



The Statement of Strategy Consultation Team  
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Your ref  
Our ref CY/JMR  
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By email to: [statementofstrategyconsultation@tpr.gov.uk](mailto:statementofstrategyconsultation@tpr.gov.uk)

Dear Statement of Strategy Consultation Team

### **Statement of Strategy consultation – USS response**

The Trustee of the Universities Superannuation Scheme (USS) welcomes the opportunity to respond to the *Statement of Strategy* consultation.

Firstly, I'd like to express my thanks to you and your colleagues for taking the time to meet with us to discuss this consultation on 28 March, which was very helpful in shaping our thinking. We would welcome the opportunity to have further follow up discussions with TPR in advance of both the DB Funding Code and associated covenant guidance being finalised, and are more than willing to work with you to assist the development of a suitable approach and document for open schemes.

#### **About USS**

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 528,000 members and their families. We are one of the largest pension schemes in the UK, being a hybrid pension scheme, with both a defined benefit (DB) part and a defined contribution (DC) part, and total assets of £75.5bn (£73.1bn DB / £2.4bn DC at 31 March 2023).

#### **Our headline view on the proposed approach**

We support the need for robust, coherent regulation. We fully understand, assisted by our recent meeting, the challenge of creating an approach that works for the majority of schemes. We recognise that TPR is therefore minded to take forward a template model.

In summary we are, however, concerned that the approach being consulted on is not fit for purpose for open DB schemes with the template having been designed for mature schemes, and with the more common single employer nature in mind. We believe it to be neither suitable nor proportionate; completing the Statement would likely require significant work and resource for little or no benefit to our members. Therefore, in our view, if a template model is to be followed a separate template is needed for open schemes.

As you know, we have had longstanding concerns that the Regulations and draft Code do not properly address the circumstances of open schemes, particularly those like USS which are expected to remain open to significant new accrual for the foreseeable future. The paucity of detail in the consultation document

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about how the template might work for open schemes has reinforced these concerns, and appears inconsistent with assurances provided elsewhere that open schemes will not be adversely impacted by the revised regulations and Code. Not yet having had sight of the revised DB Funding Code and accompanying covenant guidance has exacerbated these worries.

Moving onto what the consultation does indicate for an open multi-employer scheme like USS, for the reasons outlined below we feel that the approach taken in the proposed Statement of Strategy goes beyond what might better support effective regulation by TPR of a scheme like USS, and would need adjustment to be appropriate. As my colleagues outlined in our discussion, as a large open multi-employer scheme with a long covenant horizon that is not planning to work toward a chosen 'end-game' (eg buy-out), we are in a different position to most schemes and we welcomed your acknowledgment of that. You will therefore understand why we believe the proposed Statement as currently framed is not appropriate to USS.

- It will create an inappropriate (and costly) regulatory burden on the Trustee and our employers without providing either a document that assists you in meeting your regulatory duties, or which adds to the effective management of the scheme.
- There will be potential for significant presentational challenges with regard to stakeholders, employers and members if the purpose of the Statement in the context of an open scheme is unclear.
- The Trustee will need to collect and collate information solely for the purpose of the Statement. Some of this information is not, for very valid reasons, used by the Trustee in its decision making, and therefore would also be of limited utility to TPR.

### **Our specific areas of concern**

We discuss our specific areas of concern in more detail below. In summary the main issues are:

1. The long-term objectives and standardised template as presented are not appropriate for open schemes such as USS.
2. There is a need to provide greater clarity and to ensure proportionality for multi-employer schemes.
3. We are concerned that the Statement, as currently formulated would create a risk to the effectiveness of our regular engagement with our stakeholders on Scheme strategy.
4. The data/reporting requirements are onerous and many of the proposed metrics are not relevant for USS.

Further detail on these points is set out below.

#### **1. Suitability of the long-term objectives and standardised templates for open schemes**

Both documents are heavily focused on closed schemes, with the section on open schemes in the main consultation document being extremely light on detail. Benefits have accrued within USS for 50 years and currently we expect the Scheme to remain open to significant new accrual for the foreseeable future. There are no plans to cease accrual or the admittance of new entrants, and therefore there is a requirement for an additional Statement template for schemes with circumstances such as USS. We would be happy to work with TPR to help define that additional template in more detail (for example, schemes expected to remain open to significant new accrual for the foreseeable future, with a declaration requirement of some sort).

The bespoke template itself is not sufficiently 'bespoke' for the circumstances of USS.

- We recognise that we will need a contingency view on the funding level that the scheme would have if it ever reached significant maturity. The template goes further than this in adopting a presumption around a choice of 'end-game'. This is not appropriate for a scheme like USS; being required to reach a view for an unknown set of circumstances that would only follow a decision to close the scheme to new accruals and record this in a statutory document would be inherently difficult (and not without risk). The current template states *"the trustees...intend the scheme to have achieved a funding level of [100%] on a low dependency funding basis by [the relevant date]. This is their long term funding target."* This is not true for us; it is only a contingency plan. As such, we believe open schemes such as USS should have the ability to state the period to significant maturity if they close and no longer accrue benefits, together with a high-level contingent plan to reach low dependency in such circumstances. An alternative objective that may be more appropriate for open schemes like USS could be: *"Open scheme with no plans for closure – contingency planning only"* and the statement highlighted above could be amended accordingly. We would be happy to discuss with TPR and other open schemes.
- The standard template will require us to provide employer cashflows for current, prior and following financial years. We go into more detail on this in point 2 below due to the multi-employer nature of the Scheme.

