Finalising the USS 2018 Valuation – a Q&A

On 9 May 2019, the USS Trustee proposed three options for concluding the 2018 valuation.

The following questions and answers address the three options, and other issues relating to the finalisation of the 2018 valuation.

UUK has asked our University for its initial view on the three options by 16 May. We have indicated that Option 3 is the ‘least worst’ option at the present time. This option goes the furthest in adopting the recommendations of the Joint Expert Panel and attracts the lowest contribution rates. It also involves a further valuation as at March 2020. The second phase of the Joint Expert Panel’s work will have an opportunity to influence the next valuation.

We are required to give a full response to UUK by 30 May. Meetings are being held with the local branch of UCU and an open meeting of the Staff Pensions Forum is taking place at 1pm on Thursday 23 May in Room 1.14 at 1 Cathedral Square for anyone to come along and ask questions and give their views. We will finalise our response to UUK’s consultation once we have heard from you. Alternatively, you can email coo@bristol.ac.uk to ask any questions and give your views.

The following questions and answers are not exhaustive. For further assistance in answering questions about the 2018 valuation process, please contact coo@bristol.ac.uk.

1. What has the USS Trustee proposed and what is new?
2. Why has the USS Trustee refused to implement the full JEP?
3. What is the likelihood of further delays to this process, and what is UUK doing about it?
4. Can/will the USS Trustee still impose the upper bookend?
5. What modifications to the UUK/Aon contingent contributions proposal has the Trustee suggested?
6. Why can’t employers push for a vote of no confidence in the USS Trustee Board?
7. What is the Joint Expert Panel doing now?
1. What has the USS Trustee proposed and what is new?

The USS Trustee has proposed three potential options to conclude the 2018 valuation. The first option – contributions of 33.7% (known as the upper bookend) – has previously been communicated to employers. The second option includes contributions of 29.7% (the lower bookend), combined with a significantly stronger contingent contribution arrangement than that proposed by UUK (see question 5 for more).

Following consideration of UUK’s response to the 2018 valuation consultation, the Trustee has put forward a new, third option, which proposes contributions of 30.7% payable until a 2020 valuation – a year earlier than planned. Should members and employers fail to reach an agreement over how to conclude the 2020 valuation, a default rate of 34.7% would then apply.

2. Why has the USS Trustee refused to implement the full JEP?

The USS Trustee’s reasons for not implementing all of the Joint Expert Panel’s (JEP) proposals are detailed in their formal response to Universities UK (UUK), which is available on the USS Employers website (www.ussemployers.org.uk). In short, although the Trustee has modified a number of assumptions to align with the JEP, not all of the JEP’s recommendations fall within the Trustee’s risk appetite.

We should note that the JEP’s report maintained ‘there are a number of different paths the USS Trustee could adopt to reduce the contribution rate’, and that its recommendations were illustrative of one such path.

3. What is the likelihood of further delays to this process, and what is UUK doing about it?

It remains a priority for our University to ensure that alternative arrangements are in place before the implementation of further contributions increases in October 2019 and April 2020. The timescales are certainly challenging, but if employers and members can decide on a way forward shortly after the next USS Trustee Board meeting on 16 May, then it is possible for the valuation to be completed and submitted before its statutory deadline of June 30.

For this reason, UUK has asked employers for an indication of their preferred way forward by 16 May, to ensure that progress in discussions with both USS and the University and College Union (UCU) can be made at the earliest possible opportunity.

Our initial response is that Option 3 is our preference, as it is the ‘least worst’ option at the present point in time. It goes some way towards addressing the recommendations of the JEP Phase 1 report. Staff and our University will end up paying much greater contributions for the same benefits if neither Option 2 or 3 is accepted. USS are likely to implement Option 1 to conclude the valuation within the statutory timeframe. Rejecting USS’ three options altogether is not a real option at this stage.

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response to UUK’s consultation once we have heard from you. Alternatively, you can email coo@bristol.ac.uk to ask any questions and give your views.

4. Can/will the USS Trustee still impose the upper bookend?

In the absence of an agreed alternative arrangement, the USS Trustee may elect to submit a valuation report by the statutory deadline of 30 June based on Option 1, with the required level of contributions (33.7%) shared 65:35 between employers and scheme members.

5. What modifications to the UUK/Aon contingent contributions proposal has the Trustee suggested?

To ‘strengthen’ the proposed arrangement in their view, the USS Trustee has recommended changes to the metrics applied for calibrating trigger events, and the scale of the required increases, were they to be triggered.

Specifically, the UUK/Aon proposal failed to meet the Trustee’s principles for ‘Alignment’ and ‘Quantum’. The Trustee has recommended that the stepped increases be 2%, 4%, and 6% (as opposed to 1%, 2%, and 3%), and also specified a requirement for a trigger threshold level of £4 billion, as opposed to £10 billion proposed by UUK/Aon. This significantly increases the likelihood of the contingent contributions being triggered.

6. Why can’t employers push for a vote of no confidence in the USS Trustee Board?

The USS Trustee Board includes a majority of members nominated by UCU and UUK alongside experienced independent members with expertise in pensions and finance. Wholesale changes to the composition of the USS Trustee Board would impede the chances of reaching a satisfactory conclusion to the 2018 valuation in time to implement a new arrangement before the higher cost sharing increases due in October 2019 and April 2020. Removal of the USS Trustee Board would also likely lead to intervention from the Pensions Regulator.

Phase 2 of the Joint Expert Panel is currently considering evidence on the governance of the scheme, as well as aspects of the valuation process, and is expected to report in the autumn with recommendations.

7. What is the Joint Expert Panel doing now?

The Joint Expert Panel is currently considering evidence to aid the second phase of its work, which is concerned with the valuation methodology and scheme governance. Through this work, the JEP hopes to identify a long-term, financially sustainable solution to ensure benefits remain attractive and affordable.

The panel expects to report on this phase of its work in the autumn.