# UNION COMMENTS ON THE USS CONSULTATION

SHEFFIELD UCU/UNITE/UNISON

Abstract. We outline the thoughts of the University of Sheffield branches of UCU, Unite and UNISON on the proposed changes to the Universities Superannuation Scheme.

## 1. Overall comments

We believe that a university's success should be judged by what it does for society, its students and its staff. In recent years, staff have been forced to accept large real-terms pay devaluation and a major pension downgrade. At the same time, institutions have built cash reserves to insure themselves against failure. We strongly oppose further pension downgrades which will erode trust in the fairness of the sector's decision making.

We are unconvinced that USS is in financial difficulty. Investment performance has been strong, significantly outperforming pessimistic assumptions. Salary growth has been stagnant, way behind both historical trends and unrealistic forecasts. The three years to March 2014 shows a scheme which has strengthened considerably, yet the valuation methodology points to an ever increasing deficit. Valuations which have fluctuated wildly are not indicative of the underlying reality, but of inappropriate mathematical modelling, unfit assumptions and unquestioning deference to market-derived figures.

It is in the interest of universities to achieve maximum productivity from their pension contributions. Defined benefit schemes are an efficient use of invested capital, pooling risk and allowing for long-term investments. Where defined benefit schemes have been replaced with direct contribution pots, employers find that they are unable to match the benefits for the same level of outlay. Moreover, transferring risk onto individuals leaves those pensions vulnerable to short-term economic turbulence.

It strikes us that the formation of defined benefit schemes (just as with institutional structures like the welfare state or National Health Service) takes vision and an amount of courage. The process of picking apart such creations piece-by-piece takes neither. The defined benefit model of pension scheme is neither flawed nor outdated, and should be protected for the benefit of staff and financial efficiency of universities.

*Date*: 21 May 2015.

## 2. The valuation methodology

The March 2011 actuarial valuation of the USS fund showed a £2.9bn deficit, leading to a rescue plan with increased contribution rates and a cheaper, inferior scheme for new entrants. The rescue plan would clear the deficit in 15 years, and at March 2014 the on-track figure would be £2.2bn.

2.1. **Historical performance and forecasting.** The change in the fund's health in the period March 2011–March 2014 should be thought of in two parts: revisions due to performance (including actual investment and salary growth) and changes to forecasts for the future.

2.1.1. *Historical performance 2011–2014.* The table below shows adjustments to the £2.9bn deficit based on experience in the three years to March 2014, as detailed in [1, p36]. (Figures in £bn.)

| Item | Adjustment | Surplus or (Deficit) |
|---|---|---|
| *As at March 2011* | | (2.9) |
| Interest | −0.6 | (3.5) |
| Contributions to address deficit | +0.7 | (2.8) |
| Expected out-performance | +0.6 | (2.2) |
| Actual vs forecast salary growth | +0.3 | (1.9) |
| Actual vs forecast investment growth | +2.1 | 0.2 |
| Actual vs forecast membership | +0.4 | 0.6 |

The first three adjustments show expected changes to the deficit under the recovery plan (note the £2.2bn figure). In reality, the fund performed much better than forecast. Using the same forecasting assumptions as in 2011, the fund shows a surplus of £0.6bn; the recovery plan cleared the deficit within 3 years rather than 15.

2.1.2. *Revised forecasting.* A deficit appears only when assumptions on investment performance and life expectancy are downgraded.

| Item | Adjustment | Surplus or (Deficit) |
|---|---|---|
| *From above* | | 0.6 |
| Changes to life-expectancy | −0.9 | (0.3) |
| Downgraded investment forecasts | −7.6 | (7.9) |
| Changes to investment strategy | −4.4 | (12.3) |

The life-expectancy adjustment has been heavily criticised by a prominent medical statistician (see [3] and [4]). The downgraded investment predictions are due to a strict mark-to-market approach, and the change to investment strategy is precipitated by a newly introduced self-enforced measure known as Test 1.

