

Q&As for USS employers on pricing of current benefits

March 2021

This Q&A is intended to help employers answer questions that they receive about the USS 2020 valuation. If there are any other matters or questions that you would like answered or further information, please email pensions@universitiesuk.ac.uk.

1. What are the next steps, when will Universities UK (UUK) be consulting with employers?
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 14. Why can't employers agree to offer further covenant support?
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1. What are the next steps, when will Universities UK (UUK) be consulting with employers?

UUK will be holding further discussions in the days ahead with USS and The Pensions Regulator. We are asking USS to publish clear reasoning for the much higher level of contributions it says are required, and to further consider the value of the significant measures that UUK, on behalf of employers, has illustrated to take to support a strong covenant.

While these discussions continue, later this month (March 2021) UUK will consult all USS employers on the way forward to address the scheme's high opt-out rate, the sizeable deficit and the substantially higher cost of future service benefits including seeking views on covenant support measures, affordable benefit structures and contribution levels. As part of this consultation, we will encourage employers to seek views of all their staff eligible for USS.

2. Do employers have confidence in the USS Trustee?

We recognise that this is a complex area, that the USS Trustee has difficult decisions to take and often comes under competing pressure from scheme members, the University and College Union, individual employers, Universities UK, and The Pensions Regulator. We are questioning the USS Trustee's current interpretation of specific technical matters related to covenant strength and pricing, and not its overall suitability to govern the scheme.

3. Will you be taking legal action against the USS Trustee?

We have not sought advice on a legal challenge: this is not about malpractice or indeed disagreement about legal powers; it is a difference of opinion over some specific, technical aspects of the valuation which are, ultimately, the responsibility of the USS Trustee within regulatory boundaries. We hope, however, that the USS Trustee will listen to the legitimate concerns expressed by employers - and many scheme members - and work collaboratively with us on an affordable solution to address the sizeable deficit, the increases in the cost of future service benefits, and high member opt-out rate; these and other issues need to be addressed in the interests of intergenerational fairness.

4. Are you calling for a delay to the scheduled October 2021 contribution increases?

Given the delay in receiving the USS Trustee's pricing decisions, it is now a very challenging timeline, but if all those involved work together it should be possible to find a solution before October - and that might provide the USS Trustee with good reason to consider a revised schedule of contributions to allow the remaining formalities of the valuation to be concluded (such as the recovery plan consultation) and which would remove the need for the contribution increases already scheduled for October 2021 (23.7% for employers, 11% for members). If a solution isn't found by then, there is the possibility that the USS Trustee could impose even higher levels of contributions than are scheduled for October 2021.

5. Will you ask the Joint Expert Panel (JEP) to look at the issues of disagreement?

We have no plans to do so. The Joint Expert Panel concluded its helpful work in late 2019. The views set out by the JEP in its reports continue to be helpful in informing the ongoing debate about the financial sustainability of the USS pension scheme, however the Panel's views are advisory and independent to the formal valuation process. The USS Trustee has the legal responsibility for the valuation and protecting the financial stability of the scheme.

6. At what level of contributions do you think the JEP would price the current benefits?

Our actuarial advice is that it should be possible to price current benefits in the mid-to-high 30s% of salary using the approach recommended by the JEP, which is around the level of contributions the USS Trustee suggested to us was feasible before The Pensions Regulator's recent intervention. Employers believe that the USS Trustee is now undervaluing the collective and enduring financial strength of the 340 employers participating in the scheme, which includes some of the world's leading universities.

7. Why is the USS Trustee asking for extra covenant support measures?

At the close of the 2018 valuation, the USS Trustee raised concerns in relation to covenant as a result of Trinity College Cambridge deciding to buy-out of the scheme. For reasons that we do not yet understand, the USS Trustee has placed considerable weight on this one employer leaving the scheme although we know of no other employer looking to exit the scheme, and in practice, the vast majority of employers (and all of the largest universities) could not afford to buy-out of the scheme because the costs of exit are so high.

8. Why is the USS Trustee not satisfied with the alternative covenant support measures illustrated by UUK?

USS has not yet provided clear or strong justification for why it has placed such a poor value on the covenant support package illustrated by UUK. This was developed fully in-line with the requirements set out by the USS Trustee, drawing on expert actuarial advice, to safeguard against employer exits and rising debt levels and should allow the 2020 valuation to be concluded on the basis of a strong covenant.

