

The features of the covenant support package set out below are those assumed under a revised covenant support package referred to in the Trustee's letter to UUK of [9 June 2021](#). The features set out in this term sheet describe the package as a whole that the Trustee currently considers would be required to support the outcome described in that letter but does not constitute an offer of the trustee in a legal sense.

The pricing for UUK's proposed package of benefit reform is based on the following features of the covenant support proposals being in place.

## A. Debt Monitoring and *pari passu* framework

### 1. Debt monitoring

A debt monitoring framework will be implemented in the form of that consulted upon, with the following significant amendments / clarifications:

- Whilst data would be collected annually from all employers, if employers agree, a 'De minimis' will be introduced to exclude smaller employers from metric testing where:
  - i. for that year, total income < £50m and gross assets < £50m; or
  - ii. the employer is on 'limited participation terms' – which means that eligible employees are those who immediately before commencing employment with the employer were members of the Scheme (noting that employer's individual deeds of accession may broadly provide for this approach, along with some variations), and where the USS is not its principal pension scheme for new staff (in accordance with Rule 45.2)
- Employers will only be asked to complete annual data submissions based upon statutory annual accounts figures, but employers will be asked to inform the Trustee if they become aware of any material matters relating to their debt positions.
- Employer discretion in calculating metrics to include assets at book value or if they prefer, insurance value (subject to audit);
- The form of the Metric E calculation to be as per the July 2020 consultation, the %age threshold figure set at 10%;
- A further strand to Metric A to be added so that employers with specific finance models are not deemed to be in breach of Metrics B to D;
- In the current COVID-19 environment the framework, and its diligent operation, is essential. Where the metrics have triggered further engagement with an employer, the Trustee will of course recognise and take specific account of circumstances where that has occurred as a result of action taken in response to COVID-19 impacts. However, the need for employer compliance with the framework and its requirements is not eased due to COVID-19; and
- Additional processes may be established by the Trustee to monitor underlying trends in the employer base, which will be shared and discussed with UUK, and with employers generally, on a periodic basis.

## **2. *Pari passu***

The arrangements to take *pari passu* security on new secured borrowing as set out in the consultation with the following clarifications:

- If employers agree, this not to be applicable to institutions excluded by the de minimis described in section 1;
- The Trustee to have unfettered ability to pursue taking *pari passu* security within the parameters of the agreed framework (in line with the powers available to it);
- Security will be released once the conditions that led to the request for security no longer apply;
- Trustee decision-making to be transparent (including in relation to the release of security);
- Appropriate and clear definition and examples of “covenant-enhancing”
- A clear and enduring statement of the principles of operation to be provided by the Trustee
- A process will be in place for an employer to request a review of any decision made in their case by the [Trustee Board].

## **3. Enforcement / Sanctions**

- The SOC to be updated to specifically identify the Trustee’s power to address the agreed arrangements for reasonable costs of operating the framework and to accelerate contributions in the event of non-compliance, such matters to be detailed and consulted upon in the SOC/RP/SFP consultation process.
- A clear and enduring statement of the principles of operation of the framework to be provided by the Trustee

## B. Rule change / moratorium on employer exits

A minimum 20-year rolling moratorium, which should be assumed will be renewed in formal, legal terms at each future valuation, which would operate broadly as follows:

- The moratorium will be implemented by a rule amendment following a Recommendation by the JNC (under Rule 79);
- It will take effect immediately before the signing of the 2020 valuation so that there is no gap on expiry of the current moratorium<sup>1</sup>;
- Whilst the moratorium is in force, no employer will become a Withdrawing Institution without the written consent of the Trustee (with the Trustee decision-making to be transparent), including in relation to breaches of exclusivity by that employer;
- Where an employer finds it impracticable or inexpedient to continue in the scheme, but is not granted Withdrawing Institution status, the Trustee will normally grant consent to waive exclusivity in relation to other pension arrangements for eligible employees;
- UUK would have unilateral power to give written notice to the Trustee to terminate the moratorium;
- The moratorium will remain in force unless written notice is served to the Trustee that UUK wishes it to cease (and UUK has made clear that it is expected to be a rolling moratorium which will renew and it will be explained and described as such);
- If written notice is served (see below), then the moratorium will remain in force until 20 years from signing of the next valuation. (For example, this means that if the next formal actuarial valuation were as at 31 March 2023, signed in June 2024 and UUK were to elect to cease the moratorium, it would expire in June 2044.)
- It is an important feature of the above provision that the earliest expiry of the moratorium is on or after the end of the agreed recovery plan for the 2020 valuation. (For avoidance of doubt, this test is met assuming a 15/18-year recovery plan ending on 31 March 2035/8 assuming the earliest moratorium expiry date would be 30 June 2044.)
- Serving notice. The Trustee will require appropriate notice of termination so that any consequent action can be planned into the next available valuation. Therefore:
  - i. Notice can be given at any time, up to six months after the effective date of any valuation (subsequent to the 2020 valuation).
  - ii. If notice is not served within six months of a valuation date the moratorium will remain in force.

This means that if the next valuation were as at 31 March 2023, then notice of termination must be received by 30 September 2023 in order for the moratorium to expire by June 2044. If notice is not received by 30 September 2023, the moratorium would remain in force. Notice could be served at the next valuation (31 March 2026), when notice received by 30 September 2026 could take effect from signing that valuation on, say, June 2027 and hence the moratorium would end on June 2047.

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<sup>1</sup> UUK has highlighted that legal advice will be taken on this item; it is a condition of this proposal that there be no gap between the expiry of the current moratorium and effective date of this new moratorium.