# Introduction to USS webinar transcript

Helen McEwan: Good afternoon, everyone, and welcome to this webinar. I'm Helen McEwan, Chief Pensions Officer of USS. I'm joined by Chief Executive, Bill Galvin, and trustee board director, Will Spinks, this afternoon who will both be speaking shortly.

Thank you so much for taking the time to join us today. We've had over 3,500 members register for the event, so we're really pleased that you've taken the time to log on. I would say, as I'm sure you've all experienced during COVID, that we are at the mercy of technology so I'm really praying that this will work well for us today and that the technology will be kind, so please bear with us if we do have any issues.

Pension schemes are fairly complex, and we want to keep you informed. This webinar is the first in a new series to help keep you up to date on the scheme, your USS pensions and the issues that impact planning for your future.

The topics that we cover today through a series of questions that I will be asking Bill and Will will include how the scheme works for members, how USS is funded, how the trustee is protecting the promises made to its members and of course the 2020 valuation. We also want to hear from you today.

Following my interview with Bill and Will we will open the webinar up to questions. I'm aware that some of you have already submitted questions via the registration page, which is great. If you haven't and you wish to submit a question, you can do so using the question field at the bottom of your screen, it's really easy.

We'll answer as many questions as we can during the time we have, but any that we're unable to get to, we'll publish subsequently on our website in due course. This webinar will also be recorded so you can watch it again if you so wish. We're also keen to hear your suggestions in terms of future webinar topics.

We're already planning future sessions that will cover the 2020 valuation, investment and sustainability, and we welcome your thoughts on any other themes that you'd like to see covered, so we'd be really pleased if you would let us know.

I'd also like to ask you to take the opportunity at the end of the session to complete the short feedback survey that will come through to you. It won't take long, and again, we would really value your views to ensure that we shape future events in the way that it's best for you. Thank you again for attending, and I do hope you find the webinar useful.

I'm now going to welcome Bill and Will, and we'd like to kick off by asking them both to introduce themselves and the roles that they have at USS and perhaps a little bit of background. Bill, could I come to you first?

Bill Galvin: Thank you, Helen and hello, everybody. Delighted to get the chance to speak to so many of you in one go. So, despite the vagaries of technology, I think that's one of the big advantages.

So, Bill Galvin is my name. I've been group chief exec at USS since 2013. That means I have the privilege of leading a bunch of very talented pensions and investment professionals across our London and Liverpool sites. That privilege comes from really knowing how hard people will work to make sure that the USS pensions offering is as good as it possibly can be and that the service we give to our members is as excellent as we can make it.

We do that by doing a lot of the activities in house. Because of our size and scale, we are bigger than most pension funds and we can do that. We take lots of external advice, of course, as you'd expect, but we have the advantage of having a lot of people fully aligned to the interest of members, working very hard to get the pension delivered as efficiently and as effectively as possible.

So, I hope you get a feel for that today. Thanks, Helen.

Helen McEwan: That's great Bill, thank you. And Will, as trustee board director, could you tell us a bit about what that involved and your role.

Will Spinks: So, good afternoon, everybody. My name is Will Spinks. I'm a non-executive director of the USS trustee board and I've worked in the higher education sector for about 13 years or so, initially as a chief operating officer at Loughborough University and then more recently a registrar, secretary, chief operating officer at the University of Manchester, which is a position I retired from two years or so ago.

Pensions, I've been a trustee director of a large pension scheme before joining USS, I did that for six years or so. I was on the Joint Negotiating Committee of USS, appointed by UUK for about seven years or so. When I stepped down from the JNC, I joined the USS board appointed by UUK for almost two years or so. Pleasure to be with you here this afternoon.

Helen McEwan: Thanks, Will, that's really helpful. Let's get going with the questions. The first one that we have is to ask to you first of all, Bill, what's USS here to do and how do you go about doing this?

Bill Galvin: Thank you, Helen. Well, USS's core function is to deliver the pension promises that have been made by employers to our members. That means we must ensure that those promises are secure and that members have the confidence that, come what may, their pensions will be delivered as promised. We're not involved in setting the benefits. That's determined by our stakeholders.

The stakeholders come together in the Joint Negotiating Committee where members are appointed by Universities UK and UCU, the union, to determine the rules of the scheme and the benefits that it delivers. The trustees' legal duty is to objectively and independently set a contribution rate that ensures that pensions are funded securely.

We then manage the scheme's investments responsibly with an eye to the long-term sustainability of the scheme and we look to provide our members with all of the information, tools, guidance and support to ensure you can feel confident making decisions about your future.

Helen, the most important thing about all of that is that we do this solely with the interests of the beneficiaries of the trust in mind, free from any vested interest and completely objective in our assessments.

Helen McEwan: Excellent. Thanks, Bill. Will, could you tell us more about how you go about doing that as a non-executive on the trustee board.

Will Spinks: So, if I say a little bit about how the board operates, it's a twelve-person board. Five non-exec directors are independent of the stakeholders and recruited separately, four are appointed by Universities UK on behalf of the employers, and I'm one of those. Three are appointed by the University and College Union, UCU, on behalf of the members.

So it's a twelve-person board in normal circumstances. We're managing some transitions at the moment so we're slightly above or below that at various points, but in normal circumstances it's twelve people.

