USSEmployers

Q&A: three options for concluding the 2018 USS valuation – May 2019

On 9 May 2019, the USS Trustee proposed three options for concluding the 2018 valuation.

The following questions and answers address the three options, and other issues relating to the finalisation of the 2018 valuation.

They are intended to be drawn from to assist with any enquiries received locally by employers.

They are not exhaustive. For further assistance in answering questions about the 2018 valuation process, please contact pensions@universitiesuk.ac.uk

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1. What has the USS Trustee proposed and what is new?

The USS Trustee has proposed three potential options to conclude the 2018 valuation. The first option – contributions of 33.7% (known as the upper bookend) – has previously been communicated to employers. The second option includes contributions of 29.7% (the lower bookend), combined with a significantly stronger contingent contribution arrangement than that proposed by UUK (see question 5 for more).

Following consideration of UUK's response to the 2018 valuation consultation, the Trustee has put forward a new, third option, which proposes contributions of 30.7% payable until a 2020 valuation – a year earlier than planned. Should members and employers fail to reach an agreement over how to conclude the 2020 valuation, a default rate of 34.7% would then apply.

2. Why has the USS Trustee refused to implement the full JEP?

The USS Trustee's reasons for not implementing all of the Joint Expert Panel's (JEP) proposals are detailed in their formal response to Universities UK (UUK), which is available on the USS Employers website. In short, although the Trustee has modified a number of assumptions to align with the JEP, not all of the JEP's recommendations fall within the Trustee's risk appetite.

Employers and members should note that the JEP's report maintained 'there are a number of different paths the USS Trustee could adopt to reduce the contribution rate', and that its recommendations were illustrative of one such path.

3. What is the likelihood of further delays to this process, and what is UUK doing about it?

It remains a priority for UUK to ensure that alternative arrangements are in place before the implementation of further contributions increases in October 2019 and April 2020. The timescales are certainly challenging, but if employers and members can decide on a way forward shortly after the next USS Trustee Board meeting on 16 May, then it is possible for the valuation to be completed and submitted before its statutory deadline of June 30.

For this reason, UUK has asked employers for an indication of their preferred way forward by 16 May, to ensure that progress in discussions with both USS and the University and College Union (UCU) can be made at the earliest possible opportunity.

UUK remains committed to seeking a balanced solution that is acceptable to the USS Trustee, the Pensions Regulator, UCU and employers.

4. Can/will the USS Trustee still impose the upper bookend?

In the absence of an agreed alternative arrangement, the USS Trustee may elect to submit a valuation report by the statutory deadline of June 30 based on option 1, with the required level of contributions (33.7%) shared 65:35 between employers and scheme members.

5. What modifications to the UUK/Aon contingent contributions proposal has the Trustee suggested?

To 'strengthen' the proposed arrangement in their view, the USS Trustee has recommended changes to the metrics applied for calibrating trigger events, and the scale of the required increases, were they to be triggered.

Specifically, the UUK/Aon proposal failed to meet the Trustee's principles for 'Alignment' and 'Quantum'. The Trustee has recommended that the stepped increases be 2%, 4%, and 6% (as opposed to 1%, 2%, and 3%), and also specified a requirement for a trigger threshold level of £4 billion, as opposed to £10 billion proposed by UUK/Aon. This significantly increases the likelihood of the contingent contributions being triggered.

6. Why should contributions increases be cost-shared with members?

It is an important principle of the scheme that contribution increases are split 65:35 between employers and scheme members, and UUK believes this principle should be maintained for any contributions increases arising from the 2018 valuation.

It is possible that at future valuations the level of contributions required to fund future benefits could be lower than those arising from the 2018 valuation; having a set cost sharing formula is therefore vital for ensuring that both members and employers benefit from lower contributions, should they come to pass.

7. Why can't employers push for a vote of no confidence in the USS Trustee Board?

The USS Trustee Board includes a majority of members nominated by UCU and UUK alongside experienced independent members with expertise in pensions and finance. Wholesale changes to the composition of the USS Trustee Board would impede the chances of reaching a satisfactory conclusion to the 2018 valuation in time to implement a new arrangement before the higher cost sharing increases due in October 2019 and April 2020. Removal of the USS Trustee Board would also likely lead to intervention from the Pensions Regulator.

Phase 2 of the Joint Expert Panel is currently considering evidence on the governance of the scheme, as well as aspects of the valuation process, and is expected to report in the autumn with recommendations.

8. What are the next steps?

UUK has written to all employers to establish which of the three options proposed by the USS Trustee is preferred. Employers have been asked to give an indication in advance of 16 May so that UUK can relay this to the USS Trustee Board, which is meeting that day, and also to UCU at the Joint Negotiating Committee, which meets the following day (17 May).

Employers are then asked to confirm a fuller, formal response by 30 May.

It will then be vital for employers and members – represented by UUK and UCU at the Joint Negotiating Committee – to agree a way forward quickly, and before the significantly higher cost sharing increases fall due in October 2019.

9. What is the Joint Expert Panel doing now?

The Joint Expert Panel is currently considering evidence to aid the second phase of its work, which is concerned with the valuation methodology and scheme governance.

Through this work, the JEP hopes to identify a long-term, financially sustainable solution to ensure benefits remain attractive and affordable.

The panel expects to report on this phase of its work in the autumn.