Response to "A consultation by Universities UK with USS participating employers" – the 2018 actuarial valuation and the provision of contingent support, 27 February 2019.

The University of York welcomes the continued efforts of all parties to try to resolve the ongoing and complex arrangements around the future arrangements for the USS scheme. In formulating our response to this UUK consultation, we have considered the comprehensive documents provided by both USS and UUK during January and February 2019. In providing our response, we first wish to provide some contextual information, and will then turn to the three specific questions.

A number of external factors (such as the UK's withdrawal from the European Union and the Review of Post-18 Education and Funding) mean that there is continued uncertainty facing the HE sector. In order to reduce the future uncertainty posed to the sector by USS we request the continued engagement of the Trustee with the second part of JEP process to ensure longer-term sustainability of the scheme and reduce the impact of the three year valuation cycle where the same matters keep arising.

The University's Council has previously provided a response to the consultation on the JEP recommendations, and has not fundamentally changed its position since that time. We look forward with interest to receiving the outputs from the second stage of the panel's programme of work. We would urge USS to consider our response to the earlier consultation about affordability for employers and scheme members and would want to see contributions around the JEP recommended levels, or the lower bookend, as opposed to those proposed at the upper bookend limit, or indeed the default contribution position under rules 76.4-8. These latter limits result in a considerable strain on the university finances and it is anticipated also that it would cause significant affordability issues for this and other institutions across the sector.

Question 1: Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed upper bookend and lower bookend?

- We note that the proposal does not include all of the recommendations from the first stage of the JEP's work, such as the deferment of de-risking and the smoothing of contribution rates over two valuation cycles. By omitting some of these elements, such as the smoothing of contributions, we believe that the Trustee's proposal does not sufficiently address the issue of fairness and equity between generations of scheme members. We note that the JEP recommendation has been endorsed by both UCU and UUK and believe that all of the JEP proposals should form the basis of a way forward for the Trustee. The University supports the adoption of the remaining JEP suggestions and believes that the contribution rate of 29.2% resulting from those combined proposals is achievable.
- We are concerned about the high level of deficit recovery contributions (DRC's) proposed and, given the strong covenant and long-term visibility of the sponsoring employers, do not believe that the Trustee has demonstrated why a lower DRC rate cannot be maintained. We note that a further consultation is planned on the DRCs. While we welcome consultation about this issue, we would query why such a consultation is not being conducted now, given that the majority of the discrepancy between the lower and upper bookends appears to be attributable to the DRC.
- The University considers that USS is an extremely long-term entity and that short-term increases in risk should be put in the context of both the long-term nature and strong employer covenant of the scheme. We note that the covenant of the USS employers has twice been assessed as "Strong", but that the USS Trustee is not using this assessment as the basis for the 2018 valuation.

Our understanding is that USS has instead based the 2018 valuation on an employer covenant which seeks to eliminate the DRC in circa 11 years, whereas using a "Strong" covenant would suggest a longer recovery period, e.g. 14 to 17 years, and we are concerned that this will have had an unnecessarily negative impact on the 2018 valuation.

- The University has significant concerns over the influence of Test 1 and the way that it has been adopted by the Trustee. Test 1 is not required by legislation and the University feels that aiming to be close to self-sufficiency is an arbitrary target which is not relevant for a scheme that is open to accrual and new entrants. The JEP also noted that Test 1 has a disproportionate impact on the valuation result and proposed that this should be reviewed as part of the second phase of their work.
- The University is not entirely persuaded that contingent contributions are required in order to support a contribution rate at a level below the Upper Bookend. The first stage of the JEP's work recommended reasonable changes to the assumptions and methodology that would reduce the contribution requirement to an acceptable level without requiring contingent contributions. However the University supports UUK's proposal in response to the USS key principles for contingent contributions in the interests of supporting a way forward for the sector.
- In the event that contingent contributions were to be introduced, these would need to be equally applicable to all participating institutions and carefully constructed to ensure that they were not inadvertently triggered by the normal degree of fluctuation in the funding position which the Trustee's own figures demonstrate. We are also concerned about the operational difficulties that implementing contingent contributions would create, such as consulting members and the costs involved in administering these changes. We would ask for a commitment from the Trustee to underwrite the costs involved in consulting with members about the implementation of contingent contributions.
- We note that if the USS Trustee accepts the AON proposal, the possibility of contingent contributions rising above Section 76 4-8 levels would be removed. However, in the absence of a further consultation, if this is not accepted by the Trustee, we remain firmly of the view that any contingent contributions should not exceed the default position currently in place.
- As per the University's consultation response of October 2018, we continue to support the cost-sharing model between USS members and their institutions. The University expects that this same cost-sharing principle would be applied to any contingent contributions rebate. This brings with it some challenges as increases in contingent contributions may result in the need to consult with members on each occasion. It would however be inequitable for members not to share in the benefits of the rebate. This re-emphasises the need that any increases should be exceptional, rather than part of business as usual.
- Recognising the additional burden that extra contributions would place upon employers and members, sufficient notice would need to be given before additional contributions should be payable to allow members to be consulted and employers to manage their financial position to accommodate the higher contributions, as well as to give the JNC time to consider any alternative courses of action.
- We note that the administration costs reported by the Trustee in its 2018 accounts were higher than the given benchmark, with the cost of £79 per member being £29 per member higher than the peer group average. Given the significant financial strain that contingent contributions will place on members and employers, we would ask for a greater commitment and demonstrable improvement from USS to generating efficiencies, thereby lowering the administration costs in line with the benchmarks, before any contingent contributions are implemented.

Question 2: Do you support UUK putting forward a proposal for a CCs arrangement to the USS Trustee as it requested? If not, would you prefer to pay at the upper bookend level, or what would your preferred response be?

Yes, despite our reservations about the need for contingent contributions, we support UUK putting forward such a proposal.

Question 3: Do you find the proposal for a CCs arrangement set out in the Aon note (attached to this paper) acceptable, taking all factors into account? If not, what aspects would you wish to change?

While we remain unconvinced of the need for contingent contributions, for the reasons outlined in our response to Question 1, we find that the proposal outlined in the consultation material to be acceptable in the event that there is no alternative offered to contingent contributions being implemented.

Finally, but critically, in an increasingly competitive and challenging environment, we need to ensure that the provision of USS (as the pension scheme for a great number of our valued staff) remains an attractive part of our overall benefit package. The benefits provided by USS must be worthwhile and valued by our employees. We wish to reiterate points we have made in the previous consultation about the JEP, namely that we want to see a serious ongoing commitment from all parties to engage in proposals to put the valuation methodology, and hence the overall scheme, onto a more sustainable basis for the future. We are very concerned about the impact of such uncertainty, for both the institution and our employees (for whom we recognise that pension benefits are a very significant element of the remuneration package) as well as the impact on our students. By their very nature, pension benefits need to be stable and attractive, and it is not in any party's interest (staff, students, and the wider HE sector) to have periods of significant disruption, as has been recently experienced.

Denise Jagger
Chair of Council
University of York
13 March 2019