

## EMPLOYERS' VIEWS ON THE THREE OPTIONS PRESENTED BY THE USS TRUSTEE FOR CONCLUDING THE 2018 VALUATION

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## Introduction

Universities UK (UUK) received 98 responses to the consultation from employers which, taken together, represent over 90% of the active membership of USS. It is clear to UUK that despite the difficulty and complexity of the consultation – and indeed its short timescale – employers continue to engage constructively with the issues, and the USS Trustee’s continued support in securing this is recognised.

In terms of headline responses on the three options, the vast majority of the responses (85 responses, representing nearly 85% of the active membership of USS) have expressed an indicative preference for the further exploration of Option 3. This indicative support for Option 3 is entirely conditional upon employers having further detail regarding certain key aspects of the option, and employers having the opportunity to fully consider those specifics before confirming their position.

Of the remaining responses there was indicative preference for Option 1 (representing 0.1% of the active membership) and Option 2 (representing 0.5% of the active membership) and other employers (representing 6% of the active membership) did not, or felt they could not, express an indicative preference or dismissed all three options.

## Further information employers require from the USS Trustee

Employers have raised the following as priority issues which would need to be satisfied before they could be in a position to support Option 3 compared with the other options:

- Employers seek further information and specification regarding the ‘requirements’ which the USS Trustee has indicated it would seek should Options 2 or 3 be implemented (and potentially also for Option 1, although this is not entirely clear). This means that employers would have further details regarding, and have time to consider their position on, (i) any clarifications to the rules which the USS Trustee believes are necessary in relation to the management of employer exits, (ii) the terms under which the USS Trustee is seeking to ensure that it has *pari-passu* status with future employer borrowing, and (iii) further details regarding debt monitoring and what the USS Trustee seeks in terms of involvement and reporting.
- There is a need for further information on risk in relation to Option 3. While employers understand that risk may be considered more fully by, and arising from, the Joint Expert Panel’s (JEP’s) second phase of work, employers want to be clear on the implications of Option 3 as it applies to addressing the funding requirements for the 2018 valuation – for example in terms of the long-term reliance target, the planned gradual investment de-risking which is proposed, and the impact of economic developments over the short term.

## Additional points raised by employers

There are a number of specific comments which have been expressed by employers which have majority, and in some cases overwhelming, backing, which are as follows:

- There is considerable unease among employers about being invited to express support for specific options to reach an outcome to the valuation without deficit recovery contributions being defined by the USS Trustee, and/or the terms more generally for a recovery plan to address a scheme deficit.
- Employers comment in their responses on what appears to be a continued resistance on the part of the USS Trustee to the first report from the JEP, and for example to specific comments made by the JEP such as on the USS Trustee's measure of reliance and its link to a self-sufficient level of scheme funding, and to the dominance of this model in the USS Trustee's setting of assumptions.
- There appears to employers to be an addition of layer upon layer of complexity to the valuation issues, which is making it extremely difficult to achieve effective communication of the key elements, and in presenting the issues for consideration to the wider audiences including principally scheme members, but also (for example) members of governing bodies.
- Employers ask the USS Trustee to make it clear, as far as it is able, its willingness to work with the JEP phase 2 - for example in terms of engagement with the panel, and openness to consider its recommendations. Employers would like to understand the USS Trustee's position, as the acceptance of Option 3 would be accompanied by an understanding that the JEP's phase 2 recommendations can be considered by the stakeholders as part of the conclusion to a 2020 valuation.
- Employers recognise that the contributions required under the 2018 valuation and the Trustee's proposed Option 3, including the higher contributions from October 2021 onwards, would be the Trustee's response to addressing the current funding position of the scheme and meeting the statutory funding objective.
- There is a significant level of concern regarding the proposed 21.1% level of contribution for employers, and indeed the 9.6% contribution requirement for members. This level of contribution for employers is beyond the levels considered sustainable over the longer term given competing priorities - and while it is acknowledged that under the 2018 valuation the aggregate contribution requirement would rise from 30.7% after two years to 34.7% of salary, a specific of which employers are fully aware - contributions at this level could only potentially be acceptable to employers on the condition that there is an early opportunity for stakeholders to address issues relating to the longer-term sustainability of the scheme following the JEP's second report, and through the outcome of the 2020 valuation.

- In reviewing the options presented, employers have stated their view that the underlying approach, and assumptions, for the determination of the upper bookend presented in Option 1 remains unjustified. While employers are grateful for the additional explanations provided by the USS Trustee, they still consider elements of the proposed upper bookend contribution value to be unacceptable, or at the very least falling short in terms of full reasoning and clarification.

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