We bring together quite a diverse range of experience and skills from outside of the sector, technical knowledge of investments or from the wider economic system, and then specific knowledge that comes from both within universities and from the membership as well.

As you would expect, in addition to the board itself, we have a number of board committees. A couple of those are very specific because we're a pensions operation. One is a policy committee that looks after the pensions side of the business and the other is an investment committee that looks after investment management of members' funds, recognising that we have our own investment management company within USS that altogether looks after about 75% of the funds that are available to us.

Then, on the other side, in terms of the board committees, you've got the normal board committees you would find in any corporate or charitable structure. You'd have things like audit remuneration, nominations, those sorts of things. Then we think outside of the normal board processes and get the majority of the work done that is then brought to the board.

As USS, clearly, we're a long-term investor. We're in it for the long-term, the commitments that we have to honour go out over many decades into the future. Those of us who are just about retired hopefully will be around for another 30 years or so and, therefore, we have an interest in making sure that the investments that we make and the stewardship that we put in place is focused on the long-term. That's what we seek to do as a board.

I should also probably say we've had two recent appointees to the board, Dame Kate Barker, who's joined us as the chair elect, and I think takes over literally in the next few days, probably, in terms of her appointment. She was formally a chief economic advisor to CBI and was also on the Bank of England's Monetary Policy Committee. She also had an interest in higher education previously as a chair of a governing body.

UCU have appointed Andrew Brown, former chief executive officer of the Church Commissioners for England. Andrew has an interest in pensions from his previous experience, but also in terms of contribution to governance and socially-responsible investment policies through his experience at the Church of England. So, we welcome both of those. I know Andrew officially joins us later this week, I think that is 1st August, and we will be expecting we'll have some more new board members appointed relatively shortly.

Helen McEwan: That's really clear, Will, thanks very much. You mentioned responsibilities to all members, so I'd just like to turn to Bill now and ask him a question I'm sure many members have in mind, which is: what do they get in return for their contributions and how does that compare to other, similar schemes?

Bill Galvin: Thanks, Helen. I have to say, this is one of my favourite questions to answer because I find, when I go around, that many members don't quite understand the very valuable pension offering that USS provides, but it is a bit more complex, I think, than some benefits in other schemes because it comes in two parts, and I'll explain that.

There is the primary part of the pension, which is a fixed income in retirement. This is inflation-protected and it's delivered whatever the future holds. That's earned in respect of a member's salary up to a threshold, which currently is about £59,000 but that increases with inflation.

Now, members get one 75th of that salary as a pension payment for life post-retirement. That amount of pension saved increases with inflation up to retirement and after retirement. Every year, those benefits in respect of that salary are banked and added to any benefits already earned.

When you retire, you will get that amount of pension that you have in the bank, and you'll also get a lump sum of three times your pension. That's what we call the Retirement Income Builder component of the scheme.

The second part of a pension is more like an investment account and it's called USS Investment Builder. For this, a percentage of your salary above the threshold and any additional payments that you make go into a fund. This can be invested as you wish, or in a default arrangement designed by the trustee after extensive research into our members' risk appetites and preferences. At retirement, the value of that fund is available for you to use as you wish.

We've made a number of options available to you. Leave it invested, take it as cash or ways for you to convert it to income. We're currently working on providing even more choice for you in that regard. The scheme also has generous benefits for you and your family, if you were to become incapacitated, if you die in service.

There are survivor's benefits in respect of people who die in retirement. There's lots more information in what we hope is an accessible form on our website that I'd direct people to, but those are the core elements of the scheme, Helen, that I think it's important that all members understand.

Helen McEwan: Absolutely, Bill. Will, could you tell us a little bit about how this compares to similar schemes perhaps in the sector?

Will Spinks: Well, if I start by explaining a little bit about just the accountabilities here, because I think that's important. As a trustee, we are accountable for every single part of the process, from the first contribution a member makes, how the investments are looked after whilst somebody is a member, benefits that are payable.

As I said earlier, that could go on for many decades into the future, so we have to manage all of those interests on behalf of members for the foreseeable future. We're legally accountable for this, and the regulatory rules around it are quite comprehensive in terms of both, as Bill was explaining, the defined benefit component of the scheme but also of the more investment-orientated component of the scheme.

Basically, members don't have to worry about that. They can hold the trustee responsible for managing all of that. Pensions that deliver a secured, defined income are increasingly rare, both in the sector and also outside of the sector.

We understand, as a trustee, how valuable they are therefore towards employees who are working in higher education. The hard reality is that the price of those benefits has risen substantially. Bill said earlier, the trustee is not responsible for determining what the benefits are. That's a matter for the stakeholders, UCU, UUK, brought together through the Joint Negotiating Committee.

What we are responsible for is determining what the price of those benefits are, and that's part of what we have to do as a trustee. If you look at the last decade or so in terms of looking at what the cost of an annuity is, it's a lump sum that you pay in advance for a defined income into the future. Basically, very similar to what we offer as a pension.

Over a five-year period, that's gone up by about 24% or so. If you look back over a decade, it's double that. It's 48%. So, the price of that is rising substantially and the consequence of that has been both within individual institutions, individual institutions have moved away from defined benefit arrangements because of the price of them, and if you look into other sectors as well, they've largely disappeared from being available.

I mentioned I was a trustee of a previous pension fund and I did that for seven years in total. That was a corporate scheme and that scheme closed to defined benefit arrangements as far back as 2001. That's not atypical of what's happened in the UK, both within specific institutions for their own schemes but also more widely in the sector as well.

