University of Manchester response to the UUK consultation on the 2018 actuarial valuation and the provision of contingent support

The University of Manchester welcomes the opportunity to contribute to the Universities UK consultation on the USS. Pensions are extremely important to our current and future staff. However, we find ourselves in the very difficult position of having to make very hard choices about the sustainability of the USS pension for both employers and employees.

We view the current situation with extreme concern. Employers find themselves in a position where the outcome of the 2017 valuation is now being implemented by USS in the latest schedule of contributions and the March 2018 valuation does not address all the recommendations of the Joint Expert Panel (JEP). It is most regrettable that contingent contributions are now the only option available to avoid unaffordable increases.

It is recognised that all parties have a shared objective of maintaining an affordable and sustainable scheme, but the governance arrangements to achieve this clearly need to be reviewed and it would perhaps be a sensible step to ask the JEP to make recommendations as part of their phase two review.

It is of paramount importance that we all work towards a better shared understanding of the issues that affect the affordability and sustainability of the scheme, recognising that there is no option which does not carry significant detriment for some or all of the parties involved.

The employers and members now face significant increases in contributions under the agreed schedule. The phased increase for employers from an 18% contribution to 24.2% by April 2020 will have a detrimental impact on the University and the sector, which could serve to weaken the covenant.

The related increase for members from 8% to 11.4% is also significant and, given the exclusivity arrangements, could act as a disincentive to new joiners and existing members of the scheme.

Turning to the specifics of the March 2018 valuation, The University of Manchester supports the following proposed adjustments relative to the 2017 valuations:

1. Incorporate realised investment returns
2. Incorporate the latest mortality experience data
3. Change the retirement age from 65 to 66 from October 2020
4. Use updated future expected investment returns.

The decision not to defer de-risking and introduce the requirement for contingent contributions seems to run counter to the enduring covenant of the employers and the long-term nature of the scheme at a time when employers are facing higher risks and financial challenges than in 2017.

In addition, the selective adoption of the JEP recommendations by USS is based on the view that some of the recommendations are outliers when compared to other Defined Benefit schemes. However, they are not that different when compared to Local Government Pension Schemes – which remain open to new members, have multi-employer backing with a strong covenant and are not focussed on de-risking.

In the context of triennial valuations, the requirement for, and introduction of, contingent contributions places undue emphasis on volatility and potentially places employers in situations where short-term tactical responses could damage an institution (and USS members) with little added security for USS.

Given the wider sector uncertainty, contingent contributions are not a good solution.

The setting and acceptance of 'upper book-ends' risks giving the impression that associated contribution rates are affordable. They are clearly neither affordable nor sustainable and will result in major impacts on the sector. Should such contribution rates prevail then we would have to make strategic decisions with consequential impact on our goals and adverse impact on our staff, students and our civic role and contribution to the city region.

The use of negative pledges is an alternative which would avoid the upper book-end approach, but this appears to have been dismissed as being too difficult. This again reflects the time pressures on all parties. The use of an incentivised negative pledge regime should be explored as part of the next JEP review.

The proposed upper bookend is significantly higher than that proposed by the JEP and this appears to be attributable to the USS view of the deficit contributions. We remain of the firm view that the 5% deficit contribution rate is too high. This should be reconsidered by USS, given the reduced deficit figure now being used in the March 2018 valuation.

The proposed operation of contingent contributions is laid out in the consultation document dated 27 February 2019: *'The 2018 actuarial valuation and the provision of contingent support'*. Employers were asked three questions in this consultation document:

1. Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed upper bookend and lower bookend?
2. Do you support UUK putting forward a proposal for a CCs arrangement to the USS Trustee as it requested? If not, would you prefer to pay at the upper bookend level, or what would your preferred response be?
3. Do you find the proposal for a CCs arrangement set out in the Aon proposal acceptable, taking all factors into account? If not, what aspects would you wish to change?

It is at this stage of our response where pragmatism comes into play. Our strongly held views relating to Q1 have been made clear earlier in this response. However, The University of Manchester is prepared to support UUK putting forward a contingent contribution proposal (Q2) as outlined in the Aon proposal (Q3) on a strictly time-limited basis, in order to create the time and space for JEP and others to find an acceptable long term solution to the sustainability of the USS scheme, whilst also helping to limit the increases in employer contribution during that period.

We urge UUK to secure agreement from USS and the JEP to the following:

a) The use of contingent contributions will be revisited at the next triennial valuation. The University of Manchester would prefer this to be as at 31 March 2020 in order to narrow the window and thus lower the risk of trigger.

b) The next valuation should take clear account of all JEP recommendations.

c) The governance arrangements will be reviewed in consultation with the JEP and others and a clear medium term strategy to address the affordability and sustainability of USS developed.

d) The JEP consider negative pledges as part of the next phase as an alternative option.

This response has been discussed with the Finance Sub-Committee (an executive body) and approved by the Finance Committee (a Board sub-committee) on behalf of the Board.

13 March 2019