13 March 2019

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Dear Stuart

I am writing to provide the University of St Andrews’ input to the consultation on the 2018 valuation of the USS scheme. Our response reflects discussion at the University’s Court and consultation with scheme members across the University.

Whilst we acknowledge the reduction in overall contributions required resulting from the Trustee’s new set of assumptions, we are disappointed that the Trustee has not moved to implement the recommendations of the Joint Expert Panel (JEP) in full. The University, like the vast majority of employers, sees the JEP report as providing a viable way ahead for this valuation. Accordingly, we believe that further reductions in forecast increased contributions are both necessary and achievable, in line with the JEP recommendations.

We regret that the Trustee has continued with what is widely seen as a flawed approach to the valuation, in particular the continued reliance on Test 1 which introduces great volatility into the process. We would challenge in particular the proposed approach to recovering the deficit - a figure of 5% for deficit contributions looks excessive compared with the illustrated outcome of 2.1% in the JEP report and the apparent halving of the estimated deficit between 2017 and 2018. The Trustee’s justification for such a high figure is unconvincing.

We remain concerned that the increases proposed may impact disproportionately on certain groups of scheme members, and we would seek confirmation that the Trustee has conducted an equality impact assessment before putting forward its proposals.
Whilst we appreciate the work that UUK and Aon Hewitt have done to develop proposals for contingent contributions, we remain to be convinced of the necessity of this approach, given the unique nature of USS, the strength of the covenant, and the existing backing from employers for the scheme, in particular through the “last-person-standing” structure. As Aon Hewitt’s analysis points out, the existence of Rules 6.1 and 76.4 already give the Trustee considerable powers to impose contribution levels on employers – powers that it has not hesitated to use in the context of the 2017 valuation. Contingent contributions at whatever level would simply transfer money from Institutions’ balance sheets to the USS’ balance sheet, with a consequent weakening of employers’ financial position that is in no one’s interest.

In sum, we call for the Trustee’s approach to the valuation to reflect fully the recommendations of the first JEP report, and to move away from the volatility of the current valuation methodology towards a longer-term perspective. We encourage UUK and the Trustee to engage as a matter of urgency with the Regulator on this, emphasising the unique nature of the HE sector. We also reiterate the importance we attach to the second JEP report, and our long-held belief that wholesale reform of the approach to future scheme valuation is necessary to provide a sustainable and affordable long-term solution to the challenges that have faced USS governance over the past decade.

Yours sincerely

Alastair Merrill
Vice-Principal (Governance)