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Dear Neil

Thank you for your recent letter setting out your concerns and seeking clarification on a number of points relating to the University's position on the USS valuation. I have used the headings that you set out in your letter to address each of the points that you raise.

### **Valuation**

The USS Trustee was proposing that the USS scheme take on materially more risk than had been accepted through the last scheme valuation in 2014. Professional advice was received, which suggested that some of the key assumptions that the USS Trustee was proposing to adopt were not appropriate, in particular, the assumption in relation to gilt rate reversion above market implied levels. We were concerned that the USS Trustee's proposed approach reflected a significant gamble on the future of both USS and the Higher Education sector. Pension risk is a serious concern for both employers and scheme members (both current and future). Benefits that have already been built up are protected by law, it is therefore inherent that employers must meet the costs of providing these benefits. However, in the case of defined benefits it can be challenging to determine just how much they will ultimately cost once they fall due.

The Pensions Regulator also expressed concern in relation to key aspects of the USS Trustee's proposed approach to the 2017 valuation and this led to the USS modifying their proposed approach back to a similar basis to the 2014 valuation. We are comfortable with this position, as we did not see any evidence to support an increase in the pensions risk profile from the current position. The University's response to the consultation did not reflect a reduction in risk appetite from current levels. We rejected the proposed increase in risk appetite. Our response does not push the USS Trustee to invest in a greater proportion of gilts and bonds. It reinforces the status quo.

## **Funding**

Were the University to contribute more to USS than the current level of 18%, it would very significantly eat into our planned investments in academic staff, student services, research equipment, new library and other necessary infrastructure. The University has made strong surpluses in the last couple of years. However, we are budgeting for a surplus of only £0.6m in the current financial year and expect that it will remain at similar levels for the new few years as we make our planned investments to ensure that the University remains strong for the future.

## **Defined contribution**

Modelling of the impact of the proposed change is available on UUK's website: [www.employerspensionsforum.co.uk/epf-news/uss-benefit-reform-modelling-member-outcomes](http://www.employerspensionsforum.co.uk/epf-news/uss-benefit-reform-modelling-member-outcomes).

The modelling considers the impact by age, as this is by far the most material factor between different scheme members. Younger members are likely to be impacted slightly more than older members who have received the benefit of more years in the defined contribution scheme and for whom the University will continue to pay past service deficit contributions to help ensure that their accrued pension benefits can be paid in the future. We believe that reform of the USS benefit structure is required at the present time to protect younger members of staff. Making the proposed changes now increases the likelihood that Universities will be able to continue to afford to make significant pension contributions to future benefits. Continuing with the existing benefit structure poses a significant risk that resources would be diverted away from younger staff in the future to pay for the accrued pension benefits of staff who have been in the USS scheme for some time. We do not assess that staff with other protected characteristics are likely to be adversely impacted by UUK's proposal. 45% of members have taken up the DC match.

## **Recruitment and retention**

The University has considered the potential impact on staff recruitment and retention that a move to a defined contribution only scheme would have. However, we don't consider that the costs associated with continuing with USS in its present form are sustainable. The additional cost would be c£18m a year or c£11m if employee contributions increase by 50%. Additional investment in staff pensions is not affordable without taking money away from the investments that we are making in the student experience, improving staff student ratios, new fellowships for early career researchers, the new University Library and the Temple Quarter Enterprise Campus. Each of these initiatives is a critical enabler to the delivery of the University Strategy and is necessary to ensure that the University continues to be successful. Our people will be an integral part of the University's future success. We are committed to providing a strong pension offering to all staff. Making this very difficult change now is the right thing to do to ensure that the University will have the financial means to provide good pension benefits to future generations of staff. Continuation with defined benefit accrual at the present time would pose the risk of significant additional costs that future generations will need to pay for.

We made it clear in our consultation response that we are open to re-introducing defined benefits again in the future if there is a change in circumstance and they become affordable again.

USS does not benefit from the Government backing that the Teachers' Pension Scheme has. However, we believe that we can compete with institutions who still offer defined benefit pension arrangements for the best staff due to investment that we make in people and facilities and our strong global reputation. The investments that we making to deliver the University Strategy will reinforce and enhance our position in an increasingly competitive global market.

### **Exclusivity**

The impact on the USS scheme's cash flows of an end to the existing exclusivity provisions would depend on the terms associated with making such a change. It is reasonable to assume that each participating employer would remain responsible for their share of the scheme liability at the date that the exclusivity provisions ceased. Each employer would continue to make contributions in respect of their share of the past service deficit until the deficit associated with their members up to the date of the end of the exclusivity period was extinguished. There would not be any adverse impact on the scheme's cash flows on this basis.

### **Transparency and openness**

The University is committed to being open and transparent. We recently released most of the University's response to the 2014 consultation, which was previously withheld in full. Limited sections of the 2017 USS consultation response have been withheld where they relate to ongoing matters that are subject to negotiation. We will be as open and transparent as we can be going forward to the extent that their release would inhibit the free and frank exchange of views and provision of advice for the purpose of deliberation. Similarly, we would not expect UCU to disclose their position in relation to the most sensitive of matters under negotiation. 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, but the scheme must operate on a sustainable basis.

The University will be holding a series of consultation events for staff in January when there will be an opportunity to discuss these matters in more detail. They will be taking place at 12.30PM on Thursday 11<sup>th</sup> January and Monday 15<sup>th</sup> January in the Priory Road Lecture Theatre. I do encourage you to attend and to let other colleagues know that they will be taking place.

Please share this letter with your co-signatories.

With best wishes over the holidays.



Professor Hugh Brady  
**Vice-Chancellor and President**