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Chief Executive
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Your ref	
Our ref	BG/JMR
Date	6 September 2021

By email only

Dear Alistair

Consultation on Schedule of Contributions, Recovery Plan and Statement of Funding Principles for the 2020 actuarial valuation

Please find attached drafts of the Schedule of Contributions (SOC) and Recovery Plan, which set out the proposed rate of member and employer contributions payable to USS from 1 October 2021. They include details of the share of the employer contribution that is attributable to the planned deficit recovery plan. I also attach a draft of the Statement of Funding Principles, which we are consulting on at the same time.

These documents correspond with the Joint Negotiating Committee's (JNC) decisions of 31 August 2021 and 2 September 2021, since approved for consultation by the Trustee:

- members and employers will contribute 9.8% and 21.4% of pay respectively, from 1 October 2021 and until further notice. This replaces the planned contributions of 11% and 23.7% as scheduled from 1 October 2021 under the 2018 valuation.

- From 1 April 2022, the way future benefits are built up will change.

Ordinarily, consultation on these documents would follow the statutory employer-led consultation with affected employees (and their representatives) on the changes proposed by the JNC.

However, for the 2020 consultation we are changing the sequencing to avoid a situation where contribution rates increase for a period of six months and then reduce again from 1 April 2022.

As agreed with you separately, we are running this consultation for a period of two weeks from 6 September to make it possible for the JNC's decision on contribution rates to be introduced in advance of the higher rates otherwise scheduled from 1 October 2021 (per the 2018 valuation).

To this end, please let me have your response to this consultation by 20 September.

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This consultation

As for previous consultations on these parts of the valuation, it is a consultation between the Trustee and Universities UK – the body nominated by the rules to act as the representative of employers for these purposes. This consultation satisfies the requirement to consult under section 229 of the Pensions Act 2004 (as amended in paragraph 9 of Schedule 2 to the Occupational Pension Schemes (Scheme Funding) Regulations 2005).

There are two new elements of the draft SOC that I would specifically bring to your attention:

i) it is a 'dual-rate' SOC with two contribution schedules, or 'legs', that apply in different scenarios:

   a. The first 'leg' reflects the JNC's decisions on benefit change, contributions and a 20-year moratorium on employers exiting the Scheme, as well as the debt monitoring and *pari passu* arrangements to be effective from 1 October 2021. This involves a total contribution rate of 31.2% of payroll, payable from 1 October 2021.

   b. The second 'leg' is the pre-agreed 'back-stop' position in the event that benefit change has not been implemented by 28 February 2022. The level of additional covenant support available in this scenario (a short-term moratorium and debt monitoring) is akin to Scenario 1 of the Rule 76.1 Report (as detailed in the Trustee Update of March 2021). As a result, it involves a schedule of total contributions that initially rises to 34.7% in April 2022 but steps up every six months thereafter, ultimately reaching 57% by October 2025 in the absence of further changes.

ii) As first explained in the employer consultation on the debt framework in July 2020 and set out more fully in 'Consideration of covenant support measures in future valuations', it includes provisions in relation to the Trustee's ability to accelerate contributions from individual employers in certain circumstances. This is in accordance with Section 7 of Part B of the Debt Monitoring Framework on which UUK consulted employers earlier this year.

The dual-rate SOC approach achieves a number of things.

It secures an upfront commitment from employers (effective on signing of the 2020 valuation) to provide additional covenant support – not least, a rolling 20-year moratorium on employer exits. This is vital to the outcome of the 2020 valuation and puts the scheme on a much more sustainable footing.

It also addresses members' immediate concerns around affordability by introducing rates significantly lower than those otherwise scheduled from 1 October 2021 (i.e., 11%) under the 2018 valuation. Affordability is the principal reason members give for opting out of the Scheme – for opting out of having any workplace pension at all.

We are prepared to introduce these lower rates six months ahead of the benefit reforms being introduced, despite current benefits being underfunded, because the second 'leg' of the dual-rate SOC ensures the rising cost of benefits will be addressed in any event.

By enabling the 2020 valuation to be filed by the end of September, it prevents any further adverse developments from destabilising the position we have reached. We note that real long-term interest rates have fallen yet again in recent months, and the Government's Higher Education funding review is due in the autumn.

Note that the parameters of the proposed Recovery Plan under the first leg of the draft SOC are consistent with the position first set out in our letter to you of 9 June 2021. The second leg is effectively a modification of the position set out under Scenario 1 in the 76.1 report (as detailed in the Trustee Update of March 2021), but with contributions stepping-up over a four year period and the recovery plan extended from 10 to 12.33 years. The latter is in lieu of scheduling considerably higher contributions to compensate for lower contributions during the step-up period.

Alongside your response to this consultation, we also anticipate written confirmation of UUK's agreement to the debt monitoring framework and *pari passu* arrangements (set out a high level here) to be effective as of 1 October 2021. We have been working on together closely on these issues throughout the valuation. The early joint working groups, the feedback from the employer consultation in July 2020, and our extensive engagement directly with employers and through groups such as BUFDG has resulted in an approach which is widely understood. As you will know, we are making some adjustments to the framework to clarify process points in direct response to feedback from employers.

Next steps

We currently expect to be in a position to sign and file the valuation later this month, following this consultation.

The statutory employer-led consultation with affected employees (and their representatives) on the JNC's proposed changes will be launched later this year. Once that has been completed and considered, we will be able to finalise and implement the agreed benefit changes. We will separately consult employers thereafter on the Statement of Investment Principles.

If, however, the employer-led consultation results in any changes to the JNC's proposals, we may have to consult you again on the SOC, Recovery Plan and Statement of Funding Principles.

Alternatively, as set out above, in the event that the recommendation on benefit changes agreed by the JNC at its meeting on 31 August 2021 is not implemented by 28 February 2022, the second leg of the SOC we are consulting you on here will come into effect.

If you have any questions about this consultation, please don't hesitate to contact me. Otherwise, I look forward to receiving your formal response.

Yours sincerely

Bill Galvin
Group Chief Executive Officer

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