2.2. **Investment forecasts.** The calculation of a prudent forecast for investment returns (the *discount rate*) is described as follows in [1, p10].

> *The initial discount rate is calculated with reference to the specific assets held by the scheme. Different asset classes provide different expected rates of return. A combined overall anticipated rate of return is first determined and then adjusted to provide a prudent discount rate with which to value the scheme's liabilities.*

2.2.1. *Gilts-plus.* The USS trustee chooses to express the discount rate relative to a calculated average yield on UK gilts, to give an at a glance measure of the investment portfolio. In the 2011 valuation, the prudent discount rate of 6.1% was expressed as 'gilts+1.7%' (the relevant gilt yield being 4.4%).

In the 2014 valuation, gilts+1.7% is again used as the prudent discount rate. However, as yields on UK gilts had fallen, gilts+1.7% corresponds instead to 5.2%. This adjustment leads to the £7.6bn addition to the deficit.

2.2.2. *Comparing discount rate assumptions.* Given investment returns in the three years to March 2014 (8.4%, annualised) significantly outperformed the forecast, it is unclear why the discount rate has fallen. We observe that

- gilts+1.7% is assumed for both the 2011 and 2014 valuations;
- the *Deficit as at 31 March 2014 on assumptions consistent with 2011 Valuation technical provisions basis* is quoted in [1, p36] as £6.1bn, yet this includes the downgrade of the discount rate to 5.2%.

That is, the USS trustee views the relative gilts+1.7% figure as the discount rate assumption in 2011, not the absolute value of 6.1%. This does not sit well with the methodology quoted above; our concern is that investment forecasting relies predominantly on movements in UK gilts rather than expert analysis.

2.2.3. *Mark-to-market.* We do not believe that the mark-to-market approach of tracking UK gilt yields is a sensible way to forecast investment returns given that only a fifth of USS investments are in gilts (see [2, p23]). Relatively small changes to the gilt market, which will not have a major impact on actual investments, will lead to large short-term fluctuations in the apparent health of the scheme. Additionally, there are good reasons to believe that the gilt market has been distorted in recent times by Quantitative Easing, and that gilt yields are currently artificially low (see [2, Appendix B]).

In any case, more clarity on the calculation behind the 5.2% discount rate is essential given the major impact it has on the scheme's funding. Without further clarification, we believe that this figure has been arrived at arbitrarily, is highly sensitive to the precise date of the valuation snapshot, and must not be used as the basis for a major downgrade to the scheme.

2.3. **Investment strategy.** A major addition to the deficit comes from a change in investment strategy towards lower-return assets, a direct result of a recently introduced self-enforced measure. This measure, Test 1 (see [1, pp19–20]), concerns the reliance of the scheme on the sector. We strongly believe that this test is misleading, inappropriate and damaging to the scheme.

2.3.1. *Reliance on covenant.* The employers' covenant is the principle that the employers stand behind the scheme in the case of financial difficulty. The purpose of Test 1 is to ensure that there is 'no increase in USS's reliance on the covenant of the sector'.

Test 1 looks at a metric referred to as 'reliance on covenant', which is defined to be the difference between the assets required for the scheme to be fully-funded under

(1) a low-risk, low-return investment portfolio (gilts+0.5%), and
(2) the standard, prudent discount rate assumption.

The test dictates that this figure must not be forecast to increase in absolute terms over a 20-year period, indexed by CPI.

The metric described above can be interpreted as measuring the proximity of the fund to one that is 'self-sufficient'. Self-sufficiency valuations are relevant when winding up a scheme (due to a failing employer, for example), where the fund's assets are moved predominantly into investments with guaranteed returns so that future payments are ensured with very little risk. However, given the stability of the higher education sector, and its nature as a multi-employer scheme, this self-sufficiency valuation has little relevance (see [5]).

