USS Valuation

Consultation on Schedule of Contributions

We have been asked to provide our thoughts on the draft Schedule of Contributions ("SoC") prepared by the USS Trustee.

At a glance…

The SoC documents the contributions payable by participating employers and by scheme members.

As a result of the Trust Deed & Rules, the USS Trustee need only consult on the contents of the SoC – they do not require agreement.

We have reviewed the SoC, and in our view it accurately documents the new contribution that will apply from 1 January 2024.

Detailed comments

Period covered

The SoC applies for the 5-year period beginning on 1 January 2024. This is the default period for a SoC (although historic SoCs have covered longer periods, since they must also cover the full period of any recovery plan if the scheme was in deficit).

In practice the SoC will be reviewed at the next actuarial valuation (due at 31 March 2026). Therefore, it likely only be effective for three years, before the contributions are potentially superseded once again.

Member contributions

The SoC documents the following key changes:

- Current contributions: 9.8% of Salary (with contributions relating to 8% of Salary over the equivalent monthly Salary Threshold being paid to the DC Section, with the remainder paid to the DB Section).
- New contributions, effective 1 January 2024: 6.1% of Salary (with contributions relating to 6.1% of Salary over the equivalent monthly Salary Threshold being paid to the DC Section, with the remainder paid to the DB Section).

We confirm that these contributions are what was expected based on the decisions and recommendations of the JNC on 30 October. They are subject to review following the Member Consultation.

Why bring you this note?

UUK is being formally consulted on the SoC, and we have been asked to review the SoC and associated materials.

Next steps

- We recommend that UUK accepts the SoC.
- New contributions (6.1% for members, 14.5% for employers) can then be implemented from 1 January 2024, completing a successful valuation for the stakeholders.

Prepared for: Universities UK
Prepared by: John Coulthard FIA, Andrew Claringbold FIA
Date: 22 November 2023

There is an element of complexity in terms of how member's contributions are allocated between DB and DC, which we highlight through two simplified examples below.

However, from both a member and employer perspective, the position is straightforward, with the total contributions deducted for the hybrid benefits being 6.1% for members (and 14.5% for employers) on all salary. While the examples below may appear complex, they are a by-product of an agreed benefit structure that combines a fixed 20% DC contribution rate alongside potentially variable overall contribution levels.

Example 1: Member earns £40,000 (under Salary Threshold)

At present, the member pays 9.8% of Salary to the scheme, and they receive a DB-only benefit at retirement since their Salary is below the Salary Threshold (*).

From 1 January 2024, they will pay 6.1% of Salary to the scheme, and will continue to receive a DB-only benefit.

(*) Note: The Salary Threshold is currently £41,004. This is due to increase to £70,308 with effect from 1 April 2024 (see here, under "Updates" and then "To Members").

Example 2: Member earns £80,000 (over Salary Threshold)

At present, the member pays 9.8% of (total) Salary to the scheme. They receive a DB benefit on Salary up to the threshold, and a DC benefit on salary above the threshold (equal to 20% of salary in excess of the threshold). The DC contribution is partly "funded" by 8% of the member's salary (above the threshold) being allocated to provide DC benefits, with the remaining 12% balance being paid as part of the Employer contribution. The additional 1.8% (i.e. 9.8% - 8%) contribution the member pays on salary above the threshold is effectively absorbed into the total contribution rate requested by the Trustees.

From 1 January 2024, the member will pay 6.1% of (total) Salary to the scheme. Again, they receive a DB benefit on Salary up to the threshold, and a 20% DC contribution on Salary above the threshold. The employer contribution allocated for DC must then be adjusted from 12% (i.e. 20%-8%) to 13.9% (i.e. 20%-6.1%), to reflect the fall in member contributions.

Employer contributions

The SoC documents the following key changes:

- Current contributions: 21.6% of Salary.
- New contributions, effective 1 January 2024: 14.5% of Salary.

We confirm that these contributions are what was expected based on the decisions and recommendations of the JNC on 30 October. They are subject to review following the member consultation.

The SoC also documents that the employer contribution allocated towards the overall DC benefits will be 13.9% as set out above. As mentioned above from an employer perspective the overall position is straightforward – employers pay 14.5% of Salary for their members, and this includes the cost of providing DB and DC benefits, as well as allowance for certain expenses and PPF levies.

The allowance for administrative expenses has increased from 0.4% of Salary at the previous valuation to 0.5% of Salary. A link to explain the reasons for this was set out in the USS CEO's letter to the UUK CEO dated 15 November 2023.

There is also provision for the employers to pay an equivalent to the member contribution where salary sacrifice is being used. This is appropriate in our view, and in line with the current SoC.

For "enhanced opt out members", the contribution required falls from 6.3% of Salary to 0% of Salary from 1 January 2024. This reflects the fact that only deficit contributions were being paid on behalf of these members, and again is expected. In the absence of deficit contributions, the employer contribution rate for these members is Nil.

Accelerated contributions

Section 5 of the document allows the Trustees to accelerate deficit contributions in certain circumstances, linked to the Debt Monitoring Framework.

The entire section is redundant for this valuation since there was no deficit on a Technical Provisions basis.

Continuing to include this wording means that, if the scheme were to have a deficit at a future valuation, then the wording will already be there rather than the Trustees needing to introduce the concept again. This is acknowledged in the SoC (the second paragraph of section 5), where the Trustee states that the wording forms part of the "standard" SoC and is retained for consistency.

Since the section is not operational, we see no harm in its inclusion.

Conclusion

The SoC correctly documents our understanding of the proposed valuation outcome.

We recommend that UUK communicate their acceptance of the SoC (subject to the outcome of the Member consultation), so that efforts can be focused on finalising the valuation and operational matters to effect the new contributions from 1 January.

Compliance notes

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').
This document is prepared for Universities UK on the understanding that it relates solely to the consultation on the SoC for the 31 March 2023 valuation. We have given permission for this document to be shared with participating employers of the USS on a non-reliance basis.

John Coulthard
Senior Partner

07939 507005
john.coulthard@aon.com

Andrew Claringbold
Associate Partner

01727 888617
andrew.claringbold@aon.com

Aon plc (NYSE:AON) exists to shape decisions for the better - to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries and sovereignties with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

Follow Aon on LinkedIn, Twitter, Facebook and Instagram. Stay up-to-date by visiting the Aon Newsroom and sign up for News Alerts here.