

## HOI note: An update from USS on progress with the 2020 valuation

Colleagues,

On behalf of everyone at USS, I hope you are safe and well in these difficult times. I write to report on progress with the 2020 valuation and to set out the next steps in the process. I want to thank you for your early and constructive engagement on these issues against such a challenging backdrop.

### Your views

We are today publishing an update covering employers' responses to our [discussion document](#). This also sets out how we will reflect those responses when we come to consult UUK on the proposed Technical Provisions for the 2020 valuation.

[You can read the update here](#). The headlines are as follows:

- Employers recognise the challenges that current conditions present and want to engage constructively through the valuation process.
- Employers broadly support:
  - our valuation principles
  - our proposed methodology including using one 'discount rate' for pensioner members and another for all other members
  - continuing to explore taking moderately more investment risk over the longer-term than envisaged in our last valuation.
- Some progress has been made in securing the commitments from employers made as part of the 2018 valuation to underwrite the risks the scheme takes to fund members' benefits.
  - UUK is about to consult employers on a proposed framework for the debt monitoring and pari passu arrangements.
  - However, further work is needed to confirm a long-term rule change on employer exits
- The current economic uncertainty has emphasised the need for confidence in both the enduring strength of the employer 'covenant' and the assurance that it can be called on if and when needed. A strong covenant, made explicitly available to the Trustee, can allow us to place a higher dependency on future investment returns in funding pension promises, potentially reducing the cost of contributions we might otherwise need.

### What next

As we extended by two weeks the time employers were invited to respond to our discussion document, we now expect to launch our consultation with UUK in late July.

In line with our earlier commitments, we plan to consult on the assumptions underpinning the scheme's Technical Provisions, as well as the material details of the Schedule of Contributions, the Recovery Plan and the Statement of Funding Principles, at the same time. This will provide as full a picture as we can, as early as possible, of the overall contribution rate we are likely to need – and the key dependencies.

In light of responses to our discussion document, we plan to hold three further meetings of the Valuation Methodology Discussion Forum. These will explore the resilience of proposed

funding strategies through different adverse scenarios and will inform our risk metrics and risk management framework.

### **Continuing with the valuation**

Long-term trends and influences – including better life expectancies, greater regulation, volatile financial markets and persistently low ‘real’ interest rates – have combined to make the promise of a fixed, inflation-protected income for life in retirement more expensive. In fact, USS is one of the few remaining private defined benefit pension schemes in the UK still open to new members.

Concerns about the impact of Covid-19 on the long-term prospects for the Higher Education sector, together with the likely adverse effects on the global economy, are adding to these challenges.

We will shortly be publishing on our website the funding monitoring plan updates that have been regularly provided in the past to the JNC, to UUK’s EPF, and to other forums. These updates currently relate to the 2018 valuation monitoring basis.

The current funding plan includes increased contributions scheduled from 1 October 2021, under the 2018 valuation. These arrangements continue unless and until they are superseded by completion of the 2020 valuation.

We are working hard to ensure the security of the pensions being promised to our members.

So, having reflected on [the Pensions Regulator’s guidance](#) for schemes currently holding valuations, we feel it is important to proceed as planned with the 2020 valuation.

We will, however, keep the timetable under review.

We will also continue to work with UUK to look in detail at the covenant support that could be provided to the scheme, including possible commitments or expressions of risk appetite and risk capacity that would be acceptable to employers and that could further support the final covenant position.

The Trustee board expects to receive further advice in the early autumn, reviewing the enduring resilience of the HE Sector in the wake of Covid-19. This could also potentially impact on the covenant rating used for the 2020 valuation.

Thank you for continuing to discuss these important issues with us. We will continue to engage with you and our stakeholders throughout the process.

**Bill Galvin, *Group Chief Executive***