Colleagues,

Current market conditions have had a significant impact on the funded status of USS, and it is important you are aware of the volatility of that position. It is likely – given the factors driving market volatility – that these conditions will persist through March 31, the point at which we strike the 2020 valuation.

As we prepare for that valuation, we are seeking views from our sponsoring employers on some important issues. The feedback we receive will be important as we prepare for the formal consultation with UUK on the important decisions that determine the outcome of the valuation, later this year. The issues and key questions are described in a discussion document we are launching today: "Methodology and risk appetite for the 2020 valuation".

Current market conditions

The illustrative results provided in our discussion document are based on financial conditions as at 31 December 2019. Since then, global concerns over the spread of the coronavirus have led to very volatile financial markets. In February, markets around the world experienced their worst losses since the financial crash in 2008. It is highly likely that conditions will continue to be volatile in the short to medium term.

USS is a long-term investor and we take a long-term approach to funding the Scheme. In running an investment strategy that seeks to out-perform liabilities and adds value, a level of volatility is expected. In such circumstances, the challenge is to understand the longer-term implications for our funding position of temporary or permanent changes to the prospects for economic growth and returns. These assessments are more challenging when running very close to our risk limits, as we are now.

Under the Monitoring and Actions Framework expected by the Pensions Regulator in concluding the 2018 valuation*, the Trustee Board is required to consider the appropriate response if certain metrics breach trigger levels. One of these metrics relates to the ratio of the self-sufficiency deficit in the Scheme to the present value of 10% of employer payroll contributions over 30 years. If this ratio exceeds 85% for five consecutive business days, a response *must* be considered. Last week we narrowly avoided a formal trigger only because the fifth day's measure was 84.6%. It is therefore reasonably likely that the Trustee Board will have to respond to such a trigger event in the near future, and perhaps even before the March 31 valuation date. (It is clear that the gradual steps taken to reduce asset liability volatility made since the 2018 valuation were instrumental in avoiding the formal trigger last week.)

Following a formal trigger event, if the Trustee Board considered that a short-term response was required, the available responses might include an accelerated valuation, a request for higher contributions sooner than October 2021, an acceleration of the 'de-risking' path envisaged under the 2018 valuation or a combination of the above.

We will continue to monitor these conditions and to keep you informed of the Trustee Board's considerations.

2020 Valuation Methodology Discussion Document

This document is the first major milestone in the 2020 valuation timetable. It sets out, for discussion, our emerging thinking on the proposed methodology for the 2020 valuation and the key factors that will drive the outcome.

It is the first major milestone in the 2020 valuation timetable and has been published in support of broad and early engagement with our sponsoring employers on the valuation.

You can read a brief summary of the document **here**.

The Executive Summary and the full 55-page technical document are both available on our website.

The approach we have illustrated has been informed by feedback from our stakeholders, our own lessons learnt from the previous valuation, and the conclusions and recommendations of the Joint Expert Panel's (JEP) second report.

It covers the changes we are considering making to the methodology and investment strategy for the 2020 valuation and the rationale, as well as the factors that will have a significant bearing on the outcomes: covenant and risk appetite.

It includes consideration of a dual discount rate approach and removal of 'Test 1'.

It is important to note that we have not made any decisions at this stage. We are seeking to build understanding and evidence, and we need your clear and unequivocal views on the questions raised.

We hope that setting out the issues enables views to be provided. We hope the illustrative scenarios can help you and your advisers to understand the consequences of relying more or less on employers' future ability to support volatility in the scheme, in setting today's funding requirements.

We have held several meetings with a Valuation Methodology Discussion Forum (VMDF), comprising members of the Trustee Board and executive, representatives of UCU and UUK, and their advisors. We will continue to explore issues of methodology, risk appetite and risk management in this forum throughout the discussion period.

You are invited to provide UUK (pensions@universitiesuk.ac.uk) with your feedback on the questions raised in this document (see Executive Summary and Section 8) by **5pm on 17 April,** copying your responses to us at valuation@uss.co.uk.

We have previously written to you inviting you to attend briefing events and webinars and we will be attending a number of HE sector events over this period.

Given the challenging timetable we need to work to, your input at this stage is critical. It will ensure we are in a position to meet our legal obligations and formally consult with UUK on the methods and assumptions to be used in calculating the Technical Provisions, Schedule of Contributions and Recovery Plan later in the year.

We are grateful for your engagement with the process and can assure you of our continued efforts to facilitate the best outcome for our members and the sector, over the long term, and in line with our duties as Trustee.

Professor Sir David Eastwood, *Chair of the USSL Trustee Board*

Bill Galvin, *Group Chief Executive*

**TPR wrote to the Trustee to set out its expectations in relation to development of the Monitoring and Actions Framework and to convey the importance of putting in place the Framework in the context of TPR's confirming that it did not intend to carry out further funding investigations in relation to the 2018 valuation. TPR engaged with the Trustee on the triggers and operation of the Framework.*