2.3.2. *Understanding the test.* We expect that employers are keen not to allow the reliance on their covenant to increase. However, we expect that most would think of this in terms of how likely it is that future contribution increases or bailouts will be needed. This test does not control for that. Indeed, the effect it has on investment strategy is a driver behind the increased contribution rates being proposed.

2.3.3. *Counterproductive effects.* Due to the fact that USS is stilll growing in size, Test 1 forces investments towards low-risk, low return assets, in particular gilts. This will happen irrespective of

- the size of the assets held by the scheme;
- expert analysis on good investment choices.

In other words, whether the fund has a large surplus or deficit and whether certain equities or property are seen good secure long-term investments are irrelevant: in all cases the test would force investments towards gilts. It is hard to see why this measure is sensible.

2.3.4. *Impact of pension funds the wider economy.* The mark-to-market approach to valuations increases the likelyhood of finding deficits when gilt yields fall. As seen with USS's Test 1, this can trigger a move away from productive investments (equities etc) towards gilts. Large investment portfolios of the kind held by USS (£41.6bn at March 2014) are big enough to have a noticeable effect on the market. It is likely that increased demand towards gilts by pensions funds such as USS have further suppressed gilt yields, thus exacerbating valuation issues.

A recent Bank of England report, the result of a working group chaired by Andrew Haldane, found that investment decisions made by large pension funds are having a destabilising effect on the wider economy, often acting pro-cyclically to amplify market volatility (see [6]). In addition, there has been a large-scale shift away from productive investment in industry and infrastructure towards non-productive assets. The choices made by pension funds are, therefore, not only important to the scheme and its members, but also have an impact on the wider economy.

2.4. **Pay growth.** Both the 2011 and 2014 valuations assume annual increases to the central pay spine of RPI+1.0%. Looking at historical pay awards, this figure is unrealistically high (see [3]). The pay spine in the years 1990–2014 grew at a rate equivalent to RPI. Had pay grown at RPI+1.0% over this period, salaries would be 25% higher than they now are. That is, the forecast pay growth is likely to be a significant over-estimation which will lead to vastly inflated liabilities and an increased deficit.

Pay settlements are not uncertain in the way that investment returns are. That is, they are agreed year-on-year. For that reason, we do not see any justification for the use of such a high figure in the valuation.

2.5. **Consistency of assumptions.** The pay growth assumptions should be compared to the investment forecasts and uprating of the reliance on covenant metric described above.

Pay growth of RPI+1.0% suggests a perpetually buoyant economy and an extremely healthy higher education sector. This contrasts with the uprating of the reliance on covenant metric at CPI, which suggests that the sector is stagnant. Analysis of the discount rate calculation in [2, pp23–24] shows that the figure used there assumes negative dividend growth (that is, a recessionary economy). Prudence dictates that the figures used should err on the side of caution. However, even allowing for prudence, it is clear that these assumptions are a long way from being mutually consistent, and there is room for manoeuvre (see [2, pp23–25]).

## 3. Concluding remarks

As explained above, we remain unconvinced by the methodology used in the valuation of the USS fund. It appears to us that the scheme is in good health, and certainly better than that predicted under the 2011 recovery plan. There seems to be little evidence for downgrading investment forecasts past the 2011 level, pay growth assumptions are highly unlikely to be achieved, and a counter-productive investment proposal is amplifying the problems created by these issues.

We believe that USS members will have good reason to feel let down if these concerns are not properly addressed. Endorsement of the valuation by the sector could be seen as a rubber-stamping of annual pay settlements of RPI+1.0% for each and every year hence. There is no historical precedence for this. Indeed, a final offer equating to RPI+0.1% has been tabled by employers' representatives for 2015–16 (see [7]). Downgrading the pension scheme on the basis of pay growth forecasts that employers have little intention of realising could have a damaging impact on the levels of trust in the sector's decision making.

As a final point, part of the agreement between UCU and UUK during the negotiations was that in the case of a downgrade to the sheme, any future better than expected financial position for the fund be used to re-uprate members benefits. Given the controversy over the valuation methodology it is of utmost importance that this promise is kept.

