

USSEmployers

THE USS 2020 VALUATION

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

USS EMPLOYERS RESPONSE

August 2021

CONTENTS

3 INTRODUCTION

5 OVERVIEW OF EMPLOYER RESPONSES

7 EMPLOYER RESPONSES IN MORE DETAIL

INTRODUCTION

In May 2021, Universities UK (UUK) received strong [employer backing](#) for a package of reforms, as an affordable and viable option to finalise the USS 2020 valuation that could avoid damaging contributions of between 42.1% and 56.2%, which the USS Trustee has said are needed to retain current benefits.

UUK/Aon believed it would be feasible to provide a continued hybrid structure in the order of: a pension accrual rate of 1/85th of salary (with 3x lump sum), a Defined Benefit (DB) salary threshold of £40,000 and indexation capped at 2.5% per annum, while retaining Defined Contributions (DC) of an overall 20% of salary above the threshold, at the current contribution rate (30.7% of salary).

However, the USS Trustee [stated](#) that it considered the indicative benefits could be provided for an overall cost of 31.2% of salary (therefore, a rate 0.5% higher than current contributions). To reach this price the USS Trustee sought further requirements as part of its '[counter proposal](#)' for a covenant support package:

- The debt monitoring 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, 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 also set out how it planned 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 borrowing, as [published](#) by the USS Trustee on 16 June 2021.

UUK sought the direction of employers, through a short [consultation](#) from 18 June to 5 July 2021, on potential modifications to the indicative outcome of the 2020 valuation. Employers were invited to express a preference in answer to a single question, alongside any other comments.

The question for employers:

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

Option A:

Accept the USS Trustee's counter proposal and provide backing for the modified outcome, and continue discussions with the USS Trustee to find a way that the 0.5% difference can be bridged which might be acceptable.

Option B

Oppose the counter proposal from the USS Trustee as the covenant support package proposed is not acceptable, and prepare alternative approaches.

OVERVIEW OF EMPLOYER RESPONSES

In terms of headline statistics, UUK received responses from 113 USS employers which together represent over 94% of the active membership of the scheme.

The majority of respondents, representing nearly 94% of the active membership of the scheme, indicated they could support the USS Trustee's counter covenant support proposal and provide backing for the modified outcome.

Employers were generally supportive of the UUK package and the progress towards a much-improved indicative outcome to the 2020 valuation. Although, some referred to the modified package as the 'least worst' option, and a small number could only support it on the basis that it was short-term.

Through this second consultation, UUK tested whether the concerns of those employers offering conditional support in the first consultation (in May 2021) had been addressed. Employers appreciated the additional clarity provided by the USS Trustee on aspects of the debt management arrangements, and employers that participate in USS on limited terms welcomed the extension of the de minimis exemption for small USS employers.

The importance of the scheme stakeholders making rapid progress in three key areas, following the conclusion of the 2020 valuation, was reiterated by employers:

- To explore whether alternative scheme designs, including Conditional Indexation (CI), could make the scheme more sustainable in the longer-term and provide better value.
- To develop a more flexible and lower-cost option for members to help address the opt-out rate.
- To immediately begin work on a governance review of USS.

Employers hope that the commitment to additional covenant supporting measures and recent improvements in the economy will allow the 0.5% increase in contributions indicated by the USS Trustee to be reduced or eliminated altogether, as stakeholders work towards a solution for the 2020 valuation.

These proposals are due to be discussed over the summer (2021) with the University and College Union (UCU) representing members, UUK, and the USS Trustee at the Joint Negotiating Committee, which is responsible for approving any scheme rule changes and concluding the 2020 valuation.

UUK wants to put on record its gratitude to employers who have responded in such numbers, and so fully, to this short consultation within the challenging timeframe available for concluding the 2020 valuation.

EMPLOYER RESPONSES IN MORE DETAIL

UUK received responses from 113 employers, which together represent over 94% of the active membership of the scheme.

