

## Lisa Harley

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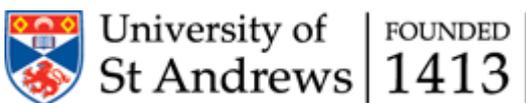
**From:** VP Governance  
**Sent:** 29 May 2019 13:47  
**To:** pensions@universitiesuk.ac.uk  
**Subject:** Re: USS 2018 actuarial valuation - consultation with USS employers on the options now presented by the USS Trustee to conclude the 2018 valuation

Dear Stuart,

I'm writing to confirm that, following discussion at Court's Planning and Resources Committee, the University of St Andrews supports accepting Option 3 as the basis for concluding the 2018 valuation. In doing so, I must record our reservations about accepting the additional conditions proposed by the Trustee on debt monitoring and adjustments to scheme rules – further detail and analysis of their implications will be necessary before we can consider whether these would be acceptable. Option 3 is only a short term solution, however, with a further valuation required in 2020. This reinforces the importance of the next JEP report finding an approach that provides for longer term stability in the management and funding of the USS scheme.

Kind regards,

Alastair



**Alastair Merrill**  
**Vice-Principal, Governance**

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**From:** Stuart McLean

**Sent:** 09 May 2019 09:45:12 (UTC+00:00) Dublin, Edinburgh, Lisbon, London

**Subject:** {Disarmed} USS 2018 actuarial valuation - consultation with USS employers on the options now presented by the USS Trustee to conclude the 2018 valuation

**To Vice-Chancellors, Principals and Chief Executive contacts**

Dear Colleague,

**USS 2018 actuarial valuation - consultation with USS employers on the options now presented by the USS Trustee to conclude the 2018 valuation**

Further to my email of 12 April, the USS Trustee has now formally responded to the UUK consultation response in relation to the USS 2018 actuarial valuation consultation on technical provisions.

In short, the USS Board agreed three alternative contribution structures by which the 2018 valuation could be completed and which it is now inviting stakeholders to consider.

As such, UUK is engaging with USS employers once again to establish which of the three options is preferred.

Options

The options now available to employers (including a new option 3) are summarised below, but you are encouraged to carefully consider the attached papers from USS, which set out the rationale and conditions associated with each option:

1. Upper bookend – 33.7% (23% for employers and 10.7% employees) to apply from April 2020.
2. Lower bookend and a modified (from the UUK/Aon proposal) contingent contributions arrangement - initially contributions set at 29.7% (20.4% employer, 9.3% employee), but with three potential 2% contribution increases should the scheme funding deteriorate, potentially taking the required rate to a maximum of 35.7%. For the avoidance of doubt, this contingent contribution arrangement is a much firmer version proposed by the USS trustee, the details of which is set out in the attached USS note, and is not the version UUK/Aon proposed.
3. An initial contribution rate of 30.7% (21.1% for employers and 9.6% employees) to apply from October 2019. A 2020 valuation would be undertaken and, subject to that and ongoing discussions between stakeholders, the contribution rate would remain unchanged until 1 October 2021. In event of there being no agreement on an alternative Schedule of Contributions following the 2020 valuation, a default rate of 34.7% would apply.

Please note that for options 2 and 3, the Board concluded that satisfactory implementation of debt monitoring and rule changes relating to exiting employers would be required to maintain a strong covenant rating. Please do provide any comments on the feasibility of these conditions. The precise detail of what these changes are and how these arrangements will operate is still being considered by the USS trustee with the high-level terms set out in the enclosed documents. At this stage the trustee is looking for an “in principle” view from employers to work with the trustee on these measures to strengthen the employer covenant.

Action for employers

You will see in the documents that USS has asked for feedback from employers (through UUK) on their preferred option ahead of the USS Board meeting on 16 May. UUK appreciates that this is an extremely challenging timeframe for employers to consider the options and arrange discussions with relevant parties within institutions. As such, UUK has agreed with USS **that formal responses should be submitted to UUK by 30 May.**

Nevertheless, it would be extremely helpful for employers to **indicate a preferred option to UUK ahead of 16 May** as an initial steer to allow conversations to progress with both USS and UCU. Timely discussions are required to allow a solution to the 2018 valuation to be agreed ahead of the planned 32.9% October 2019 increases (22.5% employer and 10.4% employee) coming into effect.

Please carefully consider the USS consultation material attached, together with the material previously provided, and respond to the consultation on behalf of your institution to [pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk).

Employers are asked to provide responses which represent the view of the institution. Whilst we recognise that this is a challenging timescale, employers are encouraged to engage with their governing bodies in framing their responses.

### Documents

We have asked Aon, UUK's actuarial advisers, to provide a short note on the considerations for each of the options above, which we hope to provide to employers in the next few days.

USS has set out in the attached document the Trustee's reply to UUK's feedback and questions on the Consultation on the 2018 Technical Provisions, including why it considers the UUK/Aon contingent contributions proposal to fall short against their framework and principles, their justification for deficit recovery contributions, and why some of the JEP's recommendations fall outside the trustee's risk appetite. While the trustee has the requirement to consult with employers, it does not necessarily have to gain the agreement of employers in relation to the valuation assumptions and technical provisions. Our immediate priority is to conclude the 2018 valuation as best we can for all stakeholders, and to mitigate the higher contribution levels established by the trustee as part of the 2017 valuation, which are scheduled for October this year and then higher still in April 2020 (35.6% with 24.2% employer and 11.4% employee) if no other changes are agreed.

### Joint Expert Panel – phase 2

Employers will be aware that the Joint Expert Panel (JEP) is currently undertaking the second part of its work which looks at the valuation methodology, governance, and options for the long-term sustainability of the scheme; including possible reform options for the 2020 valuation. **There will shortly be a new call for submissions to the second phase of the JEP work** and UUK would strongly encourage employers to share views on these matters with both UUK and the JEP itself, so these comments can be factored in ahead of the next USS valuation.

If you require any further information or have any questions, please contact me at [pensions@universitiesuk.ac.uk](mailto:pensions@universitiesuk.ac.uk).

Best wishes,

Stuart

**Stuart McLean FPMI | Head of Pensions | Universities UK**

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