Joint Expert Panel recommendations in summary

The recommendations in JEP 1 (page 52) – *specifically related to the 2017 valuation*		
Recommendation	**Owner(s)**	**Status**
A re-evaluation of the employers' willingness and ability to bear risk – this would mean re-assessing the reliance on sponsor covenant.	USS & UUK	This was addressed by holding a further valuation as at 31 March 2018. For the 2020 valuation we removed 'Test 1' and adopted a dual discount rate (DDR) approach, as recommended in the JEP's second report. We have also consulted with employers on the methodology for determining the risk that they are willing and able to support (the Available Risk Capacity). The change in methodology leads to a much larger long-term 'risk budget' and taking more risk in the long-term (see Appendix D of our March 2021 Trustee Update). It assumes less de-risking than the 2018 valuation and involves being tens of billions of pounds away from self-sufficiency over the long term while the Scheme remains open (provided this can be justified by the covenant - see Appendix A of our Trustee Update). The amount of risk taken in the 2020 valuation reflects the 'strong' covenant provided by the employers, the commitments they have made to help maintain that rating, and the Joint Negotiating Committee's (JNC) recommended benefit changes.
Adopting a greater consistency of approach between the 2014 and 2017 valuations – this would mean changing the approach to deficit recovery contributions.	USS	The 17-year deficit recovery plan for the 2017 valuation included an allowance for better than expected investment returns (known as 'out-performance'). No out-performance was allowed for in the 2018 valuation's 10-year recovery plan due to the overall risk position at that time. We have since adopted an 18-year recovery plan for the 2020 valuation and have, again, included an allowance for outperformance.
Achieving greater fairness and equality between generations of Scheme members – this would mean smoothing future service contributions.	USS	No smoothing was adopted for the 2018 valuation due to the overall risk position at that time. For the 2020 valuation, we have included an allowance for outperformance in the Recovery Plan – a form of smoothing that allows for positive post-valuation experience in respect of the deficit. We have not allowed for any other kinds of smoothing. The future service contributions have, however, continued to increase since 31 March 2020, so any smoothing from that date would imply higher contributions than have been set under the 2020 valuation.

Ensuring the valuation uses the most recently available information – this would mean using latest available data and taking account of recent investment considerations and outcomes.	USS	This was addressed by holding a further valuation as at 31 March 2018. Before we filed the 2020 valuation, we considered post-valuation experience – including the likely outcome of a 2021 valuation (which we do not believe would be materially different).
Taking the uniqueness of the Scheme and the HE sector more fully into account.	USS [& The Pensions Regulator]	The 2018 valuation was concluded on the basis that the covenant was 'strong', but on negative watch, following Trinity College Cambridge's decision to leave the Scheme. This was in conflict with The Pensions Regulator's (TPR) view that it was 'tending to strong' and employer affordability was constrained. For the 2020 valuation, we commissioned extensive analysis of the covenant to assess the economic impact of the pandemic on the sector – as set out in our Trustee Update. We concluded that the covenant is still 'strong' and showed remarkable resilience during the pandemic – but we required debt monitoring and *pari passu* arrangements (in relation to any new secured debt taken on by employers) to protect that position.
The principal recommendations from the JEP's second report (Page 120)		
Recommendation	**Owner(s)**	**Status**
PRINCIPLES TO UNDERPIN THE VALUATION: A new purpose statement should be jointly agreed by UCU, UUK and the Trustee to establish a shared vision for the Scheme.	UCU & UUK	A purpose statement for the Scheme has been agreed by UCU and UUK, which sits alongside the Trustee's existing purpose statement.
PRINCIPLES TO UNDERPIN THE VALUATION: Shared Valuation Principles should be agreed between UCU, UUK and the Trustee that will lead to a mutually agreed outcome for a valuation that supports the Scheme's sustainability.	UCU, UUK & USS	These have been agreed.
VALUATION GOVERNANCE: To help rebuild trust, the Trustee Directors should be more visible to, and engaged with, the Stakeholders.	USS	Trustee Board directors have attended every Valuation Methodology Discussion Forum (VMDF) meeting, JEP tripartite meeting and formally scheduled JNC meeting (outside of the main negotiation period July-September 2021) since January 2020.