106 employers, representing nearly 94% of the active membership of the scheme, indicated they could support Option A¹ (Accept the USS Trustee's counter proposal and provide backing for the modified outcome). 3 employers, representing 0.5% of actives, could not support Option A and stated Option B (Oppose the counter proposal and prepare alternative approaches). With 4 employers, representing 0.1% of actives, not stating a clear preference.

Of those supporting Option A, 15 responses (representing just over 21% of Actives) were conditional.

- 2 of these responses related to single aspects of the package: an employer (representing 0% of the active membership) stated Option A on the proviso that the cost remains at 30.7%, as they could see no reason why this should increase by 0.5%, and another employer (representing nearly 3% of the active membership) stated that support was conditional on further exploration of low-cost options to reduce the overall opt-out rates of staff.
- The remaining 13 (representing over 18% of the active membership) responses were highly conditional on multiple, or all, aspects of the overall package. Of these, 9 employers (representing over 9% of the active membership) regard the proposed outcome strictly as a short-term solution only.

The themes raised within the conditions for supporting the USS Trustee's counter proposal (Option A) also featured in the responses given by a number of other employers (that did not attach conditions to their support):

- 20 respondents (representing just over 35% of the active membership) asked for multiple, or all, aspects of the overall package (similar to the conditional responses detailed above, but with noticeably less strength of feeling over this being strictly a short-term solution)
- 10 respondents (representing 0.3% of active membership) requested further consideration of the application of the moratorium (on employers leaving the scheme without the USS Trustee's consent) to employers that participate in USS on limited terms (Limited Participation institutions): 8 called for a specific exemption; another asked for a window between the end of the current short-term moratorium and the commencement of a rolling 20-year moratorium; whilst another called for transparency from the USS Trustee around the

¹ A small number of employers did not tick Option A but clearly indicated their support, or conditional support, for Option A within the comments section of the response form.

statutory Section 75 Debt calculation alongside support for employers with very small membership to manage the scheme debt.

- There were additional responses related to single aspects of the package, most notably: 3 responses (representing nearly 5% of active membership) reiterated the need for a total contribution rate of 30.7% or no contribution increases; and 4 responses (representing 5% of active membership) stating the October 2021 contribution increases (arising from the 2018 valuation) should not apply and/or asked for clarity on whether they would be implemented.

Employers appreciated the additional clarity provided by the USS Trustee on aspects of the debt management arrangements, but it should be noted that a number of employers have some remaining concerns and would like to see more information on aspects of the debt monitoring framework. UUK welcomes the continuing conversations between the USS specialist team and individual institutions, also sector groups, and urges the USS Trustee to fully consider these matters ahead of finalising the initial framework for implementation.

UUK invited comments from employers on their preference(s) as to how the 0.5% difference in the required contribution rate could be bridged, if they wished to share them at this stage. This was not a specific consultation question, and the majority of respondents did not specify a preference within their consultation responses.

Of those employers that expressed a preference for resolving the 0.5% difference:

- The majority stated a strong preference for the USS Trustee to adjust assumptions to address this (23 respondents, representing nearly 23% of active membership).

In the event that this may prove not to be possible, some stated a second preference: 4 stated their next preference as cost-sharing the contribution increase by the default 65:35 ratio; 3 stated 'not contributions'; an employer accepted that employers should pay and another would adjust the Defined Contributions level above the scheme's Salary Threshold.

- A further 6 respondents (representing nearly 5% of active membership) stated that employers should pay.
- A further 3 respondents (representing over 1% of active membership) stated 'not contributions'.
- Another respondent (representing 0.4% of active membership) would adjust the Defined Contributions level above the scheme's Salary Threshold.

With many of the areas of partial or conditional support being addressed from the first consultation, employers (representing nearly 94% of the active membership of the scheme), indicated they could support the USS Trustee's counter covenant support proposal and thus provided backing for the modified outcome. The feedback from this second consultation confirms the strength of employer support for the package of reform proposals and provides UUK with a strong majority employer mandate.

USSEmployers

Website: www.ussemployers.org.uk

Email: pensions@universitiesuk.ac.uk

Twitter: [@USSEmployers](https://twitter.com/USSEmployers)