

USSEmployers

THE USS 2020 VALUATION

UUK short consultation
on UCU proposal

10 February 2022

UUK SHORT CONSULTATION ON UCU PROPOSAL

[Wording provided by USS]

- The Trustee has included indicative contribution rates within the specification. Were the specification ultimately to be recommended by the JNC for adoption to the Trustee, the Trustee would confirm the final pricing at the same time it considered whether or not to approve the relevant deed of amendment along with any necessary changes to the employer contribution rates which would be implemented by the Trustee (subject to consultation with UUK on any amendments to the Schedule of Contributions, Recovery Plan and the Statement of Funding Principles) by the Trustee exercising its unilateral power under the scheme rules (Rule 6.1). The Trustee has not considered the impact of increasing contribution rates on member opt-outs, which (if they were to change) would likely have an impact on the total contributions collected.
- The indicative contribution rates assumes the covenant support agreed as part of the JNC decision on benefit changes at its meeting on 26 August 2021 remains unchanged (a 20-year rolling moratorium, plus agreed debt management measures including provision for acceleration of employer deficit contributions in the schedule of contributions). Note here that the contribution rates will be subject to a further consultation with employers on the proposed schedule of contributions.
- Furthermore, and as previously discussed the specification is not conditional on a 2022 valuation and neither does this form part of our considerations as to whether the UCU Proposal is implementable as that is not a specification for change within the remit of the JNC to consider to address the 2020 valuation. We do though note that, it is the Trustee (rather than either stakeholder or the JNC) that has power under the legislation to call a valuation.
- If a formal request to consider a 2022 valuation is made the Trustee will consider that request and comment further at that time. However, we wanted to clarify that our initial assessment is that it would be extremely challenging to complete the required processes for a 31 March 2022 valuation in time to intercept the contribution increases that would otherwise apply from 1 April 2023 onwards.

UUK'S INITIAL REACTIONS

UUK's initial reactions to the proposal are:

1. We are pleased that UCU has eventually tabled a proposal to conclude the 2020 valuation – but we are perplexed that it has taken UCU so long to do so (given the relatively straightforward approach proposed of retaining current benefits whilst facing materially higher contributions, with little other detail). We also note that it differs considerably to the position UCU provided to the media in the Autumn of 2021 (which did incorporate proposed changes to future benefits).
2. We appreciate that UCU may still contest the validity of the 2020 valuation, and we understand that part of a wider UCU narrative is to call for a moderately prudent 2022 valuation to, in due course, override the schedule of contributions set out above. We have asked UCU to clarify what is meant by moderately prudent and what evidence they have that a 2022 valuation would be justified, and importantly that such a moderately prudent basis would be acceptable to the USS Trustee and/or the Pensions Regulator.
3. The contributions UCU is asking employers to commit to (alongside the significant covenant support) is far beyond the mandate provided to UUK – and we believe would have devastating consequences across the employer base if such contributions came into effect – together with the opportunity cost of the value of those contributions. Employers will no doubt wish to evaluate what paying these rates could mean at their institution. We are also seeking to understand the USS Trustee's views on the impact of UCU proposal (and for example of the employer contributions proposed, and of the continuation of unmoderated Defined Benefit pension risk) on the covenant strength and in turn its compound impact on the funding proposal.
4. We have seen clear evidence presented to the JNC that further increases in the member contribution rate will almost certainly mean that more members will be priced out of the scheme – and would currently have no alternative employer-supported pension provision. Employers are keen to address the already high opt-out rate at current contribution levels and wish to offer lower-cost options and flexibilities for members, and this is something we wish to develop in collaboration with UCU. Regrettably, this does not appear in the UCU proposal presented to date.

5. We understand that the USS Trustee has not had sufficient time to obtain the Pensions Regulator's views on the UCU Proposal, but we note that the Regulator has previously reserved its position should 'Leg 2' of the dual rate Schedule of Contributions (the fallback position) apply - in its [letter of 24 September 2021](#).

These are initial reactions and responses developed in the short time available. UUK hopes and expects to be in a position to share any further details and commentary with employers on the UCU proposal as it may emerge.

The logo for USS Employers features the text 'USSEmployers' in a bold, sans-serif font. The 'USS' portion is rendered in a dark purple color, while 'Employers' is in a dark blue. The background of the page is white with a decorative pattern of thin, light grey wavy lines on the left side.

USSEmployers

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