The following note was issued to heads of participating institutions on 23 July 2021

Colleagues,

The Trustee Board met on Tuesday and, among other things, considered the case for a 2021 valuation.

The views we have received from stakeholders on this point have been very welcome. They have tested and informed our own thinking. We recognise that, for a number of reasons, some stakeholders believe there could be benefits from conducting a valuation at March 2021, a date when somewhat more normal conditions had returned to financial markets.

However, for the reasons set out in a separate briefing note, we do not believe it would deliver a materially different outcome to that of the 2020 valuation. While we compensated for exceptional market conditions as at 31 March 2020, the same adjustments would not automatically carry over to a 'more normal' 2021 valuation. We would, as a result, still expect to have a multi-billion-pound deficit and a rising future service cost that, together, would suggest an overall contribution rate of around 31.6%.

This indicative outcome is based on the benefit changes and covenant arrangements UUK has recently consulted employers on for the 2020 valuation. A 2021 valuation would be more challenging if those arrangements are not agreed and cannot be carried across. Market conditions could also deteriorate. The government's Autumn higher education sector funding review could potentially have a material impact on affordability for certain employers.

We have also been given a clear indication of how The Pensions Regulator could respond to any further delay in completing the 2020 valuation, and how it would expect us to approach a 2021 valuation.

The 2020 valuation must be completed in any event. We are now just a few weeks away from the deadline by which the Joint Negotiating Committee committed, to that end, to make decisions on covenant support and benefit reform. If it does, and the associated contribution rate required to fund the agreed benefits are some way below 34.7%, we could consider the possibility of intercepting October's scheduled contribution increases. Members will otherwise start to contribute 11% of salary, with employers paying 23.7%. Even more potential members may choose to opt out of the Scheme the longer the 11% rate is in place.

While the outcome of a 2021 valuation would be subject to consultation with UUK and could ultimately move marginally (for better or worse), it would not substantially change the scale of the challenge before us today. Nor would it address the fundamental structural challenges and increasing economic cost of funding 'guaranteed' defined benefit (DB) pensions.

The Board has therefore concluded – having considered the advice of the Scheme Actuary, the views of TPR, and the perspectives of the stakeholders – that there are not compelling grounds to commission a 2021 valuation.

The Board also considered a request from UUK to review whether we can fund its benefit proposals, based on modified covenant support, for 30.7% of USS payroll. The rationale for setting the rate at 31.2% was only considered by the Board on 8 June and has not changed. The reasons for this were explained in my letters to UUK of 9 June 2021 and 28 June 2021. We are, however, happy to work with UUK to consider any further adjustments or modifications that could be proposed to achieve a contribution rate lower than 31.2%.

As we work through the next stages of the 2020 valuation, we wish to focus on addressing members' and employers' immediate concerns about the affordability and value of the benefits offered by the Scheme – with October's increases front of mind.

We can then look to the future and turn our collective energies to finding lasting and sustainable solutions.

We look forward, to this end, to working with stakeholders on other key issues that need to be resolved and have been raised in consultations. In particular, we are keen to address the challenges cited by some members of the suitability of the USS offering for those with short tenure and mobility (including international mobility).

We would also welcome the opportunity to work with stakeholders on the design of alternative benefit arrangements, such as conditional indexation, where careful thought will be required on policy matters.

We are also keen to discuss how scheme governance can be improved, so that USS can continue effectively to evolve and remain one of the best private pension offerings in the country.

Report and Accounts
Please also note we will be publishing the Scheme's Report and Accounts for 2020/2021 on our website by or before 30 July.

Dame Kate Barker
Chair, USSL Trustee Board