

USSEmployers

THE USS 2020 VALUATION

A short consultation by
Universities UK on the UCU
proposals for concluding
the 2020 valuation

USS Employers response

02 March 2022

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INTRODUCTION

During the closing stages of the discussions over the outcome of the 2020 valuation of USS, Universities UK (UUK) received a [letter](#) from the University and College Union (UCU) General Secretary, Dr Jo Grady, which confirmed UCU's wish for UUK to consult with employers on the UCU proposal that had been costed by the USS Trustee in February 2022.

At the meeting of the USS Joint Negotiating Committee (JNC) on 11 February 2022, UCU representatives provided further details and clarifications on their proposal.

UCU confirmed that their proposal [remained](#) as follows:

1. That UUK call on USS to issue a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022, to be issued for consultation in June (at the latest).
2. That employers agree to provide the same level of covenant support as for their own proposals to facilitate a cost-sharing of current benefits throughout the 2022-23 scheme year, starting 1 April 2022 at 11% member/23.7% employer until 1 October 2022, and 11.8%/25.2% thereafter.
3. That employers agree to pay a maximum 25.2% and members a maximum of 9.8% from 1 April 2023 so as to secure current benefits or, if not possible, the best achievable as a result of the call on USS to issue a moderately prudent, evidence-based valuation.

The [schedule of contributions](#) set out in the UCU proposal of 9 February 2022 to the USS JNC, having been costed and validated by the USS Trustee, showed the formal and legal consequences in terms of contribution rates of UCU's proposal should it be implemented (rising to 29.1% and 13.9% for employer and member respectively). At the meeting of the JNC, UCU representatives wished to confirm that, despite the confirmed legal schedule, it was their intention that employer contributions be capped at 25.2% of pay from 1 April 2023.

Supporting [information](#) was provided by UCU on 14 February 2022, although UUK noted it did not address all of the questions raised in its [letter](#) of 31 January 2022, which were also raised during the JNC discussions.

Employers were asked for their views by 18 February 2022 on whether they were prepared to support the new UCU proposal to conclude the 2020 valuation.

OVERVIEW OF EMPLOYER RESPONSES

In terms of headline statistics, UUK received responses from 97 USS employers which together represent nearly 94% of the active membership of the scheme.

The majority of respondents, representing over 92% of the active membership of the scheme, indicated they could not support the UCU proposal for concluding the 2020 USS valuation. Three employers indicated conditional support for the UCU proposal, and just one employer provided support.

Employers welcomed UCU bringing forward a proposal, although they could not support it in the form presented. Many respondents raised significant concerns over the affordability, for both employers and members, and sustainability of this UCU proposal.

Employers continue to be supportive of the UUK/employer proposal, that was subject to a statutory [consultation](#) with affected employees and their representatives, and a potential [modification](#) to introduce a transition arrangement for the indexation cap, as a balanced and proportionate conclusion to the 2020 valuation – for both employers and employees.

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, 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

The UCU proposal and the modified UUK/employers' proposal were both discussed in February 2022 with UCU representing members, UUK representing employers, and the USS Trustee at the JNC, 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 97 employers, which together represent nearly 94% of the active membership of the scheme.

93 employers, representing over 92% of the active membership of the scheme, indicated they could not support the UCU proposal for concluding the 2020 USS valuation.

Three employers (representing 1.4% of the active membership of the scheme) indicated conditional support for the UCU proposal, and one employer (representing a fraction over 0% of the active membership of the scheme) provided reluctant support.

Some employers simply stated that they could not support the UCU proposal in their response, some provided brief comments on the proposal as a whole, whereas others provided more information on their consideration of key aspects of the proposal.

Of the responses that provided extra comment, there were significant concerns raised over the affordability (specifically stated by over half of all respondents), for both employers and members, and sustainability (specifically stated by over a fifth of respondents) of this proposal. In addition, there were specific concerns raised by employers (stated by over a quarter of respondents) over the risk of further increasing the level of member opt-outs from the scheme, and the impact this would have on staff and also the pension scheme.

There is continued recognition that the current level of contributions are at the limits of affordability and sustainability for the majority of employers (and members), and for some it is already beyond.

Although a very small number of employers felt they could support calling for a 31 March 2022 valuation, four times the number of respondents expressed concerns over this part of the proposal. There was doubt that a new valuation could resolve the current issues in relation to USS and deliver the desired outcome, with employers referencing the recent funding [update](#) from the USS Trustee (dated 16 February 2022) and acknowledging the legal and regulatory framework. It was noted that calling a valuation is a decision for the USS Trustee, and the USS Trustee's initial [assessment](#) (dated 15 February 2022) was that it would be extremely challenging to complete a 2022 valuation in the proposed timeframe.

Some employers noted that carrying out a 2022 valuation would almost certainly detract from the ability to explore alternative scheme designs, and that any future valuation should benefit from the conclusions arising from a governance review.

Only a very small number of respondents specifically commented on extending (to the UCU proposal) the additional covenant support measures that employers have provided as part of the UUK package. Of these, half would consider extending these levels of support to another viable and affordable proposal, although the UCU proposal did not meet these conditions in the form presented. The other half were clear that they had only been able to agree to the additional covenant support measures as part of a package of reforms which maintained contribution rates.

Overall, UUK believes there is a collective concern over the significant costs and risks attached to the UCU proposal and notes that these were too great for employers to be able to support it. Employers were unable to commit to delaying the benefit reform proposal and to the uncertainty of a 31 March 2022 valuation.

In rejecting the UCU proposal, a number of employers took the opportunity to reaffirm their support for the employer proposals for reform, including the potential modification to introduce a transition arrangement for the indexation cap following the statutory consultation with affected employees and their representatives, as a balanced and proportionate conclusion to the 2020 valuation - for both employers and employees.

Although not a part of this consultation, a fifth of the respondents restated the importance of the scheme stakeholders making rapid progress in one or more of the following three key areas, following the conclusion of the 2020 valuation:

- to explore whether alternative scheme designs, including Conditional Indexation, 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

The background features a large, stylized graphic of the letters 'U' and 'E' formed by a grid of small dots. The 'U' is on the left and the 'E' is on the right, both rendered in a light grey color. The text 'USSEmployers' is centered over the 'U' and 'E' respectively.

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