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**UNIVERSITY OF LEEDS**

17 March 2017

IN CONFIDENCE

Mary Lambe,
Universities UK,
Woburn House,
20 Tavistock Square,
London,
WC1H 9HQ

Dear Mary,

Our comments on the key questions of valuation methodology and inputs raised in your document circulated on the 17th February 2017 are as follows:

i) **Reliance on the sector :**

The 2014 valuation position that, in extremis, employers could afford to pay an additional 7% of salary, on top of the 18% currently paid, already places significant reliance on the sector. In our view it is likely that contributions at the increased level would have an adverse impact on the long-term academic and financial sustainability of individual universities and the sector as a whole.

We have no appetite for additional risk and our view is that relying solely on the strength of the sector does not provide a reasonable way forward.

We remain of the view that the current 18% contribution rate represents the limit of affordability and payments beyond this level would significantly affect our academic development plans.

Our specific parameter feedback is:

- the reliance horizon should be no longer than 20 years;
- contingent contributions should be no higher than 7%;
- the period over which the contributions are paid should be no longer than 20 years; and
- we do not support growing reliance in line with salary growth or RPI (amount of reliance increases from £13bn to £15bn with RPI and £19bn with the "salary growth" assumption).

Increasing the assumed return on a low risk "self-sufficient" portfolio raises concerns about the additional risk that this would place on employers; we would therefore like to see the professional advice supporting this change including an assessment of additional risk.

In general terms, within the valuation, assumptions are being made which cover a very long time horizon. Given the uncertainties inherent in this, the assumptions made should err on the side of caution.

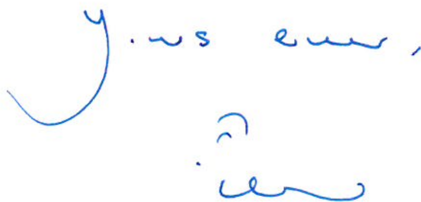
In addition, we are concerned that the approach to the USS valuation and future pension provision could result in unfair pension benefits and cost between generations. The USS must maintain sufficient capacity to ensure that the cost of attractive pension benefits are affordable, take account of future service and do not burden future members with high deficit recovery payments.

ii) **Market view of long-term interest rates or reversion to higher levels :**

We are very uncomfortable about relying on USS Investment Management's view of gilt yield reversion alone, particularly when advice on the discount rate is usually provided by the scheme actuary. Clearly the actuary should take into account the USSIM's views, and we would hope that alignment can be achieved.

iii) **Degree of confidence required that the assumed pension cost will prove a reliable forecast, and how much risk employers would take of the maximum possible. Risk appetite for funding benefit earned to date versus benefits the sector wished to promise in future?**

We would like to have greater predictability of pension costs and the ability to provide good quality pension benefits for past, current and future staff. This means that we have no appetite for further risk and therefore require higher levels of confidence that the assumed pension cost will provide a reliable forecast. Our risk appetite for benefits earned to date versus future benefits is likely to remain consistent over time.



Alan Langlands