USSEmployers

Webinar Q&A: The 2017 USS valuation, the Joint Expert Panel, and the current consultation with employers

The following questions and answers are drawn from two webinars on the 2017 valuation and on the related JEP recommendations hosted by Universities UK (UUK) in early October 2018. They accompany the webinar slides which are available on the USS Employers website.

For further assistance relating to the consultation or the 2017 valuation process, please contact pensions@universitiesuk.ac.uk

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1. What types of support from employers might the USS Trustee require for the backing of any additional risk?
2. Are the individual reduction amounts for each of the JEP recommendations set, or would they vary if only some of the recommendations were adopted?
3. If employers accepted the 20.1% contribution rate, what exactly would this mean for them in terms of risk?
4. Do you believe members will support contributions at 9.1% of salary or will we see opting out?
5. Are all employers still covered by the same contribution and benefit structure?
6. There's no reference in the JEP report to the length of recovery plan and the change from the 2014 valuation; is this an omission?
7. Has UUK considered tiered contribution rates for employees, as seen in TPS and LGPS?
8. How will UUK consider the various responses to its consultation?
9. Will there be an Equality Impact Assessment on the JEP's recommendations?
10. Would the removal of Test 1 put the scheme in good financial health?
11. Will the JEP work impact on the first cost sharing increase which comes into force in April 2019?
12. Will the JEP Phase Two terms of reference consider the linkage to other higher education pension schemes and comparability between them?

1. What types of support from employers might the USS Trustee require for the backing of any additional risk?

The USS Trustee has not yet presented any view as to the kind of support it might require from employers for the backing of any additional risk. This will likely be part of discussions which will follow the UUK consultation which closes on 30 October.

Trigger contributions may be brought forward as one of the ways of responding to additional risk, however the Joint Expert Panel has recommended that the issue of trigger contributions be considered in Phase 2 of its work. Trigger contributions have previously been consulted on by the USS Trustee, and could fit within the uniform mutual structure under which USS currently operates, unlike some of the other potential options that have been discussed, such as contingent assets and negative pledges.

2. Are the individual reduction amounts for each of the JEP recommendations set, or would they vary if only some of the recommendations were adopted?

The reduction amounts shown for each of the four changes shown on the waterfall chart (slides) would not vary significantly if taken in isolation, although this depends on the item.

The potential reduction of 3.9% in deficit recovery contributions is accurate, as is the 0.1% reduction from using updated mortality data. The other two reductions are approximations only, but are not expected to vary significantly if taken separately.

3. If employers accepted the 20.1% contribution rate, what exactly would this mean for them in terms of risk?

This is a difficult question to answer in absolute terms. However, it may be helpful to consider the 'incremental risk', that is, the change in risk that would occur if the JEP recommendations were adopted instead of cost sharing (Rule 76.4).

The JEP report essentially says that employers and members would need to pay £1.3 billion less over the next three years if JEP recommendations were adopted instead of cost sharing. The risk is that this £1.3 billion would need to be paid in the future if the assumptions made in the JEP recommendations do not materialise. For context, if this amount was recovered over a period of 17 years (a similar length to the current recovery plan) it would equate to around an extra contribution of 1% of salary.

4. Do you believe members will support contributions at 9.1% of salary or will we see opting out?

Scheme members are currently being consulted about the USS Trustee's cost sharing process, where contributions are proposed to rise to 11.7% from April 2020. The consultation results may reveal members' attitudes to increased contributions, including whether they believe there would still be value in making contributions to, and therefore continuing in membership of, USS. We would always emphasise that members should think extremely carefully before considering opting-out of USS at any time.

5. Are all employers still covered by the same contribution and benefit structure?

Yes they are. The scheme rules and provisions are built on the mutual structure in which there is a common contribution rate and benefit structure for employers and members.

6. There's no reference in the JEP report to length of recovery plan and the change from the 2014 valuation; is this an omission?

It is true that the JEP report doesn't go as far as outlining the structure of a recovery plan, but only states that deficit recovery contributions could move from 6% to 2.1% of salary.

While the Trustee has formally consulted on the technical provisions, it has not yet formally consulted on the recovery plan, which it has confirmed is likely to take place around the end of 2018, or in early 2019. The form of the recovery plan proposed by the trustee, in terms of required contributions and duration etc., will be known thereafter.

7. Has UUK considered tiered contribution rates for employees, as seen in TPS and LGPS?

UUK has thought about tiered contribution rates at various points in the past, since they are embedded in many public service schemes. In many cases these tiered rates were initially put forward (and justified) at a time when these schemes were still operating as final salary. (USS is now a CARE-type scheme, and has a salary threshold beyond which only defined contribution benefits are built up).

UUK would be prepared to explore this further if employers thought it was worth including as a potential measure in benefit reforms, but there would need to be clarity over the objective, which would also need to be justified particularly if a redistribution of member contributions would result.

8. How will UUK consider the various responses to the consultation?

UUK welcomes as many responses as possible to its consultation, to enable the best consensus view to be drawn. The UUK Board will consider all views expressed and will consider a number of factors. They will consider the responses in terms of the absolute number of employers and on a weighted basis by USS membership, among other things.

9. Will there be an Equality Impact Assessment (EIA) on the JEP's recommendations?

An EIA on the JEP's recommendations would only take place if they – that is the outcome in terms of changes to contributions and/or benefits – were formally adopted as a decision of the Joint Negotiating Committee. If this was to occur, there would first be a legal assessment by the Trustee of the proposed changes; and only then would the duty fall on employers to carry out an EIA (usually alongside a formal consultation on any listed pension changes).

10. Would the removal of Test 1 put the scheme in good financial health?

Employers should note the Joint Expert Panel considered Test 1 very carefully in the first phase of its work. The Panel concluded that the outputs of Test 1, while very specific and quantitative, are highly sensitive to the input assumptions, many of which are very subjective. They believe that Test 1 is given too much weight in determining the valuation, however they did not recommend its removal as part of the 2017 valuation.

The health of the scheme in the absence of Test 1 would very much depend on what it is replaced with, and the JEP plans to investigate this further in Phase 2.

11. Will the JEP work impact on the first cost sharing increase which comes into force in April 2019?

It is difficult to envisage the JEP recommendations being adopted in time to avoid the first of the proposed cost sharing increases to contributions. Any changes to USS require considerable lead in time; a 60-day consultation with members will be required on any agreed listed changes to the scheme, and also on the recovery plan and schedule of contributions.

To give context, the current consultation on cost sharing began on 3 September, and on the timescale for that process the trustee expects the 2017 valuation to be completed by February 2019. It is therefore unlikely that any new agreement (yet to be agreed) could be consulted on and implemented in time to avoid the April 2019 increase, but much will depend on how events unfold.

12. Will the JEP Phase Two terms of reference consider the linkage to other higher education pension schemes and comparability between them?

The terms of reference for the JEP do refer to comparability between USS and other public service pension schemes (and TPS in particular). Phase Two is yet to be fully defined, but it is likely that the panel would want to investigate developments in other related schemes in higher education before making any long-term conclusions.