

The following note was issued to heads of participating USS institutions on 9 July 2020

Colleagues,

The Board of the USS Trustee recently met to consider some of the key elements of the 2020 valuation as we work towards our next milestone.

As trailed in my last update, we have also started publishing our financial management plan (FMP) reports on our website – and it is important for you to understand what they are signalling to us.

The next milestone

We now expect to launch our consultation with UUK on the assumptions for the scheme's Technical Provisions in early August.

This will allow us more time to reflect on and, as far as possible, look through the extraordinary market turbulence we've seen over the first quarter of the financial year, before settling on the inputs and assumptions on which we will consult.

The Technical Provisions set the funding target for the scheme and determine the level of any deficit or surplus in respect of funding pension promises already made. These assumptions are also key to setting the cost of future pension promises.

The consultation will run until late September/early October. We understand that September is an important time for governance bodies in institutions and when many of you expect to have clearer information on the outlook for the next academic year. We will continue to work with our stakeholders to understand the pressures the sector is facing and will keep the valuation timetable under regular review and as flexible as possible.

We have commissioned further advice from our advisers, PwC, on the strength of the covenant. We expect to receive this in the autumn. This will reflect the sector's experience and response to the coronavirus pandemic. With this information, and the response from UUK to our consultation, we will then finalise our view of the contributions we need to fund the current benefit structure.

Financial management plan reports

We have now started to publish the scheme's financial management plan (FMP) reports on our website. These reports have, since the 2014 valuation, been shared in confidence with the Joint Negotiating Committee (JNC) and UUK's Employers' Pension Forum. Under certain conditions, they are also shared with the Pensions Regulator.

We use [these dashboard reports](#) to monitor key financial measures. They track changes in market conditions and outlooks between valuations and provide a high-level snapshot of progress (or otherwise) against the assumed path to full funding.

The reports on our website do not make for easy reading. While they illustrate the scale of turbulence in financial markets in recent months, they also signal the clear direction of travel since the last valuation:

- **April's update** reported that if current market conditions were read directly into the funding assumptions used for the 2018 valuation, we would display a £15.2bn Technical Provisions

deficit (£71.1bn in assets, £86.3bn in liabilities), a £30.7bn 'self-sufficiency' deficit, and a future service cost of 36.7% of USS payroll.

- **May's update** reported (on the same basis) a £19bn Technical Provisions deficit (£73bn in assets, £92bn in liabilities), a £34.3bn 'self-sufficiency' deficit, and a future service cost of 39.2% of USS payroll.

At the 31 March 2018 (the last valuation date), these figures were £3.7bn, £20.8bn and 28.7% respectively.

We are revisiting our funding assumptions for the 2020 valuation. It is undeniable that events have not moved in our favour. Some of the short-term risks we were focused on – given their importance to having continued confidence in our long-term projections – have started to crystallise.

Long-term trends and influences – including better life expectancy, greater regulation, volatile financial markets and persistently low 'real' interest rates – had already combined to make the promise of an inflation-protected income for life in retirement more expensive.

Current market conditions are adding to these challenges.

While the security of our members' pensions in good times and in bad is our over-riding concern, as Trustee, we appreciate that affordability is a key issue for members and employers alike.

We are ready to work with you and our other stakeholders, UUK and UCU, to address these challenges. We must make sure the scheme is in the strongest possible position to deliver secure financial futures for our members and their families. It appears likely, however, that the JNC will face some difficult decisions in the autumn and over the course of the 2020 valuation.

On this point, I would like to record our thanks to Sir Andrew Cubie, who has retired as Chair of the JNC, a role he performed with deep integrity and a strong sense of duty through challenging times. We warmly welcome Judith Fish, who has been appointed by UUK and UCU as his successor. You can read more about this [here](#).

We have also recently announced new appointments to the Trustee Board and our Executive team:

- [Andrew Brown](#)
- [Lindsey Matthews](#)

We are very pleased to be adding such skills and experience to the board and the executive as we work with you to navigate through these challenging times.

Bill Galvin. *Group Chief Executive*