

USSEmployers

Q&As, OCTOBER 2022

1. Of the change in the scheme's financial position, how much is down to improvements in market conditions, and how much is down to the April 2022 reforms?
 2. Why can't we undertake a valuation now?
 3. The [USS June 2022 monitoring](#) suggests that the scheme now has a negligible deficit and lower future service costs. Even without the April 2022 cuts the fund would remain in surplus and require total contributions in the low 30%. Isn't this proof that we can now make changes to reverse the April 2022 cuts to benefits?
 4. Are you aware that many employers want to improve benefits as soon as possible, and how do you explain your position to them?
 5. What do you say to the challenge that USS is no longer nationally competitive, and has fallen behind public sector pensions like Teachers' Pension Scheme (and there is [UCU analysis](#) which contends that this is the case)?
 6. Has UUK consistently underestimated the level of cuts?
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1. *Of the change in the scheme's financial position, how much is down to improvements in market conditions, and how much is down to the April 2022 reforms?*
 - In short, on the scheme deficit it is the movement in market conditions that has had the most significant effect, with the benefit reforms from 2022 having only marginal effect.
 - The opposite is true in terms of the required contribution for future service benefits where the reforms have had most effect, with market conditions being a lesser contributor to the overall fall in cost. This is to be expected, as all past service benefits are protected and any changes to benefits can only affect future rights which are built-up.
 - This general pattern has however changed between April 2022 and June 2022, with the deficit now becoming - according to the USS Trustee's [monitoring update](#) - an indicative surplus of £1.8bn on a like for like basis, and with the future service cost down to 21.2% (although the USS Trustee has indicated a likely deficit of slightly more than £2bn and a future service cost of 22.5%, based on fuller analysis for June 2022). What is clear is that the latest movements in market conditions are having a greater impact upon the future service cost. We can expect this uncertainty and unpredictability to continue.

2. Why can't we undertake a valuation now?

We could do a valuation now – but the scheme trustees have made clear that they do not consider the economic conditions which have caused improvements in the latest funding monitoring are stable enough (after just a few months) to make informed and evidenced decisions. The USS Trustee (which comprises employer, member and independent trustees) does not feel there is solid ground to bring forward a valuation and invites Universities UK (UUK) and UCU to work with the Trustee in preparation for the 2023 valuation – where we all hope there will be a firmer improved funding position upon which to make decisions on the required contribution rate and improve benefits where possible.

There are a number of reasons why undertaking a valuation now would be either not justified, inappropriate or undesirable:

- A valuation, which normally takes place at least every three years, is the usual trigger for changes to the scheme's future benefits and/or contributions.
- A valuation is a periodic financial check, and changes to future benefits and/or contributions can be made to alter the course in light of the valuation outcome, to rebalance things.
- Generally speaking, you don't want to change course too often, as members and employers need some stability in contributions and benefits, and you also want to avoid continually having to change course based on short-term indicators only then having to alter course again very soon.
- The USS Trustee decides when to undertake a valuation (but it must do so at least every three years by law).
- It has made clear that it does not believe there are grounds currently to do so. It would need a solid basis to hold an extra, or earlier than expected, valuation; for example, if it took the view that things have materially and sustainably changed in a way which makes the earlier valuation unsound.
- The USS Trustee's view, it seems, is that it's too soon to be able to properly interpret the recent short-term improvements in scheme funding – and it wishes to focus on the next scheduled valuation as at 31 March 2023.
- There has been the argument that the USS Trustee does not need to await a valuation, and can instead consult on a revised schedule of contributions and implement that. The difficulty with this option, although it is undeniably an option in a strict legal sense, is once again that the USS Trustee would need to have justifiable grounds to prepare a revised schedule of contributions in between valuations. Clearly, from the statement made in the [accelerated year-end review](#) in relation to an interim valuation, it does not believe that clear and justifiable grounds exist at the current time.
- For those who doubt the USS Trustee's judgement, we should make clear that the issues are complex – and you need only refer to the fall in asset values of £15bn between November 2021 and June 2022 to highlight that things are not all moving in one direction and the volatility in the present economic environment.

