

USSEmployers

RESPONSE FORM

**A CONSULTATION
ON THE USS TRUSTEE'S
PROPOSED ASSUMPTIONS FOR
THE SCHEME'S TECHNICAL
PROVISIONS IN RELATION TO THE
2023 VALUATION**

CLOSING DATE: 22 SEPTEMBER 2023

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

MAKING YOUR RESPONSE TO THE CONSULTATION ON THE USS TRUSTEE'S PROPOSED ASSUMPTIONS FOR THE SCHEME'S TECHNICAL PROVISIONS

The USS Trustee is undertaking a valuation of USS as at 31 March 2023, and on 19 July 2023 the Trustee published its consultation on the scheme's technical provisions and on the draft Statement of Funding Principles (SFP).

Firstly, USS sponsoring employers are invited to give feedback on the technical provisions and the underlying assumptions which are proposed to be adopted by the USS Trustee, and the SFP.

As a reminder, the USS trustee has invited feedback on its eight core consultation elements:

1. Proposed discount rates, both for the purposes of valuing Technical Provisions and determining future service contributions.
2. Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions).
3. Any other aspect of the assumptions and methodology underlying the Technical Provisions.
4. Any other matter included in the Statement of Funding Principles. Whether employers are willing to agree to debt monitoring and *pari passu* arrangements and the long-term rule change required to support a strong covenant.

In addition, comments are welcomed on:

5. The Trustee's overall assessment of employer covenant, including assumptions made about the level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity.
6. The assumed Valuation Investment Strategy (VIS) and strategic mix of return-seeking assets and matching assets.
(Note that more extensive engagement with employers on the investment strategy will take place in the later stages of the valuation process.)
7. The balance and trade-offs between investment risk, the degree of prudence and stability (of benefits, contributions, and funding levels), both at this valuation and looking ahead.
8. Any other aspect of this consultation.

Secondly, Universities UK (UUK) has set out a broader plan for the development, and reform, of USS and invites USS sponsoring employers' views on the plan.

The consultation questions for USS sponsoring employers are shown below.

- A. Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

[It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found above (and are taken from page six of the USS consultation document).]

- B. On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

[The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

- C. Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?
- D. More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

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

We encourage employers to consult with their own decision-making bodies as considered appropriate, so that the responses provided can be considered to be the view of the employer. We ask that employers confirm whether the organisation's decision-making body has been consulted.

This template form is optional and can be used for the response from your institution (or alternatively please use the above structure in forming your responses where possible).

Please send the response from your institution to pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on Friday 22 September 2023.

THE USS TRUSTEE'S EIGHT QUESTIONS

Please set out your comments and views on the USS Trustee's eight questions as set out on page two (and on page six of the USS consultation document)

Proposed discount rates.

We believe that the proposed discount rates are satisfactory, given the strength of the sector's covenant. The application of the dual discount rate rightly remains in place and the lower gilt rate for non-pensioners is broadly in line with our expectations. Overall, the slight reduction in the level of prudence [to similar levels as the 2017/18 valuation] appears appropriate.

Other assumptions

No specific comments – the rationale underpinning the assumptions appears reasonable.

The Trustee's overall assessment of employer covenant.

The Trustee has provided an illustrative example of potential impact on the contribution rate if the employer support measures are not renewed in full. Given the potential impact of removing certain financial support measures (e.g. pari passu on unsecured debt) on contribution rates we would support the continuation of the current covenant support measures.

The balance and trade-offs between investment risk, the degree of prudence and stability.

See above response – we believe the slight reduction in prudence is appropriate to the current circumstances.

ASSUMPTIONS FOR THE TECHNICAL PROVISIONS

- A.** Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

[It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found on page six of the USS consultation document.]

Proposed discount rates

We believe that the proposed discount rates are satisfactory, given the strength of the sector's covenant. The application of the dual discount rate rightly remains in place and the lower gilt rate for non-pensioners is broadly in line with our expectations. Overall, the slight reduction in the level of prudence [to similar levels as the 2017/18 valuation] appears appropriate.

