

Colleagues,

In [my note before Christmas](#), I gave an account of the Trustee Board's careful consideration of the critical next steps in the 2020 valuation.

Discussions with the Pensions Regulator (TPR) and our advisors continue. This stage has taken longer than anticipated, reflecting the importance of the outcome: our conclusions as to the cost of funding the Scheme's current benefits under different covenant support scenarios.

These conclusions will be set out in the actuarial report and contribution determination due to be issued to the Joint Negotiating Committee (JNC) under Rule 76.

Due to our ongoing discussions with TPR, we now expect this to be ready in February. It will be accompanied by a comprehensive update from us on the key related issues of interest to our stakeholders. This will set out, among other issues, our position on the Joint Expert Panel's recommendations, UUK's response to the Technical Provisions consultation, the discount rates and prudence, the Recovery Plan, and the timeline and key milestones for progressing the valuation.

Attention will then turn to the decisions UCU and UUK will need to make, through the JNC, as to how any overall increase to contributions will be met: through the design of the Scheme's benefits and/or its contribution structure.

We stand ready to support our stakeholder's discussions to this end and are committed to achieving the best outcome possible for our members and their employers in very difficult conditions.

The passing of time since the valuation date has not mitigated the challenges we face. The funding position has, if anything, deteriorated since 31 March 2020 and is now even more pressing. Financial markets continue to signal that investment returns are likely to be lower in future than we expected in the past.

You will recall that the 2018 valuation set contributions at **28.7%** to fund new USS pensions (the 'future service cost') and 2% (rising to 6% from 1 October 2021) to recover a **£3.6bn deficit** in respect of pensions already promised. Assets at 31 March 2018 stood at **£63.7bn**.

As shown in our [Financial Management Plan reports](#) (which track progress, or otherwise, against the 2018 valuation's funding assumptions), the future service cost and deficit were tracking at **36.7%** and **£15.2bn** respectively at the end of April 2020. Assets stood at **£71.1bn** – having fallen from £74bn in February to as low as £64.3bn in March.

By the end of November 2020, the future service cost and deficit were tracking at **45.2%** and **£23.9bn** respectively, while assets stood at **£78.8bn**.

The net effect is that a recent recovery in asset values has been offset by a poorer outlook for expected future investment returns.

If we expect investments to generate less income over the long-term than we assumed in the past, the pensions promised to our members by their employers are at risk of being under-funded. As Trustee of the Scheme, it's our job to make sure that these promises are kept.

We acknowledge and appreciate the challenges this presents to all parties.

We are committed to finding a way forward in fulfilling our legal and regulatory responsibilities that allows us to work with Higher Education employers to build secure financial futures for our members

and their families, through a valuable and high-quality pension, and that puts the Scheme on a sustainable footing.

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