The University Of Sheffield.

Human Resources.

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By email only: pensions@universitiesuk.ac.uk

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Director of HR and Communications
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Dear Stuart

RE: Technical Provisions Consultation – USS Valuation 2018

The University of Sheffield wishes to make the following comments on the Technical Provisions put forward for consultation by USS:

Introduction

In the most recent consultation on the Schedule of Contributions and Recovery Plan, this University supported the conclusion of the 2017 Valuation under the "cost-sharing arrangements" on the basis that the 2018 Valuation (and phase 2 of the JEP's work) allowed stakeholders to reach a point where they are comfortable with the health and sustainability of the scheme. It is therefore frustrating to find that the work of the JEP, comprising well respected figures within the pensions industry and academia, has not been accepted in full by the USS Trustee and instead employers are faced with options which fall well outside the parameters of what all stakeholders signed up to in supporting the JEP recommendations.

As indicated in our feedback to UUK following the publication of the Joint Expert Panel (JEP) report in late 2018, the University of Sheffield supports the recommendations of the JEP in full and in their entirety. As such we are disappointed to note that the USS Trustee is consulting on options which do not include all of the JEP proposals – a solution strongly supported in full by both employers and UCU.

Methodology

The consultation document makes no mention of Test 1, a key part of the 2017 Valuation methodology which received criticism from both the JEP and the Pensions Regulator (as well as employers and member representatives). The JEP stated Test 1 was driving behaviour rather than informing decisions; in effect its impact was overstated.

It remains the case however that the fundamental methodology behind the valuation, including Test 1, is unchanged from the 2017 valuation. Given the criticism of Test 1 previously and the disputed extent of the stated deficit position from that valuation which is believed to have been driven by the application of

Test 1, the University seeks clarification on whether there has been any reduction in the weighting applied to Test 1 by the USS Trustee in light of the criticisms of its application.

Advice from Aon to UUK (27 February 2019) indicates that the Upper Bookend outlined by the USS Trustee in the 2018 Valuation has greater levels of prudence built into it than the 2017 Valuation. The issue of deficit contributions and recovery plan is covered later in this response, however overall the University would comment that we have long pushed for an appropriate, not an excessive level of prudence in the Valuation methodology.

The University seeks assurances from the USS Trustee that it will engage fully with Phase 2 of the JEP's work to review the methodology and will work with UUK and UCU to consider the JEP's recommendations to find an approach to which all parties can agree.

Covenant

There remains a key difference in the views of the USS Trustee and the Pensions Regulator over the collective strength of covenant of the sector employers. The Pensions Regulator's view that the covenant is "tending to strong" rather than "strong" is, in this University's view, excessively influencing the USS Trustee's actions, noting their professional advisers' assessment of the covenant as "strong".

The University's view is that the USS Trustee should continue to emphasise its professional analysis of the covenant to inform its view and to work with the Pensions Regulator to influence its thinking in the interests of considerations regarding the levels of risk acceptable in the valuation.

Whilst there are considerable challenges facing the Higher Education sector, which will impact on different institutions in different ways, the very nature of the scheme with its "last man standing" structure means the collective covenant is uniquely strong.

Deficit recovery contributions

The University supports the JEP proposal that in determining the scale of any deficit recovery contributions the USS Trustee accounts for an element of market outperformance.

Under the proposed "Upper Bookend" scenario, the USS Trustee is suggesting 5% deficit recovery contributions to address a £3.6bn deficit. The University notes that in its letter to institutions dated 29 January 2019 (letter I.884 USS contribution rate changes) USS accepts that such an approach would be appropriate in concluding the 2017 Valuation and advises that under that Valuation, from April 2020 it will seek 5% deficit recovery contributions (reduced from the original proposal of 6%) to address a reported deficit position of £7.6bn. The University notes that the JEP and Aon, UUK's actuarial advisers, both considered that 2.1% deficit recovery contributions would be appropriate/sufficient to address the stated £7.6bn deficit with appropriate allowance for asset outperformance.

The University fails therefore to see: 1) why such asset outperformance cannot be included in the assumptions for the 2018 Valuation and 2) why, if the reported deficit under the "Upper Bookend" scenario is less than half that reported under the 2017 Valuation, that proposed deficit recovery contributions would not be significantly lower. The same logic applies when considering the "Lower Bookend" scenario, which results in a stated deficit of £2.2bn and deficit recovery contributions of 2.1%

- the same rate that was cited as necessary under the USS Trustee's "September 2017" Technical Provisions consultation document (see page 9) for a stated deficit of £5.1bn (and including an element for asset outperformance).

The University has seen no sound justification for the varying ways the USS Trustee has sought to determine the level of deficit recovery contributions and until such explanation is provided by the USS Trustee cannot support the levels of deficit recovery contributions stated in the 2018 Valuation Technical Provisions Consultation document.

Contingent support

The USS Trustee has made clear that they want to introduce some form of additional contingent support to allow for the introduction of the majority of the JEP proposals, with trigger contributions appearing to be the main focus.

Neither the University nor our UCU representatives consider that further contingent support is necessary, based on the recommendations from the JEP, and would simply divert resources away from other core business uses.

