



## UoB Briefing

30 November 2017

### USS valuation 2017

Following the recent UoB Briefing about the background to the current valuation of the pension known as the **University Superannuation Scheme (USS)**, I wanted to provide you with the latest information on the valuation and share some helpful resources.

This briefing covers three related matters, namely

1. the background to the valuation and the process for resolving the issue; and
2. the USS Trustee's response to a report that was commissioned by the University and College Union (UCU).

Lastly, we have created an intranet site containing information about the current review of USS in one place.

### 1. Background and process

Since the 2014 valuation, economic conditions for defined benefit pensions have worsened. As a result, the position at the 2017 valuation is much more difficult than expected. The greatest challenge at this valuation is the significant rise in the cost of future service benefits, which has risen by over a third since the last valuation. USS's funding deficit has also increased to approximately £7.5 billion.

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The Pensions Regulator is the government agency charged with protecting the benefits of members of occupational pension schemes such as USS. The Pensions Regulator wrote to USS Trustee and to UUK in September 2017 expressing concerns that the initial USS risk assessment of its valuation was not prudent enough and that USS was taking too much risk. The intervention of the Pensions Regulator in this way is unusual and very significant and, in response, USS reviewed its approach to the valuation and produced a more prudent assessment, which obviously has had an impact on benefits and affordability.

The USS Trustee requires the increased cost in future service benefits to be addressed at this valuation, and the Pensions Regulator and trustee will also need to agree a credible plan to address the deficit. Employers believe that benefit reform is necessary to ensure the scheme is on a stable and sustainable footing for the long-term. The Trustee is required to sign off the valuation and submit its report to the Pensions Regulator within 15 months of the valuation date (ie, by 30 June 2018).

If the current level of defined benefits continued to be available this would constitute an additional cost equivalent to at least 11% of salaries. USS employers currently pay 18% of salaries towards USS. This is a high level of employer contribution and reflects a clear and continued commitment to offering high-quality retirement benefits. However, most scheme employers are not in a

position to increase their contribution further, and it is clear that many employees would find an increase in their contribution of 8% challenging too.

The reason universities can't afford to pay more is that it would require diverting money from other central areas, such as teaching or research, reducing universities' positive impact in the areas most central to their core mission and purpose. Increasing contributions could damage the high standards that students, research funders and others rightly expect, and could undermine the sustainability of some institutions. Employers believe that benefit reform is necessary to ensure the scheme is on a sustainable footing for the long-term.

Any potential changes to future member benefits or contributions are negotiated within the USS Joint Negotiating Committee (JNC) and, once decided upon in the JNC, any proposed changes will be subject to a full consultation with all affected employees. Members' accrued pensions (those built up prior to any future changes in USS pension provision) are protected under law and will not be affected by any future change.

We fully appreciate that the prospect of pension reform will concern colleagues. However, we believe that reform is necessary now to ensure the sustainability of the scheme and to continue to offer valuable benefits to current and future employees.

Further information is available in the Q&A that can be found on the **[USS valuation intranet site](#)**.

## **2. USS Trustee response to First Actuarial report**

The UCU commissioned its own firm of actuaries – First Actuarial – to provide a report on the USS consultation document on the 2017 valuation. That report suggested that, contrary to the views of the USS Trustee and the Pensions Regulator, the USS Trustee should be prepared to take on more risk than it had suggested was prudent in its consultation document. In response to this view, the USS Trustee argues that the approach proposed by First Actuarial contains an unacceptable level of risk for members, the Trustee and the employers. For USS to take on the risk as suggested by First Actuarial and the UCU would be inconsistent with the Trustee's primary duty to protect the security of members' promised benefits given the current assets in the scheme and the likely levels of contributions employers are able to pay in future. It is important to note that it is the USS Trustee, not the UCU, that carries the legal responsibility for the scheme's sustainability.

The full response of the USS Trustee is **[available to read here](#)**.

The First Actuarial report **[can be found here](#)**.

You can read **[information on the USS consultation](#)** with the employer member institutions or **[access the consultation document itself](#)**.

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