USS 2018 valuation

Response to the consultation on final options presented by the USS Trustee

Dear Stuart,

Thank you for your e-mail of 9 May 2019 and your invitation to respond to the USS Trustee's consultation on final options for the 2018 valuation. In formulating our response, we have considered the letter from Bill Galvin to Alistair Jarvis and the USS Trustee's reply to the Consultation on the 2018 Technical Provisions, both dated 7 May 2019. We welcome the ongoing efforts of all parties to avoid the high contribution rates being implemented in October 2019 and April 2020 and recognise the challenging timescales involved in delivering this.

The University's Council has previously provided responses to consultations on the Joint Expert Panel (JEP) recommendations in October 2018 and to the proposal on contingent support in February 2019. The University has not fundamentally changed the position set out in these responses and we would urge UUK and the USS Trustee to consider these earlier replies.

In our last consultation response, we expressed concern about the proposed high level of deficit recovery contributions (DRC). Whilst we note the additional commentary that the Trustee has provided on this, and that the matter will be subject to future consultation, we do not believe that the Trustee has yet provided the quantitative explanation of the rate which would address our concerns. Additionally, we do not believe that the three options proposed by the Trustee address our earlier comments about affordability, intergenerational unfairness or the long-term sustainability of the scheme. However, in the spirit of maintaining a constructive ongoing dialogue, we offer the following comments on the three options presented.

<u>Option 1</u>

This Option was presented by the Trustee in its consultation earlier this year. At the time we responded that we would not favour contribution levels at the Upper Bookend and our view on this remains unchanged from that previous response. As noted above, the Trustee has, in our view, still not provided sufficient information to justify the 5% DRC rate under this proposal.

<u>Option 2</u>

Whilst we recognise that the initial lower contribution rate proposed under Option 2 would be more attractive to members and employers than Option 1, and is more in line with the contribution rate suggested under the first stage of the JEP process, the Trustee's amendments to the contingent contribution levels and trigger methodology under this proposal render it an unattractive option. The Trustee's proposed timeline for the implementation of this Option does not avoid the scheduled contribution increases in October 2019 and April 2020 from taking effect.

<u>Option 3</u>

We believe that of the three options presented by the Trustee, Option 3 represents the least worst option and as such is the option that the University pragmatically favours of these three, with some reservations noting the reported concerns of the Pensions Regulator.

The proposed contribution increases from October 2019 do still represent a significant increase to members and employers from the current levels, already increased for both employers and members from 1 April 2019, and further increases will be difficult for both to absorb.

They are, however, lower than the rates which arose out of the 2017 valuation, and we welcome this short-term improvement and the certainty in costs that this will provide to the end of September 2021. We note that this option would though, result in a further valuation being conducted which would begin very shortly after the conclusion of the current 2018 valuation, and we would have concerns about the ongoing uncertainty in the sector that this may create and the risk of a negative outcome. We would hope that this timescale will allow for the outcomes of the second stage of the JEP process to be considered in that valuation.

We now turn to the additional consultation aspects regarding covenant and employer debt monitoring and the rules regarding withdrawing employers. We note that the material provided by the Trustee on these matters is limited and that these issues have both been raised very late in the valuation process. Given both the limited information provided in the Trustee's outline of these issues and the shortness of time given to consider them, we do not believe that a valid consultation can be conducted or that we are able to formulate a fully considered response to either aspect. We would expect a further consultation to be conducted on these points, once detailed proposals have been drawn up by the Trustee. Of particular concern would be the proposal to grant *pari passu* security to the Trustee and the implications of this on the University, notably in the context of raising new debt or restructuring existing debt. We would welcome the opportunity to refine our thinking on these subject to the provision of more information from the Trustee.

The benefits provided by USS must be worthwhile and valued by our employees and we are concerned that the prospect of continued uncertainty will reduce the perceived value of the pension offering to our staff as scheme members. A seemingly ongoing process of contribution increases will render the scheme unaffordable and could lead to opt-outs amongst the membership. Given the "last-man standing" basis of the scheme we are concerned about the prospect of significant employers withdrawing and the impact of this on the rest of the sector.

We noted in our last response that pension benefits are a long-term investment, and that as such, they need to be both stable and affordable. It is not clear that these concerns have yet been fully addressed. Consequently, we reiterate our earlier comments requesting meaningful engagement from the USS Trustee with the second stage of the JEP process to ensure the longer-term sustainability of the scheme and reduce the impact of the valuation cycle where the same matters keep arising without a resolution.

Denise Jagger
Chair of Council
University of York
29 May 2019