

Dame Kate Barker
Chair - USS Trustee
USS Limited
Royal Liver Building
Liverpool
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Sent by email

3 June 2021

Dear Dame Kate,

I am writing further to your letter of 29 March 2021, in which you advised that the USS Trustee Board had concluded that until an alternative proposal (or set of proposals) is forthcoming, or until new information materialises, the USS Trustee considers it does not have any justifiable basis on which to review the valuation outcomes presented by the USS Trustee.

You also confirmed that the USS Trustee would consider the funding position as of 31 March 2021, which we understand was considered in detail at its meeting of 13 May and will be further considered at your forthcoming Board meeting on 8 June.

You will be aware that UUK has been consulting with USS participating employers in recent weeks, and the next stages of our discussion are vital to securing a viable future for the scheme. Employers and members are concerned about the impending increases in contributions due in October, and it appears from the figures produced by the USS Trustee to date that further increases are likely to follow in the absence of an alternative package or packages coming through the Joint Negotiating Committee (JNC).

We are still working through the detail of the considered consultation responses from USS sponsoring employers, and we will comment further and more fully on the responses in due course, but we believe that despite strong concerns regarding many aspects of the 2020 valuation we remain hopeful that there might be conditional acceptance to the UUK alternative hybrid model (as set out in our consultation material). This appears to be one of the few viable options to conclude the 2020 valuation. I emphasise that this support is not certain and in many cases is

The voice of universities

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conditional on, in particular but not exclusively, further clarifications and assurances being provided by the USS Trustee in relation to the operation and remit of the additional covenant support measures (which you and your covenant advisor believe are necessary to protect the overall strength of the covenant). We will conclude our analysis of the responses of employers and provide a fuller report as soon as possible, but I would want to make clear just how precarious the situation is and that the path to an acceptable outcome for the valuation is very narrow indeed.

The main purpose of my letter is to request that the USS Trustee prices the alternative hybrid package as illustrated in the recent UUK consultation. We request that this package is considered alongside the alternative, enhanced covenant support package as set out by UUK in the consultation and assuming we are able to reach agreement on specific aspects of these measures (which I comment on further below), and with due recognition given to:

- an appropriate deficit recovery plan to reflect the duration of the moratorium that has been put forward;
- allowance for post-valuation experience, and
- the positive value which will be gained from having lesser DB promises built-up within the system going forwards (as would be the case under UUK's illustrative proposal).

I hope that the USS Trustee will give all of these issues the most careful consideration before confirming any contribution requirements. We, and our advisers Aon, consider that the above provides full opportunity to the USS Trustee to price the proposed package at the current (30.7% of salary) contribution level, and Aon has set out in its recent advice note to UUK a range of potential paths as to how this could be achieved. We very much hope that will be the case, and have explained just how precarious the position appears to be. However, if you disagree with our view on the pricing terms that are possible, we would want full transparency and would need a detailed explanation of the reasons why, and we would ask that you confirm which aspects of the package would need to change, in what way, in order to maintain current contributions.

Employers have been appreciative of the USS Trustee and the USS Executive engaging with employers over recent weeks and throughout the consultation, and in particular on the additional covenant support aspects. Indeed, we feel that we have made some encouraging progress over recent days on developing the framework and principles of how the debt-monitoring arrangements could work in practice, and we think it has been helpful for the USS team to understand better (including through direct contact with employers) how these covenant measures could impact on university business in ways perhaps not envisaged when this conversation started. In addition to the framework and principles, we have made helpful progress on determining a suitable *de minimis* to the debt monitoring framework where those employers with *limited participation* deeds of accession can also be potentially excluded to reflect their very limited exposure to USS (alongside those employers with total assets of less than £50m and also annual income of less than £50m). The latest discussions make us more hopeful of being able to achieve a covenant support

package which might be acceptable to employers, although we must be clear that we still have some way to go on a number of aspects and once again we believe employers are at or very close to the limit of what might be acceptable and shifting the balance further may well jeopardise the chances of a good outcome. We look forward to continuing to pick-up these issues with your team.

There are two other items I would like to request the USS Trustee considers and provides comments upon following the forthcoming meeting.

First, employers are expressing a good level of interest in exploring the possibility of Conditional Indexation as a possible future benefit design for the scheme. We would be grateful for the USS Trustee to consider how it can support stakeholders in exploring this possibility, how this could work, and to set out what might be an appropriate timeline to explore this option.

Secondly, there appears to be almost universal agreement from employers that the scheme should offer some flexibility both in contribution levels and benefit types to members. Employers would wish to explore options such as a lower cost option and a wholly defined contribution option for members as a matter of urgency, to primarily address the scheme's opt-out rate and ensure that as many employees as possible have the option to have good and affordable pension provision. We would wish to explore these options alongside UCU through the JNC, and we would like to understand how the USS Trustee could play an active and co-operative role in those discussions - feeding in design and funding perspectives, drawing on the in-house expertise, and establishing a timeframe for implementation.

As we reach this critical stage of the USS 2020 valuation, we would be grateful to receive the requested information from the USS Trustee as soon as practicable to help UUK to develop its position and as appropriate take that into discussions in the JNC.

The UUK Board meets on 10 June, and it would be extremely helpful to have responses to some of these questions, and particularly on the pricing of the alternative hybrid package, ahead of that meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Jarvis', with a long horizontal flourish extending to the right.

Alistair Jarvis
Chief Executive