

USSEmployers

RESPONSE FORM

A consultation by Universities UK with employers on the indicative outcomes of the valuation

CLOSING DATE: 24 MAY 2021

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

MAKING YOUR RESPONSE TO THE CONSULTATION

We welcome responses to this consultation from each and every one of the scheme's participating employers.

We are keen to have the widest possible range of views and perspectives ahead of the next steps of the 2020 valuation.

Through this consultation we are formally seeking views and direction from employers on some key questions, particularly on:

- Covenant support measures
- Contributions
- Future benefit structures
- Addressing the high opt-out rate and flexibilities
- Governance
- UUK's Alternative Approach

This template form is optional and can be used for the response from your institution, you may also want to feedback this information another way.

With these views, UUK can then progress the negotiations with the University and College Union (UCU) within the Joint Negotiating Committee (JNC).

Please send the response from your institution to pensions@universitiesuk.ac.uk by 5pm Monday 24 May 2021.

COVENANT SUPPORT MEASURES

1. Would you be willing to support the alternative covenant support package which UUK has outlined in section 3, as the means to achieve a solution which might be acceptable in the round (see also question 15)?

We would be willing to support the alternative covenant support package.

For context to this return, the University is of the opinion that the 31st March valuation 2020 undertaken by the trustees was the wrong approach in light of the COVID pandemic and associated economic conditions. This view was raised then by many in the sector who have much higher membership numbers than us, we have less than 40 staff eligible for the scheme. The added worry this approach has caused for these members along with the impact of COVID on their work and personal life could have been avoided if the trustees had listened.

Clearly this action has the potential to cause further disruption to staff and students in the form of industrial action within the sector. We note that the responses from the Trustees to issues raised regarding this by UUK, AON, UCU outlining the further concern to staff and us as employers, and would urge UUK to continue to raise this concern with USS.

COVENANT SUPPORT MEASURES

2. If the USS Trustee is not willing to accept UUK's alternative proposal (should there be employer support for it), would you be willing to support the USS Trustee's scenario 3 covenant support package to obtain a 'strong' covenant rating? If not, why is this and what level of covenant support would you be willing to provide?

If required to maintain the scheme in an affordable way for members and employers for future generations and keep the defined benefit at a significantly appropriate level. An appropriate revision by the trustees to the valuation should run parallel to scenario 3 employer covenant that seeks to maintain the existing arrangements.

COVENANT SUPPORT MEASURES

3. Are there areas of the covenant support measures which cause you particular concern, or which you would wish to see modified? Please provide details.

No

COVENANT SUPPORT MEASURES

4. Are there other areas of covenant support you would wish to consider such as contingent contributions or asset pledges?

No Contingent contributions in the form of cash contributions where payment would depend on the occurrence of some pre-determined future event, the risk being uncertainty of future events.

With asset pledges consent would be required to transfer asset(s) to the lender to secure the debt. We are not in favour of either.

CONTRIBUTIONS

5. Do you agree that the current levels of employer contribution (21.1% of salary) and member contribution (9.6%) are the maximum sustainable – and should be the foundation for any solution?

- a. If not, please state the level of employer contribution you would be willing to pay to USS following the 2020 valuation.
- b. We would welcome any commentary on the reasons for your views.
- c. We would also welcome employer views on the level of member contribution.

No we would be prepared to pay the rates from the 2018 valuation employer 23.7% member 11%.
We pay similar rates for TPS which is the main academic scheme at the University

This rate is not significantly different to similar schemes.

BENEFITS

6. Do you support the broad principle of seeking to retain the hybrid benefit structure?

Yes. The defined benefit element provides more confidence for retirement planning and does not exacerbate further the intergenerational differences.

BENEFITS

7. Looking at the illustrative hybrid benefits which UUK has put forward, would you consider this an acceptable outcome in terms of benefits at this valuation – based on the positions on covenant support and contributions laid out?

We would prefer the existing schedule of contribution from the 2018 valuation coupled with agreed reasonable covenant support measures to remain. This is dependent on the Trustees being less risk averse with their actuarial assumptions. The AON report reflects this. As part of the overall package we have for staff we want the pension scheme to be valued by current members and future members and to see no significant withdrawal from the scheme by colleagues.

BENEFITS

8. If the illustrated hybrid would not be acceptable, what alternative benefit arrangements would you wish to provide (and please indicate alternative positions on covenant and contributions as appropriate)?

(For example, if the USS Trustee does not ultimately amend its assumptions, would you wish to offer a hybrid solution as set out in the USS Trustee's illustrations (p18 of the Update Report) or would you prefer to move to a different offering, such as DC provision?)

Please see question 1 and the concerns raised over the timing of the valuation. Equity market conditions are already beginning to change and move in a more favourable direction from March 20 although we acknowledge the volatility that remains due to the pandemic and the uncertainties in the HE sector. USS is a long term scheme and this should be reflected in viewing the investment perspective over a longer period of time.

