**University of Birmingham response to consultation on the technical provisions and statement of funding principles for the 2018 USS actuarial valuation**

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We appreciate the opportunity to comment on the March 2018 valuation.

We reaffirm the points we have made in previous consultations on the 2017 valuation. There remains a need to find a long term sustainable funding model for USS, which provides a balance of affordability of contributions, ongoing benefits and risk. The HE sector continues to see growing levels of uncertainty over financial sustainability as a result of the review of Post 18 education and funding; Brexit; pay; pensions etc. We pointed out that higher, stepped contribution rates from the 2017 valuation, which come into effect from October 2019 and April 2020, would be very difficult to sustain over a number of years and it was anticipated that the 2018 valuation would result in proposals which would avert the need for these higher contributions. Following on from JEP, there is little appetite in the Sector to address benefit reform as part of the 2018 valuation, which means that contribution levels and the levels of risk are the two parameters under discussion. It is now assumed that the 2018 valuation proposals, which are the subject of this consultation, would themselves operate only until the next valuation in 2021, by when JEP 2 would have reported. Our response to this consultation is therefore a pragmatic one, while under-scoring the need for a long term sustainable solution to USS, including benefit reform, from the next valuation. Our responses to the 3 consultation questions are set out below and should be read in this context.

1. ***Specific comments on the proposed assumptions for the 2018 valuation***

***Adjustments made to the valuation basis for experience***

The updating to reflect the additional experience and forecast reduced life expectancy of USS members at 0.1% reduction in contribution levels is lower than we had hoped given the evidence from other pension schemes.

***Upper and Lower bookends***

The principle of the bookends, with an upper and lower contribution attached to each is a sensible solution to deliver contingent support from employers. We note that the USS levels at 33.7% and 29.7% differ from the UUK/Aon levels of 32.2% and29.2% and that, whilst for affordability reasons we would prefer the UUK/Aon bookends, it is ultimately USS that will set these for the scheme.

***Technical provision and self- sufficiency provision***

The reduction in the technical provision deficit is approximately 50% from 2017 to 2018. However, why has the self-sufficiency deficit level not moved in a way that is proportionate to this? This has an impact on the deficit recovery contributions and the upper bookend level.

1. ***Principles for contingent contributions***

We recognise that, if the Sector accepts more risk in USS but does not want to make unsustainable contributions, then contingent payments are a means of keeping the contributions down to the lower bookend level.

Of the contingency support options outlined, our strong preference is for contingent contributions. We do not see how the other options- negative pledges, charges over assets, contingent assets, escrow accounts, ring fencing of cash reserves and surety bonds – are practicable across so many HE institutions and these other options would overly constrain our finances and operations to a level that would be equivalent to increased core contributions.

Therefore we support contingent contributions, subject to the other points in our response and noting that they would only operate until next valuation in 2021, by when JEP 2 would have reported, and we would expect a long term sustainable solution to USS, including benefit reform.

1. C***ontingent contributions detailed proposals***

Overall, we support a pragmatic approach to agree a position on the 2018 valuation contributions and contingent contributions as soon as possible and to avert the stepped increases in contributions in October 2019 and April 2020. We note above that we recognise that it is the USS Trustee that sets the bookends and the differences between the USS and UUK/Aon approaches to these and the contingent contributions.

In particular we note that:

* Aon suggests the upper bookend could be lower at 33.2%, if a less prudent position were taken. The USS upper bookend is 33.7%. Clearly, the UUK upper bookend rate would be more affordable, but this would be relative as rates of 33%+ are already very high and unstainable over a long period. This is why a rebate and contingent contributions are a much more preferable and pragmatic approach for the period to the next valuation in 2021 from when we would expect a longer term and sustainable solution to be agreed.
* The proposed lower bookend of 29.2% is also preferable on grounds of affordability. We note it is within 0.5% of the USS lower bookend of 29.7%. However, to secure the overall proposals, we could accept this being 29.7% if the contingent contribution proposals from UUK/Aon were adopted (e.g. the trigger threshold, 3 stepped 1% payments, monitoring arrangements and detailed points).
* We accept the three 1% steps to contingent contributions as set out by UUK/Aon.
* We fully support the trigger metric being Technical Provisions rather than Self-Sufficiency. We also support the UUK/Aon suggestion that any breach should be in place for two quarter ends and that the notice period for a change in contributions should be six months to enable alternatives to be found and/or universities to take action to manage the costs.
* It is a key principle of USS that the cost of contributions are shared between employers and employees and this will apply to lower and higher bookends. The contingent contributions are a rebate, and it is both essential and logical that the usual USS cost-sharing formula must apply to the contingent contributions.

***Other matters***

Given USS is a last man standing scheme, the contingent contributions would have to be legally binding on all parties in the scheme.

We note that neither USS nor The Pension Regulator (TPR) have as yet indicated acceptance or otherwise of the UUK/Aon proposals. Assurance that the USS Trustee and TPR supports the proposals is clearly important if they are to be adopted.

The accounting treatment and disclosures of contingent contributions are complex and need clarification. It is very important that universities adopt a consistent approach to these issues, so for example, they are each taking the same approach in their Annual Accounts. We would expect UUK to issue formal guidance to employers for each year end to enable assessments to be made, as well as ensuring consistency in judgements and disclosures across the sector.

As noted above, USS requires a sustainable long term solution, which balances contributions, risk and benefits. It is expected that JEP 2 will address these issues, including benefit reform.

We request that UUK take legal advice and provide assurance to employing institutions on what, if any, the impact of the contingent contribution arrangements would be on existing legal liabilities of university governing bodies and their trustees in relation to the USS scheme.