Our responsibility as a trustee is that we need to ensure that funds are available to meet the benefits promised to the members for the future and we are held legally accountable for doing so.

Helen McEwan: On that note, Bill, how is the scheme funded? How are member contributions invested? I'm sure the viewers would be really interested to understand that better.

Bill Galvin: Thanks, Helen. Well, as I'm sure most members who are listening know and understand, the scheme is funded by contributions made by both employers and employees.

Of course, those contributions have been increasing quite a bit over the last few years in response to some of the pressures that Will has referred to earlier, and of that which we'll talk a little bit more later. These contributions are invested to ensure there's enough money to pay your benefits when they fall due.

Now, unlike many schemes, because most schemes are smaller than us, we have a dedicated in-house investment team and they actively manage the scheme's investments to deliver the pensions with a high degree of confidence and with a focus on responsible investment.

This means we run a diverse portfolio of investments, a mix of public markets, that means equity and bonds in publicly-quoted companies, and privately-owned investments where we directly own, for example, windfarms, Moto service stations, stakes in water companies.

This portfolio is constructed to be within the risk appetite of the trustee and takes, kind of, the risk appetite of employers who have the legal responsibility to fund the scheme regardless of the returns realised by these investments.

The teams running these investments have consistently performed well. They've outperformed the benchmark that's been set for them by the trustee, a proxy portfolio of equities and bonds set as a reference point. Over rolling five-year periods, the team has consistently out-performed that.

And because of our size and scale and because we operate a team in-house rather than paying third-party fund managers, we also have a cost advantage and independent benchmark, say, that we save £50m a year by running these investments in-house compared to comparable schemes running comparable investment strategies.

Most of the funds in our DC section are actually run by external managers. We have about £1.1bn in our DC section compared to the £75bn or so in our DB section, the Retirement Income Builder. We scrutinise those third-party managers carefully to make sure they adhere to our policies.

So, Helen, I think it's important for our members to understand that the investment team have done well, they've beaten their benchmarks, they've got a low cost proposition, but of course the challenge for us all has been to try to meet the challenge of the ever-increasing value placed on our liabilities, and we'll talk about the funding position later.

Helen McEwan: Absolutely, and the current situation certainly doesn't make that particularly easy. Will, is there anything you would add to Bill's assessment of how the scheme is funded and how member contributions are invested?

Will Spinks: Yes, thanks Helen. Just an apology in advance, in case it's necessary. I've got an Amazon delivery arriving at my house so if you hear Big Ben chiming, it's purely my doorbell. The rest of the family I'm sure will deal with that, if it happens.

Yes, we're a long-term investor. I mean, clearly our responsibility is long-term and our obligations are long-term, therefore, we are investing for the long-term. As Bill has said, we manage funds largely in-house and we should be rightly proud of that sound management that has been provided through that internal investment management.

We've got an excellent track record over many years which is of real value to the membership, and I think they've been able, as a consequence, to be quite innovative in their approach. Bill mentioned private markets, so these are markets that are not normally available to us as individual investors but are available to organisations of the scale of USS.

That has been, I think, of significant value to the fund and to members as a consequence of that. We've got about 15 billion of assets in total in private markets. Some in property, as Bill has explained, and some also in green technologies, which has been a more recent movement in our investment practice.

We are a responsible investor but, as a trustee, we have specific accountabilities to do the best for our members and we can only therefore take into account what I describe as financial factors in terms of our investment approach. We have been looking very careful at those financial factors in respect to how we expect markets to move in the future.

In June, we made some announcements about tobacco manufacturing and also thermal coal mining. I think that's a trend you can expect to see more of in the future as we, and our internal investment managers, take a look at how we think trends will develop overtime, and therefore what factors we can, as a trustee, take into account financially as we make our investment choices.

So, the scheme I think is in very good hands as a consequence of that. That record is very good indeed and that has delivered significant value to members.

Helen McEwan: Thanks, Will. I'm going to start with you, Will, on the next question, which I think is one that many of our members will be asking, which is: can you explain the valuation process and how you're preparing for the 2020 valuation? Also, why are you conducting this now in such a volatile, pandemic-related environment? You know, the result of which Times Higher Education is suggesting that there'll be a much higher deficit and a sharp increase in costs for members and employers.

I think our viewers would love to understand why we've taken the approach.

Will Spinks: Okay. Thanks, Helen. I was just thinking back earlier, with different hats on at different times, this is, I think, the fifth valuation I've been involved in within USS.

The trustee board has a legal obligation to conduct the valuation at least every three years. This valuation in 2020 is earlier than that, and that's because, in order for us to conclude the 2018 valuation, we made commitments at that time with the stakeholders that we'd have another valuation in 2020.

The valuation gives us the opportunity to look at what assets we have and how they expect to grow in the future, what liabilities we have and how we expect them to grow in the future as well. Then through that process, we need to be sure that, on a prudent basis, which is a particular accountability that the trustee has, that over many decades, we have the funds available to meet the promises that are made to members for their accrued benefits.

That publication sits very squarely with the trustee and sits very heavily with the trustee. I know some people have commented, "Why are you doing a valuation in such a turbulent time?"

