

UUK Consultation on USS – October 2018

Response of the University of Leeds

Introduction

We are grateful for the work of the Joint Expert Panel (JEP) in seeking to arrive at a considered and consensual proposal to resolve the difficulties of the 2017 valuation of the Universities Superannuation Scheme (USS).

The University of Leeds continues to hold the position that USS needs to be run on a basis that ensures that the scheme is sustainable, stable and fair. It needs to provide competitive and worthwhile benefits to its members and to be affordable and manageable for the institutions and for the members that contribute to it. In this context, it is in our view important that volatility in contribution levels is kept as low as possible, making it easier for members and sponsors to plan ahead with confidence.

For these reasons we have long been supportive of the USS trustee's attempt to find a way to reduce risk whilst maintaining benefits to the greatest degree possible and whilst keeping the scheme affordable for all.

Our position on the JEP's proposals for the 2017 valuation

It is against the background summarised above that we have assessed the proposals made by the JEP. Clearly it is in everyone's interests that the 2017 valuation be brought to a close. And clearly the consensual position reached by the JEP represents the best proposal for doing so developed to date. In that spirit we are prepared to support it, and the associated contributions levels. We take this view because we need – in the interests of staff and indeed of students – urgently to move forward to develop before the next valuation a robust, sustainable strategy for USS. In that context, the critical first step is to get the 2017 valuation behind us.

Our answers to the three questions posed in the consultation document are therefore as follows.

Question 1: Would your institution support the JEP recommendations regarding the 2017 valuation (see table 2 - page 10) in overall terms, subject to the acceptance of such a position from the USS trustee (and TPR as appropriate)?

As noted above, we are ready to accept the proposals put forward by the JEP as a package, on a pragmatic basis, to conclude the 2017 valuation. We do so on the understandings

- (a) that employers are not required (either by the trustee or the Pensions Regulator) to make meaningful non-contribution promises to the scheme – whether in the form of guarantees, contingent contributions, asset security or otherwise;
- (b) that work is put in hand as soon as the 2017 valuation is concluded to develop a strategy for the medium term – a point to which we return in our concluding section.

Question 2: What further information would you need to reach a final view for Question 1?

We do not require any further information to move forward and close the 2017 valuation on the basis proposed so long as the caveats set out above are met. In our view, the key to securing a sustainable future for USS is the work that takes place after the 2017 valuation has been closed.

Question 3: Employers currently pay 18% towards the USS scheme, and the mandate agreed immediately after the Acas discussions was 19.3%. If the recommendations of the JEP were accepted in full by all parties the outcome would be that existing benefits – minus the employer match of 1% - could be provided at an indicative employer contribution of 20.1% of salary (with a member contribution of 9.1%).

(a) Would you accept employer contributions at that level?

(b) If not, what balance of additional risk, higher contributions and/or benefit change would you prefer to see as an outcome?

We are prepared to accept the contributions proposed by the JEP in order to bring the 2017 valuation to a close but only as a temporary measure until such a time as a new strategy for USS can be developed.

Conclusion

We agree with the JEP that significant work now needs to be done to develop a medium-term strategy for USS. We have long held the view that such a piece of work is critical for the long-term success and sustainability of the scheme. As indicated above, in our view, a central objective of the new strategy must be to secure low contribution volatility and affordability to all parties.

To develop that strategy, all stakeholders in USS are going to have to work together, creatively and highly collaboratively. In our view, the trustee needs to play the central role in this as it is the body which will ultimately have to implement whatever new strategy is developed and agreed by all parties. In that context we would observe that the trustee needs to improve its communications and engagement processes. The Regulator too will need to play an important role so that all stakeholders know that the new strategy will have its support.

We believe the JEP might be valuable in this next phase of work. However, it would still be operating outside the statutory process and its role would have to be carefully delineated to avoid confusion and to ensure that the parties that will ultimately have the statutory responsibility for implementing and delivering the new strategy have full ownership of it.

There needs to be wide consultation on both the process and the objectives of this next phase of work. Building a real consensus on both these areas amongst all the stakeholders in USS before the work starts is critical to a successful outcome and should not be rushed.