VALUATION GOVERNANCE: The Trustee should establish funding and valuation sub-committee to provide greater focus for the Stakeholders.	USS	We established a Valuation Methodology Working Group (VMWG) in late 2019 comprising of members of the USS executive, three Trustee Board directors (one UUK appointed director, one UCU appointed director and one independent director) and the Scheme Actuary. Directors on the VMWG then attended the VMDF, which stakeholder representatives and their advisors were invited to join. We engaged extensively with UCU and UUK through the VMDF (see Appendix A of the Technical Provisions consultation document) and the tripartite meetings held to progress the JEP's governance-related recommendations.
VALUATION GOVERNANCE: The Trustee and JNC should establish a joint forum on valuation to facilitate a common understanding of issues relating to the valuation.	UCU, UUK & USS	We engaged extensively with UCU and UUK through the VMDF meetings (see Appendix A of the Technical Provisions consultation document). We have also published some of the key analytical outputs.
VALUATION GOVERNANCE: Steps are required to improve the effectiveness of the JNC, including greater consistency membership and consideration of removing Chair's casting vote.	UCU & UUK	We have facilitated UUK and UCU's consideration of the effectiveness of the JNC, employer and member representation, and member needs and stand ready to engage further with the stakeholders on any forthcoming governance reviews.
VALUATION GOVERNANCE: A more radical approach should be considered including a high-level Steering Committee to agree issues relating to the future direction of the Scheme.	UCU & UUK	17 tripartite meetings were held between January and December 2020 to progress the governance-related aspects of the JEP's second report and it was proposed that a Strategic Discussion Forum could be established between UCU & UUK to continue this work.
VALUATION GOVERNANCE: Consideration should be given to employer representation in the Scheme, given UUK's primary responsibility as a co-ordinator of cross-sector collaboration.	UUK	This is primarily for UUK to consider.
VALUATION GOVERNANCE: UCU should take steps to demonstrate it represents all sections of the membership and potential members.	UCU	This is primarily for UCU to consider.

ALTERNATIVE PATHS TO THE VALUATION: A simpler and more appropriate valuation methodology is possible that meets the needs of employers and members and reflects the Scheme's demographics, cashflows and covenant.	USS	The Dual Discount Rate (DDR) approach we adopted for the 2020 valuation reflects the open nature and maturity of the Scheme and leads to a much larger long-term 'risk budget' and taking more risk in the long term. By assuming a flatter, long-term risk profile with less de-risking than assumed in 2018, it also supports a more sustainable approach. The amount of risk taken in the 2020 valuation reflects the 'strong' covenant provided by the employers, the commitments they have made to help maintain that rating, and the JNC's recommended benefit changes. The DDR approach also reflects the scheme's existing demographics and will respond to changes in the balance of the same over time as the Scheme matures and the proportions of pre- and post-retirement members change.
ALTERNATIVE PATHS TO THE VALUATION: The starting point for a new valuation methodology should be the acknowledgement of the purpose of the Scheme, a re-articulation of the Trustee's and employers' risk appetites and a recognition of the risk appetite of members.	USS	As above. See also our Discussion Document of March 2020. The DDR approach recognises the risk appetite of members in as much as it *implies* allocations to return-seeking and low-risk assets relative to the proportion of liabilities assigned to active and retired members respectively.
ALTERNATIVE PATHS TO THE VALUATION: Consideration should be given to adopting a dual discount rate approach to the valuation that would better reflect the profile of the Scheme. And by evolving automatically as the Scheme matures, it would anticipate the requirements for a long-term funding target.	USS	UUK said 83% of employers who gave a view, representing 84% of our active membership, supported the DDR approach. We have also removed 'Test 1' and adopted a new Integrated Risk Management Framework (IRMF) that allows us to consider a higher allocation to return-seeking assets than the DDR approach implies. Taken together, this means we have effectively adopted the long-term funding objective suggested by the JEP (page 58): *"USS aims to be fully funded on a Technical Provisions basis where Technical Provisions are valued on a low-risk self-sufficiency basis for post-retirement years and on a prudent on-going basis for the pre-retirement years. The Scheme will also ensure that, at all times, the proximity to full self-sufficiency assessed on a low-risk basis can be supported by employers over an appropriate time frame if the Scheme were to be closed to future accruals."*

TAKING ACCOUNT OF THE NEEDS OF MEMBERS: Stakeholders should investigate different approaches to contributions as part of a move away from one-size-fits-all approach. This could help address the high level of Scheme opt outs.	UCU & UUK	Matters of benefit design are rightly matters for the JNC and so UCU and UUK have the ability through the JNC to discuss the causes of opt-outs and withdrawals from the Scheme and to propose potential changes to its design that could address these issues. The Trustee stands ready to support the stakeholders in their deliberations on this matter, as we have done to date. We have shared new data and as much information as we can with the JNC and the JEP tripartite group for UCU and UUK to consider the trends we have been seeing: one in six people joining the Scheme are currently opting out. Data from a subset of employers collected from the start of 2019 shows that between a quarter and a third of members who opted out put their decision primarily down to affordability reasons. The second and third most common reasons selected were being on a fixed term contract and having plans to move out of the UK in the future.
EXPLORING MUTUALITY: Mutuality is a strength of the Scheme and the sector. Weakening its mutuality would damage the Scheme.	UUK	For the 2020 valuation, employers have agreed to a 20-year moratorium on exiting the Scheme without the Trustee's consent. We have set out in a separate note how employers' commitments to the Scheme will be reflected in future valuations.

Other notes relevant to the JEP's reports:

Using 'gilts+' and 'CPI+' pre-retirement discount rates

Prudence in the 2020 valuation

Trustee Update (3 March 2021)