But the reality of it is that if we had not got a valuation planned in 2020 and our next valuation was therefore going to have been 2021, we would have had an accountability, the trustee, to monitor the situation as it developed through this period. We would have been expected to take action as a consequence of that, and one of those actions could have been putting in place a 2020 valuation, even though it wasn't an on-cycle valuation.

My personal view is it's highly likely we would have had to have done that anyway - when the board has been considering in 2020, "What do we do, if anything, as a consequence of what we've seen in the pandemic?" Part of our response to that has been, "We don't need to do anything in the immediate future in terms of looking at contributions, but it's another option that would have been available to it.

The reason for that is because we are already in the process of the 2020 valuation and that is the best way to look at all the factors involved and to make the coordinated decisions that are necessary in order to be able to respond.

Any decisions we make, I can give an assurance, will be made in an impartial manner, looking at our long-term strategy and our legal and regulatory responsibilities as a trustee, ensure that benefits are paid in the future.

As Bill said, we do not have an obligation in terms of defining what those benefits are. That sits very squarely with the stakeholders. What we do as a trustee is to determine what the price is of the existing benefit structure and we will be likely to be concluding that in the autumn of 2020.

Helen McEwan: Thank you, Will. Bill, clearly you're leading the team that is actually doing all the work with regard to the 2020 valuation. Is there anything you would like to add to Will's comments? Maybe particularly around the higher deficit, sharp increase in costs for members and the fact that we are doing the valuation in this environment?

Bill Galvin: Yes, thank you Helen, of course. You'll have heard from Will some of the challenges. I mean, I do think the trustee has had to make very difficult decisions in recent years. I think our members should be assured that they've been made with the highest integrity and objectivity, and it's important to note the trustee has no other interest in the outcome, apart from the security of members' pensions.

But these outcomes have been difficult, we understand that, and difficult for members who have been faced with contribution increases. We do expect that the 2020 valuation will not bring much relief to that trend. The pressures on investment returns from demographics, from higher levels of debt worldwide from the geopolitical challenges that we face. These have continued.

In anticipation of that, ahead of the 2020 valuation process, we engage even more indeed with employers and The Pensions Regulator on the key issues that we'd have to take into account. We listened very carefully indeed to the response of our employers to the Joint Expert Panel's report that many of you will be familiar with.

We're proposing to take on board some key recommendations out of that. Their proposal for a dual discount rate, which is a technical way of saying treating the liabilities, the money invested for a pensioner is slightly differently than people who have a longer period to go to retirement.

Removing what's known as Test 1 from the valuation process, having a less mechanical connection between where we set the discount rates, the discounts, the value of future liabilities, to our investment strategy. However, notwithstanding all that, there are some hard truths, I think.

DB pensions have become more expensive due to the economic conditions. Interest rates have fallen either further than the position as of March 2018, and the economic shock of COVID-19 has come at a time when the scheme was, according to the regulator, at least at the limits of the acceptable risk taking in an effort to recover past deficits.

So, we can't ignore all of these realities. That would be a disservice to members and employers, and a dereliction of our fiduciary duty and the requirements under loan regulations. So, we must face up to the challenges facing the scheme, but we do understand the difficult backdrop for the sector at this point in time so we are engaging very closely with stakeholders on this.

We're extending the period for consulting with employers on these issues. A formal consultation will run from late August through into the latter part of October. We recognise difficult choices are required, we need to give people time to consider the way forward.

We're engaging closely with our regulator, The Pensions Regulator, to ensure it comprehends the strength of the covenant that is provided by the higher education sector to the scheme and the reasonableness for us to pursue investment strategies that seek to generate investment returns to help pay the pensions.

I'll speak a little bit more about this later, we're engaging closely with employers to look to bolster their commitment and support to the scheme, to give us, as the trustee, more confidence in running such strategies.

We won't, as Will said, intervene in the discussions between employers and employees on who pays which demands in respect of the outcome or indeed what the benefits are, but we will assist as we can these discussion and we will set contributions to ensure that whatever pensions are promised are secure, as is our duty.

Helen McEwan: To that end, Will, we live in unprecedented, I guess, uncertain times. The higher education sector has its challenges, the economy has its challenges. How do you keep members' pensions safe and secure at a time of such widespread uncertainty?

Will Spinks: Well, it's very difficult, I think, is the straightforward answer to that. I mean, our approach is to seek to balance risk, both through what we do with our investment strategy and also what we do through our contribution strategy. We try to keep costs down without taking too much risk.

In a sense, we're between a rock and a hard place. If we look to one side, we have a pensions regulator quite rightly concerned that trustees are making decisions that don't put off risk to an unacceptable point in the future, which leaves members' benefits exposed.

And they're quite rightly pressing their statutory accountabilities to oversee hedge funds like USS, and we must be job number one on their list of things to do. We're the biggest private fund in the UK and we're in a valuation cycle year, so they're working very closely with us. Their preference, clearly, is for us to take less risk.

Then if we look to the other side and what the stakeholders may wish, and they have an interest in keeping contributions low both from a member perspective and also from an employer perspective, and they may be prepared to take more risk than certainly the regulator may be prepared to.

So, we sit in the midst of that and we are legally accountable for making responsible, long-term, prudent decisions to ensure that members' benefits are protected in the future, and that is not an easy mechanical decision to make. That is a judgement that has to be made, taking into account all the factors that we can bring together to help us make a decision.

