

2018 TECHNICAL PROVISIONS Q&A, JANUARY 2019

The USS Trustee has issued Universities UK with updated Technical Provisions as part of the 2018 valuation. The Technical Provisions provide the total value of the scheme's liabilities assessed as at 31 March 2018.

Universities UK, as the employers' representative and conduit for the consultation, has published a new Q&A document designed to help employers with any queries they may receive.

They are not exhaustive and further explanatory materials will be circulated in due course. For further assistance in answering questions about the 2018 valuation process, please contact: pensions@universitiesuk.ac.uk

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1. What is the focus of the 2018 Technical Provisions and Statement of Funding Principles consultation?

The 2018 Technical Provisions consultation asks UUK (as the formal representative body for scheme employers) for the views of USS employers on the contribution levels required to fund future benefits (and to meet any deficit on the funding of the rights already built up), as well as the level of risk they are willing to bear to secure these contribution levels.

The documentation is publicly available on the USS Employers' website.

2. What are 'Technical Provisions?'

The term 'Technical Provisions' refers to the value of a scheme's total liabilities as assessed at a certain date. The liabilities are the total pensions and other benefits which have been earned by members past and present. The figure is calculated using assumptions chosen by the USS Trustee based on advice from the Scheme Actuary, and are subject to consultation with UUK. Consistent assumptions are also used to determine the cost of future DB pension promises. Employer and member contribution levels are determined based on the cost of future DB pension promises, future DC contributions, expenses, an allowance paid by employers to meet investment management charges relating to the DC contributions, along with any recovery plan contributions needed to address the deficit.

3. How do institutions make decisions on their responses?

UUK welcomes responses which can be confirmed as the formal view of the employer.

It is a matter for each individual USS employer to decide how to respond to UUK, and amongst the 350 or so USS employers there is likely to be a large diversity of governance and decision-making processes.

Given the importance and the significant implications of the consultation, UUK expects that employers will want to give their response due time and consideration.

We recommend that employers ensure they have sought the necessary input from their governing bodies.

4. How will UUK represent the collective view of employers?

UUK has a formal role as the representative body for scheme employers. The views that it puts forward to the USS Trustee, to UCU and other relevant bodies in this role represents a consensus view of USS's participating employers. Over 350 employers participate in USS, which vary considerably in terms of size, status, legal structure and financial position. UUK recognises that individual USS employers will undoubtedly hold specific views on matters relating to USS, and the challenge for UUK is to bring those views together in order to represent the best consensus view on any particular issue.

5. Will UUK publish the results of the consultation?

The consensus position of all participating employers will be communicated to the USS Trustee by 28 February 2019 and published on the USS Employers website in March 2019.

UUK plans to also publish a commentary, in summary form, of its analysis of responses.

6. Can I see what my institution says in response to the consultation?

UUK will not publish individual institution responses. They are provided confidentially, and it is a matter for institutions to decide if they wish to publish their own responses.

7. How will employers be supported through the consultation process?

By receiving views from as many employers as possible to the Technical Provisions consultation, UUK will be able to present the most informed view to the USS Trustee. UUK will also seek to gain a current understanding of employer views through additional engagement activities throughout the consultation. These include individual exchanges, sector group meetings, including (where practicable) those representing senior management groups for finance directors, HR directors and registrars, and vice-chancellor networks.

UUK will issue to employers, as soon as practicable, an explanatory note on the 2018 Technical Provisions, which will be prepared by its advisers, Aon. UUK will also host a series of explanatory webinars in late-January and early February 2019, to give employers further information on the specific details underpinning the Technical Provisions, and an opportunity to ask questions.

8. Are employers willing to take more risk in USS?

The vast majority of employers made clear in their response to the consultation on the JEP's recommendations that, subject to certain conditions, they would be prepared to take more risk in order to maintain USS benefits in predominantly similar form with required employer contributions of (indicatively) 20.1% of salary.

9. What would the impact on employers be if the funding position of the scheme deteriorates following the conclusion of the 2018 valuation?

The pension benefits already built up are protected by law; the USS Trustee has a responsibility to make sure that these pension promises - which have been earned to date - are fulfilled.

If future funding outcomes end up being worse than those assumed by the 2018 valuation, employers will be required to make up the shortfall, to ensure that the pensions already built up can continue to be funded.

In such a scenario, employers would face difficult decisions over how to fund the cost of new pension promises. It is highly likely that financial resources would need to be diverted from other areas, potentially resulting in staff headcount reductions and an adverse impact on student experience.

Employers should note that costs are reassessed at every valuation, and also that phase 2 of the JEP is likely to include a fundamental review of the valuation approach.

10. Will the Pensions Regulator accept the new arrangements? Last year they wanted less risk in USS, but these proposals require more risk to be taken?

The Pensions Regulator has recently expressed concern over the level of risk that employers will be required to back in order for the USS Trustee to adopt the recommendations of the Joint Expert Panel into the scheme.

The regulator has not, however, expressed a view that the panel's recommendations aren't an acceptable basis on which to conclude the 2018 valuation.

UUK will continue to engage with the USS Trustee (along with the University and College Union) to reach an agreement on how the additional risk can be backed in a way that is acceptable to all stakeholders - including The Pensions Regulator - in order to ensure that the level of contributions proposed by the panel can be realised.

11. What happens to cost-sharing now there's a 2018 valuation?

Employers are currently being consulted on a recovery plan and schedule of contributions as part of concluding the 2017 valuation under the cost sharing process. As such, the cost sharing process - including its incremental increases in contributions - remains in place.

However, the USS Trustee has confirmed that any new funding approach arising from the 2018 valuation will supersede the cost sharing process, and that while on current timescales the April 2019 contribution increases will go ahead, it is possible to conclude the 2018 valuation in time to avoid the October 2019 increases.

The timescale to achieve this is tight, and avoiding the October 2019 planned increases in contributions is one of UUK's primary objectives. The USS Trustee's intention is that the new valuation (based on the position as at 31 March 2018) will be complete by its statutory deadline of 30 June 2019.