9. Why can't current benefits be offered for current contribution levels? Can we not just keep the status quo?

In the valuation the USS Trustee is assessing the scheme's assets and liabilities to ensure it has sufficient funds to pay promised benefits, and also that contributions into the scheme cover the cost of benefits that might be promised in future. This valuation has revealed a further worsening of the scheme's funding position - a sizeable deficit - which means additional contributions would be necessary to fund the benefits that have been accrued and to get the scheme funding back on track - this is the USS Trustee's primary duty and is subject to regulation. The cost of future pension promises has also risen. The combination of these two elements means that current benefits cannot be met by current contributions within the regulations, which are in place to protect members. The fact that the scheme has a sizeable deficit is confirmed by the USS actuary, the actuaries working for employers and is a view supported by The Pensions Regulator.

10. Why can't employers just pay higher contributions to retain current benefits?

There has been a c50% rise in the rate of employer contributions into the scheme over the last decade (from 14% to 21.1% of salary). Recent feedback from many

employers and members is that current contributions levels are at the limit of what they can afford and paying a higher rate would mean diverting money from other budgets, with consequences for jobs, teaching, and the student experience. Finances at many universities are already under considerable strain from the consequences of the Covid-19 pandemic. We will again formally ask employers about the maximum affordable contribution rate as part of the upcoming consultation.

11. Could employers pledge contingent assets to support a stronger covenant?

We will ask employers again about covenant support options as part of the upcoming consultation. The USS is a multi-employer scheme with over 340 participating employers and where there is a full cross-subsidy among employers. Some employers might be in a position to pledge assets, but many have suggested that they cannot – either because they don't have assets to pledge or have financial or legal restrictions upon their assets so they cannot pledge them generally to the scheme. Pledging assets would also have knock-on effects; in a multi-employer scheme like USS (which is non-sectionalised) it is very challenging to ask some employers to pledge assets when others cannot. This would undermine the mutual nature of the scheme.

12. Universities UK now needs to step up the pressure on USS to change its approach

Universities UK (UUK) has applied significant pressure on USS on its approach in weekly meetings over the past year, building on the evidence and arguments outlined in [UUK's public response](#) to the USS Trustee's Technical Provisions consultation. In the coming days, UUK is holding further discussions with the USS executive, the USS Trustee and The Pensions Regulator urging them to consider once again the value of the measures employers have illustrated to support a strong covenant, asking them to revise their assumptions and seeking much clearer justification for the higher level of contributions proposed.

Since the start of 2020, representatives from USS, the UCU, and employers have been working closely together to change the approach to the valuation. This has led to the development of high-level shared valuation principles and the replacement of the 'Test 1' measure of risk appetite from the valuation methodology – a real bone of contention in previous valuations – with a Dual Discount Rate, which have been welcomed by both UCU and employers.

13. Employers need to show higher education staff that their commitment to USS is serious by working with UCU and USS on covenant support measures

UUK has already, on behalf of employers, proposed to the USS Trustee a package of significant additional covenant support measures by employers, on top of the strong protections already currently in place. These would be substantial commitments from the sector. USS has not yet provided clear or strong justification for why it has placed such a poor value on the covenant support package proposed by UUK. This was developed fully in-line with the requirements set out by the USS Trustee, drawing on expert actuarial advice, to safeguard against

employer exits and rising debt levels and should allow the 2020 valuation to be concluded on the basis of a strong covenant. Later this month (March 2021) UUK will consult employers about covenant support measures - including the measures illustrated by UUK, those proposed by the USS Trustee and other options to secure a strong covenant rating.

14. Why can't employers agree to offer further covenant support?

Employers have not yet seen a credible rationale for the additional covenant support measures requested by the USS Trustee, including how they would result in a sustainable scheme that is affordable for both members and employers, and inclusive for all eligible staff. It is important to emphasise that employers' acceptance of enhanced covenant support measures would not avert the need for benefit changes at this valuation, as the prices for current benefits proposed by the USS Trustee are so high.

Further, employers' governing bodies will only be able to evaluate the feasibility of additional covenant support asks once final positions have been reached on other important aspects of the valuation, such as the level of future benefits, and final contribution rates following consultation on the recovery plan.