

2018 valuation Q&A – December 2018

On 22 November, the USS Trustee confirmed plans to carry out a new valuation of USS as at 31 March 2018.

The following questions and answers address these plans. They are intended to be drawn from to assist with any enquiries received locally by employers.

They are not exhaustive. For further assistance in answering questions about the 2018 valuation process, please contact pensions@universitiesuk.ac.uk.

1. Why is there a need for a new valuation of USS?
2. What will the 2018 valuation achieve?
3. Does this mean the cost sharing increases due in April 2019 and October 2019 can be avoided?
4. How will the 2018 valuation proceed?
5. Isn't it a bad idea to consult with employers on Technical Provisions over Christmas; the timescale is inconvenient?
6. Does a new valuation mean the JEP recommendations are being ignored?
7. What will happen to JEP phase 2?
8. What does UUK and UCU need to agree to allow the USS Trustee to complete the 2018 valuation?
9. Is it true that the USS Trustee will make trigger contributions mandatory, thereby hindering the chances of an agreement?
10. What is left to do to conclude the 2017 valuation?
11. How long will the new contribution levels arising from the 2018 valuation last for?
12. What is going to happen to Test 1?

1. Why is there a need for a new valuation of USS?

The statutory deadline for completing the 2017 valuation passed in June 2018. To satisfy its obligations under pensions legislation, the USS Trustee triggered the default cost sharing process under the USS rules, as a means of addressing the deficit the valuation revealed, and the higher costs of providing future defined benefits.

Since then, the Joint Expert Panel (JEP) delivered its first report in September, making a series of recommendations that have been supported by employers and the University and College Union (UCU - representing scheme members). According to the USS Trustee, incorporating the panel's recommendations - which are far reaching - into the 2017 valuation at this late stage would not be possible ahead of February 2019.

Therefore, in order to allow the JEP's recommendations to be taken into account, and to allow discussions on risk appetite to be reopened, the USS Trustee has proposed carrying out a new valuation with an effective date of 31 March 2018.

2. What will the 2018 valuation achieve?

The USS Trustee believes that a new valuation will allow the JEP's recommendations - and importantly the stakeholders' views on them - to be taken into account and included in any revised funding approach. It will also allow the latest data and market experience to be properly incorporated. In short, it is an opportunity to adopt the recommendations of the Joint Expert Panel into the USS funding approach, and by extension to the calculation of the required contributions.

3. Does this mean the cost sharing increases due in April 2019 and October 2019 can be avoided?

The USS Trustee has said the April 2019 contribution increases under cost sharing will go ahead, but also that it is possible to avoid the October 2019 increases. That said, the timescale to achieve this is tight. Avoiding the October 2019 planned increases in contributions is one of Universities UK's (UUK) 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.

As part of concluding a new 2018 valuation, the USS Trustee will also consult with UUK - and in turn with all employers - on a revised Schedule of Contributions and Recovery Plan (documents which set out employers' and members' contributions, and how the deficit is to be addressed).

4. How will the 2018 valuation proceed?

The USS Trustee plans to consult with UUK – and through it, with scheme employers – on the updated Technical Provisions from mid-December 2018. The closing date of this consultation is yet to be confirmed. The Technical Provisions are a set of assumptions for calculating the value of the scheme’s liabilities based on market conditions as at 31 March 2018. The assumptions in the Technical Provisions incorporate how much risk employers are prepared to accept.

Once UUK responds to the USS Trustee consultation and confirms the employers’ desired approach, the cost of future pensions promises can be calculated. The USS Trustee’s timeline means that this is likely to be a short consultation; the indications are that it will run for a period of around four weeks (and UUK has explained to the USS Trustee that, while delivering a valuation on time is an important objective, the short timescales create considerable imposition upon employers). The USS Trustee has emphasised, in proposing a 2018 valuation, that there will need to be a ‘will on all sides’ to secure implementation before the October 2019 cost sharing increases come into effect. That remains one of UUK’s primary objectives.

