Analysis of 2022 SIP consultation feedback

1. Introduction

The SIP consultation of all of USS' participating employers ran from 20 April to 3 May 2022.

The Trustee received SIP consultation **responses from 40 individual employers**, representing 25 pre-92 employers (including 16 of the 24 Russell Group members) 11 post-92 employers, two non-HEIs (i.e., non-higher education institutions) and two Oxbridge colleges. This compares with responses from just 15 employers for the last SIP consultation in 2019.

Employers who responded to the consultation account for **52% of active scheme members** and **51% of the Technical Provisions liability**.

The following section summarises the feedback in terms of a number of different feedback "themes":

1. Overall view;
2. Allocation to growth assets;
3. Risk appetite;
4. Hedging;
5. Leverage;
6. Self-sufficiency;
7. ESG;
8. Net zero;
9. Defined contribution
10. Inclusion of the valuation investment strategy (VIS) composition in the SIP.

The feedback has been classified according to the following five categories:

- Support;
- Conditional support;
- Don't support;
- Can't comment/need more information;
- No comment on this topic.

2. Analysis of feedback by theme

1) Overall view

A breakdown of the conclusion/summary section of each individual employer response.

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	3%	19%	19%
Conditional support	1%	5%	5%
Don't support	2%	11%	11%
Can't comment/need more information	1%	5%	5%
No comment on this topic	5%	12%	12%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	25%
Conditional support	12%
Don't support	18%
Can't comment/need more information	5%
No comment on this topic	40%

Employers responding with 'support'

- Responses from ten pre-92 employers, including eight Russell Group members
- All employers in this category offer broad support on the SIP and investment strategy
- Some employers also note areas where they would like further information or assurance from the Trustee

Representative example commentary for 'support':

'We are generally supportive of the approach that the Trustee is taking although we believe that consideration should be given to the speed and the timing of the transition.'

'Current market conditions are not ideal, but it has been made clear that this is a strategic change rather than tactical that is likely to take between 12 and 24 months to complete. Given these assurances and the points made by Aon we are supportive of this change.'

'AON also raise a number of detailed technical issues [...] that the University considers the Trustee should reflect upon or otherwise take on board as it completes this process.'

Employers responding with 'conditional support'

- Responses from one post-92 and four pre-92 employers, including one Russell Group member
- Express support but have also noted specific concerns
- Echo Aon's commentary on asset allocation
- Concerns around transparency and governance

Representative example commentary for ‘conditional support’:

‘The SIP is generally quite detailed and yet only covers the investment strategy in relatively vague terms. This approach means the Trustee can in theory make quite big changes to the asset allocation with no need to consult with the Employers since the wording here is so broad.’

‘We have concerns around transparency and governance, particularly to do with the relationship between USS Trustee and USSIM and the role of the investment Committee. Members and employers need to be able to understand if they are called on to make further contributions, or reduce benefits are tabled, what the reason and justification for this might be. These could be a poor investment strategy or poor execution.’

Employers responding with ‘don’t support’

- Seven employers including two Oxbridge colleges, three Russell Group members and two non-HEIs
- In support of the joint letter from Oxford, Cambridge & Imperial College
- Concerns on timing and levels of prudence

Representative example commentary for ‘don’t support’:

‘We still do not believe that the case for further purchases of inflation-linked bonds in the DB Section of the USS has been well-made and we believe the proposed increase in leverage may introduce potentially significant risks into the USS in a period of high market volatility. We would urge you to consider further the points outlined in this note and in particular the alternative risk metrics to self-sufficiency, the alternative methods to manage risk and the timing of any changes that are made.’

‘We are not convinced of the need to change the strategy urgently and, given the current economic uncertainties and planned scheme changes, the 2023 valuation seems a better time for that activity.’

Employers responding with ‘can’t comment/need more information’

- Two pre-92 employers including one Russell Group member
- Both have given a very similar response, highlighting that the consultation period was ‘relatively short’, asking for ongoing engagement with the Trustee on investment matters and noting the efforts of the Trustee in developing the VIS

2) Allocation to growth assets

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	2%	15%	15%
Conditional support	<1%	2%	2%
Don't support	<1%	<1%	<1%
Can't comment/need more information	-		
No comment on this topic	9%	34%	34%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	18%
Conditional support	2%
Don't support	2%
Can't comment/need more information	-
No comment on this topic	78%

Employers responding with 'support'

- Responses from one Oxbridge college and six pre-92 employers, including three Russell Group members
- Highlight the covenant support provided by employers

Representative example commentary for 'support':

'We are pleased that the allocation to growth assets remains unchanged as we feel it is important that the Scheme retains an exposure to this, as long as the risk is appropriately managed. This reflects the enhanced covenant support measures agreed as part of the 2020 valuation and the open nature of the Scheme.'