Other assumptions

No specific comments – the rationale underpinning the assumptions appears reasonable.

2023 VALUATION OBJECTIVES

- B.** On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

[The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

We are broadly supportive of the overall objectives as set out in the document.

We are keen to ensure that the financial position of USS remains stable, and it is vital that the Scheme avoids large movements at future valuations. This is key from an employer perspective, and we believe will also be a key issue from an employee perspective. Avoidance of large swings at valuations should permit for stable contribution rates allowing employers a firmer platform upon which to build their own financial plans. We also believe that improving benefits for members should be a priority.

Whilst acknowledging the potential conflict of outcomes (vis-à-vis future valuations), at a time of relative financial difficulty for the sector and for individuals, we would welcome a reduction in contribution rates. We would hope that any changes made in contribution rates are sustainable.

We support the continuation of the 65:35 ratio of employer to member contributions.

We believe proposals for governance reform should be urgently developed and jointly enacted by UUK and UCU to ensure that USS is more accountable and transparent.

We remain fully supportive of the continuation of an open defined benefit scheme, however we also remain concerned about the numbers of staff still deciding to opt out of USS. We therefore remain supportive of the exploration of alternative scheme designs for USS, including a low cost option and an evaluation on the impact of conditional indexation.

APPROACH SET OUT IN THE JOINT STATEMENTS

- C. Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?

We would strongly support the restoration of benefits to pre April 2022 levels from April 2024, but do not believe it would be fair or reasonable in the context of such a significant surplus to ask members to contribute over and above what is needed to deliver the required benefits.

However, this should be balanced with the need to ensure longer term stability given a potentially volatile financial climate. We would seek assurance that any reduction in contributions is sustainable and would welcome further information of plans to mitigate future risks. We support the aims of the JNC working group that has been established to consider long-term stability and think a measured approach is needed to ensure that restoration of member benefits to previous levels are sustainable.

Given the level of surplus, we would also support some augmentation of benefits to recognise the impact of the reduction in benefits from April 2022. We are mindful of the need to retain the surplus for future stability and any decisions should be made in consideration of the risk to future funding levels.

We note and support the UUK/UCU joint statement which confirmed there was a commitment to “explore the options and costs of augmenting benefits in recognition of the lower benefits accrued between April 2022 and April 2024, within the 2023 valuation timetable”.

UUK MANDATE

- D.** More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

Yes

PLEASE CONFIRM IF YOUR ORGANISATION'S DECISION-MAKING BODY HAS BEEN CONSULTED:

Yes – Our Council has had sight of this response.

RESPONSE SUBMITTED BY:

NAME

Joanne Race

POSITION

Director of Human Resources & Organisation Development

ON BEHALF OF:

INSTITUTION

Durham University

Please send your completed form to:

**pensions@universitiesuk.ac.uk as soon as possible and
no later than 5pm on 22 September 2023**

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

USSEmployers

W www.ussemployers.org.uk

E pensions@universitiesuk.ac.uk

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Durham University Consultation Response – Addendum including comments from Durham UCU

Durham UCU branch members collectively decided and voted to adopt the following set of priorities for the 2023 USS valuation:

- Priority 1: Full restoration of future benefits accrual to pre-2022 levels.
- Priority 2: Compensation to recover lost benefits from 1 April 2022 to 31 March 2024, for example from part of the surplus or overpayments between March 2023 and March 2024.
- Priority 3: Ensure that contribution rates from April 2024 are demonstrably sustainable. Reduced costs to members are welcomed, but only if done so in a way so that we can avoid further threats to reduce benefits and cycles of disputes. This may involve reducing contributions to around 25%-26% (employees 7.5%-8.0%, employers 17.5%-18.0%).
- Priority 4: That consideration is given to reducing contributions before 1 April 2024 if, and only if, priorities 1, 2 and 3 are first agreed and secured.