15 February 2022

## Clarificatory note on UCU's proposals for addressing the 2020 valuation

We have confirmed there is no operational impediment to implementing those elements of UCU's proposals that deliver an outcome for the 2020 valuation.

That is:

- Agreeing additional covenant support measures with employers
- Funding current benefits through a schedule of escalating member and employer contributions

This requires employers to commit to providing the necessary covenant support and means UCU and UUK representatives on the Joint Negotiating Committee (JNC) agree to commit to member and employer contributions escalating, as set out in the table below, to 13.9% and 29.1% respectively.

| Date | Employer contribution rate | Member contribution rate | Total contribution rate |
|---|---|---|---|
| **1 April 2022** | 23.7% | 11% | 34.7% |
| **1 October 2022** | 25.2% | 11.8% | 37% |
| **1 April 2023** | 26.5% | 12.5% | 39% |
| **1 October 2023** | 27.8% | 13.2% | 41% |
| **1 April 2024 until end of recovery plan** | 29.1% | 13.9% | 43% |

The affordability of these contributions is a matter for the JNC to decide. Our primary legal duty as Trustee is to protect the benefits promised to USS members. The JNC – made up of UCU and UUK representatives – decides what benefits are provided by the scheme, and how the contributions required to fund those benefits are shared between members and employers.

Points to note:

1. Total rates collected would be impacted if member opt-outs increased as a result of higher contributions.

2. In terms of the impact on employers, our advisors have told us that affordability varies considerably across the sector and there are some institutions which may find higher contribution rates challenging, particularly over a sustained period of time. Our advisers have recommended that increases are phased in over time to allow employers the time to make necessary changes to their business models.

3. We have not had sufficient time to obtain The Pensions Regulator's views on the UCU proposal but note that it has previously (in its letter of 24 September 2021) reserved its position in relation to the higher contributions required under 'Leg 2' of the Schedule of Contributions filed in September.

We have not commented on other aspects of the UCU proposals, which would be independent of the outcome of the 2020 valuation. We understand that the other aspects of the UCU proposals, and how they might take effect in practice, are still being discussed by the stakeholders.

If a formal request were made by the JNC to consider a 2022 valuation – separate to discussions in respect of the 2020 valuation – the Trustee Board would consider it at that time.

Our initial assessment is that it would be extremely challenging to complete the required processes in time (as part of a 2022 valuation) to intercept the contribution increases for members and employers that would otherwise apply from 1 April 2023 under UCU's proposal (per the table above).

There are certain statutory requirements that must be met by the Trustee in completing a valuation, and in relation to making changes to contributions and/or benefits – including consultations.

There are also a number of factors outside of the Trustee's control – including the wider financial and economic backdrop and the interactions with stakeholders and The Pensions Regulator – which mean, irrespective of the Trustee's resources or commitment, a valuation could meet with delays.

We note, to this end, that the scheme's last four full actuarial valuations have met with delays and were each filed after the statutory 15-month deadline.