

**Dame Kate Barker**  
Universities Superannuation Scheme

**By email only**



**The  
Pensions  
Regulator**

Making workplace pensions work

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14 July 2021

Dear Dame Kate,

**Universities Superannuation Scheme (the Scheme or USS)  
Actuarial valuation as at 31 March 2020 (the 2020 Valuation)**

1. On 29 June 2021 we held a call with the Trustee Executive to discuss their views on conducting a possible actuarial valuation as at 31 March 2021, which we understand has been raised by stakeholders.
2. Following this call we were asked to provide some high-level comments relating to our expectations should the Trustee decide to conduct a 2021 valuation, which could be shared with the Joint Negotiating Committee at its meeting on 6 July 2021.
3. We indicated that we would follow up our initial comments in a letter to the Trustee. The purpose of this letter is to provide our more detailed observations. We have provided a copy to representatives of Universities UK (UUK) and University and College Union (UCU) and to the Chair of the Joint Negotiating Committee. We take this opportunity also to provide some brief comments on the step-up in contributions which will take place in October.

**Continuation of the 2020 valuation**

4. In its note of 3 March 2021, *USS Briefing: Why we decided to proceed with the 2020 valuation*<sup>1</sup> the Trustee explained that continuing with the 2020 valuation was the most measured response to the Scheme's deteriorating funding position, in accordance with its monitoring framework, and noted the opportunity (which it is taking) to consider post-valuation experience in agreeing the funding assumptions and recovery plan. The rationale for the Trustee to carry out and complete a valuation as at 31 March 2020 remains. We expect the Trustee to do this without delay, regardless of any decision in relation to a potential 2021 valuation.

**Consideration of a 2021 valuation**

5. As we explained in our "2020 actuarial valuation Q&A" (1 April 2021), our primary role is to ensure compliance with the statutory funding framework under Part 3 of the Pensions Act 2004 (Part 3). We expect that the Trustee, with the stakeholders, should reach an

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<sup>1</sup> [https://www.uss.co.uk/-/media/project/ussmainsite/files/about-us/valuations\\_yearly/2020-valuation/march-31-2020-valuation-date.pdf?rev=5131ad9118334ef5a03e8f1027d62480](https://www.uss.co.uk/-/media/project/ussmainsite/files/about-us/valuations_yearly/2020-valuation/march-31-2020-valuation-date.pdf?rev=5131ad9118334ef5a03e8f1027d62480)

appropriate and sustainable solution to the Scheme's funding needs and should do so efficiently.

6. It is not our role to supplant trustee decision-making and therefore, appropriately, the decision whether to conduct a 2021 valuation is a matter for the Trustee. Part 3 requires the Trustee to state in the statement of funding principles the intervals at which valuations will be undertaken and the circumstances in which it will consider whether to obtain additional valuations.<sup>2</sup> Accordingly, the Trustee has stated that additional valuations may be undertaken where it is necessary to do so (and is an effective use of its resources) in the context of its monitoring of funding between valuations. If the Trustee is minded to depart from this principle it should<sup>3</sup> review and revise its statement of funding principles in consultation with the employers. Subject to this the Trustee is free to obtain a 2021 valuation if it considers that course to be appropriate in light of its trustee duties. In this letter we have set out our expectations and approach in the event that the Trustee decides to take this step. We are mindful that any decision would be a significant one and that from a purely financial point of view the USS Executive has said that the cost is estimated to be millions of pounds.

### **Impact on the 2020 valuation**

7. As you will be aware, the Trustee is in breach of Part 3 because the statutory deadline (30 June 2021) for the 2020 valuation has now passed and no actuarial report has been obtained for 2020.<sup>4</sup> The latest timetable which you have provided indicates that the earliest date by which the 2020 valuation could be completed is now March 2022, although we understand there are several factors which could lead to further delay.
8. We understand the Trustee considers that the commissioning of a 2021 valuation will tend to add additional risk and uncertainty into the 2020 valuation process. The Trustee should consider the risks carefully in the light of its statutory and trustee duties. To the extent possible, these risks should be mitigated by concrete and realisable contingencies. For our part we would also need to consider what mitigating actions we could take to seek to reduce further delay to the 2020 valuation. For example, one of the options it may be appropriate for us to consider would be to set out a timetable for completion of the 2020 valuation in the form of an improvement notice.<sup>5</sup>
9. Looking more generally at the question of enforcement, our approach so far has been based on our wish for the Trustee (with the stakeholders) to reach a sustainable funding solution without undue delay, and their willingness and ability to do so. We are concerned that the most recent valuation timetable shows that completion will be later, and possibly much later, than we had envisaged. We reserve our position on this breach of law and note that we would become less tolerant of delay if the Trustee added risk into the process without a clear justification, or the stakeholders no longer demonstrated willingness to reach a sustainable funding solution as soon as possible. Any decision by the Trustee to conduct a 2021 valuation should not be seen as an opportunity by stakeholders to avoid or defer difficult decisions, making it less likely that an appropriate, sustainable outcome can be reached for the 2020 valuation in a reasonable timeframe.

