



Department for Work and Pensions
Automatic Enrolment Policy Team
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Our ref SG/JMR
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By email: caxtonhouse.automaticenrolmentconsultation@dwp.gov.uk

Dear Automatic Enrolment Policy Team

USS response to DWP call for evidence: Automatic Enrolment: Alternative quality requirements for defined benefit and hybrid schemes being used as a workplace pension

I am writing in response to your consultation dated 15 May 2023. This response is submitted jointly by the USS Trustee and Universities UK (UUK).

About USS

By way of introduction, Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for more than 500,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of over £73bn (at 31 March 2023 as set out within the Financial Monitoring Report published on the USS website).

The trustee of USS is Universities Superannuation Scheme Limited. It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The trustee is regulated by The Pensions Regulator and has a primary responsibility to ensure that benefits promised to members are paid in full on a timely basis.

The trustee delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM manages between 60% and 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

UUK is the representative body for employers within the scheme and appoints Directors to the trustee board and the employer representatives on the Joint Negotiating Committee in addition to being the representative body identified in the scheme rules for technical provisions consultations within triennial scheme valuations.

Universities Superannuation Scheme Ltd

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USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder.

Background to the development of this response

On request of the scheme's employers through UUK, the trustee was commissioned to develop an exploratory piece of work which looked to consider how a DB scheme may work which has a Conditional Indexation (CI) structure similar to Canadian schemes such as Ontario Teachers' Pension Plan (OTPP). That modelling produced by the trustee is publicly available and can be found [here](#).

A key element of the modelling is the ability to flex the inflationary increases to be applied pre-retirement to between 0% and full CPI depending upon the funding position of the scheme (post retirement increases are modelled on the basis that the lesser of 2.5% or CPI is the minimum rate). That is of course not compliant with the current autoenrolment quality requirements for an average salary scheme where the lesser of RPI, CPI or 2.5% is the minimum rate for revaluation (or minimum funding assumption pre-retirement) across pre and post retirement increases.

Response to the consultation

We have no specific matters to raise on the questions as set out in the consultation. The USS hybrid scheme meets the simplified test two requirements which, as a cost of accrual test, is a helpful simplification for DB pension schemes.

The matter we would jointly wish to raise however, is the potential development of alternative tests to suit CI style designs given that the current revaluation requirements are not flexible enough to allow high quality DB pension schemes with more innovative design features to be auto-enrolment compliant. The modelling work undertaken by the USS Trustee for instance assumes a contribution rate of 20% to 31% which although it comfortably meets the cost of accrual test, would not be auto-enrolment compliant as the pre-retirement increases (and funding assumption) is not subject to a minimum of the lesser of 2.5%, RPI or CPI.

Subject to the further development of CI as a potential scheme design solution, the Trustee and the scheme's stakeholders would look to engage with DWP at the appropriate time on the possible routes to support high quality DB pension schemes which would look to take advantage of more innovative design features but would not currently be auto-enrolment compliant. The Trustee has already had a number of extremely constructive engagements with the DWP on potential CI design solutions.

We hope that our response to this call for evidence will assist in your deliberations. Please let us know if we can provide any further information or assistance.

Yours sincerely

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Universities UK