## References

[1] USS 2014 Actuarial Valuation, USS, October 2014 https://www.leeds.ac.uk/comms/for_staff/USS_consultation_paper_October_2014.pdf
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[3] Letter to Martin Harris, Chair of the USS board, November 2014
http://blogs.warwick.ac.uk/files/dennisleech/letter_to_uss_trustees_re_deficit_21_nov_2014.pdf
[4] Response from Jane Hutton and Saul Jacka, January 2015
http://blogs.warwick.ac.uk/files/dennisleech/huttonreplyceo.pdf
[5] How to value a pension fund for an ongoing pre-92 higher education sector that is not about to become insolvent, Mike Otsuka, March 2015
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[6] Riders on the storm, Ashok Gupta, The Actuary magazine, March 2015
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[7] Employers full and final settlement offer, UCEA, May 2015 http://www.ucea.ac.uk/download.cfm/docid/81553B25-FA42-493C-B63D7115A6301CF0

## Appendix A. Responses to the consultation questions

The responses to the questions below follow the national UCU position, with the exception of questions 1, 9, 10, 11 and 12.

**Question 1.** *Do you have any comments on the proposed change to end the link to final salary?*

Breaking the link to final salary for past service is indefensible. On USS's own calculations, this amounts to a reduction of £4.8bn in the pensions workers will receive in exchange for contributions they have already made (and will continue to make for the next twelve months) into the final salary scheme. Severing this link flies in the face of the assurances to USS members in 2011 that the changes introduced then — including a substantial increase in employee contributions — were, in the words of the Employers Pension Forum, "designed to ensure that the scheme will be both sustainable and affordable over the long term". The Hutton Report on reforms to public sector pensions called for the preservation of the final salary link for past service in the transition to CRB. It deemed this necessary in order to maintain the "trust and confidence" of employees in their pension scheme. Thus there are compelling reasons to maintain the final salary link for past service.

We have major problems with the way the fund has been valued, in particular

- the calculation of the discount rate, which, as far as we can tell, has been downgraded from the rate used in 2011 due only to a fall in gilt yields and in spite of strong performance in the intervening years;
- the pay growth predictions, which are at an unrealistically high level that we believe the sector has no intention of matching and likely to vastly over-estimate liabilities;
- the 'reliance on covenant' measure, sometimes referred to as Test 1, which we believe to be misleadingly named, inappropriate and damaging to the scheme;
- the contradictory nature of the assumptions, in that while pay growth points to a buoyant economy and healthy higher education sector, the uprating by CPI in Test 1 suggests a stagnant sector and the discount rate points to falling dividend yields (i.e. a recessionary economy).

We have elaborated on these points in a document presented to our employer.

The case USS and our employers make for breaking the final salary link is unconvincing: that this is needed to offset a rise in their assumed deficit on past service. The main source of this increase is the nearly £7.6bn that the fall in gilt yields has added to their assumed deficit. This huge increase, however, is an artefact of USS's widely discredited 'gilts plus' method of setting the discount rate. It is lamentable that USS and our employers rest their case for such a large reduction in benefits on an unjustified and unjustifiable valuation methodology. Neither the USS trustee nor the Employers Pension Forum has offered any detailed, let alone convincing, response to the critiques of the methodology from various sources, including First Actuarial, the statisticians who wrote to the trustee in the autumn, and various employers such as Imperial, Warwick, and the LSE. Most tellingly, they have failed to respond to the following point made by the statisticians:

> *By their nature, the scheme's real liabilities must vary slowly on a decadal timescale. Liability estimates that show rapid variation on a scale of months to years (as they do for USS) are an indication of instability in those model-derived estimates, not the underlying reality. We would urge you to change to a more stable methodology, rather than allowing the actuarial assumptions tail to wag the investment strategy dog, by 'de-risking' into Gilts and substantially reducing members benefits. The wild swings in actuarial valuations we are now seeing are either the classic symptoms of a controlled system with (highly undesirable) positive feedback or the 'chattering' you get with a controlled system where the control needs to be smoothed over time.*

Before it severs the final salary link for past service, USS must offer, for public scrutiny and debate, a detailed and compelling response to the critiques of the valuation methodology. It must do so in order to establish the trust and confidence of scheme members that a £4.8bn cut in pensions is in fact necessary.

