

USSEmployers

RESPONSE FORM

THE USS 2020 VALUATION

A short consultation by Universities UK on potential modifications to the indicative outcome to the 2020 valuation

Closing date: 5 July 2021

MAKING YOUR RESPONSE TO THE CONSULTATION

Responses should be provided on behalf of the employer, and the involvement of governing body and/or leadership body is encouraged.

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

Of the two options below (Option A or Option B), which would be your preference? Please mark 'X' in the relevant box.

OPTION A PREFERENCE

Accept the USS Trustee's counter proposal and provide backing for the modified outcome (including the 10% threshold for pari-passu security, and no gap between the ending of the current short-term moratorium and the commencement of the rolling 20-year moratorium) and continue discussions with the USS Trustee to find a way that the 0.5% difference can be bridged in a way which might be acceptable.

Over the weeks ahead we would engage further with the USS Trustee, employers and UCU on the options to address the additional 0.5% in contributions. This could for example involve further adjustments to the USS Trustee's assumptions, adjustments to the proposed benefits package, accept higher contributions or changes to the plan for implementation. Given the need for further exploration, it is too early to specify the particular approach at this stage.

OPTION B PREFERENCE

Oppose the counter proposal from the USS Trustee as the covenant support package proposed (see letter from USS Trustee dated 3 June 2021) is not acceptable, and prepare alternative approaches.

If option B is your preference, this will involve consideration of the options set out in section 3(B) above, or paying the required additional contributions of c4% (split 65% employer and 35% employee).

We would be grateful if you would set out your preferred feasible alternative that could commend majority employer support and acceptance by the USS Trustee. Please do this in box 1 below:

1. If option B is preferred, please set out any feasible alternative that could commend majority employer support and acceptance by the USS Trustee.

2. Please write any other comments in the box below.

The University Court has debated this fully, and whilst we submit a preference for Option A, we do this simply on the basis that it is the least worst of the two options presented. The University Court has significant concerns regarding the ongoing viability of the USS scheme and these are set out below.

Firstly, we do not consider that the underlying funding issues have been addressed, but simply we are postponing the time when the scheme needs fundamental reform. Any scheme with Defined Benefits (DB) has an inherent risk of underfunding and the situation of large and increasing deficits in DB schemes is not unique to USS. The vast majority of private sector DB schemes have been closed down for this reason.

It is fundamentally unfair that new members are funding deficits built up before they joined the scheme and that potential new members have no option other than to join the USS scheme or opt out with no employer funded pension. We would urge that discussion on reform is commenced now and that the sector should not wait until the next triennial valuation, as this is unlikely to be a short, nor easy task.

At the heart of any reform will be affordability for both employers and members and particularly for early career members who are discouraged on the basis of cost and inflexibility of the scheme. Uncertainty over contributions for the employer destabilises our financial position, which weakens the covenant and drives even higher contributions – a negative cycle that is hard to break. We also recognise the need for flexibility in contributions, particularly for those who are early in their careers, to pay less in the early years of membership and to recognise that the workforce will be more mobile in the future. Finally, we endorse the stance of the sector that the governance of USS needs to be thoroughly reviewed.

In summary, we believe that fundamental reform of the USS scheme is urgently required. The options for such reform need to be explored and communicated with all stakeholders in order to find a solution which is fair, affordable and sustainable. This review needs to begin immediately.

Our support of Option A is conditional on the issues raised above being addressed in advance of the next valuation.

With reference to Option A we would make the following observations:

- University Governors are being placed in a difficult position in supporting covenant measures which support the sector as a whole but may not be directly in the best interests of the University
- There should be some, perhaps lower level, check for those Universities which fall below the threshold. Otherwise they effectively are unregulated and if in financial trouble, those that provide the Covenant will effectively make up this shortfall
- The Scottish and English funding and regulatory frameworks are different, impacting on debt:asset ratios, and this should be reflected in the proposed mechanisms. We note that Scottish Institutions are required to seek formal consent from SFC to undertake a level of capital finance where annualised costs would exceed 4% of total annual income.
- Has consideration been given as to how third party funders will react to this new framework?
- If some Universities have taken up some of the Covid Debt options, that funding is effectively guaranteed by the UK Government, does that mean it would be excluded and that such universities have an advantaged position under the framework compared to those Universities who have resisted taking on such leverage?
- The framework proposal suggests that additional covenant support decisions will be taken on an individual University basis in the future. Is not the aggregate position of those Universities the important measure, as there will undoubtedly be compensating movements elsewhere in the group of covenant providing Universities? Adjustments should only be implemented if the overall covenant becomes weaker, and not when an individual component or one University has a weaker covenant
- Finally, if additional security is ever granted to USS, there needs to be a guaranteed process for prompt security release.

PLEASE CONFIRM IF YOUR ORGANISATION'S GOVERNING BODY HAS BEEN CONSULTED:

Yes - this was discussed at the University Court on 29 June 2021 and further circulated to Court members before submission.

RESPONSE SUBMITTED BY:

NAME: David Beattie

POSITION: Director of Finance

ON BEHALF OF:

INSTITUTION: The University of Aberdeen

Please send your completed form to: pensions@universitiesuk.ac.uk by Monday 5 July 2021

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

USSEmployers

Website: www.ussemployers.org.uk

Email: pensions@universitiesuk.ac.uk

Twitter: @USSEmployers