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Dear Neil and Colleagues

Thank you for your letter following up on the correspondence that we had during December in relation to the USS valuation. I fully appreciate the worry and concern associated with this difficult issue. The University is committed to providing current and future staff members with a good pension. However, the scheme must operate on a sustainable basis.

The headings that you set out in your letter have been used in the following response to address each of the points that you raise.

The default position

We share your concern about the impact that an increase in contribution levels would have on the cost of providing future pension benefits and funding the existing deficit through the adoption of a lower risk investment strategy. The merits, or otherwise, of Test 1 have been debated and it is imperfect. However, it naturally follows, regardless of the test methodology applied, that an increase in contribution levels reduces the employers' financial capacity to increase its contribution levels again in the future and therefore the Trustee can afford to take less investment risk. It is for this reason that we consider that it would damage the future of the scheme for existing and future members if the cost of current contributions were to rise more than a couple of percent. Therefore, we have backed a position of no contribution increases at this valuation.

We have taken a position of no overall contribution costs at the current valuation as we believe that contribution rates will continue to rise even under UUK's current proposal due to probable future increases in past deficit recovery contributions and rising cost of the remaining defined benefits relating to ill health and death in service. The University, along with other employers in the scheme, need to retain enough financial headroom to have the capacity to fund the pensions that members have already earned to date. It would be irresponsible for the University to take any other approach without increasing the level of risk to the pensions earned to date by existing members, the ability to make meaningful contributions to the pensions of future members and investment in the wider University community.

Funding

The University's investment plans and associated financial strategy are based upon contribution rates for USS remaining at 18% at the immediate time. Our financial plans do not envisage any cut below a total employer contribution rate of 18%.

It was agreed during the 2014 valuation that the defined benefit salary cap would be flexed at future valuations to reflect changes to the scheme. The changes that have taken place since then have been so adverse that the salary cap needs to be brought down to zero. We are open to reintroducing a defined benefit element if conditions improve, as set out in our consultation response to Universities UK in September.

Valuation

The University of Bristol's response to the consultation undertaken about the assumptions to be adopted in formulating a valuation of the USS scheme expressed a view that the University was not comfortable with the level of risk that the USS Trustees were proposing to adopt. The Pensions Regulator expressed similar concerns.

We are supportive of the level of risk that the USS Trustee is now likely to adopt following feedback from the Pensions Regulator and employers. This risk profile reflects a greater acceptance of risk by employers than was taken through the 2014 valuation.

The University considers that a continuation of the de-risking Strategy agreed in 2014 is an appropriate course of action as part of the overall risk management of the scheme. USS has significant liabilities reflecting the accrued defined benefit pension benefits that members have earned in the scheme to date. It needs to ensure that it has an investment strategy that has a reasonable probability of being able to pay these pensions in the future.

We stress that the University is comfortable with the increased level of risk that the Trustee is now proposing to take compared to the most recent (2014) valuation, but are not comfortable to take an even greater level of risk than the latest position indicated by the USS Trustees.

Defined contribution

The University was aware when agreeing our response to the September 2017 consultation that a move to reduce the defined benefit salary cap to zero and the introduction of a wholly defined contribution scheme would likely result in lower forecast pension benefits for members than a continuation of the existing hybrid defined benefit defined contribution structure.

We also considered the level of employer contribution that would likely go into a member's defined contribution and consider that at around 12% (UUK's proposal is 13.25%) that USS would remain a significantly more generous pension scheme than most others being operated today in England.

It is not possible to quantify how much worse off a member will be at the present time once the valuation is finalised and any changes implemented, as we do not yet have a proposal. There will be a consultation with all affected staff if a proposal for change is agreed by the USS Trustees. We anticipate that a suitable calculator for individuals to assess the impact of the proposals will be made available by USS to aid the consultation process. Any changes that are implemented following the member consultation may differ from the proposal in response to feedback received from staff.

Recruitment and retention

We believe that the University will be able to continue to compete through making the right balance of investments in its people, activities and infrastructure to remain at the forefront of world leading research and a high-quality student experience. The University Strategy is focussed on achieving these objectives. Individuals will make the decision to either join or remain with us because of our excellence in both research and scholarship.

The current economic environment makes it impossible for employers who offer USS to mirror the pension benefits that others can offer by virtue of the Government backing that their schemes receive. We have to make difficult decisions about how to best invest the limited resources that we have. USS is a private scheme and the changes proposed by UUK must be made to secure the future of both existing and future pension benefits. We consider that the risk to University's future is greater if the proposed changes to USS are not made than if they are.

Transparency and openness

We are not aware of any further consultation that UUK is undertaking with employers further to the consultation that it undertook during September 2017.

The University is happy to commit to producing a position statement in relation to all future employer consultations relating to USS.

Nevertheless, there are occasions when publishing the full detail of a consultation response may inhibit the free and frank exchange of views and the University may choose to redact such information, or information of a similar nature, in the future.

I do, however, urge my senior staff with responsibility for the University's pension arrangements, Unions and other engaged members of the University community to continue to regularly meet to discuss issues. This is particularly important during periods where the University is developing its policy position, which may inform our response to consultations.

It is important to be aware that the University is one of around 350 employers in USS. Our views are shared by the majority of employers who are concerned about the financial sustainability of the scheme. We could find ourselves in a much worse position for both staff and employers in the years to come if responsible changes are not made as part of the current valuation. The University of Bristol is represented by Universities UK who speak for all the employers in the scheme. The views of Universities UK and those of UCU are considered by the Joint Negotiating Committee and the USS Trustees. It is the USS Trustees who make the decisions as to the future of the USS scheme.

With best wishes



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Vice-Chancellor and President