The plan for the 2020 Valuation

Background to the 2020 valuation

As you will recall, the 2018 valuation was conducted amidst challenging and volatile economic conditions, with significant fluctuations in bond yields (which reached new historic lows in 2019) and record high asset prices across the market.

Accordingly, completion of the 2018 valuation came with a commitment to undertake a further valuation as at 31 March 2020, which – by law – will need to be completed by 30 June 2021. Conditions continue to be challenging as we begin the work for this valuation.

The schedule of contributions for the 2018 valuation will see the aggregate contribution rate increasing in October 2021 – from 30.7% to 34.7%.

The 2020 valuation offers the opportunity to reassess this schedule and for stakeholders, in turn, to reconsider how contributions will be split between employers and members. It also offers the opportunity for stakeholders, via the Joint Negotiating Committee (JNC), to evaluate how any changes to contributions, if required by the 2020 valuation, might be addressed.

The last two valuations were both filed well after the statutory deadline had passed. We have been clear with the Pensions Regulator that the 2020 valuation will be filed in accordance with the law. We therefore consider it very important that stakeholders are provided with as much clarity as possible on the key milestones and schedule we will need to work to in order to meet the statutory deadline of 30 June 2021.

We have reflected deeply on the process and approach to the 2017 and 2018 valuations, and on what lessons might be learned. We intend to broaden our scope in terms of communication and engagement. In previous valuations, our priority was to communicate (in broadly technical terms), with engaged and informed stakeholders: Universities UK (UUK – the formal consultee) and the JNC (the key decision maker, incorporating University and College Union – UCU), as well as our regulator. On this occasion – while respecting the role of UUK as the spokesperson for employers, and UCU as the designated negotiator for members – we will look to make sure that wider stakeholders understand both the process and the significance of key decisions as we work through the valuation process.

We are therefore setting out below what needs to happen, by when, to achieve this – and the roles and responsibilities of the various parties involved.

The statutory deadline for filing the valuation with the regulator means that all decisions will need to be made on a timely basis, and parties will need to ensure their advisory resources and governance arrangements anticipate these challenges.

Finally, we appreciate that the Joint Expert Panel (established by UUK and UCU) is due to publish its second report before the end of the year, and that this report could be beneficial in informing stakeholder discussions in relation to their approach to this, and future, valuations.

Roles and responsibilities in the valuation

- **The Trustee**

As the corporate trustee of the Scheme, our primary purpose is to work with higher education employers to secure the benefits that have been accrued by our members. We are held to account by our many legal duties and by our regulator in this task. Crucially, the Scheme was established on the basis that the Trustee has **sole responsibility – under the Scheme rules and law – for identifying the aggregate contribution rate required to fund the promised benefits.**

To deliver this responsibility effectively, and retain the trust and understanding of stakeholders, we will be formally consulting with UUK as required under law and the scheme rules. We also undertake to engage with, and provide regular communications and updates to, the JNC, UCU, members, and employers.

- **Joint Negotiating Committee (JNC)**

This committee is composed of an equal number of UUK and UCU representatives and an independent Chair. The JNC is responsible for agreeing all rule changes to the Scheme. In the context of scheme funding, the JNC inserted a provision into the Scheme's rules several years ago to provide a default position as to how the cost of required contributions should be split between members and employers, in the event the parties fail to agree on the way forward.

The JNC has **sole responsibility for deciding how any increase or decrease in the contribution rate required by the Trustee should be addressed** if it does not want that pre-determined cost sharing provision to apply (for example, by agreeing how the cost of any increase is split between members and employers and/or what changes to Scheme benefits should be made).

Members of the JNC are permitted to be partisan and represent the interests of their appointing organisations (UUK and UCU). The chair of the JNC is an appointee of the committee itself. As a totally independent member, the chair has a fiduciary duty to the Scheme, and to all its beneficiaries, and has a casting vote in JNC proceedings.

- **Universities UK (UUK)**

Under the Scheme rules, in combination with section 229 of Pensions Act 2004, UUK is the entity the Trustee must consult with in relation to scheme funding.

In addition to these legal consultation obligations, we will engage with UUK in relation to **the ability and *willingness* of employers to take risk** – that is, to address the potential consequences of making good any funding shortfall if our assumptions turn out to be overly optimistic (for example, if the investment returns being relied upon do not materialise). In providing secure benefits, we can set the maximum risk capacity we believe can be supported by the employer covenant, but we cannot exceed the employers' willingness to bear risk in delivering benefits.

