Dear Colleagues,

Further to my email of 13 January, the USS Pension Communications Group has now met and I am now writing to seek your input to the University’s response to the UUK consultation on the second report of the Joint Expert Panel (JEP) of UCU and UUK representatives.

The report (known as JEP2) was published before Christmas and it can be found here, and on the University’s Pensions webpage. It makes a series of interlocking recommendations covering the governance of the Scheme, the valuation methodology and the way forward. Its recommendations are now being considered in a series of tripartite discussions involving UCU, UUK and the USS Trustee, and facilitated by the JEP Chair, Joanne Segars. The reports from these discussions can be found here.

UUK have now launched the first of a series of consultations on the report, seeking employers’ comments and reactions to the overall JEP2 report. This will be followed by further consultations in the spring and summer to develop options for future valuations and the preferred approach to the 2020 valuation and beyond. As with previous consultations, we want to ensure that all scheme members at St Andrews have the opportunity to feed into and shape the University’s response to this exercise.

UUK have provided an analysis of the JEP report, and are seeking comments on the five key themes that it covers.

**Valuation principles.** A key theme of the report is that progress can only be made if trust can be re-established between the parties moving forward. The JEP recommends agreeing a “purpose statement” for the scheme, underpinned by a set of core principles. The proposed purpose statement places the interests of members at the forefront – “To help members achieve a financially secure retirement and to instil trust and confidence in the Scheme, while providing an excellent service to members and employers that supports the long-term needs of the HE sector”. The principles (on page 36 of JEP2) emphasise the importance of working together, mutual respect, communication, and supporting the long-term sustainability of the scheme.

**Valuation governance.** The report highlights a number of issues around scheme governance, in particular the operation of the Joint Negotiating Committee, where deadlock between UUK and UCU members means that decisions are frequently taken through the exercise of the Chair’s casting vote. It calls for improved visibility of the directors on the USS trustee board, questions whether UUK is the most appropriate body to reflect employer interests, and invites UCU to consider how it can represent the views of all scheme members.

**Approaches to valuation.** The report recognises the unique nature of the USS scheme, in terms of its size and the fact that it remains open, which should inform the approach to future valuations. It suggests that a new approach to understanding risk appetite is needed, and examines three alternative paths to the valuation: a higher risk path focusing on growth investments; alterations in in scheme benefits; and a new approach to valuing liabilities through a dual discount rate.
The JEP recognises that the first of these would probably be unacceptable to the Pensions Regulator, and the possibility of reductions in scheme benefits resulting from the second is unlikely to find it much favour. The dual discount approach to valuation, does merit further analysis. This would enable a different (higher) risk approach for scheme members from that for recipients of pensions, and could reduce the degree of volatility in the calculation of scheme deficits. An analysis of the dual discount approach can be found here. The JEP report states that the dual discount approach is used by up to 50% of other Defined Benefit schemes, and further work should explore the impact it has had on stabilising contribution rates in those schemes.

**Taking account of the needs of members.** The JEP report highlights the relatively high level (15%) of opt-outs and raises the questions of tiered member contributions (ie higher paid staff would pay a greater contribution for the same benefits) and flexible options for members (allowing members to pay lower levels of contributions in return for lower benefits). Further analysis is probably merited on these, but care would need to be taken to avoid unintended consequences such as higher earners leaving the scheme, “cliff edges” between different contribution levels and intergenerational unfairness.

**Mutuality.** The JEP report comes down firmly in support of the importance of the collective support from participating employers to the scheme’s structure and design (the “last person standing” concept). It cautions against “sectionalisation”, moving away from the one-size-fits-all approach and allowing different employers to offer different contribution rates and benefits packages. The University has in the past strongly supported the continuing mutual status of the USS scheme.

UUK have asked for the University’s views on these issues by 28 February, and to assist in preparing this, I would welcome any comments or inputs you may have by close of business on **Wednesday 19 February**. Please send your comments to me at vpgov@st-andrews.ac.uk titled “USS JEP2 Consultation”.

For further background and updates, please see the University [Pensions webpage](#).

Kind regards

Alastair Merrill
Vice-Principal (Governance)

---

The University of St Andrews is a charity registered in Scotland: No SC013532.

This message is sent in confidence for the addressee only. It may contain legally privileged information. The contents are not to be disclosed to anyone other than the addressee. Unauthorised recipients must preserve this confidentiality and should please advise the sender immediately of the error in transmission.