The University believes that the most robust way of assessing the health and strength of the scheme is through a full valuation process, based on a methodology that all stakeholders understand and fully support. The University considers that any interim assessment of scheme health, based on a relatively small number of variables, the parameters of which are predefined, is a less robust way of determining whether, or not additional contributions are required than a full actuarial valuation.

Valuations are undertaken as a matter of course every three years and in any event the USS Trustee has within its power the option to call a scheme valuation at any time (as it has chosen to do in 2018, just one year into the normal triennial cycle).

Furthermore, the University believes that the multi-employer "last man standing" structure of USS also provides the ultimate evidence of contingent support for the scheme from the sector.

The USS Trustee already has the ability to set contribution levels following consultation (under rule 6.1 and the cost-sharing provisions contained within rule 76). Taken together these are a further form of contingent contributions.

The USS Trustee has not presented a strong case for the necessity of trigger contributions. Until we are presented with a compelling rationale for trigger contributions, we are unable to agree to them in principle. The University is concerned that in agreeing to further contingent support, as key stakeholders, employers would be giving up a significant element of influence over the way the scheme is run and is funded.

Aon/UUK Proposals on Contingent Support

Notwithstanding the position outlined above, the University has been presented with what amounts to an almost impossible ultimatum by the USS Trustee; accept the cost of future contributions as 33.7%, based on the disputed methodology outlined earlier, or agree to further contingent support which the JEP, Aon and UUK consider unnecessary and for which no compelling case has been made.

The University now finds itself in a position where we do not want or see the need for contingent contributions nor do we want or see the need for contribution levels to be 33.7%. But in pushing back against both these options we have no confidence, based on previous experience (e.g. the engagement with the JEP recommendations and stakeholder positions and feedback to date), that the USS Trustee would listen or act.

That leaves the University facing the situation where, if it does not accept some level of contingent support arrangement, the cost of benefits becomes unaffordable, resulting in a need to reconsider the benefits offered which would be difficult for UCU colleagues to accept and which in turn would most likely lead to industrial action; a situation neither employers nor UCU wants. That these unpalatable options are based on a valuation methodology which has been called into question by this University, UCU and the JEP makes the decision all the harder to accept.

However, in the interests of avoiding conflict with UCU and to support the benefit levels in the scheme for our staff, the University would be prepared to accept the proposals presented by Aon, subject to the USS Trustee accepting and agreeing certain terms; notably that the arrangement is contractually time bound to be removed at the point of the next full actuarial valuation; that the USS Trustee and Executive Board actively engages with Phase 2 of the JEP's work and is visibly open to listening to and implementing recommended changes around the methodology of future valuations and the governance arrangements of USS. This latter point is key for this University as we have seen no commitment from the USS Trustee to openness and transparency in its dealings with key stakeholders, particularly when justifying its position on matters relating to the valuation of the scheme.

It should be noted that local UCU branch representatives do not support the proposals for any cost increases triggered within the contingent support arrangements being shared between employers and members on a 65:35 basis.

Conclusion
The University of Sheffield continues to have serious concerns regarding the approach taken by the USS Trustee to the 2018 Valuation. The University would like to see the JEP recommendations adopted in full and fails to see why this has not been possible given the expertise on the JEP in reaching those recommendations and the support from employers and UCU alike, combined with the USS Trustee's own view on the strength of the collective employer covenant.

The contentious nature of the methodology adopted by the USS Trustee in undertaking both the 2017 and 2018 Valuations, and the lack of transparency and explanation/rationale behind decisions and positions of the Trustee, is leading once again to a position whereby key stakeholders do not have trust in the figures and outcomes resulting from the latest valuation. This in turn risks further potential conflict between employers and their staff despite both parties taking a similar view on the valuation and seeking a common aim.

Having been presented with options by the USS Trustee, none of which the University finds palatable, we have sought to find the least worst route through and are prepared to support the Aon/UUK proposals regarding contingent support so as to try to avoid the risk of further industrial action by UCU over potential benefit changes. The USS Trustee should be under no illusion that the University takes this position lightly nor that it is supportive of the position taken by the Trustee in relation to its engagement with the key stakeholders.

If the USS Trustee fails to accept the proposals presented by Aon/UUK (assuming the majority of employers agree to them), we expect the USS Trustee to explain openly, transparently and fully why this is not acceptable. The USS Trustee should note the concerns raised regarding the governance arrangements in place and the diminishing trust in the way the scheme is operating and respond accordingly.

The University continues to support the work of the JEP and welcomes its commitment to progress with Phase 2 of its work plan to review the valuation methodology to seek an approach which all stakeholders can agree on for future valuations. The University expects the USS Trustee to engage fully in the work of the JEP in Phase 2 and with any agreed outcomes and recommendations. A failure to do so, given the support of both employers and members alike, would further bring into question the governance arrangements of USS.

This submission has been agreed by the University's Executive Board and the University Council, and as such represents the view of the University of Sheffield.

I trust these points will be reflected in the overall feedback that Universities UK submits to the USS Trustee in its capacity as the employer representative.

Should you have any queries on these points please do not hesitate to contact me.

Yours sincerely

Ian Wright
Deputy Director of Human Resources
University of Sheffield