

# USSEmployers

## THE USS 2020 VALUATION

A short consultation by  
Universities UK on potential  
modifications to the indicative  
outcome to the 2020 valuation

18 June 2021

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# SECTION 1

## SUMMARY OF RESPONSES PROVIDED TO INDICATIVE OUTCOMES CONSULTATION

A total of 141 employers, representing over 95% of the active membership of USS, responded to the [consultation](#). This included responses from 60 of the largest USS employers (with more than 500 active members). It was good to see a significant number of responses from employers with smaller numbers of staff in USS, which gives us confidence that the survey reflects some of the diversity of employers in the scheme. We are grateful to employers for taking the time to engage with the issues in such detail, to discuss the material with governing bodies and leadership teams as well as with staff, and to respond in such comprehensive terms.

A fuller and more detailed report will be shared with employers in the coming weeks. This report will comment on the context given by employers to their responses, and the terms and conditions which in many cases were linked, but in headline terms employers have collectively expressed the following views:

- (a) That the current contribution rates (21.1% for employers and 9.6% for members) are at the limits of sustainability and that these rates should be more than adequate to provide good pension provision. Amongst the minority of employers that indicated that they would be willing to pay higher contributions, most indicated that they would only be willing to do this in the shorter term.
- (b) The vast majority of employers stated, reluctantly, that they would provide additional support to the scheme covenant – in terms of a moratorium on exit without the USS Trustee’s consent (subject to clarification of further details), and also to the introduction of a debt-monitoring and pari-passu framework (again subject to clarification on a number of essential details on the operation and metrics of the arrangement).
- (c) The vast majority of employers (over 90% by weighted numbers) preferred to keep a hybrid arrangement for the 2020 valuation where this was considered to offer value for money. A minority preferred to move to Defined Contribution (DC) arrangements.
- (d) Employers provided strong support (over 75% by weighted numbers) to explore Conditional Indexation (CI) as a possible future solution beyond the 2020 valuation – with some employers only accepting the UUK package for this valuation as a condition for exploring alternative future options, such as CI.

- (e) Very strong employer support (backed by engagement and responses from eligible employees) for the introduction of more flexible and lower cost options for members (over 90% by weighted population), with a strong majority (over 80% by weighted population) seeing DC as an appropriate option to address the member opt-out rate as it would help with affordability, flexibility/suitability, and portability - the main reasons why eligible employees are choosing to opt-out of the scheme.
  
- (f) Almost unanimous support (again, over 90% by weighted population) was given for a post valuation governance review.

## SECTION 2

# UPDATE ON THE LATEST EXCHANGES WITH THE USS TRUSTEE

The USS Trustee met on 8 June 2021, and prior to that meeting UUK asked that the indicative package which was put forward in the indicative outcomes [consultation](#) be formally priced. The plan was for it to be confirmed by the USS Trustee that it was feasible to deliver the package<sup>1</sup>, including covenant support etc., at the current contribution level of 30.7% of salary or less.

We have now received a response from the USS Trustee. There is a great deal of positive news including:

- The proposed pricing brings the headline contributions down from the range set out by the USS Trustee in its [Update Report of March 2021](#) (which was either 49.6% under scenario 2 or 42.1% under scenario 3).
- Good progress has been made in terms of developing a suitable de minimis for the pari-passu arrangements, for employers with assets and annual income of less than £50m as well as for those participating in USS through a limited participation deed – which covers the majority of post-1992 universities and employers for whom USS is not their main pension scheme.
- There is agreement to an escalation process within the debt-monitoring framework, bolstering the overall process and ensuring that employers can raise challenges to any decision made, have separate consideration of those challenges, and be able to make further representations.
- A commitment to clarifying the secured borrowing which would be exempt on the basis that it is covenant enhancing, through a statement of principle and the use of examples (and employers are invited to bring forward scenarios which they would want to be included).
- The adoption of a longer recovery plan (18 years for the 2020 valuation, with asset outperformance), together with other assumptions which generally mirror those put forward by UUK's actuarial adviser Aon (such as the pre-retirement discount rate at gilts+2.75% which aligns with one of the methods [Aon outlined](#) could achieve a better contribution rate).

