University of BRISTOL

UUK USS EMPLOYER CONSULTATION SUBMISSION
MARCH 2019

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?**

   It is very disappointing that USS haven't fully reflected the JEP's recommendations in the 2018 valuation technical provisions proposal to date. We believe that the JEP's recommendations should be fully reflected, as the employer covenant is Strong, making the total contribution rate for future accrual arising from the 2018 valuation of 27.1%.

   Our expectation is that the deficit recovery contributions will follow the Aon proposal unless USS can provide strong evidence as to why the proposal is inappropriate. The Aon proposal is logical and well-reasoned. USS have not yet provided information in relation to the valuation methodology and its rationale for the approach that is being taken. The Pensions Regulator is also asking USS to identify and quantify the scheme risks. There is no other option that we can support in the absence of robust information from USS.

   The USS Trustee has stated that the JEP recommendations 'contain too much risk' for the scheme. This position underlines why 27.1% should act as the lower bookend if the USS Trustee requires a contingent contribution mechanism. We consider that the upper bookend should be 2% higher (i.e. 29.1%).

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?**

   We believe that the total contribution rate for future service should be 27.1% following the JEP's first phase work. We would, however, reluctantly support UUK making a proposal for CC arrangements to the USS Trustee in order to achieve a fair and proportionate deal for our staff. We do not agree these CC should be as high as the USS proposal. We also believe that CCs should only be payable in the case of significant and persistent downside scenarios.

   CC arrangements must only subsist until the next valuation.

3) **Do you find the proposal for a CCs arrangement set out in the Aon note of 27th February 2019 acceptable, taking all factors into account? If not, what aspects would you wish to change?**

We agree with most aspects of the trigger mechanism proposed by Aon, including the two consecutive quarter end tests and the stepped increase in contributions each time the funding trigger test is satisfied.

However, we do not believe that the triggers fully reflect a material downside event and that the probability of the triggers being met on the 30% scenario may be higher than as indicated by Aon. Our strong preference is for a 10% probability scenario for the following reasons: (1) the USS scheme has a strong employer covenant with a long-term track record; (2) the benefit of the 'last man standing' scheme structure to the Trustee; and (3) the triennial valuation process and the ability of the Trustee to call for interim valuations in response to a material deterioration in the scheme funding position are considered adequate to enable the Trustee to achieve its long-term objective of ensuring that the scheme is fully funded and able to pay future pensions that members are entitled to.

It is also strongly suggested that UUK requests the USS Trustee to review its hedging strategy to reduce the volatility of the scheme funding level and also the risk of the CC triggers being met.

We propose that CC arrangements are put in place to support the deficit recovery only, with CCs being paid by employers only on this element, which is their responsibility. No CCs should be used to support the future service accrual. CCs attaching to the future service accrual will have an adverse impact on the scheme's members/beneficiaries and are too administratively complex to be justified. The Trustee should make adjustments to the future accrual funding rate at the next valuation to reflect their latest estimate in the cost of providing the benefits being earned.