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| **Dear colleagues,****You have been provided, as part of the current UUK consultation on the report of the Joint Expert Panel (JEP), with a letter from the USS trustee outlining an approach that would allow some of the fundamental aspects of the 2017 valuation to be re-opened, should that be the employers’ wishes. This note looks to provide a little more colour to that position, and to remind you of the trustee’s role in the valuation process.** |

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| The JEP’s recommendations would require an alternative calibration of some key parameters that determine the relative reliance on cash contributions and investment returns in funding the USS pension.All of the areas recommended for change by the JEP had been, in full or in part, the subject of previous consultations. (Note: the considerations for deficit recovery contributions formed part of the Technical Provisions consultation, but UUK will be formally consulted on the associated Schedule of Contributions and recovery plan in due course.)Several of the JEP’s recommendations would require a reversion to the original consultation proposals.To adopt all of the JEP’s recommendations would require employers to be willing both to take on significantly higher levels of risk, and to pay higher contributions, than was expressed in the response to previous consultations. The panel’s report suggests that some of the views expressed through these processes may have since evolved.The role of the trustee in this process is clear: we are required by the scheme rules to set and collect an adequate contribution rate in respect of any benefits agreed by the stakeholders. The trustee has no preference as to the nature of the benefits offered to members – this is primarily a matter for our stakeholders. Every decision made by the trustee in this process is towards the goal of providing secure benefits.In striving towards that goal, there are constraints we must operate within. We are required by law and regulation, as well as our fiduciary duty, to ensure that the contribution rate for the agreed benefit is set in accordance with prudent principles, and that for defined benefits, that the risk of current contributions proving inadequate to meet the pension promise is managed. The trustee believes that our sponsoring employers’ collective ability and willingness to pay increased contributions in future is the key factor in managing that risk. The contribution increases on which members (and affected employees) are currently being consulted are set based on the clear positions taken by sponsors on these issues in previous consultations.Should you decide to re-open these issues in full, the requisite processes involved could not be completed before February 2019 – the backstop date agreed with the regulator for completing the current valuation. To date, our stakeholders have been unable to agree on a way forward. This has resulted in the scheme missing the statutory deadline of 30 June 2018, the trustee breaching the law, and the default cost sharing process being applied. Contemplating any further delays would introduce the very real risk of regulatory sanction.Given the limitations of what can be addressed via the Schedule of Contributions and recovery plan consultation, the time constraints, and the need to consult again (and thoroughly), we would – subject to feedback from UUK on its latest consultation with employers – propose to conduct a new valuation, as at 31 March 2018. This would be done in tandem with the finalisation of the 2017 valuation.A new valuation would allow sufficiently robust, informed positions to be developed, and the latest data and market experience to be properly incorporated; it would provide our stakeholders with a regulatory compliant way of resetting their discussions to countenance any of the JEP’s recommendations. For example, it would allow the trustee and the employers to explore the contingent arrangements that might support replacing contributions up front with contributions if required in the future. As expressed in previous consultations, higher levels of risk taking is possible, given effective and concrete risk provisions that would mitigate these risks should they crystallise.The conclusion of a 2018 valuation in time to avoid the second and/or third contribution rate increases anticipated in the 2017 valuation will require full support and engagement of our stakeholders. On this point, it is important to note that the statutory deadline for completing a valuation as at 31 March 2018 would be 30 June 2019. It would also mean that the next scheduled triennial valuation would be held as at 31 March 2021.      |

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