in any way.

The Trustee will continue to engage with the stakeholders, through the JNC, with the aim of completing a 2018 valuation and, if possible, avoiding or mitigating the higher phases of contribution increases in October 2019 and April 2020. In due course, the Trustee will endeavour to provide further supporting information to employers as required for accounting for defined benefit pension obligations.

I would be grateful if you could let me have your response to these matters no later than **11 January 2019** to allow the Trustee to complete the 2017 valuation and submit the final valuation report to tPR.

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I look forward to hearing from you in the New Year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bill Galvin'.

Bill Galvin  
Group Chief Executive Officer

Encs.

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