

Dr Jo Grady
General Secretary
University and College Union
Carlow Street
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By email

31 January 2022

Dear Jo,

Universities Superannuation Scheme (USS) 2020 actuarial valuation

I am writing in response to your letter of 26 January 2022, addressed to the Chair of USS's Joint Negotiating Committee (JNC), in which you outline an alternative proposal which, you state, has the aim of resolving the current dispute and avoiding further industrial action.

As you know, we have been inviting UCU to bring forward a credible proposal for many months now, however we were disappointed to see that your latest proposition for the JNC appears even further away from the position which you shared with the media back in the Autumn. That UCU position from last Autumn – setting aside for a moment the contribution requirements which were contained within it – had some similarities to our own, notably including adjustments to the scheme's future defined benefits, recognising that scheme reform was needed to keep the scheme sustainable and affordable. This appears absent from your latest statement.

Securing the future sustainability and affordability of the scheme is our primary concern, and to finding a solution not just for those employers (currently 44) affected by industrial action but for all of the 340 employers that participate in the scheme. In the same way, we are concerned for the wider scheme membership of over 200,000 employees.

We feel we must challenge the validity and credibility of some of the assertions you make in forming your proposal; some of our main points are set out below.

The wish for a 2022 valuation

- You call on Universities UK (UUK) to request that the USS Trustee issues a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022. Firstly, you will know that it is the USS Trustee that has the power under the trust to decide when to undertake a valuation, and in doing have grounds to do so (in line with

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regulatory law and guidance). It is not just a matter of making a request to the USS Trustee based on a perception of more favourable funding conditions.

- Both UUK and UCU have been party to the same information provided by the USS Trustee and the Pensions Regulator throughout the 2020 valuation, including updates at 31 March 2021 and thereafter. We would like to hear you explain your references to ‘moderately prudent’ and ‘evidence-based’, and also make clear what information you have which would credibly suggest that there is a coherent case under pensions law and regulation for the USS Trustee to undertake a valuation as at March 2022? Without this, it would seem that your proposal would serve little purpose other than to delay the reforms the scheme urgently needs to remain sustainable, and likely worsen the funding position in the meantime – whilst also resulting in significant additional costs with damaging consequences, for both members and employers.
- Even if justified, it is difficult to see how a 31 March 2022 valuation could be concluded ahead of April 2023 – as your proposal seems to suggest – given the regular valuation timetable and statutory requirements to conducting and concluding a formal valuation.
- Holding another valuation, even if considered justifiable, would further delay the good work we have started on collaboratively developing more flexible options for members and for those people choosing not to participate in the scheme, as well as exploring alternative scheme designs – such as conditional indexation – ahead of the next valuation (scheduled for 31 March 2023). In short, your proposal would seem to elongate the period of dispute rather than resolve it.

Covenant support and the employer contribution

- Your proposal suggests that employers should provide the same level of covenant support as for UUK’s proposal, and *also* commit to a 25.2% contribution rate from October 2022 onwards. We think this would be unreasonable, and indeed problematic, on many fronts. Primarily, even this employer rate, with your proposed short-term member rate at 11.8%, would be insufficient to retain current benefits. This is because, firstly, your proposal is based on your unsubstantiated view that we would achieve a more favourable 2022 valuation, and secondly, given that benefits would continue to be underfunded from April 2022 relative to the USS Trustee’s best price for current benefits (an indicative 43% of salary based on calculations seen as part of the 2020 valuation) without any remedy put forward for this underfunding. Furthermore, your proposal breaks the cost sharing protocol, which could have long term consequences that would need to be carefully thought through.
- On the specifics of a 25.2% employer rate – which you describe as a “relatively small uplift” but which would actually be approximately £350 million more per annum – employers have made very clear to UUK throughout this valuation that the current rate (recently 21.1%, now 21.4%) is at the very limits of sustainability, and further increases would go beyond what many employers would think is a reasonable and justified level of commitment to provide pensions.

- An employer contribution rate of 25.2% of pay would have devastating consequences to the finances of the sector, impacting upon jobs, pay, the student experience, university investments, and ultimately the sustainability of many employers in the sector and the future of this pension scheme. It might be worthwhile UCU local branches engaging with employers locally to understand what the consequences of employers paying even higher rates into the scheme would be.

Member contribution rate

- It is far from clear that the majority of people eligible for USS would be willing to pay higher contributions – especially considering the 15-20% who choose not to participate – and with many existing members indicating that they would have to reconsider membership if the member rate increased any more. Even if there are members who might be willing and able to pay more, they might also want to be aware of the consequences for their employers if they were asked to pay more too. It is unclear on what basis UCU believes that USS members generally would be willing to support increased member contributions, and we would like to understand how you and colleagues have considered the likely consequences of your approach (if indeed significant numbers of members were to opt-out of pension saving)?

I would strongly urge you to reconsider the proposal you would wish to bring to the JNC for consideration.

We have shared the UCU proposal with scheme employers inviting feedback. However, to enable us to formally consult employers on this proposal we need the USS Trustee to firstly validate the proposal and the details contained in it, including costing. It is not clear that your proposal would address the immediate funding challenges of the scheme. Indeed, it is entirely unclear in terms of setting out a credible basis for the schedule of contributions following the 2020 valuation. It places huge weight on a hypothetical 2022 valuation which, even if lawful and justified, could not be assumed to deliver a materially better financial position for the scheme. Your proposal would also delay moving us forward in developing flexible and lower cost options for members and exploring alternative scheme designs for the future. As far as we can assess it, it would do little to resolve the dispute.

Nevertheless, should the USS Trustee validate your proposal as an implementable solution to the 2020 valuation, we will formally consult employers on it, including on whether the covenant support levels assumed can be relied upon. However, there is now very little time remaining to decide on a solution to this valuation. We are strongly committed to finding a solution to the 2020 valuation by the USS Trustee's deadline of 28 February 2022, and to finding a solution for all of the scheme's employers, and members, which would avoid the damaging fallback contributions that would otherwise apply.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'A. Jarvis', with a long horizontal flourish extending to the right.

Alistair Jarvis CBE
Chief Executive, Universities UK

CC: Bill Galvin, USS
Judith Fish, Chair of USS JNC