

Response to UUK consultation on contingent contributions to USS

The position of the University of Leeds remains that USS needs to be run on a basis that ensures that the scheme is sustainable, stable and fair. USS needs to provide competitive and worthwhile benefits to its members and to be affordable and manageable for employers and members alike. 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 employers to plan ahead with confidence.

Given the significant rise in contribution rates required by the 2017 valuation – taking aggregate contributions to 35.6 per cent by April 2020, compared with an aggregate of 26 per cent today – we are prepared for a limited period only to accept UUK’s proposal for contingent contributions. We do so, as a temporary measure, only for the period until the valuation after 2018 – whether it is in 2020 or 2021 – and on the understanding that the intervening period is used urgently to develop a robust, sustainable medium-term strategy for USS. In our judgement, a fundamental appraisal is necessary, one which examines benefits as well as contributions, the approach to investment, and the management and sharing of risk. Recent statements by the Pension Regulator and the new pension funding regulations due in 2020 suggest in combination that the costs of USS are likely to rise in future. Given this, and given the uncertain – even gloomy – financial outlook for the economy, we are not sanguine that significant reform of the scheme can be avoided for the period beyond 2021.

As we have said before, all stakeholders in USS are going to have to work together, creatively and collaboratively, to develop a new strategy. 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. The Regulator too will need to play an important role so that all stakeholders know that the new strategy will have its support.

Against this background, our answers to the specific questions posed by UUK are below.

1. *Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed upper bookend and lower bookend?*

The USS Trustee proposes an overall contribution rate of 33.7 per cent of pay without agreement of contingent support. This includes maintaining the 5 per cent deficit contribution rate. We would wish to see the justification for this, and would observe that it is difficult to agree a contingent arrangement now which includes deficit recovery when deficit recovery is to be subject to later consultation.

2. *Do you support UUK putting forward a proposal for a CCs arrangement to the USS Trustee as it requested? If not, would you prefer to pay at the upper bookend level, or what would your preferred response be?*

Yes – for the period to the 2021 (or 2020) valuation on the understanding that the intervening period is used urgently to develop a robust, sustainable medium-term strategy for USS as we have suggested above.

3. *Do you find the proposal for a CCs arrangement set out in the Aon note (attached to this paper) acceptable, taking all factors into account? If not, what aspects would you wish to change?*

Yes – for the period to the 2021 (or 2020) valuation on the understanding that the intervening period is used urgently to develop a robust, sustainable medium-term strategy for USS as we have suggested above.