**Question 2.** *Do you have any comments in relation to the proposed treatment of transfers in for final salary section members?*

The proposal to withdraw from the public sector transfer club may create recruitment issues. There may be also be a disincentive to apply for promotion if success would mean placement in an inferior USS scheme without the ability to transfer service from other schemes.

**Question 3.** *Do you have any comments in relation to the proposed treatment of Money Purchase and/or Added Years Additional Voluntary Contributions (AVCs) for final salary section members?*

We do not agree that USS should be able to cancel the contract members signed to purchase additional years' service in the final salary section, effective from 31st March 2016.

All of the literature about the AVCs purchased indicated that the additional years would be added to earned service and that it would be linked to future final average salary. USS should honour the original commitment and enable members to continue to purchase additional years' service in line with the original contract.

It is not a reasonable alternative to offer members the ability to take out a new contract in an inferior (CRB) section of the scheme.

We note that USS considers that it can modify the benefits members will earn based on future service in the scheme, but we do not accept that it can alter the added years' AVC. USS should honour all AVC service, in line with the original terms.

We understand that up to 31 March 2016 the fund enables members to purchase service in the final salary section of USS. We would expect the money-purchase fund value at 31 March 2016 to be clearly identified and increases accrued to that part of the money purchase fund should be used when calculating the additional service purchased in the final salary section.

**Question 4.** *Do you have any comments in relation to the proposed treatment of transfers in for current and prospective CRB section members?*

We are concerned that there may be issues in relation to transfer from USS and non-USS institutions within the UK HE sector.

**Question 5.** *Do you have any comments in relation to the proposed treatment of Money Purchase and/or Revalued Benefits Additional Voluntary Contributions (AVCs) for current and prospective CRB section members?*

We want all contracts to be fully honoured. The closure of this facility reduces USS's attractiveness to potential members.

We understand that up to 31 March 2016 the fund enables members to purchase service in the CRB section of USS. We would expect the money-purchase fund value at 31 March 2016 to be clearly identified and increases accrued to that part of the money purchase fund should be used when calculating the additional service purchased in the CRB section.

**Question 6.** *Do you have any comments on the proposed new career revalued benefits section of the scheme?*

Although the proposal is to improve the CRB section by improving the accrual rate, we are concerned that USS is failing to match the benefits available from the Teachers' Pension Scheme, the other major pension scheme in the higher education sector for similar posts. USS should be planning to improve both the accrual rate and revaluation rate in the CRB section in the future.

The revaluation should be in line with uncapped CPI for active members.

**Question 7.** *Do you have any comments on the proposed level of the salary threshold or the proposed approach to the revaluation of the salary threshold?*

We do not accept that there should be a threshold; defined benefits should be based on members' full salary. However, as a minimum, the salary threshold should be linked to the top of the nationally agreed pay spine. This requires urgent review.

**Question 8.** *Do you have any comments on the proposed application of the salary threshold for part-time employees?*

There should be equal treatment in the scheme for part-time and full-time staff. As such, actual earnings should be used to determine the level of contributions payable, rather than full-time equivalent salary.

**Question 9.** *Do you have any comments about the proposed creation of a defined contribution section for employer and member contributions on salary above the salary threshold (£55,000 as at the implementation date)?*

This move from DB to DC is bad value for money.

According to a recent Canadian Public Pension Leadership Council study on 'Shifting Public Sector DB Plans to DC': "It is widely recognized within the pension industry that DC pension plans are less efficient generators of pension income than are DB arrangements or other pension design alternatives."

