Dear Stuart

Further to your request for feedback on the USS Trustee’s most recent proposals, may I lay out these comments and views from the University of Sheffield.

Firstly, I must be clear that the University is disappointed by the position which the USS Trustee continues to take. There is a pattern of continued and on-going failure to engage and listen to the views of stakeholders who support the scheme as both employers and members.

In relation to the specific proposals now put forward by the USS Trustee, the University’s comments are outlined below:

**Option 1: “Upper Bookend” – 33.7% total contributions from April 2020.**

There is no change from this option as presented by the USS Trustee in February 2019. The University’s views have not changed, in that this is not an acceptable solution.

The University notes though that in presenting an unchanged proposal, the USS Trustee has failed to explain, in quantifiable terms, why the proposed deficit recovery contributions would remain at 5% (as in the 2017 Valuation) when the stated deficit has reduced from £7.5bn to £3.6bn. With a deficit which has more than halved, it is difficult, without detailed evidence, to justify why the deficit contributions have not also reduced. Members will see a 52% reduction in stated deficit and may ask why then have deficit contributions not reduced by 52% to 2.4% (which would then give an overall contribution level of 31.1% as a maximum.)
Option 2: “Lower Bookend” (29.7% total contributions) but with additional contingent support to trigger in the event of the scheme funding position deteriorating between formal valuations in steps of 2%, 4% and up to 6%.

The USS Trustee has failed to justify in quantifiable terms why the UUK proposals on contingent support failed to meet its 11 principles. The University therefore remains unclear as to why the UUK proposal is seen as unacceptable to the USS Trustee.

Based on the analysis by UUK’s actuarial advisers Aon, the alternative arrangements proposed by the USS Trustee have a 60% chance of triggering increased contributions. This means there is a greater chance of paying higher headline contributions as a result of triggering contingent contributions, and only a 40% chance of paying the “Lower Booked” of 29.7% over the course of the next valuation cycle.

The USS Trustee has also offered no objective explanation as to why it considers the appropriate trigger to be a £4bn deficit rather than the UUK proposed £10bn.

Consequently the University does not support option 2.

Option 3: An initial total contribution rate of 30.7% from October 2019 to October 2021 with a new valuation as at 31 March 2020.

The University is surprised that, if this option is palatable for the USS Trustee, it was not presented as an avenue for concluding the 2018 Valuation under the initial Technical Provisions consultation in February 2019.

In putting this option forward, the USS Trustee has not articulated how it has arrived at a figure of 30.7%, or what level of deficit recovery contributions would be applicable. Aon note in their advice to UUK that the breakdown of this figure would be provided following the USS Trustee meeting on 16 May. It is concerning that a figure put forward to employers by the USS Trustee as a potential solution and outcome to a formal valuation process has not been calculated based on clear evidence and that therefore the USS Trustee is not in a position to explain the figure.

In the recent letter to the Chair of Trustees, it is clear the Pensions Regulator has not been made aware of the addition of Option 3 and indicates that it would have “grave concerns” about progressing with this option. This further brings into question the decision-making processes of the Trustee which leads to an option being presented to sponsoring employers which the Regulator is unlikely to accept in any event.

In light of these points, the University at this stage can have no confidence that in accepting option 3, this would be the contribution rate that would end up being required by the Trustee or indeed that it would allow for the conclusion of the 2018 Valuation process.

Notwithstanding the point above, and noting that 30.7% is higher than the proposed solution put forward by UUK with contingent contributions, it is not immediately apparent what material positive
impact that additional 1% would have on the scheme’s funding position over a two year period compared to the contingent support arrangements previously put forward by UUK.

Given the UCU position of “no detriment”, there is a distinct possibility that the sector risks being plunged back into more damaging industrial action for the sake of what appears to be a relatively insignificant level of additional contributions to the scheme.

The University notes that the default position in the absence of any agreement on an alternative Schedule of Contributions following the 2020 Valuation would be a total contribution rate of 34.7%. The JEP is currently undertaking phase 2 of its work looking at the valuation methodology and scheme governance. There is a concern that 1) with a 2020 valuation there could be insufficient time for any recommendations from the JEP to be taken into consideration and implemented and; 2) based on previous experience, the USS Trustee may fail to adequately engage with any such findings and recommendations. The University would wish to have assurances from the USS Trustee on both these points before committing to a 2020 valuation.

Debt monitoring

Although the detail of any proposed mechanism is lacking from the USS Trustee’s documentation, the University is very uncomfortable with the principle that the USS Trustee would seek to restrict or place other conditions on an employer’s ability to operate autonomously.

This is a particular concern for the University of Sheffield which has, to date, not sought to raise significant sums through borrowing. If, at some point in the future, the University did determine this to be an appropriate course of action, it could find itself limited in doing so in a way which those who are already heavily geared in their borrowings would not. Further details from the Trustee regarding its intentions is needed before any further comments can be made on this.

Rule clarification

The USS Trustee reports that it may seek a “clarification” to the rules which strengthens the Trustee’s discretionary powers to determine whether an employer can exit the scheme to support maintaining the current covenant rating. The Trustee’s view is that, in the event that Trinity College Cambridge decides to leave the scheme, were another “strong” employer to also leave, the employers’ covenant could be downgraded. As Aon note, the Trustee has not shared details of how it has come to this view and we too would welcome details of the rationale for this position.

It is this University’s view that the USS scheme should strive to be such an attractive option that employers and members actively wish to remain in it. We would welcome engagement with the USS Trustee and other stakeholders regarding how to ensure this remains the case. Handcuffing employers to the scheme and making it more difficult for them to leave it does not present it as such and may well prove counter-productive, potentially leading to a “rush for the door” ahead of any rule changes.
Final comments

It is frustrating that the USS Trustee is, at this late stage, presenting fresh options to employers. For a scheme with c350 participating employers, it is unreasonable to expect views on such new options within a 3 week timescale. To cite the time pressures of needing to conclude the valuation by 30 June 2019 as justification for such tight timescales is difficult to accept – the Trustee has on several occasions concluded valuations beyond the statutory timescales without consequence from the Pensions Regulator, not least because the Regulator’s stated preference is for the best outcome to be reached, rather than one agreed under pressure simply to meet the deadline. The fact that the significant delays in process to date under the 2018 Valuation are as a result of the USS Trustee’s unusual handling of the valuation process and internal decision making is ignored as a contributing factor.

In its recent letter to the Chair of Trustees, the Pensions Regulator recognises the importance of USS undertaking further analysis to enable all stakeholders to better understand the risks in the scheme and makes it clear this should be available before any decisions are taken regarding the 2018 Valuation.

We would welcome this further analysis and evidence based clear explanation of how the Trustee has developed the options now presented to employers as well as the fundamental valuation methodology, particularly in light of the Regulator’s clarification of its position in relation to the appropriate discount rate to be used.

UUK has published a set of Q&As which includes the following question: “Why can’t employers push for a vote of no confidence in the USS Trustee Board?”. The response is noted and the implications understood. That this question needs to be included at all is an indication of the level of dissatisfaction across the sector in the way that the USS Trustee is engaging with the key scheme stakeholders and should be taken seriously by those responsible for running USS and those who act as its Trustees.

As mentioned earlier, USS should be a scheme in which employers and staff in the sector want to participate and in which they have faith and confidence. It is a concern that at present that position appears to be eroding and we would encourage the USS Trustee and Executive to consider the views expressed across the sector.

This response has been considered and approved on behalf of the University Council by the University’s lay officers. It has not been possible to seek approval from Council in full due to the timescales demanded by the USS Trustee.

Yours sincerely

Ian Wright
Deputy Director of HR