Employers responding with 'conditional support'

- Response from one Russell Group member

'The University supports the maintenance of the level of growth assets at 60%. However, we are extremely concerned that the plans to increase leverage will substantially reduce the gross assets that are growth assets.'

Employers responding with 'don't support'

- Response from one non-HEI

'We question the merit of the trustee's limitation of 60% allocation to growth assets (that may look like 44% with leveraging), which seems an unnecessary restriction in light of the fundamentals of the USS's position.'

3) Risk appetite

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	-		
Conditional support	-		
Don't support	3%	<1%	<1%
Can't comment/need more information	-		
No comment on this topic	9%	51%	51%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	-
Conditional support	-
Don't support	27%
Can't comment/need more information	-
No comment on this topic	73%

Employers responding with 'don't support'

- Responses from 11 employers including one Oxbridge college, and ten post-92 employers
- The post-92 employers express concern that the target level of risk is not suitable for employers who are smaller in terms of scheme participation
- The response from the college questions the decision making process on acceptable risk

'The target level of risk that USS is prepared to accept to meet its objectives does not adequately reflect the position of employers with smaller participation in the scheme. There is an urgent need to address the pitfalls of a one size fits all approach and consider implementing a different investment strategy for post-92 university employers.'

'Deep concern about the proposals and the manner in which risk is being evaluated and moderated, especially in the LDI portfolio.'

4) Hedging

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	2%	10%	12%
Conditional support	-		
Don't support	<1%	<1%	<1%
Can't comment/need more information	<1%	8%	7%
No comment on this topic	9%	34%	32%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	15%
Conditional support	-
Don't support	5%
Can't comment/need more information	7%
No comment on this topic	73%

Employers responding with 'support'

- Responses from six pre-92 employers, including four Russell Group members

Representative example commentary for 'support':

'The University is supportive of the increase in the interest rate and inflation hedge ratios, to a target of 40% of the self-sufficiency liabilities, and that the allocation to growth assets is unchanged at 60%. The key advantage of increased hedging is that the funding level volatility will be reduced, which will in return reduce the contribution volatility experienced over the last number of years. This will certainly be welcomed by both members and employers.'

Employers responding with 'don't support'

- Responses from one Oxbridge college and one non-HEI

Representative example commentary for 'don't support':

'Interest rates should not be used as a determinant of the pensions offered by universities, and therefore introducing 'hedges' of the interest rates used in arriving at a discount rate introduces a previously non-existent source of risk into the scheme.'

Employers responding with 'can't comment/need more information'

- Responses from three Russell Group members

Representative example commentary for 'can't comment/need more information':

'Hedging should be a useful part of the USS's investment strategy given recent improvements in the Scheme's funding position; however, there is more analysis that we would like to receive to be in a position to evaluate the proposals.'

5) Leverage

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	1%	10%	10%
Conditional support	1%	3%	3%
Don't support	<1%	7%	8%
Can't comment/need more information	1%	6%	6%
No comment on this topic	8%	26%	25%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	10%
Conditional support	5%
Don't support	8%
Can't comment/need more information	8%
No comment on this topic	69%

Employers responding with 'support'

- Responses from four pre-92 employers, including two Russell Group members

Representative example commentary for 'support':

'We note the use of leverage and [...] given the resources within USS we think that this will be managed and implemented appropriately.'

Employers responding with 'conditional support'

- Responses from two pre-92 employers including one Russell Group member

Representative example commentary for 'conditional support':

'This seems like a sensible strategy, subject to there being an appropriate means through which a continuing dialogue and challenge on these issues can take place with employers.'

Employers responding with 'don't support'

- Responses from two Russell Group employers and one non-HEI
- Concern that the level and type of leverage proposed would increase risk

Representative example commentary for 'don't support':

'Concern that the level and type of leverage proposed would import significant risks into the scheme and that the timing of any increase in inflation linked bond purchases is poor and out of step with the work to review aspects of the USS Scheme.'

Employers responding with ‘can’t comment/need more information’

- Responses from two Russell Group employers and one Oxbridge college

Representative example commentary for ‘can’t comment/need more information’:

‘We are concerned that the scheme has implemented significant changes to the amount of leverage in recent years, with little or no consultation [..] We would also like to see the detailed justification behind the implicit assumption that a leveraged scheme is a less risky one and the costs associated with the proposal.’