Bill said we will work very closely with the stakeholders in talking to them about, for example, for the employers, how much risk did they have in terms of appetites to be able to contribute to the fund? How much capacity they've got and whether some of that capacity will need to be set aside for other purposes, and COVID-19 is the obvious example of that.

So, we will consult, as we're required to do by the rules, with UUK as the representative of employers through the process that Bill has indicated is just about to set off. But they will give us their views, as a consequence of that. They're not the decision makers.

The board is the decision maker. We are held accountable for that and we have to make that balanced decision in the long-term, impartially, in a prudent manner, to make sure that members' benefits are protected.

Helen McEwan: Bill, would you like to add anything in terms of protecting members' benefits to Will's very comprehensive answer there?

Bill Galvin: I think that's clearly a very good answer from Will. Look, from our perspective, I think providing pensions is a profound privilege. Facilitating this contract between generations where the retiring one establishes a claim on the output of those who are still in work is a very, very serious responsibility.

There are a huge number of things to take into account, risks in doing that, investment funding, legal, actuarial, the regulatory as well as the operational ones, and we have to try to make objective judgements on each, taking very significant amounts of independent advice on that process. Of course, we follow the guidance laid out by the regulator, but also our trust duty under the trust responsibilities and the law.

We're criticised, clearly, for being too risk-averse at times and for being overly-tolerant of risk. The truth is, the future is unknowable and the past is a relatively poor guide. We look for evidence of the future, we take advice. We don't just extrapolate the past and we focus on what the range of outcomes that might emerge and whether employers can cope with us being significantly wrong if we are overly-ambitious in that regard.

I've spoken with many vice chancellors and finance directors at institutions recently, and I know how concerned many of those are about short-term prospects. These are relevant to us too, of course, but our primary focus is on the long-term. The long-term prospect for investment returns and the long-term prospects for the higher education sector.

But it is clear that short-term shocks can make longer-term goals much more difficult to achieve, and so our resilience to the short-term challenges that we face is important too. That's why we are very much focused, as we go through this valuation, on the nature of the resources that employers can make available to support the scheme through both short-term shocks and over the long-term delivery of the promises.

That requires a very clear understanding of the economics of the higher education sector. We take lots of advice on that. We talked very in detailed terms with employers and ultimately the trustee must make a judgement as to what the ability of the sector is to support a level of investment risk in delivering pension promises.

Helen McEwan: Thank you, Bill. We've spoken a lot in the last half hour about the trustee responsibilities and our objectives, both as an executive and as a board. USS's annual report and accounts have been published this week.

Bill, would you like to say a few words around what we've achieved for members and employers over 19/20 and what our targets and objectives are for next year?

Bill Galvin: I will, Helen. The full annual report is a whole, I think, 90 or something pages, so I won't attempt to summarise all of that but let me call out a few things that I think we are quite proud of.

The long-term investment funds, we measure ourselves over five years. It's not a short-term job. Over five years to March 2020, the fund grew by £17.4bn and the investment team contributed significantly to that as well, of course, with rising markets. And, as I said before, did so at a lower cost than benchmarks and exceeded their performance benchmarks, so we are proud of that.

We're proud of adding the private market assets to our DC scheme. It's one of the first UK schemes to do so and at no extra cost to members from the previous proposition. We believe that these will improve member returns in that area. Our DC funds in general have outperformed their performance benchmarks since their inception in 2016.

As Will mentioned earlier, we are one of the UK's largest responsible investment teams and, in June, we announced that we would divest from, or not invest in, tobacco manufacturing, thermal coal, companies with ties to cluster munitions, landmines and white phosphorous.

We did that because we believe that the long-term factors that will play out in those areas are such that it is very difficult for investment managers to be sure that public behaviours, regulatory responses, can be properly anticipated, and the most appropriate way of dealing with those risks from an investment perspective was to divest.

We haven't pursued divestment before as a strategy, this is the first time we've continued to look at this area as we move forward. We also work very hard with our investee companies to influence positive changes in the way in which they see their responsibilities.

I think we've been particularly proud of the way in which we managed through the COVID pandemic issues with our directly-owned companies, making sure that we worked very closely with them to ensure, first of all, that they were safe but also that they were setting themselves up to be resilient for the future and behaving as good corporate citizens.

We've worked very hard on our member experience, focused on the new joiner and retirement process this year. Helen, your team has been very, very busy launching a member voice panel to inform all of that task.

Employers have told us that we've improved our communications, our service levels to them, and our overall relationships with them, and give us very high scores in all of those. We've worked very hard to get all of those things right.

Although the main news unfortunately in our annual reporting accounts was that the deficit had increased and our funding challenges were getting more difficult, I think alongside all that, we get a very positive story to tell about all the things we are doing in our members' interests.

Helen McEwan: Thanks, Bill. Will, do you have anything to add to that in terms of our achievements?

Will Spinks: Yes. I mean, if I can look forward, Helen, to 2021 and perhaps talk about some of the challenges ahead. I mean, 2021 will be inevitably dominated by the valuation, that's inevitable given all the work that's going on associated with that.

If you look at the level of engagement that's happening, it is of a different order to that which I've seen in previous valuations. It was one of the recommendations of the Joint Expert Panel and, therefore, we have got trustee board members participating in all sorts of processes with stakeholders, whether it be the valuation methodology working group or whether it be in terms of attendance at Joint Negotiating Committee meetings or whatever else it may be.

