

University of Birmingham response to consultation on the technical provisions and statement of funding principles for the 2018 USS actuarial valuation, May 2019

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We appreciate the opportunity to express our preference on the options presented by the USS Trustee to conclude the March 2018 valuation.

We reaffirm the points we have made in previous consultations on the 2017 and 2018 valuations, in particular the need to agree 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. As was the case with our responses to previous consultations, our support for a contingent contributions arrangement in the March 2019 consultation was a pragmatic approach which saw this as a bridge to a longer term and sustainable solution; in that context we welcome the fact that there will shortly be a new call for submissions to the second phase of the JEP work so that this can be taken account of in advance of the next valuation.

Specific comments on the options for completion of the 2018 valuation

Option 1: Upper bookend

We note that the USS Trustee has kept the upper bookend, which is reflective of its risk appetite, and includes a deficit contribution rate of 5%. In our last response, we questioned why the halving of the deficit on a technical provisions basis had been accompanied by only a modest reduction in the self-sufficiency deficit level; it is noted that the latest consultation does not quantify the impact of the Trustee's risk appetite. There is a need to complete the 2018 valuation as soon as possible but it would be helpful to have fuller explanations for future valuation exercises.

We recognise that accepting the upper bookend provides certainty about contribution levels up to and possibly beyond a 2021 valuation, but see combined contributions of 33.7% to be unaffordable for both employers and members against the backdrop of funding uncertainty and increasing pay costs in the HE sector and do not support this option.

Option 2: Contingent contributions

As mentioned above, the University made a pragmatic response in March to support the UUK proposals for a model of contingent contributions. The contingent contributions arrangement

deemed acceptable by the Trustee significantly increases the probability of such contributions being required (we note the Aon estimate that this is 60% and can be triggered by changes over a very short period of 40 business days). Taken together with the fact that the Trustee now advises that such an arrangement requires a lengthy implementation period, during which there would be two further increases in contributions under regulation 76.4, as well as additional complexity, and we do not support the revised option for contingent contributions.

Option 3: Alternative to contingent contributions with 2020 valuation

While a combined contribution of 30.7% for a minimum of two years from October 2019 exceeds our preference for the lower bookend combined with the previous model of contingent contributions, Option 3 represents an alternative which gives time for the development of a long term solution for USS on the back of a 2020 valuation of the scheme, while being closest (as AON points out) to JEP 1's recommendations. We therefore support Option 3 for the completion of the 2018 valuation. This is on the understanding that Option 3 bridges to a long term, sustainable and affordable model for USS which addresses benefit reform and the balance of contributions and risks. This requires all parties - JEP2, employers, UUK, UCU, the JNC, the Trustee and tPR - to engage constructively in delivering a sustainable long term solution for USS and implementing it in a timely manner post the 2020 valuation, so that the higher contribution rates envisaged from 21/22 under Option 3 are replaced by a more affordable alternative.

Additional elements for comment

The Trustee states that the valuation will proceed on the basis that the covenant remains strong, but is requesting additional assurance through debt monitoring and clarification around the rules for employers departing the scheme.

Debt monitoring: We note that this option is only proposed for Options 2 and 3. We would require clarification of the definition of secured debt, the nature of the required metrics and the frequency of reporting before being able to confirm our acceptance of the proposed approach. The University of Birmingham does not have and is not intending to seek borrowing which is secured on the University's assets.

Rule clarification for employers leaving mutual arrangement

While we understand that the sector covenant is underpinned by its mutual status and the risk the covenant could be changed to 'tending to strong' if a major employer were to leave the scheme following Trinity College's proposed departure, we note Section 75 debt is already a very major deterrent for large employers to leave the mutual arrangement. We would like to understand in more detail the rule changes proposed to support the covenant.

This and all our previous responses have been agreed by a sub-group of Council established with the delegated authority to approve submissions in relation to the 2017 and 2018 USS valuations.