6) Self sufficiency

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	-		
Conditional support	<1%	1%	1%
Don't support	3%	23%	22%
Can't comment/need more information	<1%	<1%	<1%
No comment on this topic	9%	28%	28%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	-
Conditional support	2%
Don't support	23%
Can't comment/need more information	2%
No comment on this topic	73%

Employers responding with 'conditional support'

- One pre-92 employer

'While self-sufficiency is undoubtedly a helpful reference point to be used as one of the parameters available, it should not give rise to a formulaic outcome where movement towards SS is only achieved through increasing contributions or benefit reform.'

Employers responding with 'don't support'

- Responses from an Oxbridge college, a non-HEI, and seven pre-92 employers including six Russell Group members
- Questioning the appropriateness of the self-sufficiency metric

Representative example commentary for 'don't support':

'We are concerned at the considerable influence on the USS Trustee of the scheme's funding level on a self-sufficiency basis.'

'We voice a shared concern around the application of the self-sufficiency risk metric and therefore our level of comfort around the SIP's current provisions on managing risk is also subject to the resolution of that discussion.'

'Self-sufficiency is an inappropriate metric for an open pension scheme with a long time horizon and a strong covenant and should not drive decisions on investment (and funding) strategy.'

Employers responding with ‘can’t comment/need more information’

- Response from one non-HEI

‘We are aware that other members have raised concerns about the appropriateness of the self-sufficiency metric in the SIP strategy. The supporting paper makes a reasonable case for its use as a risk metric for the 2020 valuation but not specifically for the investment strategy. Members have suggested alternative approaches and we would also welcome a further analysis from USS on other options.’

7) ESG

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	-		
Conditional support	1%	3%	3%
Don't support	1%	5%	4%
Can't comment/need more information	2%	12%	13%
No comment on this topic	8%	32%	32%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	-
Conditional support	8%
Don't support	5%
Can't comment/need more information	17%
No comment on this topic	70%

Employers responding with 'conditional support'

- Responses from three pre-92 employers, including one Russell Group member
- Recognise the work done by the Trustee on ESG, but encouraging it to go further to match up with sector efforts

Representative example commentary for 'conditional support':

'USS appears to have been exercising its voting rights as set out in the Statement of Investment Principles to support sustainability. However, this seems short of where the HE sector is as a whole on its engagement with sustainability.'

Employers responding with 'don't support'

- Responses from one Russell Group member and one non-HEI
- Feel the Trustee is not doing enough on ESG

Representative example commentary for 'don't support':

'We feel that the Scheme could go much further in demonstrating its commitment to responsible investment […] In the context of current world events, the SIP would fail to prohibit investments that would be viewed by many Members as morally unjustifiable. Members look for USS to be a leader in responsible investment and to reflect the strength of commitment that is evident across the sector.'

Employers responding with 'can't comment/need more information'

- Responses from one Oxbridge college and six pre-92 employers including five Russell Group members
- Questioning the removal of references to the PRI & Stewardship Code
- Asking for more information on monitoring and asset allocation decision making

Representative example commentary for ‘can’t comment/need more information’:

‘The SIP refers to the fact that the Trustee expects its external managers to take action with respect to integrating ESG/stewardship into their investment processes, although there is no indication as to how the Scheme's external managers would know that this is expected of them.

‘We would consider it best practice for the SIP to include more explicit engagement/communication with external managers as well as detail as to how this is monitored.’

‘There are a number of changes also being made under the banner of ESG/Stewardship and we would encourage more clarity on how this will be achieved in practice, how it will feature in asset allocation and investment decisions. We would also like you to actively report to members on how this is being monitored and achieved.’

‘We note that the reference to the UN backed Principles for Responsible Investment and the UK Stewardship Code have been deleted in s1.4.10. Does this mean that the Trustee no longer commits to these?’

8) Net Zero

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	<1%	5%	4%
Conditional support	3%	19%	20%
Don't support	1%	3%	4%
Can't comment/need more information	-		
No comment on this topic	8%	25%	24%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	3%
Conditional support	25%
Don't support	5%
Can't comment/need more information	-
No comment on this topic	67%

Employers responding with 'support'

- One Russell Group member

Employers responding with 'conditional support'

- Responses from one Oxbridge college, and nine pre-92 employers, including five Russell Group members
- Believe the Trustee Net Zero plan could better align with the Net Zero ambitions of the HE sector

Representative example commentary for 'conditional support':

'We believe that USS – as the largest pension fund in the UK and with its alignment to institutions focussed on a social mission – has the potential to play a larger role than it is currently doing in investing in, and encouragement of, the energy transition.'

'We recognise the differences between institutions and pension schemes in setting these targets but would encourage the Trustee to be much more ambitious given the strong feeling from members on this subject.'

Employers responding with 'don't support'

- Responses from two pre-92 employers including one Russell Group member
- Believe the Trustee Net Zero plan falls short of sector requirements

'As a university in Scotland, we have a legal obligation to achieve net zero by 2045. We note USS is targeting 2050 and ask the USS trustees to plan to move the portfolio to net zero earlier in line with the Scottish employer obligations.'