The USS Trustee states that the indicative benefits can be provided for an overall cost of 31.2% of salary (which represents considerable movement from the scenarios illustrated earlier, but which remains at a rate 0.5% higher than current

<sup>1</sup>As a reminder, the alternative hybrid benefits as part of the indicative outcomes package was a pension in the order of a 1/85th accrual rate (plus three-times lump sum), a £40,000 salary threshold for DB benefits, and CPI indexation capped at 2.5% for both pensions increases and revaluation of future defined benefits. DC benefits on salary above the threshold would remain unchanged at an overall 20% of salary. UUK's actuarial adviser, Aon, confirmed that it was feasible to deliver these benefits, and meet past service commitments, for current contribution rates.

contributions). In order to do this the USS Trustee seeks the following as part of its 'counter proposal':

- The metric which would trigger the provision of pari-passu security to the USS Trustee on any new secured borrowing would need to move from 15% (in the UUK indicative package) to 10% of assets<sup>2</sup>, further strengthening the overall covenant support package.
- No gap between the ending of the current short-term moratorium on employers leaving the scheme without the USS Trustee's consent, and the commencement of the rolling 20-year moratorium illustrated by UUK.
- The USS Trustee has set out how it plans to respond to the concerns of employers on aspects of the debt management arrangements, including an appropriate de minimis provision, assurances on process and a system of review, the exemption for covenant enhancing etc., as mentioned earlier and as [published](#) by the USS Trustee.
- It should be noted that the USS Trustee has indicated that should the UUK illustrative package be decided upon and implemented then, subject to the negotiation on these issues which will take place in the Joint Negotiating Committee (JNC) and the process of formal consultation with affected employees and their representatives, the likely commencement date of any changes would be 1 April 2022. We are in discussion with the USS Trustee regarding the implications of this timeline for the scheduled contribution increases from the 2018 valuation (which are due to increase with effect from 1 October 2021 at 23.7% for employers and 11% for members unless and until they are superseded by a confirmed 2020 valuation outcome).

A copy of Alistair Jarvis' letter dated 3 June 2021 to Dame Kate Barker (the Chair of the USS Trustee) is [attached](#), together with Dame Kate's [reply](#) dated 9 June 2021. We would also direct readers to a [further letter](#) from the Pensions Regulator (tPR) to the USS Trustee dated 11 June 2021, confirming the continued involvement of tPR in the development of an acceptable funding approach.

At its meeting on 10 June 2021 the UUK board met and welcomed the movement that had been secured on the valuation assumptions and the detail of the covenant support measures, but was disappointed with the 0.5% difference in the pricing. The board recognised that UUK will need to consult with employers once again, and asked that the UUK team initiate this short consultation. In addition, the UUK board asked that the USS Trustee again be asked to provide justification for the additional requirements, and specifically why the 0.5% is considered material and necessary to a potential outcome to the valuation; the letter from Alistair Jarvis to the Chair of USS dated 16 June 2021 is also [attached](#). We will update employers as soon as possible, as and when we receive a further response from the USS Trustee,

<sup>2</sup>Specifically, secured debt above 10% of net assets or security granted above 10% of gross assets.

but have decided to proceed with this consultation and seek the further inputs from employers on the counter proposal that has been set out.



## SECTION 3

# IDENTIFICATION OF THE OPTIONS, INCLUDING:

Having considered the update from the USS Trustee (particularly the [letter](#) dated 9 June 2021) it appears that there are a small number of options available to employers:

- (a) Accept the counter proposal and provide backing for the modified outcome (including the 10% threshold for pari-passu security, and no gap between the ending of the current short-term moratorium and the commencement of the rolling 20-year moratorium), and continue an exchange with the USS Trustee to find a way that the 0.5% difference can be bridged, which might be acceptable.

The 0.5% difference could be bridged by, for example, further adjustments to the USS Trustee's assumptions, adjustments to benefits, higher contributions, changes to the plan and timeline for implementation. The default would be that the extra 0.5% is shared on the 65:35 basis between employers and members respectively.

- (b) Oppose the counter proposal from the USS Trustee as the conditions which are believed necessary have not been met – notably that the covenant support package goes further than the one put forward by UUK in its indicative outcomes consultation (which included a 15% threshold for pari-passu secured borrowing).

The USS Trustee has made clear that the UUK package, as presented, would be materially more expensive than current contributions at 30.7% of salary (it has explained that UUK's package is potentially weaker than its scenario 3 basis, which has a reference price of 42.1% and with benefit reforms would, if the same scenario 3 assumptions were adopted, bring contributions down to approximately 34.7%). If the weighted majority of employers support this option, it will be necessary to identify and prepare an alternative approach to find an acceptable long-term solution. We will need to:

- i Receive a price from the USS Trustee for the modified future benefits (at 1/85th of salary etc. as in the UUK consultation) with the UUK covenant package. In its [letter](#) of 9 June 2021, the USS Trustee confirms that it "would still be materially higher than your target contribution rate of 30.7%" and we believe that the difference will be in the region of 4%. Once this price is known, we would either need employers to support increased costs; or



- ii Bring forward modifications to the proposed benefits package to find the extra reductions; or
- iii Offer even more covenant support to the extent the USS Trustee would be willing to accept that in lower pricing. It is highly likely that USS would require these to be in the form of [contingent contributions](#); or
- iv Go back to the drawing board and design more radical benefit proposals which most likely would involve a shift towards DC as the central scheme design and/or whole or partial withdrawal of the covenant support measures indicatively put forward.

