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MAKING YOUR RESPONSE TO THE USS METHODOLOGY AND RISK APPETITE DISCUSSION DOCUMENT

The USS trustee has produced a discussion document for employers to consider which sets out their emerging thinking on the proposed methodology for the 2020 valuation and the key factors that will drive the outcome.

The document follows feedback from USS stakeholders, lessons learnt from the previous valuation, a fundamental review of valuation methodology, and the Joint Expert Panel’s (JEP) second report.

In order to encourage and focus discussions, USS has set out their emerging approach to the methodology and investment strategy. They also set out the two key factors – the covenant and risk appetites – that will have the greatest effect on outcomes, whatever the methodology.

The discussion document is specifically addressed to USS sponsoring employers. Employers’ views on the issues the document covers will influence the approach USS subsequently decide to take and will help them to make clear, understandable and evidence-based decisions.

USS have not made any decisions at this early stage in the process, but are seeking to encourage discussion and to build understanding and evidence to inform their approach. Note that this discussion document is separate from, and in advance of, the formal consultation USS is required by law to undertake with UUK later in the year.

The questions in this form are as follows:

1. What are your comments on the proposed new methodology?
2. Do you support the measures to ensure the covenant is “Strong” agreed as part of the 2018 valuation on: i) the permanent rule change on employers exiting the Scheme to underpin a 30-year covenant horizon; ii) debt monitoring arrangements; and iii) pari passu security on new secured debt?
3. Do you wish to consider additional tangible covenant support measures to further strengthen the covenant and potentially support additional risk (above that outlined in the scenarios presented in the table above)?
4. Do you have initial views on whether you would be comfortable with an investment strategy that took a moderately larger amount of risk in the long term?
5. Based on the example approach to managing risk, as set out in this document, what is your risk appetite? In other words, do you have initial views as to how much of your risk capacity you are comfortable for us to rely on in supporting the Scheme, in the knowledge that there are adverse scenarios in which this may be called? (You may wish to express this as a contribution of x% of salary, or a monetary amount, paid over y years.)

In addition to questions 1-5 raised by the USS trustee in the discussion document, UUK would welcome feedback from employers on the additional views and analysis expressed in the accompanying paper.

1. Do you agree that it would be helpful if an outline proposition is developed which shows how the various components – including risk appetite, investment strategy, covenant measures, contribution rates and volatility, and benefit design – might operate together under a particular strategy (or strategies)? (Page 2 of the UUK paper)
2. Any other comments?

**Please send the response from your institution to** [**pensions@universitiesuk.ac.uk**](mailto:pensions@universitiesuk.ac.uk) **copying in** [**valuation@uss.co.uk**](mailto:valuation@uss.co.uk) **as appropriate, by 5pm on 17 April 2020**

1. What are your comments on the proposed new methodology? (See Section 2 of the USS discussion document)

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1. Do you support the measures to ensure the covenant is “Strong” agreed as part of the 2018 valuation on: i) the permanent rule change on employers exiting the Scheme to underpin a 30-year covenant horizon; ii) debt monitoring arrangements; and iii) pari passu security on new secured debt? (See Section 3 of the USS discussion document)

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1. Do you wish to consider additional tangible covenant support measures to further strengthen the covenant and potentially support additional risk (above that outlined in the scenarios presented in the table above)? (See Section 3 and Appendix C of the USS discussion document)

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1. Do you have initial views on whether you would be comfortable with an investment strategy that took a moderately larger amount of risk in the long term (See Section 5 of the USS discussion document)?

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1. Based on the example approach to managing risk, as set out in this document, what is your risk appetite? In other words, do you have initial views as to how much of your risk capacity you are comfortable for us to rely on in supporting the Scheme, in the knowledge that there are adverse scenarios in which this may be called? (You may wish to express this as a contribution of x% of salary, or a monetary amount, paid over y years.) (See Section 4 of the USS discussion document)

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1. Do you agree that it would be helpful if an outline proposition is developed which shows how the various components – including risk appetite, investment strategy, covenant measures, contribution rates and volatility, and benefit design – might operate together under a particular strategy (or strategies)? (Page 2 of the UUK paper)

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1. Any other comments?

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Please confirm if your organisation’s governing body has been consulted:

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RESPONSE SUBMITTED BY:

Name:

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Position:

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ON BEHALF OF:

Institution:

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Please send your completed form to:

[pensions@universtiesuk.ac.uk](mailto:pensions@universtiesuk.ac.uk) copying in [valuation@uss.co.uk](mailto:valuation@uss.co.uk) as appropriate, by **5pm on 17 April 2020**

Thank you for taking the time to respond to this consultation.