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<sup>2</sup> Pensions Act 2004, s223(1); Occupational Pension Schemes (Scheme Funding) Regulations 2005, reg 6(1)(f).

<sup>3</sup> Pensions Act 2004, s223(1)

<sup>4</sup> Pensions Act 2004, s224(1) which requires trustees to obtain actuarial valuations at intervals of not more than one year, or if they obtain actuarial reports for the intervening years, at intervals of not more than three years.

<sup>5</sup> Pensions Act 2004, s13.

### **Market conditions as at 31 March 2021 and implications for the recovery plan**

10. Should the Trustee decide to commission a valuation as at 31 March 2021, we would expect more normal parameters for recovery plans to apply given the financial conditions at that date. Our tolerance of the proposed recovery plan length and the recovery plan investment outperformance assumption for the 2020 valuation is influenced by the unusual circumstances at 31 March 2020, and is supported by positive post-valuation experience since then. The circumstances as at 31 March 2021 would not seem to justify a similar approach. This means that:
  11. A shorter recovery plan with lower investment outperformance, reflecting the more normal market conditions at 31 March 2021, would be appropriate in our view.
  12. If there is a bigger deficit in 2021 than the valuation in 2018, which appears to be the case based on the preliminary numbers we have seen, the starting point for discussions about deficit repair contributions (DRCs) should be at least 6% of salaries. This is the level of DRCs which is payable from 1 October 2021 in the recovery plan agreed following the 2018 valuation.
  13. The Trustee may choose to consider whether it can get comfortable with receiving DRCs which are marginally less than 6% of salaries. However, we would not expect anything materially below that level.

### **How we would attribute value to the moratorium for a 2021 valuation**

14. In our feedback we have said that the moratorium proposal is a factor which can justify some lengthening of the recovery plan relative to normal parameters. Employers may therefore see a shorter recovery plan as an opportunity for a shorter moratorium. We have, however, also been clear that the moratorium, alongside the other covenant assessment measures, is relevant to our assessment of the valuation overall, including the valuation assumptions. We consider that the longer moratorium is important to help support the risk of the Scheme's funding position deteriorating in future. By having the moratorium in place, the Trustee can place greater reliance on the employers' support and contributions over a longer period, which may be required if the Scheme's funding does not improve as expected and an additional deficit emerges.
15. Similarly, the length of the moratorium forms part of the Trustee's overall assessment of the covenant (PwC, the Trustee's covenant adviser, has said that the longer moratorium made the covenant somewhat stronger in its view).
16. Employers should therefore be aware that any shortening of the moratorium length under a 2021 valuation would have implications for our (and we would expect, the Trustee's) view of the appropriate valuation assumptions and required contributions.

### **Our assessment of a 2021 valuation**

17. If the Trustee chose to proceed with a 2021 valuation we understand that the Trustee has considered whether this could be carried out using a streamlined process. We would expect the Trustee to ensure the adequacy of the process followed, including legislative compliance. We would review any 2021 valuation in the normal way, consistent with our usual risk-based approach.
18. We recognise that there are challenges in seeking to run a streamlined valuation process and that in practice this may not be achievable despite the Trustee's intentions. In particular, a streamlined process may be difficult to progress if the current covenant support measures and/or benefit reform under consideration were revisited.

19. A streamlined valuation process would also be difficult if a comprehensive covenant review was required. Such a review could be required to understand the impact of the government's Autumn higher education sector funding review, which could potentially have a material impact on affordability for certain employers. We also note that this may be a factor in finalising the 2020 valuation.

**October 2021 scheduled increases to contributions**

20. The current contribution rate of 30.7% of salaries is significantly below the indicative future service contribution for current benefits for both a 2020 valuation (33.6%) and a 2021 valuation (currently estimated at 36.7%). The level and structuring of contributions under the 2018 valuation was considered appropriate in 2019 when the recovery plan and schedule of contributions were settled. Since then we have seen an increase in the deficit and in future service costs. No obvious rationale for deferring the October increase presents itself, but we will consider our position further should the Trustee consider any proposal to do so.

21. We would be happy to discuss any of the points raised in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Birch', written in a cursive style.

Mike Birch  
**Director of Supervision**

Copied by email to:

Judith Fish, JNC Chair

Alistair Jarvis, Chief Executive, UUK

Justine Mercer, Vice President (Higher Education) & Chair of Superannuation Working Group, UCU