Certainly, if I look back to the 2017 valuation, which I was heavily engaged in, that is a very different sort of order to the engagement that has previously taken place. Will it mean that, when we get to the end of the process, everybody is in absolute agreement? Of course it won't, because we have different pressures that are on us, but I think we will not be able to be criticised for the level of engagement that there's been during the process.

What we can't do, however, in managing the valuation through the year, is forget about our membership and improving the experience that they have. Inevitably, member perception has taken a hit as a consequence of all the noise that's been going on concerning the USS pension scheme.

It may not be directly involved or related to the actual transactional experience that people have, but if there's all this other noise going on about the valuation process and the threats that there may be for the scheme as a consequence of that, it is bound to impact upon members' perception. That's almost inevitable.

We do have to make improvements in terms of the experience that membership has when they're interacting with USS, and this year we are seeking to launch a new guidance and advice service, despite what's happened in terms of pandemic. That work has continued. It's slightly delayed because we can't offer face-to-face guidance and advice in the current circumstances, but that will be coming later in the year to members.

Also, we're doing significant work behind the scenes to manage improvements to the website and the USS members' portal to make it easier for members to access and manage their pension online.

All of this, we're doing during a pandemic. We've shifted basically all of our investment management activities and all of our pensions operations activities to a working-from-home environment. I know, and you'll know better than I, the level of service we've been able to maintain and keep up during that period.

I'd just like to say thank you to those within USS, the employees who have worked very hard on that, who've changed their working practices. From my perspective, it's largely been a seamless change.

On a personal basis, I have unfortunately had to interact with another large pension scheme that operates in the sector recently to do with dealing with some family estate matters, and I can assure you the quality of service members are getting through USS is of a different order to that which, I can speak for myself, I've had through another large scheme that operates in the sector.

So, we do need to, despite the works that needs to be done on the valuation, continue to focus on the experience that members have and seek to make improvements to their daily interactions with the scheme.

Helen McEwan: Thank you, Will. That is really helpful. I have a few more questions to go but I'm very conscious that we want to get to member questions as well, so I suggest the next three we try and answer really briefly and then move on to some of the member questions so that we can actually get to that.

The next one is an important one, I think, that we answer, and that is: how do we justify the salaries and bonuses being paid to USS employees in the current climate? Bill, would you like to comment on that, please?

Bill Galvin: Yes, thanks Helen, I would. First of all, let me echo Will's congratulations to the teams from both the investment and the pensions side who have kept us going through COVID in a way that I've been hugely admiring of.

Look, we're aware that remuneration in financial services and investments is higher than in other sectors. We work very, very hard to ensure that we're paying fairly and not excessively. We benchmark all our employees against the market for their skills, and governance and scrutiny is very, very high, overseen by our remuneration committee and the board.

We think very carefully about the skills and experience we need for each role. We need some rare and very highly-skilled people to run a portfolio of investments of £72bn and a hybrid pension scheme with some of the complexities that we've just worked through. We operate in a very competitive marketplace for that talent.

Ultimately, we must believe that it's in members' interest to hire the people we do and to pay the remuneration that we do. I believe you can see this in the performance of the investment teams and in the pension teams.

You can also see that we don't over-pay, comparatively speaking, because of how we benchmark from a cost perspective. We deliver those investment returns for less than other schemes, and by taking our investments in-house, we save a lot of money that would otherwise be paid to third-party managers.

People want to come to work at USS. We're an attractive employer because of the purity of our mission, but we can't apply too much of a discount to market rates in respective of what we pay because otherwise people would feel that they were being treated unfairly and may not want to work here.

We have had periods in the past where we've allowed remuneration to fall away from what other schemes and other organisations were paying and we found that we have lost some highly-valued people as a result. I believe that what we try to do all the time is make sure that what we are doing from a remuneration perspective can be demonstrably in our members' interest.

Helen McEwan: Great. Thanks, Bill. Is there anything you would add to that, Will?

Will Spinks: Just a little. I speak as a member of the remuneration committee and I recognise that, for many members listening to this broadcast, some of the sums involved will be eye-watering in terms of our own experience of working in higher education.

I think what I would say is this is largely as a consequence of making a decision that it's in members' interests our investments are largely managed in-house. As Bill said, we do that because we gain more control, we get a better return and it costs us less than paying fees to investment managers.

The consequence of that is that those investment managers that we employ are our employees and appear therefore in the accounts.

We have to pay them what investment managers receive in the market, although we do discount it, frankly, for working internally within USS. Those sums are very transparent, they go through proper governance processes within USS. They're published in the annual accounts.

We could choose not to have our own internal investment management process. That would not be a good decision for members because it would cost us more, we'd get less in terms of value in return. It would then make all of these payments that are made, these high-level payments to investment managers, not transparent in the account.

So, it is in members' interests that we manage it in this way, and we therefore have to be transparent about that within the accounts process and, as a board, we have to be held accountable for payments that are made.

Helen McEwan: We have another couple of questions but I think I will move to the final question, Bill and Will, and then we'll move to the member questions. I do think this one is really important and that is: how are other similar pension schemes fairing at the moment? I think that comparative for people and that understanding that their money is in the right place at the moment would be very reassuring.

Bill, I'll ask you to comment on that finally before I move to member questions.