'We would suggest this is not ambitious enough for a scheme of USS's size and membership. We would encourage you to reconsider this target and become more ambitious.'

9) Defined contribution

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	<1%	4%	4%
Conditional support	-		
Don't support	-		
Can't comment/need more information	2%	9%	10%
No comment on this topic	10%	39%	38%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	5%
Conditional support	-
Don't support	-
Can't comment/need more information	15%
No comment on this topic	80%

Employers responding with 'support'

- One Russell Group member and one Oxbridge college

'We welcome the focus on monitoring the longer-term member outcomes rather than monitoring the performance of funds relative to the benchmark.'

Employers responding with 'can't comment/need more information'

- Responses from five Pre-92 employers including two Russell Group members

Representative example commentary for 'can't comment/need more information':

'For the investment builder section, we would like to see more detail on the DC risks and how these are being managed. This is important in any event given the nature of where risk lies for the DC section, but is particularly important following the benefit changes that have been implemented from 1 April 2022.'

10) Inclusion of the valuation investment strategy (VIS) composition in the SIP

All employers

Rating	% of all participating employers	Representing % of total active membership	% of total Technical Provisions liability
Support	3%	16%	17%
Conditional support	-		
Don't support	-		
Can't comment/need more information	-		
No comment on this topic	9%	36%	35%
Employers who did not submit a consultation response	88%	48%	48%

Respondents

Rating	% of 40 respondents
Support	23%
Conditional support	-
Don't support	-
Can't comment/need more information	
No comment on this topic	77%

The proposal to include of the VIS explicitly in the SIP was proposed by Aon in their supporting document on the SIP consultation (see the Trustee's response to Aon). Some employers responded to this proposal.

Employers responding with 'support'

- Nine pre-92 employers, including Six Russell Group members;
- Believe detail on the VIS should be included in the SIP.

Representative example commentary for 'support':

'We think there should be more detail on the Strategic Asset Allocation (SAA) with a table showing targets and ranges for the VIS – this is standard practice, and the Trustee will still be able to deviate from this on a Tactical Asset Allocation (TAA) basis where it sees fit. More information on this would facilitate enhanced transparency.'

'We agree with and support Aon's review and Advisory Note of the revised SIP. We particularly endorse Aon's point on asset allocation.'

'We note that the Trustee can potentially make quite big changes to the Scheme's asset allocation without the need to consult with employers. We would welcome the inclusion in the SIP of a table showing the targets and ranges for the VIS.'

3. Other feedback

Investment beliefs

Four pre-92 employers (including three Russell Group members) who represent **8%** of the active membership asked for more detail on specific aspects, including communication with members, and more detail on monitoring and the supporting governance framework.

Engagement

12 pre-92 employers (including nine Russell Group members) representing **28%** of the active membership expressed support for the creation of a Trustee/employer forum to discuss investment matters.

Commentary on scheme design

Four Russell Group employers provided feedback that referenced scheme design:

'There is limited reference to the affordability of member and employer contributions when setting the investment strategy. We feel […] that ought to be explicit […] contribution rates are already at the limit of affordability and the current pricing out of members remains a significant concern.' ***Russell Group employer with c.10,000 members***

'We note that the Trustee believes that the current default strategy and self-select range are suitable for the members of the Scheme and that this will be reviewed at least triennially or, if sooner, after significant changes to the demographics of the Scheme's membership. Given that AUM within the Investment Builder section is expected to at least double in the next three years we think it is vitally important that this is closely monitored, particularly in relation to how these benefits are taken with the increased flexibilities that now exist.' ***Russell Group employer with c.7000 members***

'We are very supportive of the work that is planned to be undertaken on alternative benefit designs, and whilst we understand that any changes to the SIP now being considered cover past (and not future) rights, it would be helpful to hear that the principles and strategy could be modified without too much difficulty in light of any changes to future benefit design which might emerge.' ***Russell Group employer with c.4000 members***

'Liabilities could be managed – for example by offering members who do not really value the DB benefits to transfer to a DC arrangement. This could well encompass people with only a few years of accrual who are not in the UK and would prefer a transfer to their home jurisdiction or people with large DB pots who see value in swapping some for a DC pot' ***Russell Group employer with c.9000 members***

Employer governance process for the SIP consultation feedback

- Ten responses, representing **15%** of the active membership, were reviewed by the employer **governing body**
- Four responses, representing **6%** of the active membership, were reviewed by the **employer executive**
- One response, representing **<1%** of the active membership, was reviewed by an **employer USS working group**
- 25 responses, representing **32%** of the active membership, **did not note the review process**