3. *The [USS June 2022 monitoring](#) suggests that the scheme now has a negligible deficit and lower future service costs. Even without the April 2022 cuts the fund would remain in surplus and require total contributions in the low 30%. Isn't this proof that we can now make changes to reverse the April 2022 cuts to benefits?*

- The improvements in the USS funding position indicated by the latest monitoring data are really good news.
- This is periodic monitoring data only, and a valuation, when assumptions are more fully considered, might well produce a different position. While funding is much improved from where it was, to highlight the potential difference, the USS Trustee indicates (as at June 2022) a likely deficit of slightly more than £2bn based on fuller analysis (compared with a surplus of £1.8bn).
- The USS Trustee estimates that the funding position – in respect of the pre-April 2022 benefit structure – would, at the end of June, be somewhere in a range of potential outcomes. The indicative bookends are a future service cost of 27.4% of pay with a surplus of £0.6bn (based on monitoring alone) and 29.6% of pay with a deficit of up to £3.8bn (depending on the assumptions for expected inflation). The USS Trustee estimates that in addition to the future service costs, the deficit recovery costs would be in the range from 0.2% to 6.3%. This means that the total salary costs would have been as high as 35.9% (currently 31.4% of salary) which would be unaffordable for employers and for many scheme members.
- The future outlook is hugely uncertain; at the same time that overall funding levels have been improving, we are concerned to have seen a fall in asset values (between November 2021 and June 2022) of approximately £15bn.
- The USS Trustee has made clear in its [accelerated year-end review](#) that it does not believe there are grounds to undertake an interim valuation, and (even if there were reasonable grounds) the various risks in doing so. The USS Trustee has the sole legal power to decide whether or not to undertake a valuation.
- We want to give the valuation as at March 2023 our undivided attention, when we hope we will see sustained improvements in the funding position which will allow us to consider more positive changes to the scheme.

4. *Are you aware that many employers want to improve benefits as soon as possible, and how do you explain your position to them?*

- We know that some employers will be engaging with scheme members and with local trade union representatives on these issues and, like UUK, they will want to respond to the sustained improvements in the scheme's financial position as quickly as possible.
- The USS Trustee made its position clear on the issue of an interim valuation in its [accelerated year-end review](#).
- We encourage USS and UCU to begin preparations for the 2023 valuation early, so that as and when an improved funding position is confirmed any positive changes to the scheme can be decided on, and implemented, quickly.

5. *What do you say to the challenge that USS is no longer nationally competitive, and has fallen behind public sector pensions like Teachers' Pension Scheme (and there is [UCU analysis](#) which contends that this is the case)?*

- This is a very limited piece of analysis of the value of different schemes, based on one particular example individual, and we would encourage any member to be extremely careful of forming any view or opinion based on it.
- There are very substantial differences between schemes that are private schemes established under trust like USS, and public service pension schemes like Teachers' Pension Scheme; for example, in terms of their control and governance, and how benefits and funding decisions are made in relation to them.
- There are also many different scenarios in which a member could be better or worse off under one particular scheme compared with another; take for example circumstances of incapacity retirement, early retirement, late retirement, death in service etc, or indeed, in other areas of employment and reward outside of purely pensions considerations.
- The analysis also makes very specific assumptions about future inflation, which would produce a very different picture if indeed future inflation outcomes are different.
- We would urge care and caution in reading anything into this analysis.

6. *Has UUK consistently underestimated the level of cuts?*

- This issue has been covered at length over the last year or so, and our position is clear - as set out on the [USS Employers website](#).
- Members should also refer to the [USS Trustee's statement on this issue](#). It has a legal responsibility for the accuracy of communications presented to members.
- The USS Trustee has also recently responded (27 September 2022) to a UCU Superannuation Working Group letter on this matter. The USS letter clarifies the timeline of the information available (including the headline statistics used) in the lead up to the modeller being available.
- The USS Trustee says that it was reasonable at that time to estimate that the reduction in total benefits would be in the range of 10-18%, while acknowledging that these illustrative examples did not, and could not, cover the full range of individual member institutions.
- We would also reiterate that in relation to one of the main sources of concern, the effect of the inflationary cap on new benefits of 2.5% per year, the employers have implemented a deferral of this cap until at least the increase due in 2026 - and potentially for longer as this might be an area which can be addressed at the next valuation if the funding improvements are sustained.