Through the modelling of these inefficiencies, the study indicates that "for an efficient $10bn DB plan, converting to individual account DC arrangements to provide the same value of pension benefit would increase the ongoing cost of the plan by about 77 percent and increase the required contribution rates accordingly. The portion of the final benefit coming from investment returns would drop from 75 percent to 45 percent."

In addition to its modelling, the Canadian study draws on "experience and evidence from other jurisdictions" in reaching the conclusion that "Large, well-run DB plans are more efficient at producing retirement income than are DC plans. Several US states that have looked at converting DB plans to DC have concluded that it would cost considerably more to maintain similar benefits. Two states that had converted to DC at least partially converted back because of concerns over how little income they were producing for retirees (Nebraska and West Virginia)."

The USS consultation modeller itself reveals an unfavourable comparison between the new CRB defined benefit (DB) pension that a £55,000 salary will generate with the equivalent annuity that one could purchase if one earns £55,000 in the new defined contribution (DC) section. What such a comparison reveals is that one needs to keep one's DC pension pot invested for a long time, and at a fairly high rate of return, in order to generate enough wealth to purchase an annuity that matches or exceeds the CRB DB pension. Even at the USS consultation modeller's highest rate of return of 7.5%, one needs to keep one's DC pension pot invested for over 30 years in order to purchase a matching annuity. See this spreadsheet for more details: `http://tinyurl.com/p4zdz7p`

Academics in USS won't, however, start putting much money into their DC pension pots until they're earning higher salaries later in their careers. Perversely, members will end up making more and more DC contributions when they will yield less and less of a pension per pound contributed. This flaw in the system will be magnified if the default DC fund involves the common practice of 'lifestyle' de-risking of one's pension pot into lower-risk, lower-return assets as one nears retirement.

This problem would be mitigated somewhat if USS members are allowed to keep their DC pension pots invested in USS funds throughout their retirement. Under this scenario, pension income would be generated via a gradual drawing down of their pot in retirement, rather than via an exchange of their entire pot for an annuity at the beginning of their retirement.

A move to collective DC would provide further mitigation. Under CDC, USS could make use of investment and longevity risk pooling, plus a continual and long-term investment of the collective fund in return-seeking assets, in order to try to achieve the target of a pension that is equivalent to the CRB DB pension. See the response to question 10 for further comments on CDC.

**Question 10.** *Ahead of any further engagement by the trustee about the defined contribution section, do you have any comments on the range of funds to be provided (including the default fund), the charges payable by members, or any other aspects of the defined contribution proposition?*

USS has not yet provided details of the default DC option they will provide for members, free of management and investment charges. If, however, their default option takes the most common form, it will involve 'lifestyle' or 'life-cycle' de-risking, where investments are shifted from equities into less volatile assets such as bonds as a member nears retirement.

Such de-risking comes at a significant cost. In 'The Value and Risk of Defined Contribution Pension Schemes: International Evidence', Edward Cannon and Ian Tonks found that the median lifestyle or life-cycle de-risked pension pot across sixteen different OECD countries was only 73.4% as large at retirement as the median pot that had been invested in equities throughout. For the UK in particular, the median de-risked pension pot was only 59.5% as large as the median pot that remained invested in equities throughout. Moreover, from 1948 to 2007, lifestyle de-risking would have made a UK pensioner more than marginally better off only during the years immediately following the burst of the dotcom bubble in 2000. In almost all other years, even those preceded by fairly sharp downturns in the stock market, such de-risking would have left members poorer in retirement than a high wire strategy of remaining invested purely in equities throughout one's career. Cannon and Tonks also show that investing purely in bonds, or else

50% in equities and 50% in bonds, yields worse results than lifestyle de-risking. All of these investment strategies involve a flattening of the market volatility of equities only at the cost of a substantial amount of levelling down into lower-return assets.