## SECTION 4: UUK PERSPECTIVE

The indicative outcome to this valuation has changed markedly as a result of recent helpful inputs and direction from employers, and the latest exchanges with the USS Trustee. There is now an implementable outcome which would avoid damaging contribution increases for employers and members. The response from the USS Trustee regarding the 0.5% difference in pricing is clearly problematic, and indeed (as we have said) disappointing given the distance that employers have signalled they are willing to move on the issue of covenant. There is a great deal for the USS Trustee to be satisfied about at this valuation, the same being true of the Pensions Regulator – both of which put covenant support at the heart of DB scheme funding – and there is now a potential valuation outcome which would provide considerable extra covenant protections.

UUK's indicative package was built upon the envisaged desire of employers to deal with the scheme deficit whilst maintaining a modified hybrid pension scheme. Given this objective, we believe that employers may still be able to find the counter proposal from the USS Trustee acceptable – and potentially so with the additional clarification now provided by the USS Trustee in relation to the principles and operation of the debt-monitoring framework. The outcome described by UUK – albeit with the adjustments to the pari-passu threshold, and with the remaining issue of the 0.5% left as one that is, for now, to be dealt with – is a feasible outcome which we know is implementable, avoiding more radical reforms to the scheme. We have not seen any other feasible option for maintaining the hybrid scheme brought forward by University and College Union (UCU). Moreover, with the USS Trustee's counter proposal, the door remains open to the development of Conditional Indexation (CI) as a potential future solution. We will also embark upon a governance review of USS.

Once again, we seek the direction of employers on a future solution to the 2020 valuation, in the hope that we might be able to reach an acceptable collective position. We set out a single question below, and would welcome responses from employers which express their preference alongside any other commentary or comment that you wish to provide.

Responses to this consultation should be provided through the [response form](#) on behalf of the employer, and the involvement of governing body/leadership body is encouraged.

## SECTION 5: QUESTION FOR EMPLOYERS

### PLEASE USE THIS FORM TO RESPOND

Of the two options below, which would be your preference?

#### OPTION A PREFERENCE

- Accept the USS Trustee's counter proposal and provide backing for the modified outcome (including the 10% threshold for pari-passu security, and no gap between the ending of the current short-term moratorium and the commencement of the rolling 20-year moratorium) and continue discussions with the USS Trustee to find a way that the 0.5% difference can be bridged which might be acceptable.

Over the weeks ahead we would engage further with the USS Trustee, employers and UCU on the options to address the additional 0.5% in contributions. This could for example involve further adjustments to the USS Trustee's assumptions, adjustments to the proposed benefits package, accept higher contributions or changes to the plan for implementation. Given the need for further exploration, it is too early to specify the particular approach at this stage.

#### OPTION B PREFERENCE

- Oppose the counter proposal from the USS Trustee as the covenant support package proposed (see [letter](#) and [Term Sheet](#) from USS Trustee dated 9 June 2021) is not acceptable, and prepare alternative approaches.

If option B is your preference, this will involve consideration of the options set out in section 3(B) above, or paying the required additional contributions of c4% (split 65% employer and 35% employee).

We would be grateful if you would set out your preferred feasible alternative that could commend majority employer support and acceptance by the USS Trustee.

**All responses should be provided to Universities UK at [pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk) and be received no later than 5pm on Monday 5 July 2021.**

# ANNEXE

## LIST OF ASSOCIATED MATERIALS

1. [UUK letter from Alistair Jarvis to the Chair of the USS Board dated 3 June 2021](#)
2. [USS letter from the Chair of the USS Board to Alistair Jarvis dated 9 June 2021.](#)
3. [USS document: Terms Sheet of the 'counter proposal' for the covenant support package dated 9 June 2021.](#)
4. [TPR letter from Mike Burch to Chair of the USS Board dated 11 June 2021.](#)
5. [UUK letter from Alistair Jarvis to the Chair of the USS Board dated 16 June 2021.](#)
6. [USS document: Consideration of covenant support measures in future valuations, dated 16 June 2021.](#)
7. [USS document: Debt monitoring framework - how we will work with you, dated 16 June 2021.](#)
8. Materials associated with the UUK consultation with USS employers on the indicative outcomes of the 2020 USS valuation, which ran from 7 April to 24 May 2021, are available from the [USS Employers website](#), and include detailed documents in relation to the debt monitoring framework and the moratorium on employer exits without Trustee consent (USS documents C1, C2, and C3).

# USSEmployers

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