In a valuation, UUK is formally consulted on the methods and assumptions (demographic and economic, including risk appetite) to be used in calculating the scheme's **Technical Provisions**, the **Statement of Funding Principles**, the **Schedule of Contributions** and **Recovery Plan**.

- **University and College Union (UCU)**

UCU has the responsibilities under scheme rules (i) of appointing representatives to the JNC, and (ii) of making appointments to the Board and to the Advisory Committee. We will engage with UCU with the aim of ensuring a good understanding of the key issues that determine our decisions.

- **Individual employers & affected employees**

Employers make pension promises to members through their employment contracts. Their participation agreement with USS provides the means for employers to deliver on their promises.

Employers have the ultimate responsibility for payment of benefits promised to members (once they have been accrued), under law.

In the event that contributions to be paid by members increase and/or benefits change as a result of a valuation and what the JNC determines, the employers themselves are responsible for consulting with their affected employees – that is, all employees who are active members or who are eligible to become members.

Key milestones and timetable

As with past valuations, there are a number of crucial elements that must be addressed in the 2020 valuation. In particular, we will need to assess the covenant of the employers as well as determine the methodology, risk appetite, investment strategy and funding assumptions that will be used to identify the aggregate contribution rate required.

Under the law, we must formally consult UUK on the following issues:

- Any decision as to the methods and assumptions to be used in calculating the scheme's technical provisions
- Any matter to be included in the statement of funding principles
- Any provisions of a recovery plan
- Any matter to be included in the schedule of contributions

Ahead of the formal consultation, we will look for guidance from employers (through UUK) on risk appetite (based on the covenant assessment). We will then consult with UUK (as required under Scheme rules and legislation) on the proposed Technical Provisions methodology and assumptions, the proposed Schedule of Contributions, the proposed Recovery Plan, and the proposed Statement of Funding Principles.

Once we have determined the required contribution rate, we will submit a formal report to the JNC for it to consider how that rate should be addressed.

Throughout the entire period of the valuation, we also undertake to keep the following parties (in addition to UUK) informed of progress and preliminary conclusions:

- The Joint Negotiating Committee
- University and College Union
- Participating employers and members
- The Pensions Regulator

What follows is the timetable that must be met for the 2020 valuation to be completed before the statutory deadline and (if applicable) for any changes to contributions to be addressed **before** the October 2021 contribution increase (under the 2018 valuation) comes into effect.

Nov 2019-Feb 2020: Engagement with stakeholders on the methodology

Feb 2020: Proposed methodology agreed by the Trustee Board

Mar 2020: Engagement with UUK on risk appetite (and conclusions on covenant assessment)

May 2020: Proposed assumptions agreed by the Trustee Board

July 2020: Formal consultation with UUK on proposed Technical Provisions methodology and assumptions, proposed Schedule of Contributions, proposed Recovery Plan, and proposed Statement of Funding Principles

Aug 2020: Actuarial report required by Scheme rules with contribution requirements issued to JNC

Nov 2020: JNC decision on how to address any increase/decrease in required contributions

Dec 2020-Feb 2021: Employer consultation with affected employees (if required)

June 2021: Statutory deadline for valuation to be filed with the Pensions Regulator

Our commitment

We will clearly need regular engagement with stakeholders and will need decisions to be made in a timely fashion in order to meet this timetable. We are committed to doing all we can to support stakeholders through the process that lies ahead.

We recognise that this is a challenging timetable and that the outcome could potentially lead to some very difficult discussions and decisions, but we are committed to engaging with stakeholders proactively, transparently and constructively throughout the process.

Ultimately, all parties must work together to arrive at a contribution rate that protects the security of the benefits promised to our members now and into the future, against a background of significant economic uncertainty and record high asset prices.

We will be going above and beyond statutory requirements to engage with our stakeholders on these important questions. We have already established a number of stakeholder working groups to inform the 2020 valuation, and are committed to holding webinars, delivering face-to-face presentations, and to releasing updates and documents at key milestones.

The Trustee company stands ready to assist stakeholders in reaching a timely conclusion to the valuation process.

Professor Sir David Eastwood, Chair, Trustee Board

Bill Galvin, Group CEO