Bill Galvin: I'll comment very briefly, Helen. Look, all pension schemes with guaranteed future benefits are affected by lower interest rates and lower expected returns in setting the cost of pensions.

It's a global issue. The Dutch pensions schemes, for example, are being asked to make reductions to pensions in payment. In our own sectors, the

Teachers' Pension Scheme, which is a government-funded scheme, unfunded scheme, has pension contributions which are higher than USS's and that scheme is a pay-as-you-go scheme.

Will made it clear earlier that the cost of buying a pension annuity on the open market has gone up 24% in the last five years and 48% in the last ten. We work hard to provide the best service and the overall pension offering to our members. We come to do the best possible job.

But our ultimate failure would be to fail to secure the pension promises that have been made so that you can all feel confident that a pension promise from USS is safe and secure for all foreseeable futures.

Helen McEwan: Anything you would like to say, Will, on that one?

Will Spinks: Yes. Pensions are increasingly valuable, particularly defined benefits pensions, they are more expensive, we've covered that earlier, and they are increasingly rare. One of the statistics that I've seen is that 34% of all employees contributing to an open defined benefits scheme, funded defined benefits scheme in the UK are members of USS. We have one-third of all similar members contributing to those open-funded schemes.

So, you have a benefit that is increasingly rare, is very valuable but, unfortunately, the price of that scheme is inevitably going to rise. That's therefore the role of the trustee to ensure that we have the funds necessary to make sure that benefits are payable in the future. We will set that price and it will then be up to the stakeholders to engage in discussions concerning that.

Helen McEwan: Great, Will. Thank you. We have approximately eight minutes left, so I'm going to try and get through as many of these questions as I can. Just to reiterate to everyone on the webinar that we will post these on the website, so you will get a full response even if we can't quite manage it today.

So, we have a question here from John asking, 'What planning is being done to account for university shortfalls in making their contributions due to the falling student income, especially from Chinese students? If the USS fails, are pensions currently being paid safe?'

So, kind of two questions there so I don't know who would like to take that, Bill or Will?

Bill Galvin: Let me take the first part. I think there were two bits there, some concerns about institutions over the next period of times as student numbers fall and revenues fall. Was there also a concern about the longer-term security of pensions?

Helen McEwan: Yes.

Bill Galvin: On the first issue, we have advisors, we use Pricewaterhouse and Ernst & Young, to work with us to understand exactly the situation of higher education employers, because it is obviously quite important to us that we are aware of the resilience of the higher education sector and its ability to continue making the pension promises it has with the security that they will be paid out in the future.

We've been working very hard with both of those and with the sector to understand the impact of all recent events, of COVID-19, of the geopolitical risks with regard to China in the not-too-distant past and ongoing of the Brexit implications. Almost all of our analysis has concluded that the UK higher education sector has a robust set of prospects in the global marketplace for higher education and with regards to the demographic shape of the UK population.

But, of course there are risks to that and we are at a particularly uncertain time. So, we are working with employers very carefully to understand this situation for employers in the short-term and in the medium-term.

Much of that will only become apparent as we go through the autumn. We have a substantial amount of work going on that will run in parallel to the consultation with employers about their risk appetite to reassure the trustee that these assumptions we're making about the long-term health of this sector are still valid.

In terms of looking at how we help and work with employers through the short-term, I think that will become more apparent as we work through the valuation and understand the situation of employers. But let me be clear, of all of our higher education employers, we have not had any challenges with employers paying contributing in respect of pensions that are currently being accrued.

Apart from some of the very smaller employers in our 350-employer membership, there have been no financial difficulties that have impacted on pension contributions. We are, in the short-term, sure that employers can continue paying their pension contributions in respect of pensions that are being accrued now.

Over the long-term, we have good confidence but we are seeking to reaffirm that in the ongoing robustness of the higher education sector in respect of the pension promises it has made.

Helen McEwan: Will, do you have anything to add to that or shall I move to the next question?

Will Spinks: Just very briefly, from an institutional perspective, most research-intensive institutions are modelling scenarios where possibly around 50% of international students may not turn up in the autumn. Clearly, that is a significant hit in terms of financial sustainability within institutions.

My own institution, the University of Manchester, the modelling at that sort of level plus a few other things is turning out about £160m loss potentially to our income flows for 2021, but we won't know until the autumn.

Ironically, at the moment, a number of institutions are reporting their acceptances for international students are actually up, despite the circumstances.

Now, whether they will turn up in the autumn or not is a different matter entirely and it's one of the reasons, as Bill said earlier, that we've extended the consultation through to the end of October.

The decisions the trustee may need to make at that time can be made with a little bit more data and knowledge, at least about the 2021 academic year, if not any indications about what may happen subsequently. We are trying, as a trustee, to give the process as long as we can within the regulatory constraints that are upon us.

Helen McEwan: Thanks, Will. Just to prove this is live, I'm told we're going to go on for another five minutes until 3:05, so I hope you can stay with us because we've got lots of really good questions.

Bill, next one is from Phil and it's saying, 'In the Times yesterday, the funding gap in the universities pension scheme has ballooned to £20bn, raising the prospect of fresh strikes by academics over potential increased member contributions. Please comment'.

Bill Galvin: Thanks, Helen. I think we've covered a lot of this already, acknowledging that the future does look challenging and that the prospects for the 2020 valuation, based on the current monitoring and in advance of any decision making, do point towards a requirement for increased contributions, and it would be less than straightforward to sit here and say otherwise.

