USSEmployers

RESPONSE FORM

A CONSULTATION

ON THE USS TRUSTEE'S PROPOSED METHODOLOGY AND ASSUMPTIONS FOR THE SCHEME'S TECHNICAL PROVISIONS IN RELATION TO THE 2020VALUATION

CLOSING DATE: 30 OCTOBER 2020

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

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

The USS Trustee is undertaking a valuation of USS as at 31 March 2020, and on 7 September 2020 the trustee published its consultation on the scheme's technical provisions.

USS sponsoring employers are invited to give feedback on the proposed approach, assumptions and conclusions. In other words, on the inputs and outputs of the assessment and the methodology. In particular, the USS trustee invite feedback on:

1. The inputs and assumptions
2. The methodology (this was the primary focus of the March 2020 Discussion Document)
3. The risk management framework
4. The figures for the Technical Provisions
5. 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.
6. Whether employers have any further feedback on the possibility of additional contingent support
7. The level of financial support employers are collectively able to give the Scheme, and their *affordable* risk capacity (and risk appetite, if different), specifically:
    a. the percentage of payroll available (USS assume 10%)
    b. the length of time over which that is available (USS assume 20 years under a tending-to-strong covenant, and 30 years under a strong covenant)
    c. the cost of future pension provision to employers acceptable to the sector in an adverse scenario (USS assume 15% of payroll. This is on top of the 10% of payroll available for deficit recovery contributions. This gives a total rate of employer contributions of 25% of payroll)
    d. the growth of the sector payroll over the longer term (CPI+2% has been used by USS before, but they have shown alternatives)
8. How USS should determine employers' collective risk appetite, and any alternatives if you don't think the approach based on *affordable* risk capacity is reasonable

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 governing, decision-making bodies so that the responses provided can be considered to be the view of the employer. We ask that employers confirm whether the organisation's governing body has been consulted.

This template form is optional and can be used for the response from your institution.

Please send the response from your institution to pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on Friday 30 October 2020.

INPUTS AND ASSUMPTIONS

1. What are your views on the inputs and assumptions proposed by the USS Trustee for this valuation?

It is not clear to us why a move from a 67th percentile (as used in the 2018 valuation) to a 78th percentile approach is being proposed as that seems a lot of additional prudence. It should not reflect a movement in market conditions as those are adjusted for in the assumptions about returns on investments. If it is meant to reflect a change in the covenant strength, then we have given more detail on our views on the proposed covenant strengthening measures in our response to question 5.

We understand from Aon's analysis that a rate pre-retirement discount rate of Gilts + 4% would still be consistent with the JEP range, with Gilts + 3.5% consistent with the middle end of the JEP range. We would encourage the Trustee to consider these type of levels for the pre-retirement discount rate.

VALUATION METHODOLOGY

2. Do you have any comments on the proposed valuation methodology, which was the primary focus of the March 2020 discussion document?

We generally support the move to the Dual Discount Methodology.

We are also generally supportive of maintaining an investment strategy that continues to have a relatively high exposure to equities and reflects the maturity of the scheme, rather than looking to start de-risking the investment strategy significantly. However, transparency around the risk that is being carried based on the stochastic modelling undertaken by USS would be appreciated.

RISK MANAGEMENT FRAMEWORK

3. Do you have any comments on the Trustee’s proposed risk management framework?

We need clarity on how metrics will be used and applied before we are able to provide a meaningful response to this question.

TECHNICAL PROVISIONS

4. Do you have any comments on the proposed figures for the scheme’s technical provisions?

The spread of contributions so wide that it is difficult to form a view. Clearly the contribution rates are at the upper end are unaffordable for both members and employers and we are pleased to see the Trustee acknowledge this.   Whilst we recognise that the Trustee is not including the recovery plan in this consultation, we would wish to see the Trustee adopt a longer recovery plan than starting at the end point of the previous recovery plan.

The covenant strength of the higher education sector must be taken into account. The current situation demonstrates the sectors resilience to economic downturns.

COVENANT SUPPORTING MEASURES

5. Are you willing to agree to debt monitoring and pari passu arrangements and the long-term rule change required to support a strong covenant?

We would be agreeable to in principle to some form of debt monitoring and also potentially to a rule change related to the time over which we are prepared to commit paying contributions to the scheme. Our intention is to support USS and remain in the scheme for the long-term. That said, we could only agree to a rule change if we were sure that a holistic approach was being taken and that this long-term commitment was in turn reflected in a longer deficit recovery period (minimum recovery period) and agreement that the covenant remained strong.

In order to get buy-in for these measures we think it is very important for USS to demonstrate the value of the covenant support measures, for example, the impact on the price of future pensions rather than the wide range of options currently being presented.

ADDITIONAL CONTINGENT SUPPORT

6. Do you have any further feedback on the possibility of additional contingent support?

We are at the limits of what we consider to be affordable and whether the contributions are paid into a contingent support scheme rather than the pension scheme directly does nothing to reduce this. We would need to see clear proposals as to how this might work, but we are sceptical about the value that contingent support might bring. Our view is that the current rule that enables the Trustee to impose contribution increases should be sufficient. There could be some merit in exploring contingent elements of benefit design.

FINANCIAL SUPPORT

7a. What percentage of payroll would you have available as financial support for the scheme (USS assume 10%)?

This is very difficult to answer in isolation of other factors. We already feel we are at the limit of affordability.

FINANCIAL SUPPORT

7b. What period of time would your financial support be available (USS assume 20 years under a tending-to-strong covenant, and 30 years under a strong covenant)?

We take a long-term view and could make this available for up to 30 years in line with a strong covenant assumption.

FINANCIAL SUPPORT

7c. What cost of future pension provision would be acceptable to you in an adverse scenario? (USS assume 15% of payroll. This is on top of the 10% of payroll available for deficit recovery contributions. This gives a total rate of employer contributions of 25% of payroll).

As noted above, we feel we are already at the limits of affordability. We accept that on a short-term, extremis basis, additional amounts might be required.

FINANCIAL SUPPORT

7d. What do you expect your future growth of payroll to be over the longer term? (CPI+2% has been used by USS before, but they have shown alternatives).

We focus on a total remuneration approach. Although CPI+2% is in line with the increases we have seen in the last couple of years, it looks on the high side if we were required to make employer contributions at the level suggested here under the adverse scenario.

RISK APPETITE

8. How should USS determine employers' collective risk appetite, and do you recommend any alternatives if you don't think the approach based on affordable risk capacity is reasonable?

We think about this holistically, meaning that once it has been agreed how much is required by way of deficit contribution, we then look to see what can be afforded by way of benefits in return for the maximum employer contribution we can afford even in the most adverse scenarios. The higher the pension contribution, the less there is available for general salary increases.

We commented earlier about our concerns over the fact that self-sufficiency was continuing to play a prominent role in metrics. You note yourselves that any move to self-sufficiency would only be contemplated in extreme scenarios. To maintain intergenerational fairness we believe it is important to adopt a long time horizon and aim for stability in contribution levels by smoothing results along the lines suggested by JEP.

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

RESPONSE SUBMITTED BY:

NAME

POSITION

ON BEHALF OF:

INSTITUTION

Please send your completed form to:
pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on 30 October 2020

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

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