The use of Index Linked Gilts as a key determinant of the valuation is problematic. Schroders cited in March 20 that the 20-year duration UK gilt yields collapsed to a new all-time low of 0.5% on 9 March 2020. *If that wasn't bad enough, the market is holding out little prospect of yields rising much, even over very long time horizons. The 20-year duration yield is priced to be only 0.7% in 10 years time.*

Ideally the USS Trustee in factoring in the above points on post valuation market conditions should adopt assumptions that retains the existing benefit structure within the long term contribution structure currently in place (34.7%). We are willing to honour the existing contracted Schedule of Contributions and put in place covenant support measures (USS Trustee's Scenario 3 modified to incorporate UUK's longer moratorium period on employer exits) to enable the USS Trustee to adopt the necessary actuarial assumptions to achieve a sufficiently valuable outcome for our staff.

BENEFITS

9. Would you wish to explore conditional indexation or other conditional benefit models as a possible solution (likely longer-term, beyond the 2020 valuation)?

Yes

FLEXIBILITIES AND OPTIONS

10. Would you like to see flexibilities implemented for members to move away from the current uniformity of the USS structure, and if so which flexibilities do you think are particularly important?

Yes serious consideration should be given to moving away from the uniformity and replicating all pension schemes in and outside the sector. Key to any consideration is maintaining members and ensuring inter-generational fairness. The importance of the defined benefit scheme element remains particularly important to the offering especially when USS is not the main academic pension scheme here. The ability to recruit staff currently in the scheme from other universities is important to the strategic direction of the University. Equally with a small membership a significant amount of opt outs due to the valuation is a risk to us.

FLEXIBILITIES AND OPTIONS

11. Would you support the creation of a lower cost saving option for members and which of the parameters described in this paper are most important / or would need modification?

(If yes, we would welcome employer views on the options to achieve this (potentially informed via engagement with eligible USS employees).)

Tiered contributions should be considered as a means to maintain the hybrid pension. Obviously this needs to be affordable for all parties and sustain the DB element to the scheme. TPS has a 4% range in contributions from lower paid staff to higher earners. Lower contributions for junior staff will potential encourage new members and retain others.

Other modelling put forward would be welcomed if it provided a tailored menu of choice for members to consider for example between splits on DB and DC and impact on member contributions.

FLEXIBILITIES AND OPTIONS

12. Would you support the creation of an option for members to switch (from the hybrid structure) to wholly DC pension saving?

(We invite employer views on whether the same deficit recovery contribution should be made for members choosing any new flexible DC alternative option, and what levels of member and employer contributions devoted to DC pensions saving should apply).

We would offer tentative support and would need to see more details. We accept that some members may find this a suitable option within a range of other flexible approaches that should be offered.

FLEXIBILITIES AND OPTIONS

13. Would you wish to explore options for employers so that they can offer some variations to the USS standard benefits in the future – and if so, what would those variations be?

No

GOVERNANCE

14. We would welcome views from employers in relation to the governance of the scheme and the valuation process (including views on the Joint Negotiating Committee). Specifically, would you support a post valuation governance review, and what areas what you like to see covered in such a review?

We do have reservations as to the effectiveness of the governance arrangements. There are clear issues suggesting something is wrong. Member satisfaction continues to fall less than a quarter of members (24 per cent) said they had a “good” or “very good” relationship with the UK’s largest pension scheme. This has been a sharp drop since 2017 onward.

Consideration for a more balanced trustee arrangement that has more individuals from within the sector being representative should be considered.

We note from JEP 2 *there is a widespread view that the Trustee is too distant from the Stakeholders and in the Panel's view this has contributed to a decline in levels of trust. The Trustee Directors must be more visible to the Stakeholders and JNC through more regular and direct engagement. It would be desirable for the Trustee to establish a funding and valuation sub-committee which could also work with JNC representatives in a joint valuation forum and to undertake engagement with Stakeholders*

UUK ALTERNATIVE APPROACH

15. As part of a solution to the 2020 USS valuation would you support the alternative covenant support package illustrated by UUK (*headlines – moratorium of a minimum of 20-years with debt-monitoring and a pari-passu arrangement for secured borrowing above c15% of gross/net assets*), to provide a hybrid benefits package at current contribution rates in the order of (*pension accrual of 1/85 of salary [plus 3 times lump sum] up to a salary threshold of £40,000 with the CPI indexation of benefits [for active, deferred and pensioner members] capped at 2.5% per annum, and with DC above the salary threshold at an overall contribution of 20% of salary*), together with a lower cost alternative to address the high opt-out rate, as well as a governance review of the scheme and valuation process?

We would like to see this recommendation implemented in any review.

We are mindful that UUK must explore various options due to the position they find themselves in. We therefore believe that alternative reforms to the scheme such as conditional indexation should be explored.

However the preference as highlighted above is to find a solution that maintains the benefits structure as outlined in the 2018 valuation.

Please send your completed form to: pensions@universitiesuk.ac.uk by Monday 24 May 2021

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

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