5. Isn’t it a bad idea to consult with employers on Technical Provisions over Christmas; the timescale is inconvenient?

UUK acknowledges that responding to something as complex as Technical Provisions in such a short space of time will be difficult, particularly at this time of year. As mentioned above (in the response to Q4), this is a concern UUK has shared with the USS Trustee. However, the USS Trustee maintains that for the 1 October 2019 increases under cost sharing to be avoided, it is crucial that employers are able to confirm their desired approach as soon possible. We hope to agree consultation dates with USS that allow for balance between sufficient time necessary for employers to respond and a timescale that allows for the timely progression of a 2018 valuation.

UUK will endeavour to provide employers with as much information as possible, to facilitate their understanding and decision-making when responding to the Technical Provisions consultation.

6. Does a new valuation mean the JEP recommendations are being ignored?

No, quite the contrary. Running a 2018 valuation provides the best possible opportunity for the JEP’s initial set of recommendations to be properly considered by the USS Trustee, and for changes to be made to assumptions to move towards the level of contributions the Panel indicated might be possible to be realised.

7. What will happen to JEP phase 2?

Both UUK and UCU are supportive of JEP phase 2. We hope to commence JEP phase 2 in early 2019. JEP phase 2 will consider the outstanding issues that were outlined in the Acas agreement and the further issues recommended by the JEP in its phase 1 report.

8. What does UUK and UCU need to agree to allow the USS Trustee to complete the 2018 valuation?

Once the USS Trustee has issued the new Technical Provisions consultation in December, UUK and UCU will be able to discuss - through the Joint Negotiating Committee (JNC) - whether the level of contributions required from both employers and members, for the provision of the current benefits (either with or without the employer matching contribution) is acceptable, or whether some other formulation of contributions and benefits is considered appropriate.

Both UUK and UCU have already confirmed their support for the recommendations of the Joint Expert Panel.

9. Is it true that the USS Trustee will make trigger contributions mandatory, thereby hindering the chances of an agreement?

The USS Trustee has not yet consulted on the support it might require from employers to tangibly demonstrate a willingness to bear additional risk.

The responses received from employers to UUK's consultation made it clear that employers' support for the JEP's recommendations is conditional on further information from the USS Trustee on how they would like any additional risk to be backed.

It is possible that contingent (or trigger) contributions (higher contributions activated by a material change in the funding position) may be proposed by the USS Trustee; in that case it would be for employers to decide whether such a request is justified given that substantial powers already exist for the USS Trustee to raise contributions (as we have seen through the rule 76 cost sharing provision under the rules), and if additional measures are justified then which of the available measures would represent an acceptable path to concluding the new valuation.

The JEP has recommended the issue of trigger contributions be considered under phase 2 of its work.

10. What is left to do to conclude the 2017 valuation?

The cost sharing consultation with scheme members and their representatives closed on 2 November. The USS Trustee [does not propose to make any changes to the increases to contributions under the cost sharing process, nor to the related provisions which it consulted on.](#)

The Schedule of Contributions, Recovery Plan and Statement of Funding Principles (statutory documents needed to conclude the valuation) are the matters left to resolve in the 2017 valuation, and these will be progressed by the USS Trustee through formal consultation with employers through UUK.

11. How long will the new contribution levels arising from the 2018 valuation last for?

Following the completion of the 2018 valuation, the next scheduled triennial valuation would be as at March 2021.

In the recent employer consultation, many employers - representing a significant proportion of the scheme's active membership - were clear that their support for the JEP's recommendations (which would involve employer contributions of 20.1% of salary) was conditional upon this being a specific solution to the latest USS valuation, and to the need for long-term reform which is supported by a second phase of the JEP.

12. What is going to happen to Test 1?

The Joint Expert Panel believes that Test 1 is given too much weight in determining the valuation result and concluded that this and other issues should be addressed by phase 2 of its work. The Panel will consider whether there is an alternative methodology for future valuations that could provide long-term stability for the scheme, and enjoy the support of all parties.