

## The following note was sent to heads of participating USS employers on Monday 7 September

Colleagues,

We have today launched our consultation with UUK on the key aspects of USS's 2020 valuation.

The [consultation document](#) is available on the [USS website](#) and covers the proposed methodology and assumptions to be used in setting the Scheme's 'technical provisions'.

We have illustrated a wide range of possible, indicative outcomes to the valuation. This range is necessary, as there are a number of covenant-related factors outside our control that could change and which will be critical to the overall valuation outcome.

We are seeking UUK's feedback on these very issues.

Based on the proposals put forward for consultation, and depending on the extent to which employers are able and committed to supporting the scheme, the fund's deficit at 31 March 2020 could range from £9.8bn to £17.9bn.

Similarly, the illustrative cost of continuing to offer the current benefits (the 'future service cost') ranges from 29.4% to 37.6% of payroll. When the cost of repairing the deficit is considered, the total contributions illustrated range from 40.8% to 67.9% of payroll.

The wide range of potential, indicative outcomes we've illustrated reflects that the covenant support measures identified by PwC – [first formally discussed with employers by UUK in June last year](#) – have not yet been resolved. It also reflects the uncertainties currently facing the HE sector and turbulence in financial markets.

However, they have only been illustrated at this stage to provide you with a view of the valuation "in the round". The Schedule of Contributions, the Recovery Plan and the Statement of Funding Principles will be consulted upon later in the process.

This consultation is on the proposed methodology and assumptions, and the response from employers (via UUK) on appetite and ability to support investment risk taking in the Scheme will be critical.

We realise that the HE sector faces considerable challenges and we are acutely aware of just how unwelcome the prospect of paying more for pensions will be. We also recognise that the contribution rates we've illustrated are unlikely to be considered affordable or sustainable by either employers or our members.

But employers promise our members retirement benefits regardless of what happens to the economy in the future. These promises are highly valued by our members, and our responsibility is to ensure that a USS pension remains a valued promise of security in retirement.

The hard reality is that persistent low interest rates and greater uncertainty of future investment returns have created an environment where the valuable pension promises made to members have become increasingly expensive.

As we set out in [the latter stages of the 2018 valuation](#), there are steps employers can take to mitigate the impact of these challenges by strengthening the covenant.

Employers will have until 30 October 2020 to provide UUK with their feedback on the consultation. UUK will then have until 11 November to provide us with a consolidated response.

Thereafter, the Trustee will finalise its view of the contributions needed to fund the current benefits structure, having regard to the outcome of the consultation and any progress on the covenant support measures more generally.

UUK and UCU representatives on the Joint Negotiating Committee (JNC) will then determine how any change in the overall contribution rate will be met and shared between employers and members. If no decision is reached by the JNC, the scheme's cost-sharing provisions will come into play.

By law, we have until 30 June 2021 to file the 2020 valuation with the Pensions Regulator.

We are organising briefings and webinars to support engagement with employers and will be in touch with more details soon.

But we would also very much welcome the opportunity to meet with you and your management teams individually, or through any established forums at your institution, to explain our position as Trustee and to discuss the critical issues in play.

Please do not hesitate to get in touch if this would be of interest.

For now, I would like to thank you for your time and attention at what I know is an incredibly difficult time.

We gave careful consideration as to whether we should have deferred the valuation given the unprecedented circumstances in play – but we had to address a deteriorating funding position.

Proceeding as planned with the 2020 valuation allows us to pursue a considered response to these conditions. Under the framework for the 2018 valuation, we would otherwise have had to consider looking urgently at increasing employer contributions or other covenant support commitments.

Ultimately, we are here to work with Higher Education employers to build a secure financial future for our members and their families. We are committed to working with our stakeholders, UUK and UCU, as they consider how to respond to these challenges, and to working with stakeholders to ensure USS is a sustainable scheme.

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