Our ref [redacted]
Date 23 May 2018

Dear [redacted],

Thank you for contacting USS. You have formally raised a complaint regarding historical contribution rates, to which I can provide the following response.

The appropriate overall contribution rate payable for a given level of benefits is assessed by the trustee as part of each triennial valuation, as required by legislation.

The trustee determines the contribution rate required based on an actuarial assessment of a range of assumptions, the most influential of which is the future rate of return it can reasonably expect to achieve on the scheme's investments.

As shown in Table 1 (below), the rate payable by sponsoring employers (and, latterly, members) has varied over time as a result of the influence of changes over time in key demographics, the investment outlook and the legislation governing valuations.

In a 'balance of cost' scheme (which USS was prior to 2011), it is routine practice within the actuarial profession to adjust the employer's future service rate for any surplus or deficit revealed at a valuation over a reasonable period (the average future working lifetime of active members being a common measure used).

Employer contributions increased from 14% to 18.55% between 1983 and 1996 to address a funding deficit. They returned to 14% in 1997 (after the 1996 valuation) as the scheme was then found to be in surplus.

A surplus estimated to be in excess of £1.4bn was identified at the 1999 valuation. The legislative framework at that time required a test for both a minimum and maximum level of funding on prescribed methodologies and assumptions, with trustees needing to take action should their funding level be below the minimum or above the maximum at a valuation.

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The outcome of that valuation was to partially appropriate the surplus via the contribution rate required of employers and by providing benefit improvements for members: the lump sum death benefit was increased from 2.5 times salary to three times salary, and a 1% special pension increase was applied to all non-active members.

After allowing for these changes, an estimated surplus of c.£680m was carried forward.

The scheme actuary confirmed at the time his agreement to the actions taken regarding the surplus in providing the signed valuation report and the required certification. In particular, in his opinion the resources of the scheme at that time were likely (in the normal course of events) to meet in full the liabilities of the scheme as they fell due on the proviso that the employers paid 14% and the members 6.35% of salary – this statement being subject to review at subsequent triennial valuations in recognition of the fact that circumstances can change over time.

Historically, employer contribution rates have not been particularly relevant for members as, prior to 2011 (when the concept of cost-sharing was first introduced by stakeholders via the Joint Negotiating Committee), their contribution rate was fixed; the employer was required to pay the balance of costs and liable for all of the risk of increased contributions. The 0.1% change introduced in 1982 was in relation to member-funded elements of death in service and incapacity benefits and was therefore the only change to member rates in 36 years. If the scheme had been established on a cost-sharing basis from inception, with the base rates being 6.25% and 12%, members would have paid more overall as the required contribution rate has generally risen and never returned to the initial 18.25% aggregate rate.

Table 1

	Member	Employer
1/4/75 to 31/3/80	6.25%*	12%*
1/4/80 to 31/3/82	6.25%*	14%*
1/4/82 to 31/3/83	6.35%*	14%*
1/4/83 to 31/3/95	6.35%*	18.55%*
1/4/95 to 31/12/96	6.35%	18.55%
1/1/97 to 30/9/09	6.35%	14%
1/10/09 to 30/9/11 *(post-Global Financial Crisis)*	6.35%	16%
1/10/11 to 31/3/16	7.5% (FS) 6.5% (CRB)	16%
1/4/16 to current	8%	18%

*First £100 of salary exempt

Since 2011 – the first valuation to be completed following the Global Financial Crisis (GFC), the impact of which is made clear in the opening 'Management Statement' of the scheme's 2009 Report & Accounts – sponsoring employers have been paying dedicated deficit recovery contributions as part of their overall rate. At the 2014 valuation, these contributions were set at 2.1% of total pay each year, with the deficit expected to be recovered by 31 March 2031. The deficit recovery plan is being reviewed as part of the 2017 valuation.

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As this analysis shows, the trustee has invested contributions successfully since the GFC – becoming the largest pension scheme in the country in terms of assets under management. However, the fundamental challenge faced in the current valuation is the outlook of reduced future investment returns. We go into this in more detail here: https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates/six-things-you-should-know-about-the-2017-valuation.

Finally, regular updates are provided to members on the scheme and its funding position, including the Annual Report & Accounts. Any proposed changes to benefits and/or member contributions arising from a valuation would, in the vast majority of instances, be subject to a statutory consultation by employers* with affected employees (including staff eligible to join) and their representatives in advance of any changes coming into effect.

I trust that this addresses your complaint and associated questions, but please contact us again if you have any further queries.

Yours sincerely

Bill Galvin
Group Chief Executive Officer

(*Note: participation of employers with less than 50 employees is discretionary)

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