

Proposed email to USS Scheme Members

Dear Colleague,

USS Update: consultation on finalisation of 2018 valuation

In my [email](#) to you of 7 August, I provided an update on the discussions around the finalisation of the 2018 USS valuation and promised to write again once we had a clearer picture of the way ahead. At the end of last week, the Joint Negotiating Committee (JNC) of UUK and UCU voted to accept Option 3 as the basis for concluding the valuation.

This result means that, from October 2019, the total USS contribution rate will rise to 30.7% of salary, with employers contributing 21.1% and scheme members 9.6%. There will be no changes in the level of benefits. The decision avoids the larger increases that the USS Trustee would otherwise have been able to impose (under Scheme rule 76.4) if no agreement had been reached – a total of 32.9% from October and at least 33.7% from April 2020. A further valuation will be held in 2020, with a “backstop” contribution rate of 34.7% from October 2021 if that valuation has not concluded by then.

Unfortunately, it did not prove possible for the JNC to reach consensus on this outcome, with the decision being taken by the exercise of the Chair’s casting vote. A proposal by UUK that employers offer an additional 0.5% for two years in return for no industrial action or ballots in relation to USS for the period to October 2021 (when the results of the 2020 valuation would take effect), was rejected by UCU. This would have aligned scheme members’ contributions with the 9.1% contribution level envisaged by the Joint Expert Panel and accepted by both sides.

As previously indicated, the University has made it clear that accepting Option 3 can only be a short-term solution - to allow the conclusion of the 2018 valuation; to avoid the larger increases that would otherwise have come into effect from this autumn; and to secure the best opportunity for the JEP’s second report, due this autumn, to deliver recommendations for the conduct of future valuations and the long-term sustainability of the scheme.

The Trustee has now launched the formal consultation with UUK required by law on the proposed recovery plan and the revised schedule of contributions from 1 October 2019. The further technical detail that it has provided as part of this exercise is available on the University’s [Pensions Webpage](#). This indicates that the Trustee is planning for a shorter deficit recovery plan period (10 years) than recommended by the JEP (15-20 years) and also proposes to make no allowance for investment outperformance. These factors, possibly introduced to satisfy the requirements of the Pensions Regulator, go against the recommendations of the JEP’s 2018 report, may exaggerate the Trustee’s calculation of the potential increases from October 2021 onwards. Against that, the Trustee has also flagged up worsening market conditions, with the reported deficit having grown from £3.6bn in March 2018 to £6.6bn at the end of July 2019.

In responding to the consultation, we propose to reiterate our position on accepting the Option 3 contribution rates as outlined above; to express our disappointment that the

Trustee has not taken on board the JEP's recommendations around the deficit recovery period and expected asset outperformance; and to stress that the approach to the next valuation must be guided by the recommendations from the JEP's second report if the longstanding issues around scheme governance and sustainability are to be addressed.

If there are additional points that you would like us to consider in formulating the University's response, please let me know at VPGov@st-andrews.ac.uk by close of business Thursday 5 September.

Kind regards,

Alastair Merrill
Vice-Principal, Governance