USSEmployers

THE USS 2020 VALUATION

Response from employers to the USS Trustee's consultation on draft schedule of contributions, recovery plan and statement of funding principles

24 September 2021

CONTENTS

SECTION 1
SUMMARY OF RESPONSES PROVIDED

84 employers responded, representing almost 90% of the active membership of USS. The responses convey strong, albeit reluctant, support (83 employers, 99% of the respondents, representing almost 90% of the active membership of USS) for the finalisation of the 2020 valuation in the form proposed.

The overall package of reforms put forward by Universities UK (UUK) and decided on by the JNC has considerable backing from employers, but there are a number of aspects of the USS Trustee's approach to this valuation which appear in these consultation documents which cause deep dissatisfaction for many employers.

The backing expressed by employers is also overwhelmingly subject to other key elements of the package being progressed, which notably includes the prompt exploration of conditional indexation or other similar designs which employers hope might bring a more attractive and sustainable solution for stakeholders to consider ahead of the next valuation.

Headline points in response include:

- On the issue of the proposed second-leg scenario of the schedule of contributions (SoC), the USS Trustee's dual-rate SoC construct concerns employers, given that the USS Trustee is seeking authority to apply contribution rates which are both unacceptable and unaffordable. Many employers would like to see the USS Trustee's assessment of affordability of these second-leg rates. There is real concern at what might be implemented if events outside of the control of employers mean that the 1 April 2022 benefit changes are not legally enacted exactly by 28 February 2022. It would be extremely helpful for the USS Trustee to reassure employers as to the expected likelihood of the second leg being activated, and what they expect would be the USS Trustee's pragmatism over the end of February deadline.

- Employers gave a very strong message that the USS Trustee must reconsider the need for a 0.5% increase in overall contributions at least in the period from 1 October 2021 to 31 March 2022, especially considering the post valuation experience and material improvement in funding position. Based on advice from UUK's actuarial advisers Aon, employers are convinced that this increase, particularly for the period ahead of the likely implementation of the proposed benefit reforms, is not necessary and could undermine confidence in the statutory 60-day member consultation process due to commence in November 2021. It is conceivable that there may be changes to the proposed benefit reforms following that consultation which may decrease or increase the costs of providing them and it would be simpler to explain why costs are changing in relation to revised benefits, and to administer those changes just once.

- The view expressed by the USS Trustee on page three of the draft Statement of Funding Principles (SFP) that a recovery plan of 18 years is unusual, and that it would normally look for a shorter recovery plan period, has caused considerable concern. Not only is this not true in the specific case of USS (which must be the reference point, given that funding is a scheme-specific matter for trustees) as USS has had similar durations of recovery plan at previous valuations (in 2014 and 2017), it also appears to disregard the substantial and enhanced covenant support measures pledged by employers. Employers ask the Trustee to remove or edit these words in the SFP which, if left unchanged, will undermine the confidence of employers in the USS Trustee's commitment to continue to give full value for the covenant measures provided.

- On the issue of the proposed authority for the USS Trustee to accelerate contributions in certain cases (in the SoC), many employers have responded to ask that greater detail be provided regarding when such a power might be used, and then how the accelerated contributions would be adjusted, reduced and ended – particularly if the circumstances that led to the acceleration of contributions no longer exist but also upon revision of the recovery plan at future valuation dates. There are a number of employers opposed to this measure and/or see it as disproportionate and unreasonable. There is a strong view from employers that the USS Trustee should state that it would only be used in exceptional circumstances. The USS Trustee should also amend the SoC document to make clear that this power is conditional upon a benefit change deed being implemented.

The responses of employers to this consultation are in many cases conditional on the delivery of the package of measures contained within UUK's proposal. Importantly, employers expect to make rapid progress on each of the 'three workstreams', namely (i) the prompt introduction of a lower cost pension saving option, and other member options and flexibilities, (ii) the exploration of conditional indexation or other similar benefit designs, and (iii) a governance review of USS.

Employers also note the USS Trustee anticipates written confirmation of UUK's agreement to the debt monitoring and pari passu arrangements to be effective from 1 October 2021.