The Employers Pension Forum maintains that USS's default DC option will be "designed to be the most appropriate investment choice for the scheme membership". We can see now, however, that there is no appropriate investment choice for an individual with a DC pension pot. USS members will be forced to navigate the Scylla of highly volatile equities and the Charybdis of levelling down.

If we are to tame volatility in return-seeking equities without levelling down, we must instead turn to a form of DC known as 'collective benefits' defined contribution (CDC), which allows for the efficient pooling of investment and longevity risks among employees. The reaping of economies of scale and investment expertise during retirement is a further advantage of CDC over individual DC pots. CDC would enable employers to provide better pensions in comparison with individual DC without contributing a penny more in contributions. Moreover, CDC would neither create any obligation to increase employer contributions in the future nor add any debt to their balance sheets, since the benefits to employees do not constitute a promise.

CDC should be the default DC option. Please see this note for further remarks regarding the inadequacies of lifestyle de-risking and in defence of CDC: `http://tinyurl.com/phgfk4d`

If, however, members opt for individual DC pots over CDC, USS should make passively managed index funds available with management costs no higher than that which is strictly necessary to cover actual costs. Whatever shape the DC section takes, all costs, management fees, and investment fees must be explicitly stated.

**Question 11.** *Do you have any comments on the options the trustee should make available for members as to how they might use their defined contribution account at retirement or upon leaving the scheme?*

According to the Canadian study mentioned above, "much of the investment returns that drive DB pension plans come from returns made during the individual's period of retirement." Under the DB portion of our hybrid pensions, for example, the USS investment team will be on call to invest our collective USS pension fund expertly and optimally throughout the period of our retirement, so as to generate enough income to cover the pensions they've promised. In a typical DC pension pot scheme, by contrast, "at retirement the amount accumulated in an individual's account is turned over to the individual, and the benefits of low-cost professional management are lost for the subsequent period of individuals retirement. By one estimate, 60 cents of every dollar of retirement income is earned after retirement."

The benefits that are lost include both the lower administrative costs of economies of scale that come with the management of large funds and the investment expertise of the fund managers. Individuals will also need to contend with longevity risk in trying to figure out what they should do with their pension pots once they retire. These considerations are all the more relevant given the new freedoms over drawdown of pension accumulations.

It is therefore important that USS provide individuals with the opportunity to keep their DC pension contributions invested in USS pension funds throughout their retirement. Collective Defined Contribution (CDC) provides this.

**Question 12.** *Other/General Comments*

The proposal on which UCU members were balloted in January included "an agreement to continue a review of the contested funding methodology adopted by USS" and "an agreement with the employers that any improvement in the USS funding position should be used to improve benefits rather than be used by USS for further de-risking".

In their 2 December submission to the USS AV Consultation, UUK stated that "compelling arguments have been put forward for assuming de-risking occurs in 20 years' time, rather than by assuming arbitrarily that de-risking is carried out on a linear basis over a 20 year period". UUK also called for "breathing space for the [de-risking] strategy to be reviewed at the next triennial valuation due at 31 March 2017 (rather than de-risking being rushed through)". UUK wrote to "urge the trustee to accept" a delay in the start of de-risking for 10 years, as "a compromise between the trustee proposal and an alternative approach of 'bullet' de-risking in 20 years' time". It appears, however, from p. 11 of their consultation document, that the trustee intends to stick to linear de-risking over 20 years.

Such a refusal to accept UUK's compromise is contrary to the spirit of the two agreements mentioned in the balloted proposal. If there is to be a genuinely open review of the contested funding methodology, irreversible steps should not now be taken which presuppose a given outcome to that review. The immediate commencement of de-risking would be an irreversible step, since it would, in USS's own words on p. 11 of the consultation document, "produce lower returns and therefore increase overall pension costs". Resources to fund an eventual improvement in pension benefits will be permanently lost if de-risking begins now.

Please see the following note for a defence of First Actuarial's approach to the valuation, which implies the unsoundness of a strategy of de-risking: `http://tinyurl.com/q2palz8`