So, we will work with employers and with the union representatives very closely through the autumn. The things that we are asking of employers are really, really important in this regard. We are asking employers to commit to the scheme for the long-term and we are asking them to commit that any debt that's taken on for any purposes that secure them any of their assets will not rank higher than the pension scheme's claim on those assets.

Those are two really, really important things that will confirm that the trustee can take a long-term view on funding the scheme and allow us to mitigate, to some degree, the challenges that are posed by current market conditions by looking through them and beyond them.

Even with those additional covenant support measure from the employer, I anticipate that we will be faced with a very challenging valuation and the prospect of increased contributions.

As we said earlier, the trustee must make those decisions objectively and independently and we will work with employers and union representatives to help them understand and deal with the consequences of that. But it is for the employers and the union to work through how they deal with potentially higher contributions.

Helen McEwan: Will, is there anything you would like to say from the institutions' standpoint on this one?

Will Spinks: Just very quickly. I mean, it is highly probable, almost inevitable, that contributions will rise in terms of the price of the existing benefit structure.

As Bill as indicated, the extent of that rise will be influenced by the sort of commitments that we can get from employers to the longer-term. Without those commitments, the price will be higher than it would otherwise be.

That will help shape the space in which the stakeholders will need to negotiate with each other through the Joint Negotiating Committee to decide what needs to be done as a consequence of that likely increase in the price of the current benefits. It's not for the trustee to determine that. We accept the price, it is for the stakeholders to determine that through the Joint Negotiating Committee.

Helen McEwan: An excellent question for both of you next which is, 'Is USS considering offering variable levels of benefit packages to combat members' ability to afford the ever-increasing current scheme? Will USS lobby to change the pensions law which prohibits amending historic benefits accumulated as it's clear that these are now being funded by our current members who will never have as generous benefits. First in, pay least and get the most. Last in, pay the most and get the least out'.

Bill Galvin: Right. That is a very good and to-the-point set of questions. Only some, I think, of which are within the gift of the trustee to answer and respond to. As indicated in the questions, pensions promised are protected by property rights. It's not within the gift of the trustee or the employer unilaterally to change pensions that have already been promised.

I understand that members feel concerned that they are already getting potentially less valuable pensions, particularly higher paid members, than have been offered to such members in the past and face the prospect of paying higher contributions that have been paid in respect of those.

That is understandable concern, the inter-generational fairness of it is something that has been brought to our attention many times and about which many members feel very, very strongly.

The challenges, of course, are that those pensions have been promised and must be paid, and everybody who has a pension promise from the scheme must be in a position of feeling that that is secure and will be paid, whatever happens in the future. That is the primary role of the trustee.

In respect of the potential for offering variable benefits in the scheme going forward, there are again some constraints in terms of the legal framework under which defined benefit pensions are written, but there is a fair degree of freedom for manoeuvre within those.

However, that is not the role of the trustee. We are here, we are pension professionals and happy to advise and work with the employers and member representatives in working through some of these issues, but the primary duty in setting the benefits sits, as Will said earlier, with those representatives through the Joint Negotiating Committee.

Helen McEwan: Anything to add there, Will?

Will Spinks: Yes, just very quickly I mean, opt-out rates have risen and are a concern. It is clear that level of contribution are contributing to that. They're not entirely the reason but they're contributing to that. It was raised in the Joint Expert Panel report, it's been raised by UCU, it's been raised by UUK on behalf of employers.

But as Bill has said, there can only be a change to different sorts of arrangements through rule changes which are the accountability of the Joint Negotiating Committee. It's through that forum rather than through the trustee board that any decisions on more flexible, different arrangements for benefits would need to be agreed.

Helen McEwan: Thank you, Will. We have time for one last question, Bill, and I think this one is for you, which is, 'Why can't we have online accounts where we can review regularly other than a once-a-year statement?'

Bill Galvin: So, I think the member who asked that question, first of all, needs to register with My USS and make sure that they have access to their benefits there and to know that we're planning a very substantial relaunch of our digital offering in September which will enhance, again, the tools, the access to information, the ability to model forward pensions and understand the shape and risk of investments in the defined contribution part of the scheme in USS Investment Builder.

My USS is there for all members now and it's about to get very much better as we move into the autumn. I don't know, Helen, if you wanted to add anything to that as one of your key areas of responsibility.

Helen McEwan: Yes, I can't resist. I have to. So, yes, we are launching our new website in September is the date we plan to go with that. A number of really fresh, great content, much better interaction in terms of what you have. It's a really good foundation for what the digital team are planning going forward, so that will be Phase 1 in September but there will be lots more to come.

Again, in the spirit of what we were talking about earlier in terms of feedback from members, if you have any suggestions about other things that you want digitally online that you would like us to prioritise, we would love to hear about it because that will certainly help inform our roadmap going forward. You will certainly have your online statement sooner rather than later.

We are out of time. Thank you for bearing with us. We had lots of questions that I would like to reassure you that will appear on our website and will be answered in full. Some great questions came in, thank you very much. If any others occur then please do ask them, let us know.

We are about to link you now into the survey to get your feedback on the webinar. It'll only take a couple of minutes and I would really appreciate it if you would complete the survey for us so that we can make sure our future webinars are tailored to exactly your requirements. Thank you so much for listening to us today.

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