In response, employers would firstly want to recognise the decisions of the JNC in recent weeks to approve a deed which provides for a moratorium on employers leaving the scheme without the USS Trustee's consent. This is an extraordinary step from employers, granting unprecedented powers to the USS Trustee and even more substantial covenant backing for pensions promises.

With regard to the debt monitoring and pari-passu elements of the overall framework, UUK is grateful for the considerable consultation that has taken place on these elements. Employers would like to see the modifications to the framework relating to clarifications of process and also important elements like confirmation of the review procedures. UUK would reiterate the points made in employer responses to consultations on these issues, and thinks it would be helpful for the USS Trustee to finalise the arrangements and proceed to implement them once the full and final details have been communicated.

UUK would also ask the USS Trustee to recognise that a consultation on proposed changes will shortly commence, and that elements of the proposed arrangements are legally conditional upon the implementation of a benefit change deed.

Similarly, the provision regarding the ability of the USS Trustee to levy accelerated contributions in exceptional circumstances is of course currently being consulted on. These represent important parts of the package overall, and will (if confirmed and implemented following the conclusion of these formal consultations) further strengthen the overall support and authority available to the USS Trustee.

The debt monitoring and pari passu arrangements will effectively operate at an individual employer level through a combination of separate policies of the USS Trustee, the Scheme Rules, and information requirements in the Deeds of Accession. UUK is therefore unable to confirm employers' full agreement to the arrangement, as this falls to each employer. However, UUK understands that some level of reassurance would be helpful at this stage, and therefore can confirm that employers understand the arrangements that are to be implemented and that they individually will have responsibility under them (subject to the clarifications set out above), and in view of that UUK is generally supportive of the framework.

SECTION 2
FURTHER SPECIFIC COMMENTS ON THE USS TRUSTEE'S DRAFT SCHEDULE OF CONTRIBUTIONS, RECOVERY PLAN AND STATEMENT OF FUNDING PRINCIPLES

- Employers must comment on the timeline for these consultations on such important elements of the USS 2020 valuation; short consultation periods have been an unfortunate element of not just the 2020 valuation process but previous valuations too. While employers understand the USS Trustee's objectives and the benefit to employers and members of averting the backstop October 2021 increases, it is difficult to justify a consultation period of two weeks. Employers hope that the issue of consultations during the valuation process, and its provision within the overall valuation timeline, is reviewed as quickly as possible by the USS Trustee (and indeed this might be part of a review of valuation governance, which itself will form part of the wider governance review which employers support and which is planned).

- Employers and UUK are concerned at the seemingly arbitrary approach of the USS Trustee to the identification of deficit recovery contributions (DRCs) as part of the overall contribution requirements under each leg of the dual rate SoC. Employers have also raised related serious concerns regarding the determination by the USS Trustee of the level of employer contributions which should apply for those members who have elected for either the voluntary salary cap or enhanced opt-out options. It would be helpful for the USS Trustee to engage more fully with employers on these issues to appreciate the wider reward implications and timing of decisions of this nature, outside of the narrow detail of the published Q&As, and to further explain the rationale.

- With regard to accounting for pensions costs under FRS102, employers would welcome further engagement from the USS Trustee (and indeed with other lead bodies within the finance community) so that the implications of the dual rate approach are clear to them with respect to FRS102 figures and statements, with a particular emphasis on supporting employers overall to report on the effect of the approach accurately and consistently (while recognising that employers must decide themselves on the final form of their financial statements with their advisers).

- There are some small typographical glitches within the documents, particularly on dates within lists, which we expect you will correct (these have been identified by Aon in its advice note).

- The text which describes the event which takes place when a "benefit change deed" is implemented differs between the SoC and the Recovery Plan. Employers would expect to see these sections aligned, and would welcome further engagement with the Trustee about how that would be best achieved (from an initial review, the formulation in the recovery plan is appropriate).

- In the draft SoC, in the section entitled "Employer contributions towards DB benefits", it is implied that DRCs form part of the employer contributions alone (eg "the deficit contributions included within the Employer contributions would be…"). This should be corrected, as any increase in contributions is shared 65%:35% (employers:members) under the scheme's default cost-sharing provisions.

- Employers would ask the USS Trustee to consider the detailed comments provided by Aon in its advice note dated 10 September 2021.

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