However, our more significant concern is how much value information on current and very near-term cash flow offers in the context of an open scheme expected to be paying benefits indefinitely into the future. It is therefore unclear how useful or informative the data might be; given that we do not currently collect these, doing so would create a material regulatory overhead and administrative burden for us and our employers, which seems likely to be out of proportion to the benefit to be had from collecting the data.

- It is also worth TPR bearing in mind more generally that benefit cashflows provided may not map back to a scheme's total liabilities exactly, for example in situations where a loading is added at the top level to reflect an expected additional liability (such as for GMP equalisation).
- The Long-Term Investment Strategy section refers to the provision of information regarding the investment allocation "excluding any surplus". We would find it useful to clarify whether the investment strategy over and above the LDIA can be omitted from the report? If so, we would suggest that the "% of Surplus asset allocation" column in the example document might be contradictory and confusing. It would also be useful to understand whether and how guidance on surplus investment strategy will be forthcoming.
- Taking into account the points above, along with other matters we have raised here and with you when we met, if adopting a template approach, a fifth template is needed for open schemes which reasonably expect to remain open indefinitely.

## 2. Clarity and proportionality for multi-employer schemes

As noted above, USS has c.330 participating employers. The proposed Statement would require a lot of additional detailed information and reporting around covenant that we do not currently undertake (nor do we currently believe we need to collect to suitably understand our covenant). This would be onerous and would take time to agree with our employers. For example, providing the required information on maximum affordable contributions over the "Reliability" period would require us to gather significantly more information from employers than we do currently. We would need to collect and aggregate financial forecasts that cover the reliability period, which will need to be agreed with our stakeholders, taking additional time and resource. Moreover, not all employers will have the information requested (while English universities submit five-year forecasts already to the Office for Students which could perhaps be shared with us, Scottish universities are only required to submit three-year forecasts to the Scottish Funding Council).

We also have practical concerns about what else might be required here. For example, for the cashflow data noted in point 1 above, is this intended to be an aggregate for all employers? An aggregate for employers that represent 80% of scheme liabilities? Or based on certain sample employers?

### 3. Potential risk to the effectiveness of our regular engagement with our stakeholders

We discuss the strategy for the Scheme on a regular basis with our stakeholders and that is reflected in the documents we either share with them or publish more broadly. Your colleagues helpfully reassured us that the proposed Statements of Strategy produced by schemes are not intended to be made public. Given the challenges of having to ‘fit’ answers to the template we would welcome further reassurance on this, but as it is public knowledge that this statement is required in regulations we would anticipate requests from our stakeholders to share it anyway, and we would potentially need to publish this document in the interests of transparency. We therefore may need to be able to explain the approach more generally to members and employers which adds to the work required, so a more suitable open schemes template would be to the benefit of all parties.

In addition, there is some overlap in the Statement of Strategy with the Funding and Investment Strategy, so we are concerned about the resource requirement of both producing the new Statement and ensuring consistency (and the perception of consistency) across documents. We’d welcome further assurance on top of that given in our discussion that there is flexibility here, and that the Statement is additive to, and can align with, existing work.

### 4. Suitability of the proposed metrics for open schemes

- As an open scheme, many of the proposed supplementary metrics/journey planning are not relevant, nor are they actively produced/monitored by USS, given the scheme is not on a formal de-risking journey plan (as currently formulated, they would need to be generated from a theoretical contingency plan constructed solely for the purposes of this document). We are unclear whether TPR anticipates that schemes would need to do this, or whether it is envisaged that the form could be completed using suitable alternative metrics that are already adopted by the scheme.
- In order to provide relevant metrics, the document would require re-framing to focus on the construction of the actual USS strategy in the context of ongoing accrual and sponsor support.
- Failing this, the document would need to note clearly up-front and throughout that the USS responses are indicative and notional only (noting however that such an approach would create additional difficulties in the implementation plan section). This could also create some challenging stakeholder communication issues for USS (see 3 above).
- It would be useful if additional information could be provided on the characteristics of asset classes expected to be considered within the Growth, Matching and Hybrid categories. For example, no information is given on the consideration of non-GBP assets within the Matching section. We note also that there are no examples of what constitutes a “Hybrid” asset class – is this intentional?
- In the example document the allocations all sum to 100% and expressed either as a % of LDIA or of Surplus (they are the same % allocations in the example which is confusing given the requirement to quote the asset allocation “excluding surplus”). Would there be the ability to express the matching allocation as hedge ratios for example? How should leverage be expressed?

Finally, although the bulk of our response relates to issues particularly relevant for USS as an open multi-employer scheme, we expect that you will receive responses from a wide range of trustees and advisers for pension schemes of other types and sizes or at other stages of their maturity journey, and highlighting a number of other issues or areas where the templates won’t necessarily work. An example would be the requirement to provide information based on a single discount rate approach when the scheme (like USS currently) actually uses a dual discount rate methodology for their actuarial valuations. The templates will

need to incorporate sufficient flexibility to allow information to be provided on that dual discount rate approach.

**In conclusion**

We hope that the information provided in answer to the questions above is helpful. To reiterate our key points:

- Further to the points raised above on additional information requirements and the resulting administrative burden, we would welcome greater clarity on how TPR intends to make use of this additional information in fulfilling its regulatory functions.
- We welcome your colleagues' assurances that the specific points we raised at the discussion on 28 March will be considered and that the specific needs of open, multi-employer schemes such as USS, a number of which are detailed above, will be taken into account.
- As outlined above, we would be happy to work with you to define an additional template for open schemes, and if there is anything further we can assist with in this regard, please do not hesitate to get in touch.

However, in conclusion, without changes to the approach being consulted on, we do not believe that the proposed Statement of Scheme Strategy template is fit for purpose for open schemes like USS.

Yours sincerely

Carol Young  
Group Chief Executive Officer